

**Central China Management Co Ltd 09982 (XHKG) | ★★★★★ BUY<sup>(1)</sup>**<sup>(1)</sup> Refer to mapping table between star rating and BNP Paribas B/H/R recommendation on last page

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment <sup>1</sup>
0.98 HKD	3.76 HKD	Medium	None	Stable	Standard	Real Estate	—

## CCMGT's Full-Year Results Solid; Lowering Fair Value Estimate on Weaker Growth Assumptions

See Page 2 for the full Analyst Note from 16 Mar 2022

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

Research as of 16 Mar 2022  
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<sup>1</sup>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.

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**Business Strategy and Outlook** 16 Mar 2022

Project management services for the real estate sector have taken off recently in China, driven by rising land costs and increasing competition that sees small and midsize developers seek the services of project managers with established brands to help derive higher returns on their projects. As a leading project manager in China, with a strong presence in Henan province, Central China Management Company, or CCMGT, is expected to benefit from industry growth over the next five years. We see 2021-224 revenue and net profit compounded annual growth rates, or CAGR, of 11% and 6%, respectively.

Project management companies such as CCMGT participate in real estate development activities in China via their involvement in commercial project management. However, they do so without having to commit significant upfront capital for land acquisition or for development costs. As a result, CCMGT is likely to remain in a net cash position. As a result, the company is sheltered China government clamp down on lending to the real estate market.

Having access to a well recognized brand name in central China, Jianye, enables CCMGT to attract clients. The increased competition and consolidation in the real estate industry has led developers to focus on product differentiation to derive value, especially with the rising cost of land acquisitions. Furthermore, smaller developers find it more difficult to raise financing for projects in the absence of a recognized brand name. Hence, smaller real estate developers face the risk of being crowded out. As a result, they are engaging CCMGT to help them maximize returns on their landback with the recognized Jianye brand able to attract buyers and financing.

As the industry expands, we expect more spinoffs of project management units by smaller national and larger regional real estate developers given the attractive profitability. With the new entrants, the market share of leading companies' such as CCMGT may start to diminish, in our view, although we expect that market shares of current market leaders should remain high over the next five years.

**Vital Statistics**

Market Cap (HKD Mil)	2,632
52-Week High (HKD)	2.95
52-Week Low (HKD)	0.80
52-Week Total Return %	—
YTD Total Return %	-49.4
Last Fiscal Year End	31 Dec 2021
5-Yr Forward Revenue CAGR %	9.2
5-Yr Forward EPS CAGR %	4.0
Price/Fair Value	0.26

**Valuation Summary and Forecasts**

Fiscal Year:	2020	2021	2022(E)	2023(E)
Price/Earnings	—	5.2	2.4	2.4
EV/EBITDA	—	—	NM	NM
EV/EBIT	—	—	NM	NM
Free Cash Flow Yield %	—	—	33.9	24.5
Dividend Yield %	—	18.9	20.1	21.2

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

Fiscal Year:	2020	2021	2022(E)	2023(E)
Revenue	1,152	1,301	1,466	1,602
Revenue YoY %	12.0	13.0	12.6	9.3
EBIT	932	1,014	1,085	1,089
EBIT YoY %	8.4	8.8	7.0	0.4
Net Income, Adjusted	700	797	857	866
Net Income YoY %	8.9	13.9	7.5	1.1
Diluted EPS	0.24	0.25	0.27	0.27
Diluted EPS YoY %	8.9	7.0	7.5	1.1
Free Cash Flow	237	166	696	487
Free Cash Flow YoY %	-62.2	-30.0	318.9	-30.0

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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## Morningstar Analysis

### CCMGT's Full-Year Results Solid; Lowering Fair Value Estimate on Weaker Growth Assumptions 16 Mar 2022

We lower our fair value estimate for Central China Management, or CCMGT, to HKD 3.76 from HKD 3.92 as we expect weaker growth for 2022. The company's full-year results were solid, but we see a slowdown in operating activities in early 2022. While management noted the weakness was mainly due to the omicron outbreak in Henan, we think a challenging operating environment is likely to persist at least through the first half of 2022, which could slow growth in newly contracted projects. Positively, the company has started to diversify the business to government and capital projects management, which should offset some of the slowdown. We think CCMGT's current share price factors well the risks to the sector and the stock should benefit from some relaxation to real estate policies at least sentimentwise. CCMGT is paying out HK 18.5 cents for 2021 for a current dividend yield of 18.5%.

We lower our 2022 newly contracted gross floor area, or GFA, assumption to 10.8 million square meters from 13 million square meters previously. We also lower our base fee assumptions as we note that project management fees are generally lower for government projects. This leads to a slight cut in our 2022 earnings per-share forecast to CNY 0.27 from CNY 0.28 previously, and a lower CAGR of 4.4% in our explicit forecast period. We continue to assume a 65% dividend payout ratio, which brings our 2022 dividend forecast to HK 21 cents, implying an attractive 21% dividend yield.

The solid results and overall improved China market sentiment led to a nice share price bounce of around 22.5% on March 16. Though CCMGT's share price is depressed relative to our fair value estimate, we think this is mainly due to market concerns that parent Central China Real Estate, or CCRE, might pare its stake to raise cash. However, we see CCMGT's share buyback plan providing support.

CCMGT's full-year results were very much within our expectations. Full-year revenue was CNY 1.3 billion, increasing 13% year on year. The growth was attributable to a 17% increase in newly contracted GFA of 10 million square meters for 2021. The company has also achieved strong contracted sales of CNY 40.3 billion, at the lower end of its previously guided target. However, we expect a slowdown in operating activities, as newly contracted projects were weak with one project contracted for each month only in January and February 2022. Monthly contracted sales slowed to around CNY 1 billion, compared with a monthly average of CNY 4 billion in the second half of 2021. That said, management is optimistic the conditions will improve as the policies gradually ease. CCMGT management is guiding for three-year revenue CAGR of 15%, which is in line with our original forecast, but we are less optimistic and assume a CAGR of 11%. We expect revenue from its current order book of projects to support 2022 revenue growth of 12.6% but expect the slowdown to be reflected in weaker 9.3% growth for 2023.

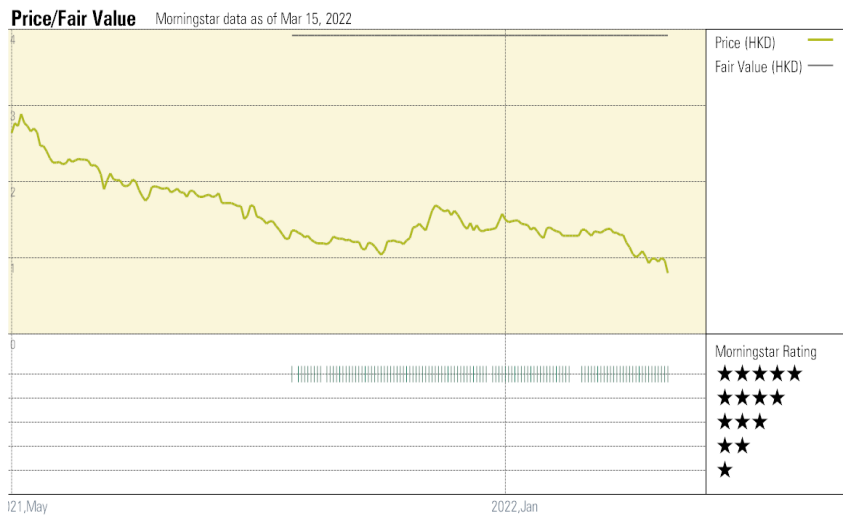
We expect the government to ease lending restrictions to real estate projects and CCMGT should benefit from its expertise in Tier 3 and Tier 4 locations, and its solid branding in its home Henan province. Management expects the lower urbanization rate of Henan at 57% in 2021, which lags behind the national average, to support business growth. We expect China's omicron shutdowns to largely factor in the first half of 2022 and expect CCMGT to be able to resume the company's ex-Henan expansion in the second half.

Strategically, the company has diversified its business as it contracted six government management projects and one capital management project in the second half. As the liquidity positions for the small- to medium size developers remain under pressure, there is an increasing proportion of land acquired by municipal investment enterprises. In 2021, 31% of land sold in auctions in Henan was purchased by these enterprises, which may not have the expertise to



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Henan as part of its “Greater Central China” strategy. Our five-year average completion rate is at 30% as we expect projects to take just over three years to complete on average.

CCMGT’s historical base management fee has been easing slightly, coming down from CNY 216 per square meter in 2018 to CNY 214 in 2020. We assume base fees to decline by 3% in 2022 as the company takes on more government projects, which generally pays a lower fee. Base fees are expected to further ease at 1% annually from 2023 to 2026 given our view for CCMGT to strive to maintain its market share despite rising competition. As a result, we see CCMGT’s operating margin declining to 59% at our midcycle forecast in 2026 from 78% in 2021. We have also left out any assumptions of incentive fees, normally triggered by sales of the clients’ property units, that exceed prenegotiated targets, contributing to revenue in our base case.

develop the projects. In December 2021, CCMGT also entered into an agreement with Henan Asset Management, which was established to deal with nonperforming assets from financial institutions. Given the distressed financial position of developers, we expect an increase in demand for capital management projects. We expect opportunities in government and capital project management to partially offset the impact of a weaker commercial project management market.

### Fair Value & Profit Drivers 16 Mar 2022

Our fair value estimate for CCMGT is HKD 3.76, which implies a 2022 price/earnings ratio of 12.3 times. Our valuation is based on 11% weighted average cost of capital, in which we factor a country risk premium of 2% given the recent uptick in policy risks in CCMGT’s operations in China.

CCMGT derives its revenue from project management fees, which in turn depends on the number of projects and gross floor area, or GFA, under management. During our five-year explicit forecast period, we assume a 10% CAGR in CCMGT’s number of newly contracted projects by gross floor area. This includes a higher growth in new projects outside Henan as the company expands its footprint outside of

### Scenario Analysis

Our analysis shows that the intrinsic value of CCMGT’s shares is between HKD 2.99 and HKD 4.96, leading to our medium uncertainty rating.

We estimate a 13% five-year CAGR in the number of newly contracted projects by GFA in the bull case scenario. The higher growth mainly reflects a more aggressive expansion outside of Henan and a better retention of market share in the province. We also assume an average growth of 0.3% in average base fee per square meter and a lower increase in average pay. We include 5% in incentive fees with the stronger market conditions allowing CCMGT to exceed sales targets. We estimate a fair value estimate of HKD 4.96 under this scenario.

Our bear-case scenario assumes a lower five-year CAGR in the number of newly contracted projects of 7%. In this scenario, we assume average base fee per square meter to decline by 4% on average. We have also factored in a higher



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growth in average pay. Our fair value estimate under this scenario is HKD 2.99.

### Economic Moat

The property project management industry, being in the early stages, is currently dominated by the top 10 companies in China. Based on data from the China Index Academy, there are only around 28 companies providing meaningful project management services in China as of November 2020. Based on industry revenue of CNY 11.0 billion in 2020, the top five companies commanded 59.4% of the market in revenue terms. CCMGT currently ranks top or second in most parameters--revenue, aggregated gross floor area, and newly contracted GFA. However, because of the fragmented nature of the real estate industry in China, and more difficult market conditions for real estate developers going forward, we anticipate more entrants to come into this area over the next few years. For this reason, we do not think that CCMGT can necessarily maintain its dominance and the company's management admits that margins are expected to decline. For this reason, we think a no-moat rating is more appropriate.

While project management services to the government sector have existed for some time, the industry saw sharp growth recently as the private sector started engaging project managers. The key triggers driving this demand growth are largely borne out of consolidation in the real estate industry in China, which has led to a need for smaller developers to find ways to be more competitive. Also, the project management teams of some regional developers have been willing to step out to manage non-group projects to earn additional revenue. By engaging the project managers of established regional developers, smaller projects are better equipped to reduce turnaround time on the project from design to sale, which also reduces capital commitment. This grants them the means to achieve cost savings on material inputs and construction costs, by

benefiting from the project manager's scale of activities.

As the industry expands, we expect more entrants. There are likely to be more spinoffs of project management units by smaller national and larger regional real estate developers, given the attractive profitability. However, we do not think that the larger established nationwide developers will be inclined to share their expertise to benefit smaller developers.

As such, it seems likely that the eventual penetration rate of project management to the overall real estate industry will be around 20%. About 80% of the total real estate market will remain under in-house project managers. Of this, 60% will comprise the large real estate developers and the remnant 20% may be niche projects or upcoming developers with their own aspirations.

For any property project management company to achieve a competitive advantage, we believe the only source of economic moat would come from intangible assets, such as branding and an established supply and distribution network. Of these, branding would be most relevant. For example, a "branded" product should be able to garner premium pricing relative to similar products on the market. As it takes time to build up a reputable track record, we believe it is unlikely for smaller or new developers to be able to enter this industry even if they have experience in this field. To a lesser extent, having a good relationship with the top materials suppliers and contractors is also an advantage, but we think that it is the branding that is more likely to resonate in terms of achieving pricing premium. In this regard, we think the market is more likely to be defined by project managers of established regional developers who have access to use their brand names.

CCMGT is particularly dominant in Henan province. Based on newly contracted GFA in 2020, CCMGT's market share is



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around 70%. Since CCMGT focuses primarily on commercial project management projects and has minimal government project management projects, it can be extrapolated that CCMGT's market share of commercial project management projects is even higher at around 81% in 2020 of aggregate commercial project management projects' contracted GFA.

CCMGT attributes their competitive advantage in Henan to the following key factors: 1) strong recognition of the Jianye brand; 2) well established and deep understanding of the Henan real estate market; 3) ability to provide a full suite of services; 4) a strong network of resources--namely designers, suppliers, contractors and others to work on the projects; and 5) ability to pass on completed projects to Central China New Life, the group's property management service entity, to ensure the quality of the projects will be maintained.

All of CCMGT's projects are negotiated and do not involve competitive bidding. Given the company's established Jianye brand in Henan, it continues to be approached by small developers and has not had to market its services. The brand has been ranked first among real estate enterprises in central China according to the China Real Estate Top 10 Research Group. It is estimated by the China Index Academy that the group's Zhumadian Jianye Chang project achieved a pricing premium of 18% over similar projects nearby of the same age.

The ability to capture market share given the Jianye brand is an intangible asset to CCMGT. However, the brand is owned by CCRE and CCMGT will have to pay CCRE a royalty if CCRE ceases to wholly own CCMGT.

CCMGT's strategy is to focus on maintaining its dominance in Henan and to maintain its profit margin. We think that because the penetration rate is still low for the industry at 3%-5%, moving up to around 9% by 2025. It is reasonable

to assume that CCMGT will be able to maintain a decent profit level despite the prospect of new entrants to the industry. At this point, CCMGT has the luxury of being able to select the project it thinks it is better able to add value to. This is the other reason that should allow CCMGT to keep a fairly stable profit margin in the near term.

CCMGT's expansion into provinces outside Henan has been triggered by its existing clients who have projects in these other places and have sought CCMGT's services given their familiarity with working with CCMGT and their satisfaction with the end product. This is a demonstration of an existing intangible benefit but gaining new clients in these other regions where the Jianye brand may be less well known may be more competitive.

However, CCMGT and its Jianye brand are not as established as it is in Henan and for this reason, CCMGT may not have as much of an advantage in these other provinces. So, there could be a risk of lower margins as CCMGT expands outside of Henan.

Given the asset-light nature of the business, we expect CCMGT's return on invested capital, or ROIC, to remain high and comfortably above the company's weighted cost of capital of 11%. This means that CCMGT is likely to remain economically profitable even if there are new entrants to the industry and competition intensifies. In this regard, even if CCMGT sees the level of fees diminish over time and it is not able to command premiums above peers, we think its ROIC will still remain relatively high. However, we believe this does not necessarily reflect a moat.

### Moat Trend

We believe the moat trend for CCMGT will be stable. As the industry expands, we expect more entrants to the property project management sector. Amidst intensifying competition, we expect the market share for CCMGT



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captured through the Jianye brand to remain relatively high over the next five years in Henan, although it would not be surprising to see some easing from the current level over the longer term. With new entrants to the industry, CCMGT is also likely to see limited premium pricing power and easing profit margins over the longer term.

Outside of Henan, we also expect the moat trend to be stable. We think it may take time for CCMGT and its Jianye brand to be as established as it is in Henan. For this reason, we do not expect any changes to the company’s competitive position in its intangible assets over the next five years. CCMGT’s advantage in these other provinces is likely to remain limited.



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## Bulls Say/Bears Say

### Bulls Say

- ▶ Demand for project management services are strong, leading to a robust orderbook and scale that buffers profit margins.
- ▶ CCMGT's builds up its network in the rest of Central China faster than expected, leading to better returns on its expansion.
- ▶ Rising staff costs are managed effectively enabling CCMGT to defend its operating margin.

### Bears Say

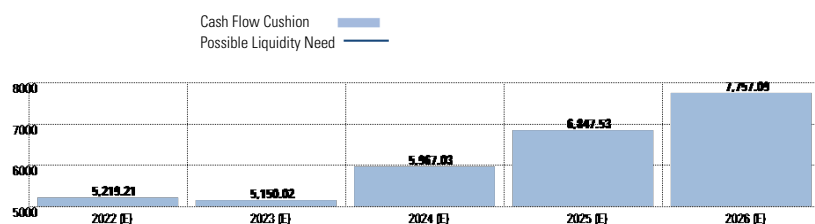
- ▶ Despite CCMGT's expansion, its business remains largely focused in Henan, making it more vulnerable to geographical concentration risk Increase in proportion of government project may exert further pressure on margins.
- ▶ The establishment of its operations outside of Henan comes at a higher cost that lowers it profitability.
- ▶ Given that staff is its main expense, if it is not possible to pass on rising staff costs, profit margins and earnings growth will fall.

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**Five Year Adjusted Cash Flow Forecast (CNY Mil)**

	2022(E)	2023(E)	2024(E)	2025(E)	2026(E)
Cash and Equivalents (beginning of period)	1,976	2,155	2,127	2,464	2,828
Adjusted Available Cash Flow	180	-28	338	364	376
Total Cash Available before Debt Service	2,156	2,127	2,464	2,828	3,204
Principal Payments	—	—	—	—	—
Interest Payments	0	0	0	0	0
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	0	0	0	0	0

**Cumulative Annual Cash Flow Cushion****Adjusted Cash Flow Summary**

	CNY Millions	% of Commitments
Beginning Cash Balance	1,976	95,680.7
Sum of 5-Year Adjusted Free Cash Flow	1,229	59,522.0
Sum of Cash and 5-Year Cash Generation	3,205	155,202.7
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	3,205	155,202.7
Sum of 5-Year Cash Commitments	-2	—

**Financial Strength**

We think CCMGT exhibits good financial health with its debt-free balance sheet. Management noted that they have no intention in borrowing any debt due to the asset light feature of the business. As of fiscal 2021, CCMGT has a cash position of around CNY 2 billion, and zero debt. While a pure cash position could indicate an inefficient balance sheet, the capital structure is in line with its peer Greentown Management. Unless the company makes an acquisition, we do not expect its net cash position to change in the course of normal operations.

**Risk & Uncertainty**

We assign Central China Management a medium uncertainty rating. While it does have an asset-light business model and its earnings are fee based and not subject to property prices, CCMGT's earnings are nonetheless sensitive to economic and policy conditions in China that may impact the demand for properties by homebuyers and project deliveries. Stricter restrictions on lending could make it more difficult for project owners to complete land acquisitions and could also affect housing demand as mortgages become harder to obtain.

Industry conditions may also change and impact CCMGT's profit margins. For example, competition may intensify more quickly than expected, leading to sharp declines in what CCMGT can charge project owners for its base management fees. In this case, CCMGT may also not be able to garner its share of new projects from its existing clients.

Another risk is in the use of CCRE's Jianye brand, which CCMGT currently relies on to help market and sell products at premium. If CCRE decides not to allow CCMGT to use the brand or if there are issues that lead to the brand value being destroyed, then CCMGT may not be able to continue to win its share of projects.





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Sustainalytics ESG risk ratings are not available for CCMGT yet but potential ESG risks include management risks given limited disclosure on its ESG policy. We note that its previous parent, CCRE, has a limited ESG risk policy according to Sustainalytics. Also if CCMGT is unable to deliver the projects as contracted, this could lead to potential legal challenges and reputational risk.

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**Management & Ownership****Management Activity**

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

\*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

**Fund Ownership**

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
CIM Dividend Income Fund	0.43	0.49	—	28 Feb 2022
Vanguard Total Intl Stock Idx Fund	0.40	0.00	—	28 Feb 2022
iShares Core MSCI Emerging Markets ETF	0.34	0.00	—	28 Feb 2022
Vanguard Emerging Markets Stock Idx Fund	0.33	0.00	—	28 Feb 2022
SMDS Global High Dividend Eq Mother	0.28	0.30	—	28 Feb 2022
Concentrated Holders				
Chang Xin Global Bond	0.12	1.48	3,860	28 Feb 2022
GUGG Emerging Markets Div Strgy 34	0.00	1.29	—	28 Feb 2022
Perinvest (Lux) Sicav Asia Div Eq	0.08	1.10	1,500	28 Feb 2022
CCB Principal Emerging Mkts Sel Stk QDII	0.00	0.51	45	28 Feb 2022
CIM Dividend Income Fund	0.43	0.49	—	28 Feb 2022

**Institutional Transactions**

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Chang Xin Asset Mgmt Co., Ltd	0.12	1.48	3,860	28 Feb 2022
Teachers Advisors LLC	0.16	0.08	2,379	28 Feb 2022
Perinvest (UK) Limited	0.08	1.10	1,500	28 Feb 2022
BlackRock	0.04	0.00	581	28 Feb 2022
BlackRock Institutional Trust Company NA	0.04	0.00	511	28 Feb 2022
Top 5 Sellers				
Asset Plus Fund Management Co., Ltd.	—	—	-3,532	28 Feb 2022
Acadian Asset Management LLC	0.02	0.01	-1,224	28 Feb 2022
Northern Trust Investments Inc	0.08	0.02	-546	28 Feb 2022
Flexshares Trust	—	—	-371	28 Feb 2022
Global X Management Company LLC	—	—	-262	28 Feb 2022

**Capital Allocation** 16 Mar 2022

We assign CCMGT a Standard capital allocation rating. CCMGT has zero debt on its balance sheet. As of fiscal 2021, CCMGT has around CNY 2 billion cash, accounting for around 68% of the company's total assets. The large cash position was due to proceeds from its initial public offering, which has been planned for its expansion outside Henan, acquisition of teams and companies that could improve operational efficiency, as well as digital investments. We expect the cash pile to be gradually used over time and do not expect underinvestment to be an issue.

The stated dividend payout policy is at least 50%, although given CCMGT's asset-light model, we believe CCMGT will be able to afford a higher payout. In the absence of any acquisitions or more aggressive business expansion, we think a higher dividend payout would mark an improved use of this capital. As such, we have factored in a 65% dividend payout given its current free cash flow profile and following its interim payout at this level.



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## Morningstar Analyst Forecasts

## Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2019	2020	2021	2022	2023	
Growth (% YoY)							
Revenue	24.4	52.1	12.0	13.0	12.6	9.3	9.2
EBIT	22.7	56.5	8.4	8.8	7.0	0.4	3.3
EBITDA	23.3	57.5	8.9	9.2	7.7	1.4	3.6
Net Income	25.0	57.7	8.9	13.9	7.5	1.1	4.0
Diluted EPS	22.5	57.7	8.9	7.0	7.5	1.1	4.0
Earnings Before Interest, after Tax	23.0	57.3	7.6	9.8	9.2	0.4	3.7
Free Cash Flow	—	-802.6	-62.2	-30.0	318.9	-30.0	41.1

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2019	2020	2021	2022	2023	
Profitability							
Operating Margin %	80.8	83.6	80.9	77.9	74.0	68.0	65.8
EBITDA Margin %	81.9	84.4	82.0	79.3	75.9	70.4	67.9
Net Margin %	61.5	62.5	60.8	61.3	58.5	54.1	52.7
Free Cash Flow Margin %	31.5	61.0	20.6	12.8	47.5	30.4	44.4
ROIC %	125.0	113.5	121.2	140.2	177.4	117.0	120.0
Adjusted ROIC %	125.0	113.5	121.2	140.2	177.4	117.0	120.0
Return on Assets %	42.7	49.8	44.7	33.7	27.6	25.0	23.8
Return on Equity %	71.4	90.1	77.7	46.3	34.2	30.8	29.6

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2019	2020	2021	2022	2023	
Leverage							
Debt/Capital	—	—	—	—	—	—	—
Total Debt/EBITDA	—	—	—	—	—	—	—
EBITDA/Interest Expense	2,838.77	3,587.41	2,429.50	2,499.42	2,692.88	2,730.16	2,857.52

## Valuation Summary and Forecasts

	2020	2021	2022(E)	2023(E)
Price/Fair Value	—	0.40	—	—
Price/Earnings	—	5.2	2.4	2.4
EV/EBITDA	—	—	NM	NM
EV/EBIT	—	—	NM	NM
Free Cash Flow Yield %	—	—	33.9	24.5
Dividend Yield %	—	12.4	26.1	27.6

## 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 %	24.0
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	2,828	35.9	0.90
Present Value Stage II	1,148	14.6	0.36
Present Value Stage III	3,911	49.6	1.24
<b>Total Firm Value</b>	<b>7,887</b>	<b>100.0</b>	<b>2.50</b>
Cash and Equivalents	1,976	—	0.63
Debt	—	—	—
Preferred Stock	—	—	—
Other Adjustments	—	—	—
<b>Equity Value</b>	<b>9,862</b>	—	<b>3.12</b>
Projected Diluted Shares	3,158		
<b>Fair Value per Share (HKD)</b>	<b>3.76</b>		

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.



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

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment¹
0.98 HKD	3.76 HKD	Medium	None	Stable	Standard	Real Estate	—

## Morningstar Analyst Forecasts

## Income Statement (CNY Mil)

Fiscal Year Ends in December

	2019	2020	2021	Forecast	
				2022	2023
<b>Revenue</b>	<b>1,029</b>	<b>1,152</b>	<b>1,301</b>	<b>1,466</b>	<b>1,602</b>
Cost of Goods Sold	134	168	197	251	331
<b>Gross Profit</b>	<b>895</b>	<b>984</b>	<b>1,105</b>	<b>1,215</b>	<b>1,271</b>
Selling, General & Administrative Expenses	—	—	—	—	—
Other Operating Expense (Income)	27	39	72	88	128
Other Operating Expense (Income)	—	—	—	15	15
Depreciation & Amortization (if reported separately)	8	13	18	27	38
<b>Operating Income (ex charges)</b>	<b>860</b>	<b>932</b>	<b>1,014</b>	<b>1,085</b>	<b>1,089</b>
Restructuring & Other Cash Charges	—	10	20	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	3	15	16	18	19
<b>Operating Income (incl charges)</b>	<b>857</b>	<b>907</b>	<b>978</b>	<b>1,068</b>	<b>1,070</b>
Interest Expense	0	0	0	0	0
Interest Income	2	6	35	42	50
<b>Pre-Tax Income</b>	<b>858</b>	<b>912</b>	<b>1,013</b>	<b>1,109</b>	<b>1,120</b>
Income Tax Expense	217	231	243	266	268
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
<b>Net Income</b>	<b>641</b>	<b>681</b>	<b>770</b>	<b>843</b>	<b>852</b>
Weighted Average Diluted Shares Outstanding	2,967	2,967	3,158	3,158	3,158
<b>Diluted Earnings Per Share</b>	<b>0.22</b>	<b>0.23</b>	<b>0.24</b>	<b>0.27</b>	<b>0.27</b>
Adjusted Net Income	643	700	797	857	866
<b>Diluted Earnings Per Share (Adjusted)</b>	<b>0.22</b>	<b>0.24</b>	<b>0.25</b>	<b>0.27</b>	<b>0.27</b>
Dividends Per Common Share	0.18	0.16	0.16	0.17	0.18
<b>EBITDA</b>	<b>865</b>	<b>920</b>	<b>997</b>	<b>1,094</b>	<b>1,108</b>
<b>Adjusted EBITDA</b>	<b>868</b>	<b>945</b>	<b>1,032</b>	<b>1,112</b>	<b>1,128</b>



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

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment¹
0.98 HKD	3.76 HKD	Medium	None	Stable	Standard	Real Estate	—

## Morningstar Analyst Forecasts

**Balance Sheet** (CNY Mil)

Fiscal Year Ends in December

	2019	2020	2021	Forecast	
				2022	2023
Cash and Equivalents	345	385	1,976	2,155	2,127
Investments	—	—	—	—	—
Accounts Receivable	804	1,017	568	442	527
Inventory	—	—	—	—	—
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	194	238	301	338	370
<b>Current Assets</b>	<b>1,344</b>	<b>1,640</b>	<b>2,844</b>	<b>2,935</b>	<b>3,023</b>
Net Property Plant, and Equipment	24	24	20	253	553
Goodwill	—	—	—	—	—
Other Intangibles	2	1	10	10	10
Deferred Tax Assets (Long-Term)	3	7	10	10	10
Other Long-Term Operating Assets	—	—	—	—	—
Long-Term Non-Operating Assets	4	3	11	11	11
<b>Total Assets</b>	<b>1,377</b>	<b>1,675</b>	<b>2,895</b>	<b>3,219</b>	<b>3,607</b>
Accounts Payable	171	114	128	89	118
Short-Term Debt	—	—	—	—	—
Deferred Tax Liabilities (Current)	52	66	48	48	48
Other Short-Term Liabilities	403	482	398	448	490
<b>Current Liabilities</b>	<b>626</b>	<b>663</b>	<b>574</b>	<b>585</b>	<b>655</b>
Long-Term Debt	—	—	—	—	—
Deferred Tax Liabilities (Long-Term)	—	—	—	—	—
Other Long-Term Operating Liabilities	5	5	2	2	2
Long-Term Non-Operating Liabilities	—	—	—	18	37
<b>Total Liabilities</b>	<b>631</b>	<b>668</b>	<b>575</b>	<b>604</b>	<b>694</b>
Preferred Stock	—	—	—	—	—
Common Stock	150	150	27	27	27
Additional Paid-in Capital	—	—	—	—	—
Retained Earnings (Deficit)	597	857	2,293	2,588	2,886
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
<b>Shareholder's Equity</b>	<b>747</b>	<b>1,007</b>	<b>2,320</b>	<b>2,615</b>	<b>2,913</b>
Minority Interest	—	—	—	—	—
<b>Total Equity</b>	<b>747</b>	<b>1,007</b>	<b>2,320</b>	<b>2,615</b>	<b>2,913</b>



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

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment¹
0.98 HKD	3.76 HKD	Medium	None	Stable	Standard	Real Estate	—

## Morningstar Analyst Forecasts

**Cash Flow** (CNY Mil)

Fiscal Year Ends in December	Forecast				
	2019	2020	2021	2022	2023
Net Income	641	681	770	843	852
Depreciation	8	13	18	27	38
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	3	15	16	18	19
(Increase) Decrease in Accounts Receivable	19	-94	-189	126	-85
(Increase) Decrease in Inventory	—	—	—	—	—
Change in Other Short-Term Assets	—	—	—	-38	-31
Increase (Decrease) in Accounts Payable	—	—	—	-39	29
Change in Other Short-Term Liabilities	—	—	—	50	42
<b>Cash From Operations</b>	<b>672</b>	<b>615</b>	<b>615</b>	<b>988</b>	<b>863</b>
(Capital Expenditures)	-16	-3	-52	-260	-338
Net (Acquisitions), Asset Sales, and Disposals	-2	-1	-1	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-25	-370	-370	—	—
<b>Cash From Investing</b>	<b>-43</b>	<b>-374</b>	<b>-423</b>	<b>-260</b>	<b>-338</b>
Common Stock Issuance (or Repurchase)	—	—	—	—	—
Common Stock (Dividends)	-320	-200	-200	-548	-554
Short-Term Debt Issuance (or Retirement)	—	—	—	—	—
Long-Term Debt Issuance (or Retirement)	—	—	—	—	—
Other Financing Cash Flows	-49	-2	-2	—	—
<b>Cash From Financing</b>	<b>-369</b>	<b>-202</b>	<b>-202</b>	<b>-548</b>	<b>-554</b>
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
<b>Net Change in Cash</b>	<b>260</b>	<b>39</b>	<b>-9</b>	<b>179</b>	<b>-29</b>

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

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment¹
0.98 HKD	3.76 HKD	Medium	None	Stable	Standard	Real Estate	—

**Comparable Company Analysis**

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

**Valuation Analysis**

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Country Garden Services Holdings Co	0.30	13.1	8.3	6.5	7.8	4.9	3.9	7.6	7.5	7.8	—	—	—	2.7	1.6	1.3
Central China New Life Ltd 09983 HKG	0.24	11.6	4.6	4.1	8.1	0.5	0.5	14.2	4.8	3.9	—	—	—	1.6	0.6	0.5
Central China Real Estate Ltd 00832	0.34	0.5	0.5	0.4	2.9	2.6	2.3	2.0	0.3	0.2	—	—	—	0.0	0.0	0.0
Average		8.4	4.5	3.7	6.3	2.7	2.2	7.9	4.2	4.0	—	—	—	1.4	0.7	0.6
<b>Central China Management Co Ltd</b>	<b>0.20</b>	<b>5.2</b>	<b>2.4</b>	<b>2.4</b>	—	<b>NM</b>	<b>NM</b>	—	<b>2.9</b>	<b>4.1</b>	—	—	—	—	<b>1.5</b>	<b>1.3</b>

**Returns Analysis**

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Country Garden Services Holdings Co	— CNY	52.6	43.2	41.7	85.0	79.0	75.1	23.0	26.5	27.3	12.3	15.4	16.6	1.7	2.8	3.5
Central China New Life Ltd 09983 HKG	— CNY	116.5	65.4	57.7	151.7	88.5	77.8	20.6	21.0	20.4	12.7	12.7	12.4	5.2	13.2	14.7
Central China Real Estate Ltd 00832	— CNY	18.8	20.5	24.7	18.8	20.5	24.7	19.3	18.6	19.1	1.3	1.3	1.3	76.7	83.6	95.3
Average		62.6	43.0	41.4	85.2	62.7	59.2	21.0	22.0	22.3	8.8	9.8	10.1	27.9	33.2	37.8
<b>Central China Management Co Ltd</b>	<b>2,895 CNY</b>	<b>140.2</b>	<b>177.4</b>	<b>117.0</b>	<b>140.2</b>	<b>177.4</b>	<b>117.0</b>	<b>46.3</b>	<b>34.2</b>	<b>30.8</b>	<b>33.7</b>	<b>27.6</b>	<b>25.0</b>	<b>18.9</b>	<b>20.1</b>	<b>21.2</b>

**Growth Analysis**

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Country Garden Services Holdings Co	26,075 CNY	67.2	66.2	20.2	68.9	60.2	27.3	64.3	57.5	27.2	427.7	-143.7	-32.8	66.4	57.5	27.2
Central China New Life Ltd 09983 HKG	4,266 CNY	60.7	26.3	11.5	50.1	25.0	12.3	26.7	18.4	12.1	-219.1	-242.0	128.5	29.5	18.4	12.1
Central China Real Estate Ltd 00832	51,693 CNY	19.4	11.8	4.9	-1.4	12.8	13.9	14.5	8.3	14.8	-92.6	NM	56.2	2.7	8.3	14.8
Average		49.1	34.8	12.2	39.2	32.7	17.8	35.2	28.1	18.0	38.7	-192.9	50.6	32.9	28.1	18.0
<b>Central China Management Co Ltd</b>	<b>1,301 CNY</b>	<b>13.0</b>	<b>12.6</b>	<b>9.3</b>	<b>8.8</b>	<b>7.0</b>	<b>0.4</b>	<b>7.0</b>	<b>7.5</b>	<b>1.1</b>	<b>-30.0</b>	<b>318.9</b>	<b>-30.0</b>	<b>-0.1</b>	<b>9.6</b>	<b>1.0</b>

**Central China Management Co Ltd 09982 (XHKG) ★★★★★**

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment¹
0.98 HKD	3.76 HKD	Medium	None	Stable	Standard	Real Estate	—

**Comparable Company Analysis**

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

**Profitability Analysis**

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Country Garden Services Holdings Co	4,531 CNY	34.1	33.4	34.4	24.8	23.9	25.2	23.5	22.7	24.0	17.4	16.9	17.9	35.0	21.4	17.1
Central China New Life Ltd 09983 HKG	616 CNY	31.5	31.4	31.5	19.9	20.3	20.6	19.4	19.2	19.4	14.4	13.9	14.0	11.4	12.8	13.9
Central China Real Estate Ltd 00832	2,326 CNY	19.9	20.0	21.0	13.0	13.1	14.1	12.2	12.3	13.3	4.5	4.4	4.8	1.3	6.8	9.9
Average		28.5	28.3	29.0	19.2	19.1	20.0	18.4	18.1	18.9	12.1	11.7	12.2	15.9	13.7	13.6
<b>Central China Management Co Ltd</b>	<b>797 CNY</b>	<b>84.9</b>	<b>82.9</b>	<b>79.3</b>	<b>79.3</b>	<b>75.9</b>	<b>70.4</b>	<b>77.9</b>	<b>74.0</b>	<b>68.0</b>	<b>61.3</b>	<b>58.5</b>	<b>54.1</b>	<b>43.3</b>	<b>49.6</b>	<b>32.8</b>

**Leverage Analysis**

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Country Garden Services Holdings Co	248 CNY	1.0	0.8	0.7	1.0	0.8	0.7	56.5	90.4	114.7	0.0	0.0	0.0	1.7	1.7	1.6
Central China New Life Ltd 09983 HKG	— CNY	—	—	—	—	—	—	—	—	—	—	—	—	1.7	1.7	1.6
Central China Real Estate Ltd 00832	32,104 CNY	251.4	224.8	200.4	71.5	69.2	66.7	11.9	13.3	15.0	4.8	4.3	3.8	14.9	15.0	15.0
Average		126.2	112.8	100.6	36.3	35.0	33.7	34.2	51.9	64.9	2.4	2.2	1.9	6.1	6.1	6.1
<b>Central China Management Co Ltd</b>	<b>— CNY</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,499.4</b>	<b>2,692.9</b>	<b>2,730.2</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>

**Liquidity Analysis**

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Country Garden Services Holdings Co	85,797 HKD	4.54	5.11	5.26	1.40	1.39	1.51	1.38	1.37	1.49	—	—	—	23.0	23.0	23.0
Central China New Life Ltd 09983 HKG	4,032 HKD	1.55	1.58	1.91	2.25	2.15	2.25	2.24	2.14	2.24	—	—	—	60.0	60.0	60.0
Central China Real Estate Ltd 00832	1,571 HKD	8.13	9.11	10.74	1.11	1.10	1.10	1.11	1.10	1.10	1.51	1.69	1.99	40.0	40.0	40.0
Average		4.74	5.27	5.97	1.59	1.55	1.62	1.58	1.54	1.61	1.51	1.69	1.99	41.0	41.0	41.0
<b>Central China Management Co Ltd</b>	<b>2,632 HKD</b>	<b>0.63</b>	<b>0.68</b>	<b>0.67</b>	<b>4.96</b>	<b>5.02</b>	<b>4.61</b>	<b>4.96</b>	<b>5.02</b>	<b>4.61</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>64.9</b>	<b>65.0</b>	<b>65.0</b>





**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.

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

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

**Morningstar Research Methodology for Valuing Companies**



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")—

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



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.

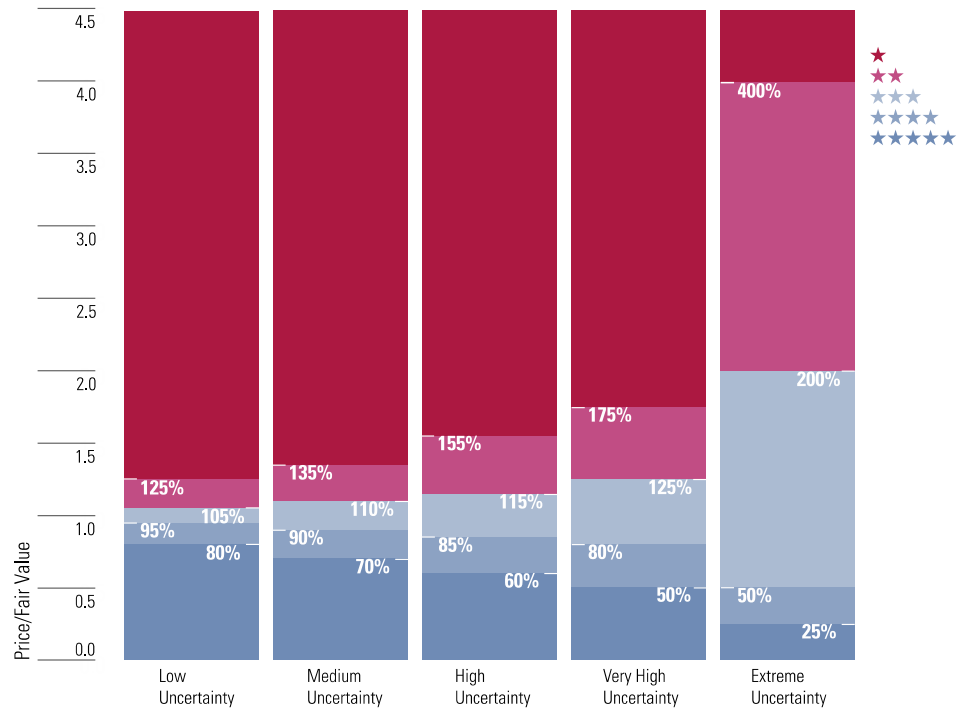
- ▶ Low—margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ▶ Medium—margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ▶ High—margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ▶ 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.



**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.

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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/](https://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.

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- ▶ 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.

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

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment¹
0.98 HKD	3.76 HKD	Medium	None	Stable	Standard	Real Estate	—



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  - 2) Stock options of the Company whose securities dealings are being solicited.
  - 3) Individual stock future, stock option, and warrants that use the stocks specified in Item 1) as underlying.

Company	Ticker	Price	Rating	Valuation & Risks
Please refer to our last published note below for latest valuation and risks.				
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<a href="#">Central China Real Estate (832 HK): FVE cut to HKD1.54 on higher credit risk amid worsening market conditions; BUY</a>				
<a href="#">Country Garden (2007 HK): Large-scale PRC developer focussed on lower-tier cities; initiate coverage with a BUY rating and an FVE of HKD10.50</a>				

Source: Morningstar

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★★★	<b>HOLD</b>	Indicates that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).
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