# Central China Management Co Ltd 09982 (XHKG) | ★★★★★

| Last Price | Fair Value | Uncertainty | Economic Moat™ | Moat Trend™ | Capital Allocation | Industry Group | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|
| 1.23 HKD | 3.92 HKD | Medium | None | Stable | Standard | Real Estate | — |

## CCMGT's Activity on Track, Share Price Remains Hammered by Overhang, Weak Sentiment

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The primary analyst covering this company does not own its stock.

Research as of 16 Nov 2021
Estimates as of 30 Sep 2021
Pricing data through 15 Nov 2021 00:00
Rating updated as of 15 Nov 2021 00:00

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.
Rating as of —

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

**Contents**



### Analyst Note 16 Nov 2021

We note Central China Management's, or CCMGT's, continued share price weakness but our view is unchanged with the October projects data showing activity is on track to meet our full-year forecast. We also do not see any indications the company would not be able to achieve 20% revenue CAGR through 2023. We maintain our thesis that CCMGT would benefit from industry growth as smaller developers look to work with project management companies to maximize returns on their landbank. Our fair value estimate for CCMGT of HKD 3.92 is unchanged, and we think the stock is currently undervalued. With a full-year dividend forecast of CNY 15 cents, the stock is currently trading on a 14.9% dividend yield.

According to the monthly operating data announcement, CCMGT has 76 newly contracted projects year-to-October, representing a year-on-year increase of 16.9%. While only four projects were newly contracted in October, compared with nine newly contracted projects in September, we note the new projects contracted have a larger average size of 169,294 square meters, compared with year-to-October average of 115,859 square meters per project. This brings total gross floor area, or GFA, under management to 30.8 million square meters. This is slightly ahead of our expectation on total GFA under management for end-2021 of 27 million square meters, but we expect more project completions in the rest of the year. August and September project completions were subdued due to a minor coronavirus outbreak and the floods in Henan, with only one and two projects completed in the two months respectively. However, completions have picked up in October to six projects, with a total GFA of 0.8 million square meters. This gives us confidence that business activities have resumed to normal levels. Our full-year forecasts remain unchanged.

CCMGT's share price has continued to be weak, which we

**Vital Statistics**

| | |
|---|---|
| Market Cap (HKD Mil) | 4,053 |
| 52-Week High (HKD) | 2.95 |
| 52-Week Low (HKD) | 1.02 |
| 52-Week Total Return % | — |
| YTD Total Return % | — |
| Last Fiscal Year End | 31 Dec 2020 |
| 5-Yr Forward Revenue CAGR % | 12.3 |
| 5-Yr Forward EPS CAGR % | 7.1 |
| Price/Fair Value | 0.31 |

**Valuation Summary and Forecasts**

| Fiscal Year: | 2019 | 2020 | *2021(E)* | *2022(E)* |
|---|---|---|---|---|
| Price/Earnings | — | — | *4.2* | *3.6* |
| EV/EBITDA | — | — | *1.1* | *1.0* |
| EV/EBIT | — | — | *1.2* | *1.0* |
| Free Cash Flow Yield % | — | — | *38.8* | *16.9* |
| Dividend Yield % | — | — | *14.9* | *17.8* |

**Financial Summary and Forecasts** (CNY Mil)

| Fiscal Year: | 2019 | 2020 | *2021(E)* | *2022(E)* |
|---|---|---|---|---|
| Revenue | 1,029 | 1,152 | *1,251* | *1,540* |
| Revenue YoY % | 52.1 | 12.0 | *8.6* | *23.1* |
| EBIT | 860 | 932 | *961* | *1,133* |
| EBIT YoY % | 56.5 | 8.4 | *3.1* | *17.8* |
| Net Income, Adjusted | 643 | 700 | *726* | *856* |
| Net Income YoY % | 57.7 | 8.9 | *3.7* | *17.8* |
| Diluted EPS | 0.22 | 0.24 | *0.24* | *0.28* |
| Diluted EPS YoY % | 57.7 | 8.9 | *2.8* | *16.8* |
| Free Cash Flow | 628 | 237 | *1,284* | *556* |
| Free Cash Flow YoY % | -802.6 | -62.2 | *441.2* | *-56.7* |

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

**Profile**

Central China Management Company, or CCMGT, is one of China's leading real estate project management companies with a dominant market position in Henan province. As a project manager, CCMGT is responsible for running the real estate development project for its clients, that is the project owners. This could include being involved in the product design, managing the construction, and mapping out the marketing and sales strategies. CCMGT is a sister company to Central China Real Estate, a prominent real estate developer in Henan.

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| 1.23 HKD | 3.92 HKD | Medium | None | Stable | Standard | Real Estate | — |

suspect may be due to continued share sale overhang from Central China Real Estate's minority shareholders, who received CCMGT shares from the spin-off, as well as concerns that slowing real estate growth may hurt the outlook for CCMGT. While management has previously noted contracted sales were affected by the floods in Henan, and sentiment has been weak due to concerns over the China real estate sector, CCMGT has achieved a year-to-October average selling price of around CNY 6,200 per square meter, slightly above management's previous guidance of CNY 6,000. This reaffirms our view that the company's focus in tier-three and tier-four cities are likely to see a lesser policy impact and more stable pricing.

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## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in December

| Growth (% YoY) | 3-Year Hist. CAGR | 2018 | 2019 | 2020 | Forecast 2021 | 2022 | 5-Year Proj. CAGR |
|---|---|---|---|---|---|---|---|
| Revenue | *54.9* | 118.4 | 52.1 | 12.0 | *8.6* | *23.1* | *12.3* |
| EBIT | *68.3* | 180.7 | 56.5 | 8.4 | *3.1* | *17.8* | *7.3* |
| EBITDA | *68.9* | 181.0 | 57.5 | 8.9 | *3.6* | *18.4* | *7.6* |
| Net Income | *69.1* | 181.6 | 57.7 | 8.9 | *3.7* | *17.8* | *7.5* |
| Diluted EPS | *69.1* | 181.6 | 57.7 | 8.9 | *2.8* | *16.8* | *7.1* |
| Earnings Before Interest, after Tax | *68.2* | 181.0 | 57.3 | 7.6 | *2.1* | *20.8* | *7.7* |
| Free Cash Flow | — | -75.2 | -802.6 | -62.2 | *441.2* | *-56.7* | *34.2* |

| Profitability | 3-Year Hist. Avg | 2018 | 2019 | 2020 | 2021 | 2022 | 5-Year Proj. Avg |
|---|---|---|---|---|---|---|---|
| Operating Margin % | *81.9* | 81.2 | 83.6 | 80.9 | *76.9* | *73.6* | *70.9* |
| EBITDA Margin % | *82.6* | 81.5 | 84.4 | 82.0 | *78.3* | *75.3* | *72.6* |
| Net Margin % | *61.2* | 60.3 | 62.5 | 60.8 | *58.1* | *55.6* | *53.6* |
| Free Cash Flow Margin % | *22.8* | -13.2 | 61.0 | 20.6 | *NM* | *36.1* | *55.9* |
| ROIC % | *110.1* | 98.7 | 112.0 | 119.5 | *173.7* | *304.7* | *186.7* |
| Adjusted ROIC % | *110.1* | 98.7 | 112.0 | 119.5 | *173.7* | *304.7* | *186.7* |
| Return on Assets % | *46.9* | 46.2 | 49.8 | 44.7 | *32.0* | *28.8* | *27.2* |
| Return on Equity % | *84.9* | 87.0 | 90.1 | 77.7 | *46.2* | *39.0* | *37.7* |

| Leverage | 3-Year Hist. Avg | 2018 | 2019 | 2020 | 2021 | 2022 | 5-Year Proj. Avg |
|---|---|---|---|---|---|---|---|
| Debt/Capital | — | — | — | — | — | — | — |
| Total Debt/EBITDA | — | — | — | — | — | — | — |
| EBITDA/Interest Expense | *6,089.81* | 12,252.53 | 3,587.41 | 2,429.50 | — | — | — |

### Valuation Summary and Forecasts

| | 2019 | 2020 | 2021(E) | 2022(E) |
|---|---|---|---|---|
| Price/Fair Value | — | — | — | — |
| Price/Earnings | — | — | *4.2* | *3.6* |
| EV/EBITDA | — | — | *1.1* | *1.0* |
| EV/EBIT | — | — | *1.2* | *1.0* |
| Free Cash Flow Yield % | — | — | *38.8* | *16.9* |
| Dividend Yield % | — | — | *14.9* | *17.8* |

### Key Valuation Drivers

| | |
|---|---|
| Cost of Equity % | 11.0 |
| Pre-Tax Cost of Debt % | 6.5 |
| Weighted Average Cost of Capital % | 11.0 |
| Long-Run Tax Rate % | 25.0 |
| Stage II EBI Growth Rate % | 5.0 |
| Stage II Investment Rate % | 50.0 |
| Perpetuity Year | 10 |

Additional estimates and scenarios available for download at http://select.morningstar.com.

### Discounted Cash Flow Valuation

| | CNY Mil | Firm Value (%) | Per Share Value |
|---|---|---|---|
| Present Value Stage I | 3,366 | 37.7 | 1.05 |
| Present Value Stage II | 1,262 | 14.1 | 0.39 |
| Present Value Stage III | 4,297 | 48.2 | 1.34 |
| **Total Firm Value** | **8,924** | **100.0** | **2.79** |
| Cash and Equivalents | 385 | — | 0.12 |
| Debt | — | — | — |
| Preferred Stock | — | — | — |
| Other Adjustments | 766 | — | 0.24 |
| **Equity Value** | **10,075** | **—** | **3.15** |
| Projected Diluted Shares | 3,196 | | |
| **Fair Value per Share** (HKD) | **3.92** | | |

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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## Morningstar Analyst Forecasts

**Income Statement** (CNY Mil)
Fiscal Year Ends in December

| | | | | Forecast | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | *2021* | *2022* |
| **Revenue** | **676** | **1,029** | **1,152** | ***1,251*** | ***1,540*** |
| Cost of Goods Sold | 70 | 134 | 168 | *208* | *297* |
| **Gross Profit** | **607** | **895** | **984** | ***1,042*** | ***1,243*** |
| Selling, General & Administrative Expenses | — | — | — | — | — |
| Other Operating Expense (Income) | 55 | 27 | 39 | *56* | *69* |
| Other Operating Expense (Income) | — | — | — | *8* | *15* |
| Depreciation & Amortization (if reported separately) | 2 | 8 | 13 | *17* | *26* |
| **Operating Income (ex charges)** | **549** | **860** | **932** | ***961*** | ***1,133*** |
| Restructuring & Other Cash Charges | — | — | 10 | *23* | — |
| Impairment Charges (if reported separately) | — | — | — | — | — |
| Other Non-Cash (Income)/Charges | 6 | 3 | 15 | *13* | *16* |
| **Operating Income (incl charges)** | **544** | **857** | **907** | ***925*** | ***1,117*** |
| Interest Expense | 0 | 0 | 0 | — | — |
| Interest Income | 1 | 2 | 6 | *7* | *8* |
| **Pre-Tax Income** | **544** | **858** | **912** | ***932*** | ***1,125*** |
| Income Tax Expense | 141 | 217 | 231 | *233* | *281* |
| Other After-Tax Cash Gains (Losses) | — | — | — | — | — |
| Other After-Tax Non-Cash Gains (Losses) | — | — | — | — | — |
| (Minority Interest) | — | — | — | — | — |
| (Preferred Dividends) | — | — | — | — | — |
| **Net Income** | **404** | **641** | **681** | ***699*** | ***844*** |
| Weighted Average Diluted Shares Outstanding | 2,967 | 2,967 | 2,967 | *2,994* | *3,022* |
| **Diluted Earnings Per Share** | **0.14** | **0.22** | **0.23** | ***0.23*** | ***0.28*** |
| Adjusted Net Income | 408 | 643 | 700 | *726* | *856* |
| **Diluted Earnings Per Share (Adjusted)** | **0.14** | **0.22** | **0.24** | ***0.24*** | ***0.28*** |
| Dividends Per Common Share | — | 0.18 | 0.16 | *0.15* | *0.18* |
| **EBITDA** | **546** | **865** | **920** | ***942*** | ***1,143*** |
| **Adjusted EBITDA** | **551** | **868** | **945** | ***979*** | ***1,159*** |

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## Morningstar Analyst Forecasts

**Balance Sheet** (CNY Mil)

| Fiscal Year Ends in December | 2018 | 2019 | 2020 | *Forecast* 2021 | *Forecast* 2022 |
|---|---|---|---|---|---|
| Cash and Equivalents | 85 | 345 | 385 | *1,985* | *1,999* |
| Investments | — | — | — | — | — |
| Accounts Receivable | 973 | 804 | 1,017 | *308* | *464* |
| Inventory | — | — | — | — | — |
| Deferred Tax Assets (Current) | — | — | — | — | — |
| Other Short Term Assets | 135 | 194 | 238 | *259* | *318* |
| **Current Assets** | **1,193** | **1,344** | **1,640** | ***2,552*** | ***2,782*** |
| Net Property Plant, and Equipment | 1 | 24 | 24 | *137* | *371* |
| Goodwill | — | — | — | — | — |
| Other Intangibles | 2 | 2 | 1 | *1* | *1* |
| Deferred Tax Assets (Long-Term) | 2 | 3 | 7 | *7* | *7* |
| Other Long-Term Operating Assets | — | — | — | — | — |
| Long-Term Non-Operating Assets | — | 4 | 3 | *3* | *3* |
| **Total Assets** | **1,199** | **1,377** | **1,675** | ***2,700*** | ***3,163*** |
| Accounts Payable | 61 | 171 | 114 | *74* | *106* |
| Short-Term Debt | — | — | — | — | — |
| Deferred Tax Liabilities (Current) | 83 | 52 | 66 | *66* | *66* |
| Other Short-Term Liabilities | 378 | 403 | 482 | *523* | *644* |
| **Current Liabilities** | **522** | **626** | **663** | ***664*** | ***817*** |
| Long-Term Debt | — | — | — | — | — |
| Deferred Tax Liabilities (Long-Term) | — | — | — | — | — |
| Other Long-Term Operating Liabilities | — | 5 | 5 | *5* | *5* |
| Long-Term Non-Operating Liabilities | — | — | — | *13* | *29* |
| **Total Liabilities** | **522** | **631** | **668** | ***682*** | ***850*** |
| Preferred Stock | — | — | — | — | — |
| Common Stock | 150 | 150 | 150 | *150* | *150* |
| Additional Paid-in Capital | — | — | — | *766* | *766* |
| Retained Earnings (Deficit) | 526 | 597 | 857 | *1,102* | *1,397* |
| (Treasury Stock) | — | — | — | — | — |
| Other Equity | — | — | — | — | — |
| **Shareholder's Equity** | **676** | **747** | **1,007** | ***2,018*** | ***2,313*** |
| Minority Interest | — | — | — | — | — |
| **Total Equity** | **676** | **747** | **1,007** | ***2,018*** | ***2,313*** |

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## Morningstar Analyst Forecasts

**Cash Flow** (CNY Mil)

| Fiscal Year Ends in December | 2018 | 2019 | 2020 | Forecast 2021 | Forecast 2022 |
|---|---|---|---|---|---|
| Net Income | 404 | 641 | 681 | *699* | *844* |
| Depreciation | 2 | 8 | 13 | *17* | *26* |
| Amortization | — | — | — | — | — |
| Stock-Based Compensation | — | — | — | — | — |
| Impairment of Goodwill | — | — | — | — | — |
| Impairment of Other Intangibles | — | — | — | — | — |
| Deferred Taxes | — | — | — | — | — |
| Other Non-Cash Adjustments | 6 | 3 | 15 | *13* | *16* |
| (Increase) Decrease in Accounts Receivable | 108 | 19 | -94 | *709* | *-156* |
| (Increase) Decrease in Inventory | — | — | — | — | — |
| Change in Other Short-Term Assets | — | — | — | *-20* | *-60* |
| Increase (Decrease) in Accounts Payable | — | — | — | *-40* | *31* |
| Change in Other Short-Term Liabilities | — | — | — | *41* | *121* |
| **Cash From Operations** | **519** | **672** | **615** | ***1,419*** | ***823*** |
| (Capital Expenditures) | 0 | -16 | -3 | *-130* | *-260* |
| Net (Acquisitions), Asset Sales, and Disposals | -1 | -2 | -1 | — | — |
| Net Sales (Purchases) of Investments | — | — | — | — | — |
| Other Investing Cash Flows | -606 | -25 | -370 | — | — |
| **Cash From Investing** | **-608** | **-43** | **-374** | ***-130*** | ***-260*** |
| Common Stock Issuance (or Repurchase) | — | — | — | *766* | — |
| Common Stock (Dividends) | — | -320 | -200 | *-454* | *-549* |
| Short-Term Debt Issuance (or Retirement) | — | — | — | — | — |
| Long-Term Debt Issuance (or Retirement) | — | — | — | — | — |
| Other Financing Cash Flows | 50 | -49 | -2 | — | — |
| **Cash From Financing** | **50** | **-369** | **-202** | ***311*** | ***-549*** |
| Exchange Rates, Discontinued Ops, etc. (net) | — | — | — | — | — |
| **Net Change in Cash** | **-39** | **260** | **39** | ***1,601*** | ***14*** |

# Research Methodology for Valuing Companies

**Qualitative Equity Research Overview**
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

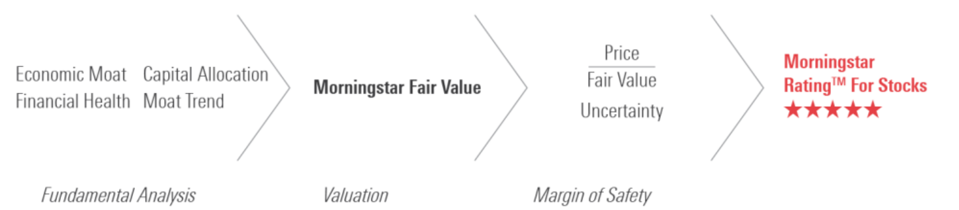
Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

**1. Economic Moat**
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

**Morningstar Research Methodology for Valuing Companies**




When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm’s economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

**2. Estimated Fair Value**
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.
Our model is divided into three distinct stages:

**Stage I: Explicit Forecast**
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

**Stage II: Fade**
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

**Stage III: Perpetuity**
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

**3. Uncertainty Around That Fair Value Estimate**
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to

# Research Methodology for Valuing Companies

assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

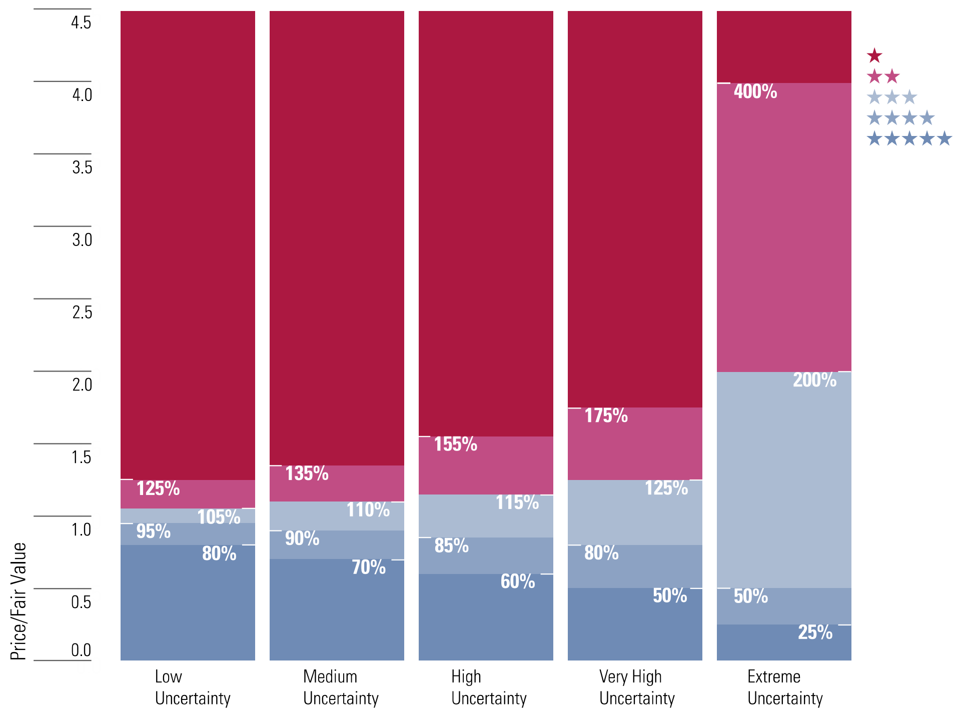
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ► Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

**4. Market Price**

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

**Morningstar Equity Research Star Rating Methodology**




**Morningstar Star Rating for Stocks**

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

# Research Methodology for Valuing Companies

**Other Definitions**

**Last Price:** Price of the stock as of the close of the market of the last trading day before date of the report.

**Capital Allocation Rating**: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

**Sustainalytics ESG Risk Rating Assessment:** The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environmental, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe.  For more information, please visit sustainalytics.com/esg-ratings/.

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

**Quantitative Valuation**: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

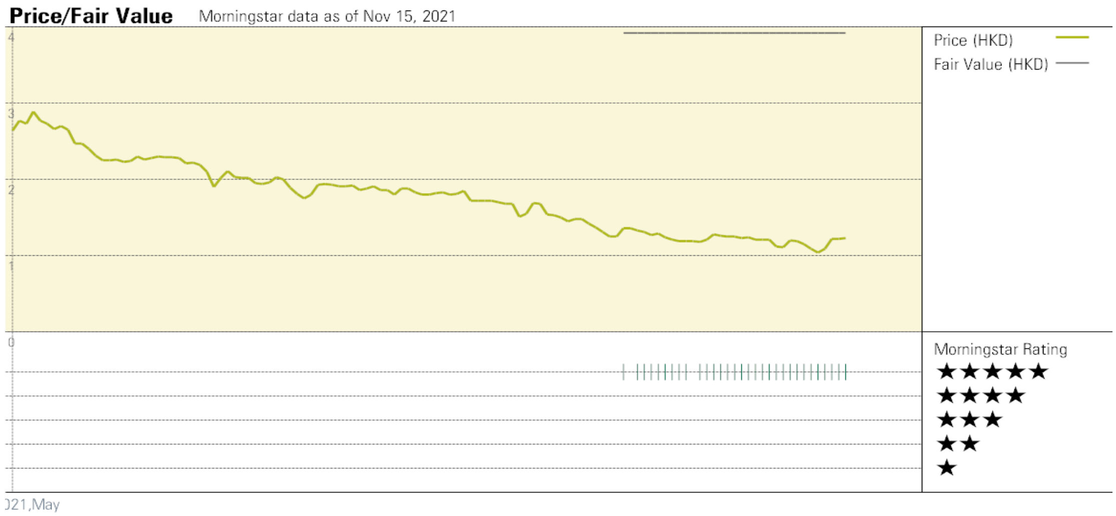
- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

**Risk Warning**

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

# Central China Management Co Ltd 09982 (XHKG) | ★★★★★

| Last Price | Fair Value | Uncertainty | Economic Moat™ | Moat Trend™ | Capital Allocation | Industry Group | ESG Risk Rating Assessment[1] |
|---|---|---|---|---|---|---|---|
| 1.23 HKD | 3.92 HKD | Medium | None | Stable | Standard | Real Estate | — |

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| Last Price | Fair Value | Uncertainty | Economic Moat™ | Moat Trend™ | Capital Allocation | Industry Group | ESG Risk Rating Assessment[1] |
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|---|---|---|---|---|---|---|---|
| 1.23 HKD | 3.92 HKD | Medium | None | Stable | Standard | Real Estate | — |

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