

Central China New Life (9983 HK)

An innovative living services provider in Central China

- GFA under management would increase 27% YoY to 72 mn sqm in 2020 and 47% YoY to 106mn sqm in 2021E due to the 57.7mn sqm of undelivered GFA
- Driven by fast-growing Jianye+ business, we expect revenue from Lifestyle services should grow from RMB 477mn in 2020E to RMB1,139mn in 2022E, implying a 54% CAGR during the period
- Initiate **BUY** with TP of HK\$12.10 based on SoTP

An influential brand in Henan. Central China New Life Limited (CCNL, or "the Group") is a major property management service provider in central China. CCNL's managed GFA rose from 20.4mn sqm in 2017, to 25.7mn sqm in 2018 (+26%YoY), and 57.0mn sqm in 2019 (+122% YoY). Its fast-growing GFA under management is driven by projects from related companies, CCRE, and those from independent third parties. Central China Real Estate Limited (CCRE, 832 HK), a related company of CCNL controlled by Mr Wu, is a leading real estate developer in the Henan province. CCRE's contracted sales GFA rose 30.1%YoY to 14.35mn sqm in 2019, followed by a mild decline of 1.2%YoY in 1H20 due to COVID-19. As of Dec 31, 2019, CCRE's land reserves reached 50.93mn sqm.

Growing GFA from third-party projects. Leveraging its reputable brand in Henan, CCNL's GFA under management from third-party developers grew rapidly at a CAGR of 208% during 2017-19 to 17.7mn sqm as at Dec 31, 2019. During 2017-2019, CCRE submitted a total of 14, 61 and 86 tender bids for properties developed by third-party property developers, and the success rates for the same periods were 92.9%, 96.7% and 88.4%, respectively. Driven by inflow of new projects from CCNL and third-party developers, we expect GFA under management to grow 27%YoY to 72mn sqm in 2020E and 47%YoY to 106mn in 2021E.

Lifestyle services (LS) and Commercial property management and consultation services (CPMCS). CCNL offers a wide range of lifestyle services, which include (i) products and services offer on Jianye+ (建業+) platform, (ii) travel services; (iii) management services provided in Cuisine Henan Foodcourts (建業大食堂). These services are open to all consumers instead of just the owners and residents in CCNL's managed communities. CCNL also engages in CPMCS consisting of (i) hotel management, (ii) commercial property management and (iii) cultural tourism complex management. Driven by the fast-growing Jianye+ business, we expect revenue from LS to grow from RMB 477mn in 2020E to RMB 1,139mn in 2022, implying a 54% CAGR during the period.

Initiate BUY with TP at HK\$ 12.10. We use SoTP to derive CCNL's TP due to the Group's diversified business portfolio. Our SoTP-based TP of HK\$12.10 translates into 33.7x P/E and 5.1x P/B for 2020E, which is in-line with mid-cap peer average of 32.8x.

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	694	1,754	2,782	4,036	5,824
Chg (% YoY)	50.7	152.8	58.6	45.1	44.3
Core net profit (RMB mn) ¹	51	232	404	636	912
Chg (% YoY)	31.1	352.6	74.1	57.3	43.4
Core EPS (RMB)	0.06	0.26	0.32	0.51	0.73
Chg (% YoY)	31.1	352.6	25.8	57.3	43.4
BVPS (RMB)	0.13	0.41	2.13	2.49	3.00
Chg (% YoY)	6.7	216.7	419.6	16.8	20.6
Core P/E (x)	147.8	32.67	25.96	16.50	11.51
P/B (x)	65.0	20.53	3.95	3.38	2.81
Core ROE (%)	52.7	60.8	15.1	20.4	24.2
Core ROA (%)	3.9	15.9	10.2	13.2	15.0
DPS (RMB)	-	-	0.10	0.15	0.22
Dividend yield (%)	-	-	1.16	1.82	2.61
Net gearing (%) ²	310.1	Net cash	Net cash	Net cash	Net cash

¹ Core net profit= net profit attributable to owners of the company – loss for discontinued operations attributable to owner of the company; for 2020E, we exclude one-off expenses related COVID-19

² Net gearing= (total debt-cash)/ total equity

Source(s): The Company, ABCI Securities estimates

Company Report Initiation

July 14, 2020

Rating: BUY

TP: HK\$ 12.10

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Share price (HK\$)	9.33
Est. share price return	29.7%
Est. dividend yield	1.2%
Est. total return	30.9%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	10.50/6.85
Issued shares (mn)	1,245
Market cap (HK\$ mn)	11,616
Avg daily turnover since IPO (HK\$ mn)	106.25

Major shareholder(s) (%)

Mr Wu Po Sum	68.07%
Hillhouse Capital	6.82%

Source(s): The Company, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	(3.8)	(9.6)
3-mth	NA	NA
6-mth	NA	NA

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Central China New Life Limited (9983 HK, BUY)

China Property Management Sector

July 14, 2020

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Leading property management company (PMC) in central China

Central China New Life Limited (CCNL or “the Group”) is the largest property management service provider in central China by total GFA under management as of Dec 31, 2018 and total revenue for the year ended Dec 31, 2018, according to China Index Academy (CIA). As of Dec 31, 2019, CCNL’s property management and value-added services covered all 18 prefecture-level cities (including 81 of the 104 county-level cities) in Henan, and served more than 1mn property owners and residents in 312 properties. CCNL manages a diversified portfolio of properties, including residential properties, shopping malls, cultural tourism complexes, commercial apartments, office buildings, schools and properties of governmental agencies. The Group was ranked 16th, 15th and 13th among the Top 100 Property Management Companies in China in 2017, 2018 and 2019, respectively, according to CIA.

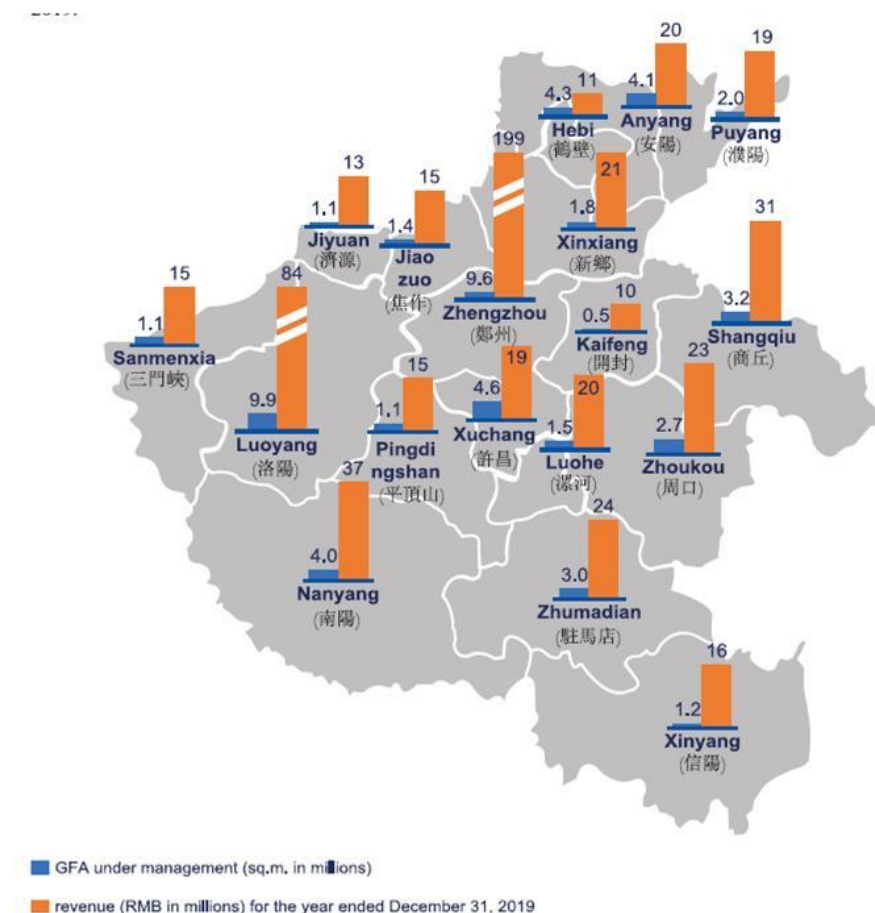
The Group, with the highly recognizable Central China (建業) brand, is well positioned in the large and fast-growing market of Henan. The CCRE Group, an entity with significant property business controlled by Mr Wu, CCNL’s major shareholder, has been deeply rooted in Henan for over two decades. The “Central China (建業)” brand is a household name for quality residential development, and the CCRE Group is a leading real estate developer in terms of scale, profitability, financial stability, and growth potential in Henan province. The CCRE Group was ranked first in the “Top 10 Regional Operations among the Top 500 Real Estate Developers in China” for 11 consecutive years since 2009 by China Real Estate Association and Shanghai E-house China R&D Institute.

Henan is one of China’s most populous provinces with a registered population of ~109.0mn as of Dec 2018, according to Henan province’s Bureau of Statistics. According to CIA, Henan province is China’s fifth largest provincial economy and the largest among the provinces in the central China region, with a nominal GDP of RMB 5.4tr in 2019, accounting for 5.5% of China’s nominal GDP. Henan’s economy is also growing, with a GDP CAGR of 9.1% from 2013 to 2019, higher than China’s national average of 6.9%, according to iResearch. Moreover, Henan province has the fifth largest provincial property management market in China, with a total GFA under management of 1.6bn sqm as of Dec 2018. In 2018, the total GFA commencing construction, total completed GFA and total GFA sold of commodity properties in Henan province was 146.8 mn sqm, 66.6 mn sqm and 139.9 mn sqm, respectively, accounting for 7.0%, 7.1% and 8.2% of China’s total GFA commencing construction, total completed GFA and total GFA sold of commodity properties, respectively, according to CIA.

Through organic growth and M&A, CCNL’s GFA under management rose from 20.4mn sqm in 2017, to 25.7mn sqm in 2018 (+26%YoY) and 57.0mn sqm in 2019 (+122% YoY).



Exhibit 1: CCNL's projects under management in China (Dec 2019)



Source(s): The Company, ABCI Securities

Exhibit 2: Top three PMCs in central China by revenue in 2018

Ranking	Companies	Revenue
		RMBmn
1	CCNL	694
2	Company A	>650
3	Company B	~600

Source(s): CIA, ABCI Securities

Exhibit 3: Top three PMCs in central China by GFA under management in 2018

Ranking	Companies	GFA under management
		mn sqm
1	CCNL	25.7
2	Company C	>25.0
3	Company A	>20.0

Source(s): CIA, ABCI Securities

Diversified revenue mix

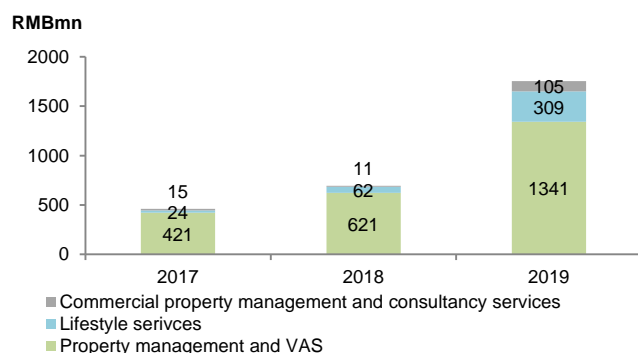
CCNL has three main business lines.

1) Property management and value-added services (PM and VAS), which includes property management services, community value-added services, value-added services to non-property owners, property agency services, the provision of intelligent community solutions and personalized services to VIPs of the Central China Consumers Club. The segment's revenue, which accounted for 76.4% of total revenue in 2019, expanded at a CAGR of 78% in 2017-19.

2) Lifestyle services (LS), which include products and services offered on Jianye+ (建業+) platform, travel services and management services in Cuisine Henan Foodcourts (建業大食堂). CCNL derives revenue from offering products and services sold on the platform on a pay-as-you-go basis and allowing registered users to subscribe to membership packages on the Jianye+ (建業+) platform. The Group charges an all-inclusive service fee on a per-person basis based on headcount for the travel services packages offered. Commission was based on a percentage of vendor's revenues from the sale of food and beverages in Cuisine Henan Foodcourts (建業大食堂). The segment's revenue, which accounted for 17.6% of total revenue in 2019, expanded at a CAGR of 259% in 2017-19.

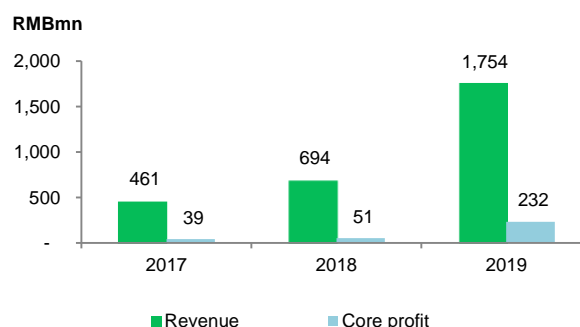
3) Commercial property management and consultancy services (CPMCS), which include hotel management, commercial asset management, and cultural tourism complex management. For hotel management, CCNL charges a percentage of gross operating profit or revenue generated from the hotel and/or a pre-determined fee per hotel room. With regards to commercial asset management, the Group charges a management fee on a monthly basis, depending on the complexity of the asset. For cultural tourism complex management, management fee is based on the area under management and types of service provided. The segment's revenue grew 844% YoY and accounted for 6.0% of total revenue in 2019.

Exhibit 4: CCNL's revenue mix (2017-19)



Source(s): The Company, ABCI Securities

Exhibit 5: CCNL's revenue and core profit (2017-19)



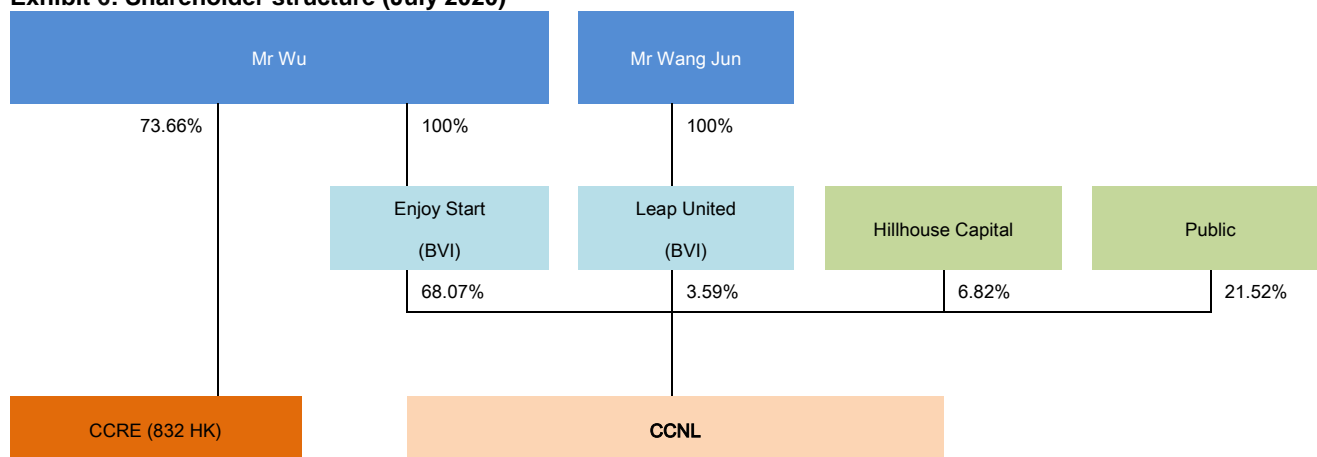
Note: Core profit= net profit attributable to owners of the Group - loss for discontinued operations attributable to owner of the Group
Source(s): The Company, ABCI Securities

Shareholding structure and disposal of Central China OP

The history of CCNL business can be traced back to 1994 when it was founded by the CCRE Group (Central China Real Estate Limited [832 HK] and its subsidiaries) and started providing property management services for properties developed by them (and their associates or joint ventures) under the predecessor of Central China Property Management, CCNL's major operating subsidiary. Mr Wu (ultimate controller shareholder of CCNL and CCRE Group), Mr Wang Jun and Hillhouse Capital currently own 68.07%, 3.59% and 6.82% of the group.

Immediately prior to the Reorganization, Central China OP, principally engaged in the provision of property sub-leasing service, was owned as to 70% by CCNL. Central China OP was subsequently disposed. We believe the net profit of CCNL excluding losses attributable to discontinued operation from Central China OP (which is defined as Core Profit) would be a better financial metric in assessing CCNL's core business for the past three years.

Exhibit 6: Shareholder structure (July 2020)



Source(s): The Company, ABCI Securities

Exhibit 7: Calculation of core profit

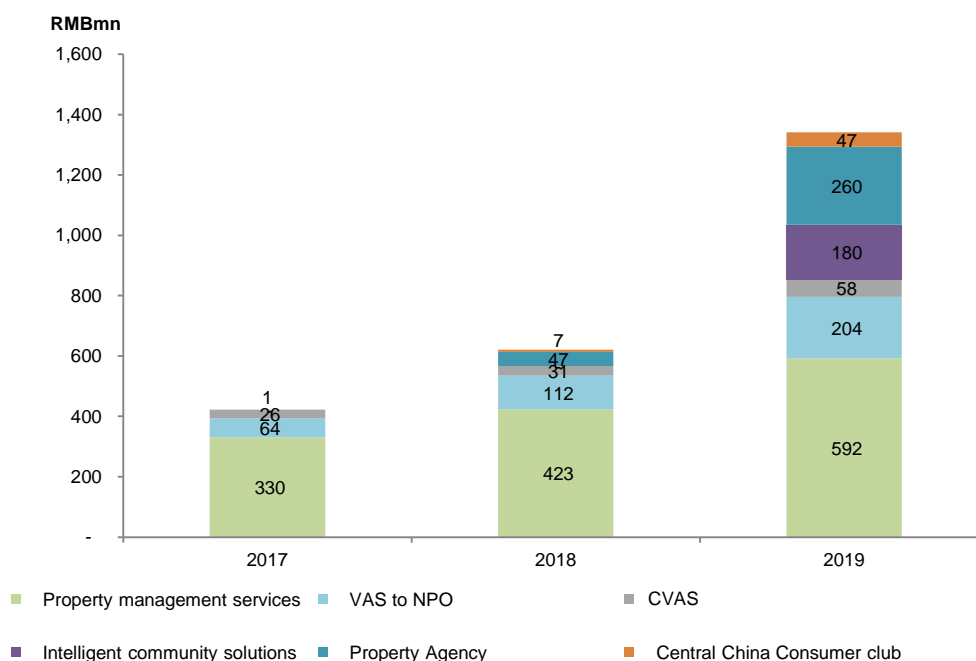
(RMBmn)	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net profit attributable to owners of the company	10.99	23.41	19.47	233.95
Add: losses from discontinued operations attributable to owner of the company	1.86	15.72	31.82	(1.82)
Core net profit	12.86	39.13	51.29	232.13
YoY change		204%	31%	353%

Source(s): The Company, ABCI Securities

PM & VAS: Impressive winning rate in new project bids and new VAS offerings to drive growth

CCNL has provided PM services since 1994 and over the years, it has expanded its service offerings to include value-added services to elevate the living quality of the residents in the properties it manages. To promote a contemporary, interactive, and intelligent environment within the communities, the Group provides intelligent community solutions to property developers and residents alike. As of Dec 31, 2019, CCNL has also started offering customized services to over 10,000 VIPs of the Central China Consumers Club, an exclusive social platform established by the CCRE Group for high-net-worth customers. In 2019, PM business accounted for 44.2% of the segment's revenue, while Community value-added services (CVAS), Value-added services to non-property owners (VAS to NPO), Intelligent community solutions, Property agency, and Central China Consumer Club, under the VAS sub-segment, represents 4.3%, 15.2%, 13.4%, 19.4% and 3.5% of the PM & VAS segment revenue, respectively.

Exhibit 8: Revenue breakdown of PM & VAS business



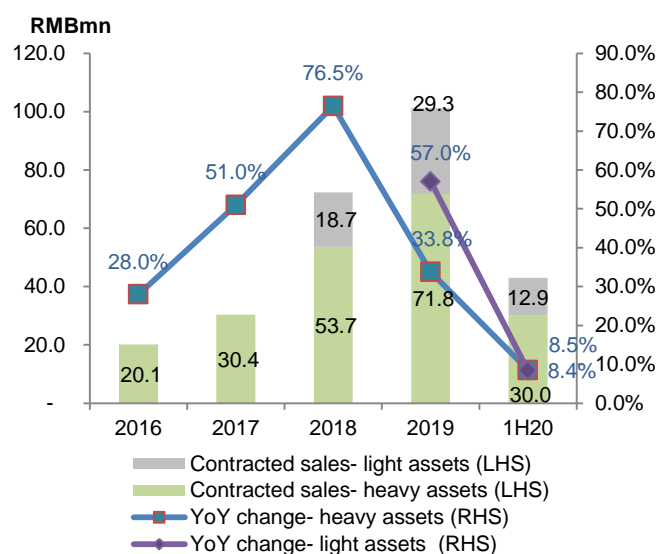
Source(s): The Company, ABCI Securities

Property management: Impressive win rate in new project bids and M&As

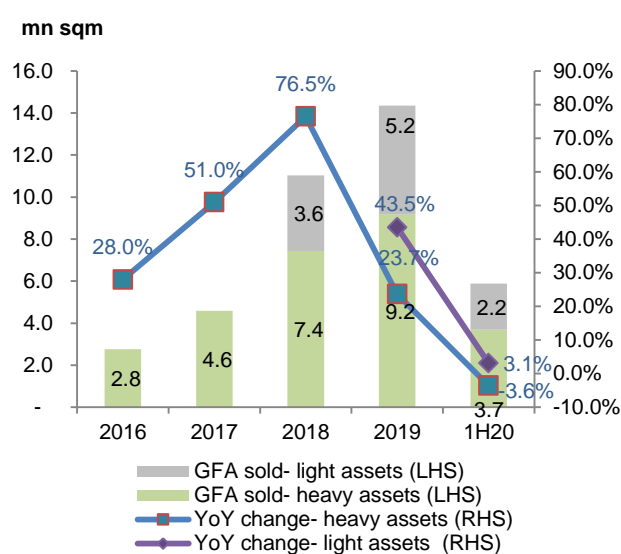
CCNL's fast-growing GFA under management is driven by both projects from related company, CCRE, and projects developed by independent third parties. CCNL's managed GFA rose from 20.4mn sqm in 2017, 25.7mn sqm in 2018 (+26%YoY) and 57.0mn sqm in 2019 (+122% YoY)

Central China Real Estate Limited (CCRE, 832 HK), a related company of CCNL controlled by Mr Wu, is a leading real estate developer in terms of scale, profitability, financial stability and growth potential in Henan province. The CCRE Group was ranked first in the "Top 10 Regional Operations among the Top 500 Real Estate Developers in China" for 11 consecutive years since 2009 by China Real Estate Association and

Shanghai E-house China R&D Institute. According to CCRE's announcement filed to HKEx, contracted sales rose 39.8% YoY to RMB 101.2bn in 2019, of which heavy-asset projects rose 33.8%YoY to RMB 71.8bn and light-asset projects rose 57.0%YoY to RMB 29.3bn; contracted GFA rose 30.1% YoY to 14.3mn sqm in 2019, of which heavy-asset projects rose 23.7% YoY to 9.2mn sqm and light-asset projects rose 43.5%YoY to 5.2mn sqm. Due to impact of COVID-19, contracted GFA declined 3.6% for heavy-asset projects and increased slightly by 3.1% for light-asset projects in 1H20. As of Dec 31, 2019, CCRE had land reserves of 50.93mn sqm. During 2017-19, CCNL submitted a total of 12, 42 and 57 tender bids for properties developed by the CCRE Group and its associates or joint ventures, respectively, and the success rate for these bids was 100.0%. Increasing landbank and stable development of CCRE would help provide CCNL with a steady flow of new projects.

Exhibit 9: CCRE's contracted sales


* CCRE only disclosed its light asset figures for 2018 -1H20
Source(s): CCRE , ABCI Securities

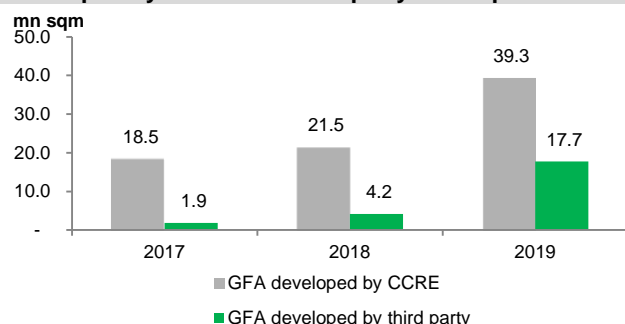
Exhibit 10: CCRE's contracted sales GFA


* CCRE only disclosed its light asset figures for 2018 -1H20
Source(s): CCRE, ABCI Securities

In addition to providing services to properties developed by CCRE, the Group has been rigorously expanding the market share for projects from third parties by leveraging its reputable brand and quality services in recent years. During 2017-19, CCRE submitted a total of 14, 61, and 86 tender bids for properties developed by third-party property developers, and the success rates for the same periods were 92.9%, 96.7%, and 88.4%, respectively. The high success rate was primarily attributable to the well-recognized CCRE brand in Henan; in particular, according to CCRE's announcement, light-asset projects owned by third parties accounted for 36% of total contracted sales GFA in 2019. We believe the light-asset projects presold by CCRE help cultivate business relationship with third-party developers. Aside from project tendering, CCNL also expanded its GFA under management by M&A. In 2019, CCNL acquired Xinyang Nanhong Property Services, Linzhou Liuhe Property Service and Zhengzhou Jiaxiang Property Service for the considerations of RMB 2mn, RMB 6.6mn, and RMB 11.82mn, respectively. The Group's GFA under management increased by 5.331mn sqm in total after these acquisitions.

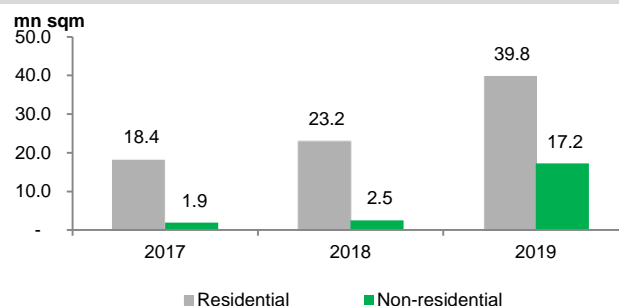
GFA under management from third-party developers grew rapidly at a CAGR of 208% to 17.7mn sqm as of Dec 31, 2019 from 1.9mn sqm as of Dec 31, 2017. As of Dec 30, 2019, projects from third-party developers represented 31.1% of total GFA under management.

Exhibit 11: Total GFA under management from projects developed by CCRE and third-party developers



(Source(s): The Company, ABCI Securities)

Exhibit 12: Total GFA under management- residential vs. non- residential

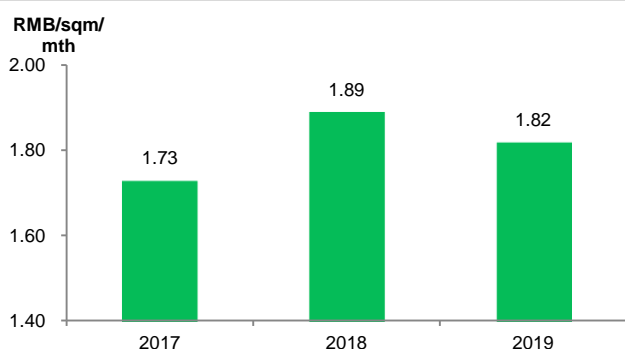


(Source(s): The Company, ABCI Securities)

Ability to raise management fee to offset impact of lower fee projects from third parties

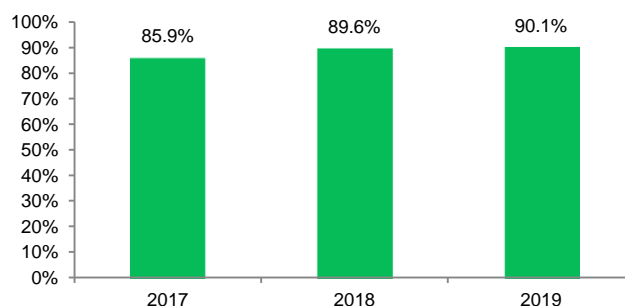
During 2017-19, CCNL successfully increased the property management fee rates for 17 properties under management by an average of ~41.8%. For 2017, 2018 and 2019, the average property management fee rate for the residential properties managed was ~RMB1.73 per sqm/month, RMB1.89 per sqm/month (+9.2%YoY), and RMB1.82 per sqm/month (-3.7%YoY), respectively. CCNL's collection rate of property management fees was approximately 85.9%, 89.6%, and 90.1% for 2017-19.

Exhibit 13: CCNL's average management fee rate



(Source(s): The Company, ABCI Securities)

Exhibit 14: CCNL's collection rate



(Source(s): The Company, ABCI Securities)



Value added services (VAS): Broadened services to drive growth

- **Community Value-added Services (CVAS):** CCNL's CVAS attends to the requests of residents on an around-the-clock basis with the goal of building a trusting community among owners and residents who can depend on the high standards of their PM services. E.g., residents in communities may order fresh produce using the Jianye + (建業+) mobile app, and pick up at the nearby service kiosk in the community. Major CVAS includes clubhouse, interior repair and maintenance, housekeeping and cleaning, vehicle cleaning and charging, group purchase, furnishing service to new property owners and platinum butlers, etc.
- **VAS to non-property owners (VAS to NPO):** CCNL provides VAS to non-property owners, who are primarily property developers, including **1) Onsite sales assistance** - CCNL assists in the preparation of marketing activities and deploy staff on-site to provide sales assistance, including visitor reception. CCNL also supervises the cleaning, security and maintenance of the display units. CCNL charge a fee calculated based on a percentage of the cost of the service provided; **2) Consultancy** - CCNL provides consultation and advice to property developers at various phases of their operations. Property developers engage CCNL at the development stage of their properties so they can leverage on the group's property management expertise to effectively design the properties to be developed; **3) Property inspection** - CCNL provides property inspection service to property developers according to applicable national quality standards. The scope of assessment covers appearance, quality, measurement, electrics, waterproofing, water tightness and heating systems of units and communal areas.
- **Intelligent Community Solutions:** CCNL provides intelligent community solutions to property developers and intelligent home devices to property owners: **1) 5M community** - The Group aims to transform the properties under management into "5M communities"; communities that are greener, safer, healthier, more convenient, and more comfortable by making all-round technology and service upgrades with the use of advanced information technology. CCNL's "5M community" comprises over 30 systems and more than 100 types of hardware, such as visual operation and management system, mobile phone service system, AI surveillance system, vehicle management system, bio face recognition system, community health management system, environmental management system, cloud video intercom system, emergency call system, elevator control system, background music system, cloud patrol system, WiFi coverage system, community self-service system and temperature control system, among others. As of Dec 31, 2019, CCNL provided intelligent community solutions in 143 residential communities. **2) Intelligent home-** CCNL installs intelligent home devices for property developers upon request, including systems such as home security solutions, door locks, indoor scene panels, indoor control centers, electric appliances control, indoor lighting solutions, intelligent mirror with a control panel built in, AI housekeeper, electric curtain and music player. CCNL's in-home security cameras and security settings are linked to the Jianye+ (建業+) mobile app, allowing residents to remotely control security settings based on different conditions.

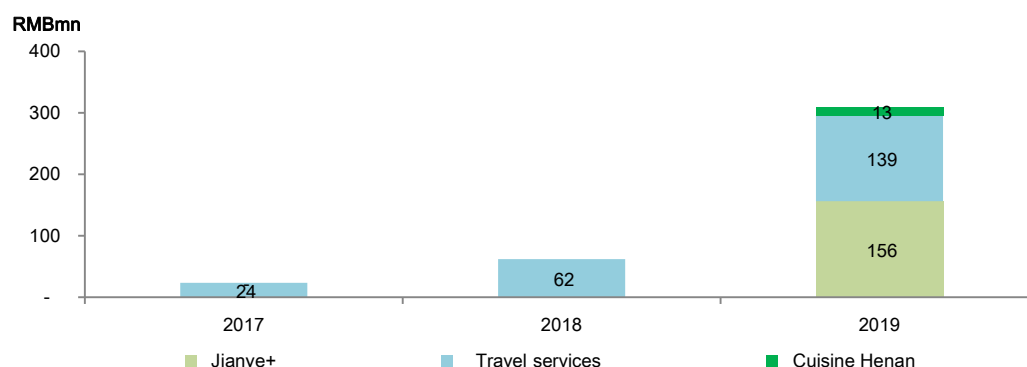


- **Property Agency:** CCNL commenced property agency service in 2010. CCNL's property agency team offers feasibility studies, marketing planning, sales consultancy and distribution channel development and integration services. The group provides property agency services with respect to both new properties and second-hand properties. Leveraging the active engagement and close relationships through years of property management, CCNL has accumulated a network of potential buyers. The Group cooperates with business customers in the following ways: (i) cooperating with the CCRE Group to sell certain properties it or its associates or joint ventures develop; (ii) cooperating with third-party developers to sell properties they develop on specific projects; (iii) establishing a cooperation platform for property agencies in Henan to further expand its network and provide consultancy and training services to them; and (iv) establishing joint ventures with third-party property developers to sell the properties they develop. Upon the completion of a property sale transaction, the Group charges such property developers a commission calculated based on the contract purchase price.
- **Central China Consumers Club:** The Central China Consumers Club, or the CCCC, was established in 2016 by the CCRE Group to provide benefits, privileges and exclusive customer services to its members. Members are generally selected VIP clients of the CCRE Group and members are generally enrolled by invitation or through referral only. CCCC members include elites and celebrities in Henan. As of Dec 31, 2019, the CCCC had over 10,000 members and organized over 2,400 member-only events. The CCCC also partnered with 66 vendors as of Dec 31, 2019 to provide membership benefits and privileges. The group has designed and implemented “CCCC Lifestyle Platform (君鄰幸福系統),” which allows CCCC members to form social groups or clusters, enjoy exclusive privileges such as discount and service offerings from local vendors, attend knowledge-sharing events and presentations, and other customized services.

Lifestyle Services (LS): More than a service provider to communities under management

CCNL offers a wide range of lifestyle services, which include (i) products and services offer on Jianye+ (建業+) platform, (ii) travel services, and (iii) management services provided in Cuisine Henan Foodcourts (建業大食堂). These lifestyle services are open to any consumers and serve more than just the owners and residents in CCNL's managed communities.

Exhibit 15: Revenue from Lifestyle services



Source(s): The Company, ABCI Securities

- The Jianye + (建業+) Platform:** The Jianye + (建業+) platform (acquired in 2019 by CCNL and was first launched in 2015 by the CCRE Group) aims to meet the diverse daily needs of customers around the clock by integrating internal and external, online and offline resources. Jianye + (建業+) platform primarily targets consumers in Henan. All users have to register and verify their mobile phone numbers in order to use the mobile app, which is a key component and main interface to the Jianye + (建業+) platform. A user becomes a member of Jianye + (建業+) platform to enjoy membership benefits. As of 2017, 2018 and 2019, there were over 407,300, 1,045,200 and 2,186,000 registered users on the Jianye + (建業+) mobile app, 41.3%, 45.6% and 31.1% of which were owners and residents of properties developed by the CCRE Group and its associates or joint ventures. As of Dec 31, 2019, there were over 255,000 registered users subscribed as members on the Jianye + (建業+) mobile app. The average MAUs on the Jianye + (建業+) mobile app for 2018 and 2019 were over 277,000 and 614,000, respectively. The Jianye + (建業+) platform generated a gross profit of RMB 76.3mn in 2019, implying a gross margin of 48.9%.

The Jianye + (建業+) platform provides three main online services: (i) concierge services; (ii) One Family Community (一家公社) services; and (iii) membership benefit services. CCNL derives revenue from the Jianye+ (建業+) platform through selling products and services on a “pay-as-you-go” basis and membership packages.

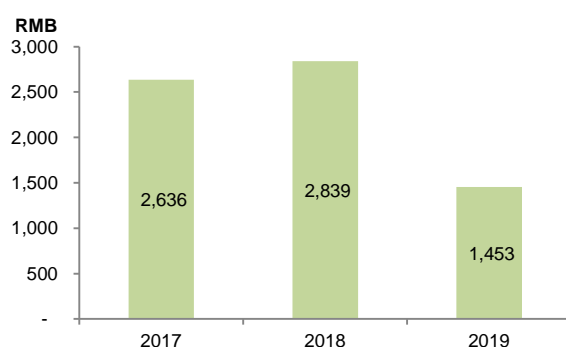
- (i) **Concierge services** include **a) Convenience services** such as community news updates, ordering car wash, laundry, utility bill payment and mobile phone top-up **b) Technical support** such as one-click repair request (一鍵報修), whereby property owners can report repair requests to the concierge via the mobile app, and the concierge can arrange technicians to repair accordingly to avoid unattended repair requests; **c)**



Social networking services. Community networking primarily comprises Neighborhood Network (鄰里圈), where residents can connect and communicate with others by joining discussions on certain popular topics. and Jianye + Market (建業+ 集市) where residents can sell their idle resources, such as clothes and second-hand pianos, and post information for any help needed.

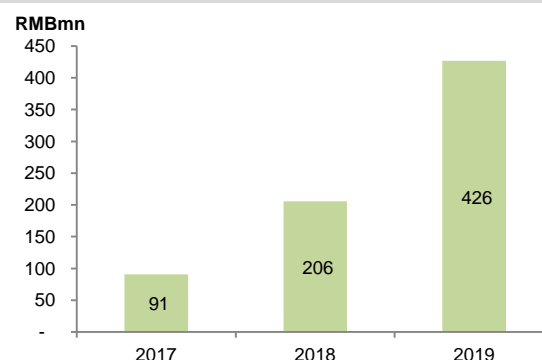
- (ii) **Membership Benefit Services** charges Jianye+ members a fixed fee, which enable them to enjoy discounts on goods and services, as well as experience exclusive offers, covering various needs such as clothing, food, travel and entertainment. CCNL cooperates with business partners in different industry sectors to offer various discounts and members-only offers to the members of the Jianye + (建業+) platform, including local gas stations, hotels, restaurants, cinemas, amusement parks and kids friendly recreation facilities, among others. As of Dec 31, 2019, CCNL was cooperating with more than 340 suppliers, such as Xiaomi (小米), SF Best (順豐優選) and COFCO (中糧). In addition, CCNL offers members various membership packages, such as gourmet dining, leisure and entertainment, grocery packages, fresh lifestyle packages, travel packages and other custom-made packages. E.g., CCNL's trip without-plan package enables access to over 200 scenic spots nationally, priority passage, and discounts for hotel stays.
- (iii) **One Family Community (一家公社)** pre-sells consumer goods and services through community group buying (公社團購) and offline sales. CCNL offers 14 categories of consumer goods and services, including fresh meat, vegetables and fruit, grain and oil, home supply and daily necessities etc. As of Dec 31, 2019, CCNL is cooperating with more than 340 suppliers, including well-known brands such as Xiaomi (小米), SF Best (順豐優選) and COFCO (中糧). For 2017, 2018 and 2019, the average spending per user was RMB 2,636, RMB 2,839, and RMB1,453, and the total GMV was RMB 90.9 mn, RMB 205.8 mn and RMB 426.4 mn, respectively. Customers' brand loyalty often leads to repeated purchases. For 2017, 2018 and 2019, the repeat purchase rate of the Jianye+ (建業+) platform was 56.2%, 62.1% and 50.7%, respectively.

Exhibit 16: Average spending per user of Jianye+



Source(s): The Company, ABCI Securities

Exhibit 17: GMV of Jianye+



Source(s): The Company, ABCI Securities

Travel Services: CCNL commenced travel business in 2016. CCNL generally charges a markup calculated based on the cost of activities in the itinerary, such as train tickets and accommodation. Travel packages are mainly categorized into the types below:

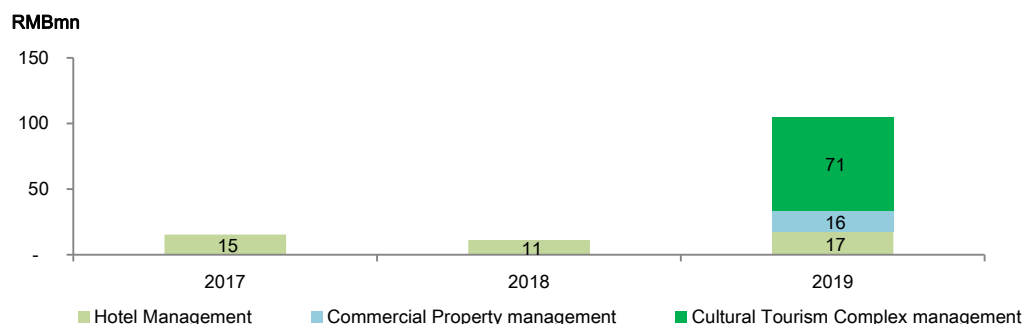


- (i) **Leisure Tours:** Leisure tours are generally pure leisure in nature and do not include any bundled shopping requirements. CCNL designs itineraries to destinations around residential communities, within Henan, and elsewhere in the PRC.
 - (ii) **Corporate Tours:** CCNL started offering Jianye + (建業+) corporate tours in Apr 2017. CCNL brings tourists to experience various resources of the Central China Group, connecting the customers with well-recognized companies from which they can learn top-class operation and management models and corporate culture such as the CCRE Group.
 - (iii) **Football Tours:** CCNL started offering sports tours in Apr 2017. Football tours are primarily tours catering to the needs of football fans of Jianye Football Club. E.g., in 2018, CCNL organized a tour that brought 600 football fans by high-speed rail to watch a football match in Tianjin. CCNL also organizes a youth summer football camp, targeting children aged six to 15.
 - (iv) **Educational Tours:** CCNL started offering educational tours in May 2017. Educational tours target students and their families. The Group selects destinations from schools and historical places of interest such as the Yuntai Mountain, the Shaolin Temple (少林寺) and Longmen Grottoes (龍門石窟). The group also organizes graduation tours.
- **Cuisine Henan Foodcourts:** CCNL has launched the “Cuisine Henan Foodcourts (建業大食堂) since Apr 1, 2019, offering Henan delicacies. CCNL cooperates with local vendors in respect of their operations in its food courts and is responsible for the general management of the food courts. The vendors operate their own food stalls and restaurants under CCNL's supervision. As of Dec 31, 2019, the Group operated six Cuisine Henan Foodcourts hosting over 330 vendors offering and food types representing 18 prefecture-level cities in Henan. CCNL charged the food court owners a fixed annual fee calculated based on the operation size area of the food court in addition to a floating fee calculated based on a certain percentage of the monthly turnover. The Group bears the rental cost and provides property management services as part of management and operation of the food court.

CPMCS: A wide variety of property assets from CCRE to propel expansion

CCNL engages in commercial property management and consultancy services, which include (i) hotel management, (ii) commercial asset management and (iii) cultural tourism complex management. As of Dec 31, 2019, CCNL's portfolio of assets under management consisted of three cultural tourism complexes (with an aggregate site area of 10.1 mn sqm), seven shopping malls (with a total GFA of ~0.58mn sqm) and nine hotels (with a total GFA of 0.25mn sqm):

Exhibit 18: Revenue from CPMCS



Source(s): The Company, ABCI Securities

- **Hotel Management:** CCNL commenced hotel management service in 2017. CCNL provide three different types of services under hotel management, including (i) managing overall operations of a hotel, (ii) supervising hotel operation by an existing operator and (iii) providing consulting services at pre-opening stage. The Group is responsible for the operation and management of all hotels branded under the CCRE Group, such as The Mist Hot Spring Hotel (鄢陵建業花滿地溫泉酒店) and Sky Mansion Serviced Apartment (鄭州天築國際公寓). CCNL also provides hotel management services to supervise the hotel management services operated by international hotel groups, such as Marriott, Intercontinental and Accor, by supervising the management and operation of five different hotels located across Henan, including Zhengzhou, Nanyang, Luohe, and Kaifeng.

Exhibit 19: Key terms of the hotel management contracts

	Managing overall operations of a hotel	Supervising hotel operation by an existing operator	Providing consulting services
Scope of service	Provides overall management services to operations of the hotel	Supervises and provides assistance to the existing operator of the hotel	Provides consulting services to hotel operators at preopening stage
Fees and bonuses	2% to 4% of revenue for managing hotels A progressive commission on the net operating profit	Fixed fee calculated based on the number of hotel rooms Incentive fees calculated based on the net operating profit generated from the hotel during the period of supervision	Fixed fee per project specified in a contract
Term of Contract	Typically a fixed term ranging from two to 20 years	Typically a fixed term of three years	Typically a fixed term ranging from one to three years

Source(s): The Company, ABCI Securities

Exhibit 20: Hotels under management

Project	Type of hotel	No. of rooms
Yanling Jianye The Mist Hot Spring Hotel	Boutique resort	51
Sky Mansion Serviced Apartment	Serviced apartment	302
Aloft Zhengzhou Shangjie	Business hotel	172
Holiday Inn Nanyang	Business hotel	353
Four Points by Sheraton Luohe	Business hotel	240
Zhengzhou Le Meridien Hotel	Business hotel	337
Pullman Kaifeng Jianye	Resort	186
Starry Hills Hotel Xuchang	Hostel	31
Starry Hills Hotel Xinyang	Hostel	86
Total		1,758

Source(s): The Company, ABCI Securities

- **Commercial Property Management (CPM):** CCNL commenced the commercial property management service in January, 2019. As of Dec 31, 2019, CCNL managed seven shopping malls located in various cities in Henan, including Zhengzhou, Luoyang and Nanyang. CCNL provides two main services under CAM: *(i) Pre-opening consultation*, which includes services such as market research on vendor and clientele demographics, financial analysis, vendor solicitation and management, and strategic planning; and *(ii) Post-opening management services*, which include services such as vendor management, sales and operation management, and training management. We expect the number of shopping malls under management will increase from seven to 15 in the next three years. As of Dec 31, 2019, the shopping malls under CCNL's management had an occupancy rate of 93.7%.

Exhibit 21: Commercial assets under management

Project	Floor area
	(sqm)
Zhengzhou Central China Triumph Square	105,000
Zhengzhou Central China Triumph Center	65,000
Linzhou Baicheng Tiandi	24,000
Xincai Baicheng Tiandi	27,000
Gongyi Baicheng Tiandi	38,000
Luoyang Central China Triumph Square	181,000
Nanyang Central China Triumph Square	136,000
Total	576,000

Source(s): The Company, ABCI Securities

- **Cultural Tourism Complex Management:** CCNL commenced cultural tourism complex management services in 2019. As of Dec 31, 2019, CCNL managed three cultural tourism complexes in Henan. Henan is the second largest agricultural province in the PRC producing over 10% of China's agricultural product in 2019 according to iResearch. Established in 2018 under the brand of "Central China Green House", CCNL's suburban leisure complex management services aims to create an efficient agricultural system providing additional features to traditional agricultural business including leisure, sightseeing and science and technology education. As of



Dec 31, 2019, CCNL was contracted to manage the operation of three suburban leisure complexes, including Central China Yanling Green House (鄢陵綠色基地), Central China Hebi Green House (鶴壁綠色基地) and Central China Yichuan Green House (伊川綠色基地).

Exhibit 22: Major types of services in the management of suburban leisure complex

Types of services	Example of services provided	Fee calculation
Branding and operation management	- Investment solicitation, event planning, tourist reception and brand building	fixed annual fee per project
Technical support	- The selection and assessment of seeds, introduction of new plant species, agricultural facility improvement, agricultural technology training and the standardization of production process	fixed annual fee per project
Agricultural product sale	- Act as an agent in selling agricultural products, such as seedlings and woods, flowers and vegetables, produced in the suburban leisure complexes	Percentage of the sales amount of agricultural products
Agricultural product planting	- Provide advice and guidance in the planting of agricultural products - Manage the intelligent greenhouses in the suburban leisure complexes - Provide maintenance services to seedlings and woods planted by the owners of the complexes	Monthly fee calculated based on the size of the planting area and the nature of the agricultural product
Project planning	- Provide consulting services and guidance on the development of suburban leisure complexes - Market positioning, industrial analysis, development planning and execution planning	Fees based on the complexity and scale of the project and charge overall planning consulting fees per Mu

Source(s): The Company, ABCI Securities

Exhibit 23: Cultural Tourism Complex under management

Project	Site Area	Status
	('000 sqm)	
Central China Yanling Green House (鄢陵綠色基地)	2,698	In operation
Central China Hebi Green House (鶴壁綠色基地)	2,935	In operation
Central China Zhoukou Green House (周口綠色基地)	4,300	Under construction
Central China Yichuan Green House (伊川綠色基地)	4,483	In operation
Total	14,416	

Source(s): The Company, ABCI Securities

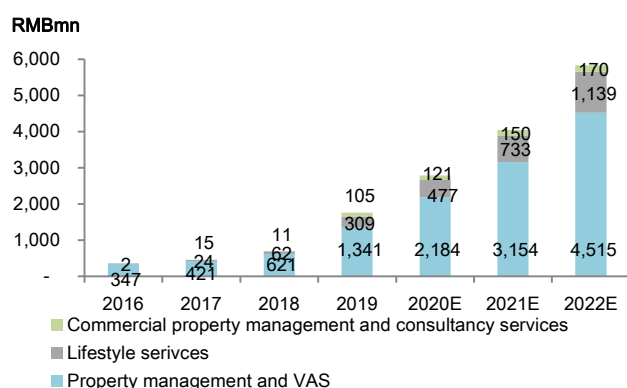
Earnings forecasts

Net profit to expand at 50% CAGR over 2020-22E based on organic growth

We expect revenue to grow at 45% CAGR in 2020-22E, driven by: **1) Increasing GFA under management** (36% CAGR in our forecast), based on a reserved GFA of 57.7mn sqm as at Dec 2019 and new project tendering of 20mn sqm per year from CCRE and third parties; **2) Rising revenue from Property Agency and Intelligent community solutions.** These businesses were acquired in 2019 and we expect significant ramp-up in the next two years.

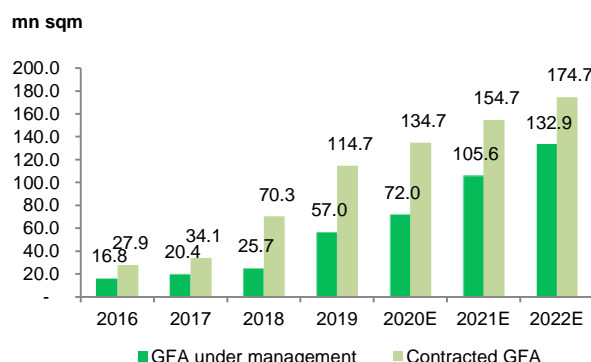
We expect gross margin to decline from 32.8% in 2019 to 31.6% in 2022E due to the increasing proportion of third-party projects entailing lower management fee and margins. However, core net margin would increase from 13.2% in 2019 to 15.7% in 2022E due to economies of scale as well as higher interest income resulted from a growing net cash balance. To note, we have not assumed any potential M&A in the future in our forecast. Due to COVID-19 outbreak, we forecast CCNL to register ~RMB 20mn in non-recurring expenses related due to measures adopted in response to the pandemic, which were excluded in our calculation of the core profit forecast. Based on the growing revenue and improving gross margin, we forecast net profit to increase from RMB 404mn in 2020E to RMB 912mn in 2022E, representing a 50% CAGR in 2020E-22E.

Exhibit 24: CCNL's revenue breakdown



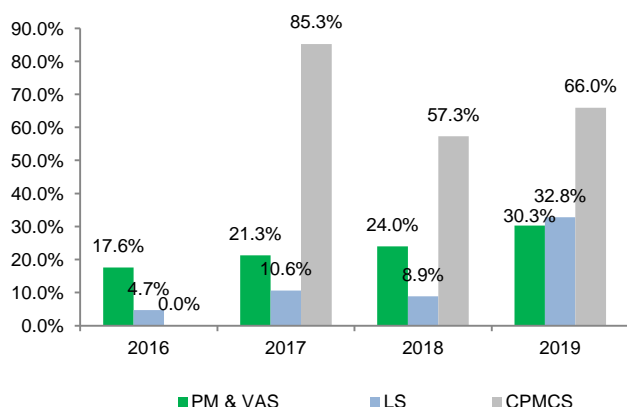
Source(s): The Company, ABCI Securities estimates

Exhibit 25: CCNL's CFA under management



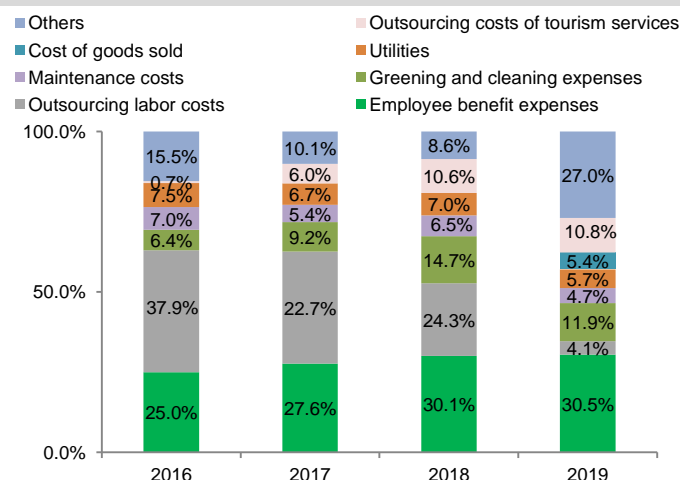
Source(s): The Company, ABCI Securities estimates

Exhibit 26: Gross profit margin by segment



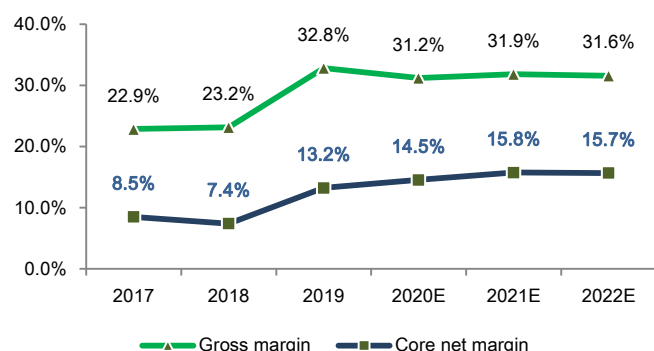
Source(s): The Company, ABCI Securities

Exhibit 27: CCNL's cost of sales breakdown



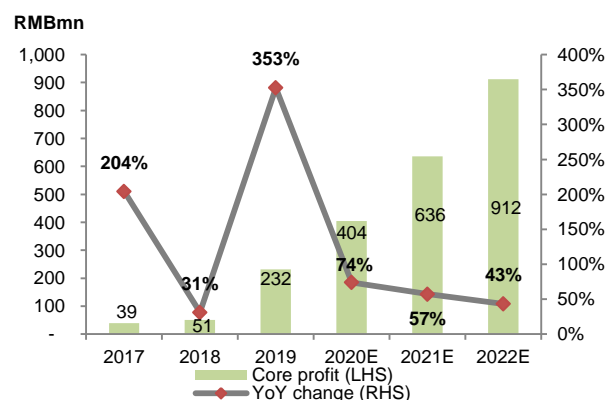
Source(s): The Company, ABCI Securities

Exhibit 28: Gross and core net margins



Source(s): The Company, ABCI Securities estimates

Exhibit 29: CCNL's core profit

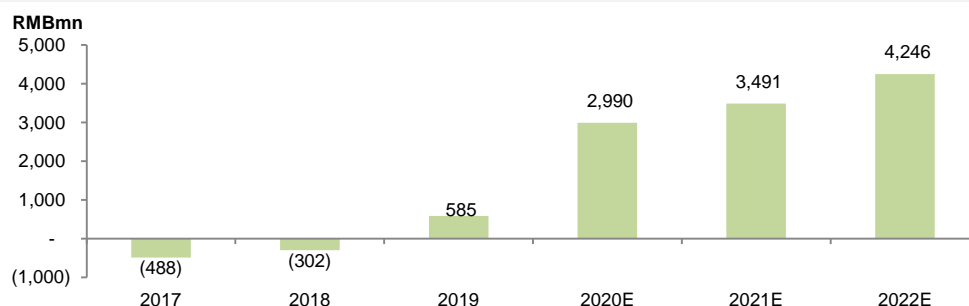


* 2020 figures excluded non-recurring expenses related to COVID-19
Source(s): The Company, ABCI Securities estimates

Becoming an asset-light company after disposal of rental business

Thanks to rising revenue and operating cash inflow, CCNL's net debt balance declined noticeably from RMB 488mn in 2017, to net cash of RMB 585mn in 2019, after disposing the discontinued asset-heavy property sub-leasing business. Besides, loans to related parties in other receivables amounting to RMB 564mn in 2018 was fully settled in 2019. We expect net cash balance to grow further from RMB 585mn in 2019 to RMB 2,990mn in 2020E and RMB 4,246mn in 2022E.

Exhibit 30: Net Cash/(debt) balance



* Net cash= total cash - gross debt
Source(s): The Company, ABCI Securities estimates

Valuation

Initiate BUY with TP HK\$12.10 based on SoTP

We used SoTP to derive CCNL's fair value due to the Group's diversified business portfolio. A substantial proportion of its revenue is determined by PM agreement, which generates recurrent income in the long term. As such, we believe DCF valuation would offer an accurate assessment of the Group's value based on its high cash flow visibility. Two business segments - (1) Property agency within Property management services and Value-added services (PM & VAS); (2) Lifestyle services (LS), are valued based on the earnings multiples because of the limited cash flow visibility.

- **PM & VAS, and Commercial property management and consultation services (CPMCS):** We apply the DCF valuation based on a WACC of 10%. A substantial proportion of revenue from these segments is determined by management agreement, which generates recurrent income in the long term. As such, we believe DCF valuation would offer a more accurate assessment of the Group's value based on its high cash flow visibility.
- **Property agency:** we apply a 2020E P/E multiple of 4, which is comparable to Hopefluent (733 HK), a major listed property agency
- **LS:** This segment contains Jianye+, Travel Services and Cuisine Henan is expected to correlate with online services, tourism and F&B industry. However, we believe Jianye+ would contribute the majority of the segment's profit given its much higher net margin of ~26%, vs. 5-10% for Travel Services and Cuisine Henan, based on our estimates. We assign a 2020E P/E multiple of 10, which represents 68% discount to the e-commerce giant Alibaba's 31x P/E.

Adding 2020E net cash of RMB 3.0bn, the SoTP-derived TP for CCNL arrives at HK\$ 12.10, which implies 33.7x 2020E fair value-to-earnings ratio.

Exhibit 31: CCNL's SoTP valuation

SoTP Valuation	RMBmn	Remarks
PM & VAS (ex. Property agency) and CPMCS	8,939	DCF with WACC of 10%
Property Agency	617	4x 2020 PE, in-line with Hopefluent (733 HK)
LS	1,057	10x 2020PE, 68% discount to Alibaba (9988 HK)
Total 2020E Enterprise value	10,613	
2020E Net cash/(debt)	2,990	
Total 2020E Equity value (RMBmn)	13,604	
Total 2020E Equity value (HK\$mn)	15,064	
No of shares (mn)	1,245	
TP (HK\$)	12.10	

Source(s): ABCI Securities estimates

Exhibit 32: CCNL's SoTP valuation: sensitivity to changes in WACC

	WACC				
	Bull case		Based case		Bear case
	8.0%	9.0%	10.0%	11.0%	12.0%
TP (HK\$)	14.60	13.20	12.10	11.21	10.48
Variance	20.6%	9.1%	0.0%	-7.3%	-13.4%

Source(s): ABCI Securities estimates

Comparative approach

We consider the listed mid-cap PMCs (with GFA under management 20-100mn sqm) to be CCNL's comparable peers. These include Ever Sunshine (1995 HK), S-Enjoy (1755 HK), Aoyuan Healthy (3662 HK) and Kaisa Prosperity (2168 HK). They are trading at 32.8x 2020E P/E on average based on Bloomberg's consensus forecasts.

Exhibit 33: Valuation of HK-listed PMCs operating in China

Exhibit 65: Valuation of PRC listed firms operating in China																
PRC Property		Ticker	Mkt Cap HK\$ (bn)	Share Price (HK\$)	Performance			Valuation								
					3M	YTD	2019	P/E			Yield (%)			P/B		
			(HKD bn)	(HK\$)	% Chg	% Chg	% Chg	2019A	2020E*	2021E*	2019A	2020E*	2021E*	2019A	2020E*	2021E*
Large PMC (GFA under management >100mn sqm)																
1	Country Garden Services	6098 HK	116.4	40.9	29	61	111	63.0	46.2	35.7	0.4	0.5	0.7	19.2	14.3	10.9
2	A-Living	3319 HK	55.7	41.1	7	56	158	40.9	28.8	20.9	1.2	1.7	2.4	8.0	7.0	6.0
3	Poly Property Development	6049 HK	45.4	81.1	18	76	33	80.9	57.7	45.2	0.3	0.4	0.6	6.4	5.9	5.4
4	Greentown Services	2869 HK	30.9	9.12	8	13	43	53.8	38.0	29.2	0.9	1.0	1.3	8.3	6.3	5.5
5	China Overseas Property	2669 HK	29.7	8.99	13	84	115	55.2	42.8	33.6	0.6	0.7	0.9	19.6	14.6	11.0
Mid-sized PMC (GFA under management= 20-100mn sqm)																
1	Ever Sunshine	1995 HK	24.6	14.3	52	178	198	87.2	59.3	36.3	0.3	0.4	0.8	18.5	14.9	10.9
2	Xinchengyue	1755 HK	20.9	24.6	39	112	219	67.0	45.2	31.2	0.8	1.1	1.7	20.4	15.4	11.7
3	CCNL	9983 HK	11.7	9.28	na	na	na	32.5	25.8	16.4	0.0	1.2	1.8	20.4	3.9	3.4
4	Justbon	2606 HK	9.5	54.0	21	8	32	20.2	15.1	11.4	1.5	2.0	2.6	3.5	3.0	2.6
5	Powerlong CM	9909 HK	12.3	19.0	NA	102	2	51.5	40.5	27.5	1.2	1.3	1.4	6.8	6.3	5.5
6	Aoyuan Healthy	3662 HK	6.5	8.77	27	55	58	40.2	24.8	17.6	1.2	1.6	2.3	6.9	5.9	4.8
7	Kaisa Prosperity	2168 HK	5.6	35.4	29	71	183	29.8	20.2	14.5	1.5	1.8	2.4	7.0	5.7	4.6
PMC Avg					23	73	105	51.7	36.9	26.5	0.8	1.2	1.6	12.0	8.6	6.8
- Large PMC					15	58	92	58.7	42.6	32.8	0.7	0.9	1.2	12.3	9.6	7.7
- Small/mid-sized PMC					32	86	115	46.6	32.8	22.0	0.9	1.4	1.9	11.9	7.8	6.2

*Bloomberg's consensus forecast
 Source(s): Bloomberg, ABCI Securities

Exhibit 34: FY19 peer comparison by GFA (Small/mid-sized players, GFA under management < 100mn sqm)

	Ever Sunshine (1995 HK)			S-Enjoy (1755 HK)			Kaisa Prosperity (2168 HK)			Aoyuan Healthy (3662 HK)			CCNL (9983 HK)		
	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg
GFA comparison															
GFA under management (mn sqm)	40.2	65.2	62%	42.9	60.2	40%	26.9	46.2	72%	10.4	15.1	45%	25.7	57.0	122%
- Residential	32.8	52.7	61%				23.5	41.8	78%	NA	NA		23.2	39.8	72%
- Non-residential	7.4	12.5	68%				3.4	4.4	29%	NA	NA		2.5	17.2	587%
% as total GFA under management															
- Residential	82%	81%	-1%				87%	90%	3%				90%	70%	-20%
- Non-residential	18%	19%	1%				13%	10%	-3%				10%	30%	20%
GFA under management (mn sqm)	40.2	65.2	62%	42.9	60.2	40%	26.9	46.2	72%	10.4	15.1	45%	25.7	57.0	122%
- Developed by major shareholders/parent group	14.6	17.7	21%	30.5	42.8	40%	22.6	24.8	10%	9.9	13.9	41%	21.5	39.3	83%
- Third parties	25.6	47.5	85%	12.4	17.4	40%	4.3	21.5	402%	0.5	1.2	124%	4.2	17.7	324%
GFA under management (%)															
- Developed by major shareholders/parent group	36%	27%	-9%	71%	71%	0%	84%	54%	-31%	95%	92%	-3%	84%	69%	-15%
- Third parties	64%	73%	9%	29%	29%	0%	16%	46%	31%	5%	8%	3%	16%	31%	15%
Contracted GFA (mn sqm)	65.6	110.6	69%	112.2	152.8	36%	32.2	53.8	67%	N A	N A		70.3	114.7	63%

Source(s): The Company, Ever Sunshine, S-Enjoy, Kaisa Property, Aoyuan Healthy, ABCI Securities

Exhibit 35: FY19 peer comparison by financial metric (small/mid-sized players, GFA under management < 100mn sqm)

	Ever Sunshine (1995 HK)			S-Enjoy (1755 HK)			Kaisa Prosperity (2168 HK)			Aoyuan Healthy (3662 HK)			CCNL (9983 HK)		
	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg
Financials comparison															
Revenue (RMBmn)	1,076	1,878	75%	1,173	2,024	72%	896	1,262	41%	619	901	46%	694	1,754	153%
- PM	667	1,070	60%	732	849	16%	376	560	49%	306	390	27%	423	592	40%
- VAS to NPO and property agency	211	325	54%	297	648	118%	356	467	31%	99	173	75%	159	464	192%
- CVAS	198	483	143%	48	176	268%	82	121	49%	48	83	73%	31 ^(#)	58 ^(#)	84%
- Others				97	351	263%	83	113	37%	166	254	54%	80 ^(#)	640 ^(#)	699%
% as total revenue															
- PM	62%	57%	-5%	62%	42%	-20%	42%	44%	2%	49%	43%	-6%	61%	34%	-27%
- VAS to NPO and property agency	20%	17%	-2%	25%	32%	7%	40%	37%	-3%	16%	19%	3%	23%	26%	4%
- CVAS	18%	26%	7%	4%	9%	5%	9%	10%	1%	8%	9%	1%	5%	3%	-1%
- Others				8%	17%	9%	9%	9%	0%	27%	28%	1%	12%	37%	25%
Gross profit (RMBmn)	309	555	80%	345	600	74%	277	378	37%	209	337	61%	161	576	259%
Gross Margin (%)	28.7%	29.6%	0.9%	29.4%	29.6%	0.2%	30.9%	30.0%	-0.9%	33.7%	37.4%	3.7%	23.2%	32.8%	9.7%
- PM	20.7%	22.1%	1.4%	27.8%	28.5%	0.7%	32.7%	27.3%	-5.4%	NA	34.6%		24.0% ^(#)	30.3% ^(#)	6.3%
- VAS to NPO and property agency	21.6%	21.9%	0.3%	25.5%	27.9%	2.3%	28.8%	28.7%	-0.1%						
- CVAS	63.2%	51.3%	-12.0%	81.7%	64.3%	-17.4%	35.7%	47.1%	11.4%						
- Others				27.6%	18.2%	-9.4%	27.0%	30.0%	3.1%	NA	44.5%		16.2% ^(#)	41.2% ^(#)	25.0%
Core net profit* (RMBmn)	126	226	79%	152	282	85%	106	171	61%	94	162	73%	51	232	353%
Net margin (%)	11.7%	12.0%	0.3%	13.0%	13.9%	1.0%	11.8%	13.5%	1.7%	15.2%	18.0%	2.9%	7.4%	13.2%	5.8%
	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg
Gross debt (RMBmn)	9	-	NA	-	-	NA	-	-	NA	2	100	NA	436	-	-100%
Cash (RMBmn)	1,170	1,327	13%	1,281	1,339	5%	709	755	7%	200	823	311%	135	585	334%
Net debt (RMBmn)	(1,161)	(1,327)	14%	(1,281)	(1,339)	5%	(709)	(755)	7%	(199)	(723)	264%	302	(585)	-294%
Total Equity (RMBmn)	903	1,228	36%	878	967	10%	507	664	31%	126	846	570%	97	382	292%
Net gearing (%)	-129%	-108%	21%	-146%	-138%	7%	-140%	-114%	26%	-157%	-85%	72%	310%	-153%	-463%

Includes revenue from Intelligent community solutions, Central China Consumer Club, Lifestyle services and Commercial property management and consultancy services (CPMCS)

^ Represents gross profit margin for PM & VAS segment;

^^ Represents gross profit margin for Lifestyle Services and CPMCS in aggregate

* Core profit= Net profit - profit/loss from discontinued operation - tax adjustment - (Other (losses)/gains-net + Other exceptional items) x 0.75

Source(s): The Company, Ever Sunshine, S-Enjoy, Kaisa Property, Aoyuan Healthy, ABCI Securities

Risk factors

- 21.1% of CCNL's GFA under management will expire by 2020.**
 About 21.1% of CCNL's GFA under management will expire by 2020. Failure to renew these contracts may lead to PM revenue decline. These are mainly PM contracts with the property owners' associations and public projects, which generally have a fixed term and need to be renewed upon expiration. Generally, agreements without fixed terms will terminate once a property owners' association is formed and a new PM service agreement between such property owners' association and a PM company becomes effective.

Exhibit 36: Expiration schedule of properties developed by CCNL (Dec 2019)

	GFA under management	
	mn sqm	%
Without fixed terms	37.1	65.1%
Year ending Dec 31, 2019	1.0	1.7%
Year ending Dec 31, 2020	11.1	19.4%
Year ending Dec 31, 2021	1.1	2.0%
Year ending Dec 31, 2021 and beyond	6.7	11.8%
Total	57.0	100%

Source(s): The Company, ABCI Securities

- Rising labor costs.** As a result of growing headcounts and increasing minimum wages, the employee benefit expenses in cost of sales rose from RMB 98mn in 2017 to RMB 359mn in 2019, implying a CAGR of 91% during the period. As at Dec 31, 2019, CCNL had a total of 4,213 employees entered into labor contracts.
- Substantial amount of related-party transactions.** Provision of services to companies controlled by Mr. Wu, CCNL's major shareholder, was RMB135mn in 2018, representing 19.5% of total revenue, and increase significantly to RMB 746mn or 42.5% of total revenue in 2019. We believe these related-party transactions will increase further in 2020-21 based on the rising annual cap set by CCNL on the relevant connected transaction framework agreements.

Exhibit 37: Related-party transactions of CCNL

Services provided to companies controlled by Mr Wu (RMBmn)			
	2018	2019	YoY chg
Property management service	17	77	345%
Consulting service	50	159	220%
Commission income	36	185	415%
Travel service income	15	39	164%
Asset management income and others	11	98	784%
Construction services	-	116	NA
Sales of goods	-	26	NA
Membership management services	7	47	613%
Total	135	746	437%
As % of total revenue	19.5%	42.5%	

Source(s): The Company, ABCI Securities

Exhibit 38: Major connected transaction framework agreements

(RMBmn)		Actual			Annual cap	
Framework agreements		2017	2018	2019	2020	2021
1	Property Consultation and Management Services	51	55	155	195	240
2	Real Estate Agency Services	-	43	250	285	330
3	Intelligent Technology Services	-	-	145	180	235
4	Commercial Property Management Services	15	11	35	54	56
5	Green House Management Services	-	-	27	48	60
6	Membership Maintenance and Management Services	-	7	50	60	70
7	Tourism Services	5	15	39	48	67.5
Total		72	130	701	870	1,059
YoY change			82%	438%	24%	22%

Source(s): The Company, ABCI Securities

- **Conservative M&A stance.** CCNL only acquired 5.331mn sqm in GFA under management through M&A in 2019. With a relatively cautious approach in M&A, GFA growth from third parties may slow as the PM market matures and the Group may lose market share to players with a more aggressive M&A stance, in our view.
- **Uncertain development of COVID-19.** Contracted sales of major developers have been significantly impacted by the coronavirus outbreak in Jan-Feb 2020. According to announcement by CCRE, contracted GFA dropped 35.9%YoY to 748k sqm while contracted sales value declined 18.3%YoY to RMB 5.8bn in 2M20. CCNL's contracted GFA addition for 2020 would be negatively affected if coronavirus cases resurge in China in 2H20. CCNL's revenue from VASNPO (mainly on-site sales assistance) could also be impacted by temporary closure of parent's sales centers, while inspection business could be affected by possible deferred construction. In 1H20, CCRE's contracted GFA dropped 1.2%YoY to 5.878mn sqm, while contracted sales value rose 8.5%YoY to RMB 43.0bn, showing a healthy improvement as the impact of virus outbreak wanes.

Financial statements

Consolidated income statement (2018A-2021E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	694	1,754	2,782	4,036	5,824
Cost of services	(533)	(1,178)	(1,913)	(2,750)	(3,984)
Gross Profit	161	576	869	1,286	1,840
Selling and marketing expenses	(12)	(46)	(74)	(85)	(122)
Administrative expenses	(86)	(230)	(298)	(410)	(567)
EBIT	63	299	497	791	1,150
Other income	49	20	7	6	7
Finance income	0	1	21	37	39
Finance expenses	(43)	(17)	-	-	-
Share of associates	(1)	(0)	-	-	-
Net impairment losses	(2)	(0)	(0)	(0)	(1)
Other gains-net	5	4	(25)	-	-
Profit before tax	72	308	500	834	1,195
Tax	(20)	(75)	(110)	(192)	(275)
Profit after tax	52	233	390	642	920
Losses from discontinued operation	(70)	(5)	-	-	-
Non-controlling interest	37	6	(4)	(7)	(9)
Net profit	19	234	385	636	912
Less: exceptional items*	32	(2)	19	-	-
Core net profit	51	232	404	636	912
Per share data					
Fully diluted EPS (RMB)	0.02	0.26	0.31	0.51	0.73
Core EPS (RMB)	0.06	0.26	0.32	0.51	0.73
DPS (RMB)	-	-	0.10	0.15	0.22
Payout ratio (%)	0%	0%	30%	30%	30%
BVPS (RMB)	0.13	0.41	2.13	2.49	3.00
Growth %					
Revenue	50.7%	152.8%	58.6%	45.1%	44.3%
Gross Profit	52.6%	258.6%	50.7%	48.0%	43.1%
EBIT	71.9%	378.6%	66.0%	59.1%	45.4%
Core net profit	31.1%	352.6%	74.1%	57.3%	43.4%
Margin %					
Gross margin	23.2%	32.8%	31.2%	31.9%	31.6%
EBIT margin	9.0%	17.1%	17.9%	19.6%	19.8%
Core net margin	7.4%	13.2%	14.5%	15.8%	15.7%
Revenue breakdown					
Property management and VAS	621	1,341	2,184	3,154	4,515
Lifestyle services	62	309	477	733	1,139
Commercial property management and consultancy services	11	105	121	150	170
Total	694	1,754	2,782	4,036	5,824
Key assumptions					
Contracted GFA (mn sqm)	70.3	114.7	134.7	154.7	174.7
GFA under management (mn sqm)	25.7	57.0	72.0	105.6	132.9

*(Gain)/loss from discontinued operations attributable to owners of the company; for 2020E, we also exclude non-recurring expenses related to COVID-19

Source(s): The Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2021E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	1,041	1,362	3,837	4,689	5,946
Bank balances and cash	134	585	2,990	3,491	4,246
Trade and other receivables and prepayments	871	767	836	1,188	1,690
Financial assets at fair value through profit or loss	35	2	2	2	2
Other current assets	0	9	9	9	9
Non-current assets	283	101	107	113	119
Property, plant and equipment	21	18	24	30	36
Investment properties	214	0	0	0	0
Deferred tax assets	10	7	7	7	7
Other non-current assets	38	76	76	76	76
Total Assets	1,324	1,463	3,944	4,803	6,065
Current Liabilities	626	1,018	1,208	1,615	2,230
Lease liabilities	66	2	2	2	2
Contracted liabilities	167	311	311	311	311
Trade and other payables	353	654	844	1,251	1,867
Borrowings	6	0	0	0	0
Other current liabilities	32	51	51	51	51
Non-current liabilities	601	64	64	64	64
Bank and other borrowings	430	0	0	0	0
Lease liabilities	137	1	1	1	1
Other non-current liabilities	34	63	63	63	63
Total Liabilities	1,227	1,082	1,272	1,679	2,295
Net Assets	97	382	2,672	3,124	3,771
Shareholders' Equity	117	369	2,656	3,101	3,739
Minority Interest	(19)	12	17	23	32
Total Equity	97	382	2,672	3,124	3,771
Key ratio					
Gross debt (RMB mn)	436	-	-	-	-
Net debt/ (cash) (RMB mn)	302	(585)	(2,990)	(3,491)	(4,246)
Net gearing (%)	310%	-153%	-112%	-112%	-113%

Note: No M&A transactions are assumed in our forecast for 2020-2022E. Hence, the rising cash balance in our forecast only generates small amount of interest income, which results in lower ROA and ROE

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement (2018A-2021E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBITDA	70	314	511	805	1164
Others	1	15	0	0	0
Cash generated from operations (before working capital)	70	328	511	805	1164
Change in Working Capital	37	(12)	121	55	114
Cash generated from operations	108	316	632	861	1278
Discontinued operation	40	15	0	0	0
Tax payment	(14)	(51)	(110)	(192)	(275)
Operating Cash flow	133	281	522	669	1003
Purchase of PP&E	(4)	(14)	(20)	(20)	(20)
Acquisition of subsidiaries	(25)	(13)	-	-	-
Loan to other entities	-	-	-	-	-
Acquisition of financial assets at fair value through profit or loss	(79)	(278)	-	-	-
Proceeds from disposal of financial assets at fair value through profit or loss	95	309	-	-	-
Others	150	640	21	37	39
Investing Cash flow	138	644	1	17	19
Repayments of borrowings	(174)	(436)	0	0	0
Interest paid	(50)	(32)	0	0	0
Equity raised	0	0	2,022	0	0
Payment to shareholders	0	0	(121)	(191)	(273)
Others	(35)	(5)	(18)	6	6
Financing Cash flow	(259)	(474)	1,883	(185)	(267)
Net cash inflow/ (outflow)	12	451	2405	501	755
Cash- beginning	122	134	585	2,990	3,491
Cash- year-end	134	585	2,990	3,491	4,246

Source(s): The Company, ABCI Securities estimates

Appendix I- Company background

Exhibit 39: CCNL's Corporate information

Auditor	PricewaterhouseCoopers
Headquarter	Unit 1905, PICC Plaza No. 24 Shangwu Waihuan Road, Zhengdong New District Zhengzhou, Henan Province PRC
Joint Company secretaries	Ms. To Yee Man
Authorised representatives	Mr. Wang Jun Ms. To Yee Man

Source(s): The Company, ABCI Securities

Exhibit 40: Board of directors

Name	Position	Role and responsibilities
Wang Jun (王 俊)	Executive Director, chief executive officer and chairman of the Board	Formulating and executing business strategies, annual operational and financial plans
Cai Bin (蔡 斌)	Executive Director and chief operating officer	Managing the daily business operations of the Group
Min Huidong (閔 慧 東)	Non-executive Director	Reviewing and supporting overall corporate and business development and strategic planning of the Group
Wu Lam Li (李 琳)	Non-executive Director	Reviewing and supporting overall corporate and business development and strategic planning of the Group
Leong Chong (梁 翔)	Independent non-executive Director	Providing independent judgment on strategies, policy, performance, accountability, resources, key appointments and standard of conduct
Luo Laura Ying (羅 瑩)	Independent non-executive Director	Providing independent judgment on strategies, policy, performance, accountability, resources, key appointments and standard of conduct
Xin Zhu (辛 珠)	Independent non-executive Director	Providing independent judgment on strategies, policy, performance, accountability, resources, key appointments and standard of conduct

Source(s): The Company, ABCI Securities

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return < Market return rate (10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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