

China Property Sector

The impact of public REITs on developers

The successful launch of 9 public REITs provided a good starting point for this RMB1tn market. In the mid-to-long term, the expansion of asset scope and participation of more long-term funds would help developers deleverage from some of the investment properties. In the near term, developers with exposure to logistics such as Vanke may see potential transaction as GLP (21% owned by Vanke) has already participated in the first round of public REITs. All in all, we think the impact on developers is relatively limited for now but it may provide long-term impacts if the market proves successful in China. Currently China property sector is trading at 1x PB and we see very limited downside. The sentiment may improve on positive catalysts (such as strong 1H21 results due to low base). Prefer CR Land, KWG and COLI.

- **The RMB1tn market of public REITs officially launched.** As the first trial of public REITs, 9 infrastructure-backed REITs have received strong investor interest since the launch on 31 May. Based on [Hexun news](#), the oversubscription on average is around 50x and the total proceeds exceeded RMB30bn. Out of 9 REITs, the underlying assets are mainly industrial parks (3), high-way tolls (2), logistics (2) and others. In order to have a successful launch, Regulators set a requirement of dividend yield >4% in the next 3 years based on IPO price. We generally see 4-5% yield in the property-backed REITs such as industrial parks and logistics while higher yield of >6% for franchise-backed REITs (such as high-way toll). The difference lies on the asset value in the future as high-quality property/asset may appreciate in the future which is positive for the REITs, while the franchise rights are seeing decreasing value each year due to expiry.
- **Comparison with US REITs Market.** US currently has 157 equity REITs with a total size of 1.3tn US dollars. Residential, retail, industrial and logistics are the popular asset classes which takes >50% of total. So it has much wider scope than China due to long history and mature mechanism. Also in terms of the yield, the average dividend yield was 3.31% as of Mar 2021 vs. >4% in China. However, if adjusting the risk free rate, it looks about the same.
- **What could be the evolvement of REITs market? 1. Scope:** So far, the regulators only allow high-quality infrastructure assets to do public REITs. We think the scope may extend to more government-supported areas in the mid-to-long term such as rental apartment business. **2. Investor base:** >4% yield may attract more long-term funds to support the market growing. Among the investors of 9 public REITs, insurance and pension funds already show high interests as the yield can match their cash flow target. Also they may get involved in the pre-REITs stage to provide more financing to the asset holders.
- **Would public REITs be a game changer for developers?** As the scope of Public REITs only covers infrastructure for now, the impact is relatively limited as most of developers are holding office/retail types. We do see developers with exposure to logistics (Vanke) and industrial parks (China Fortune) that may benefit from public REITs. Vanke currently has 148 logistics projects in 44 cities with RMB1.87bn revenue in 2020 (up 37%). The yield can reach as high as 7-8% which could satisfy the requirement of public REITs. This provides another option for Vanke. Going forwards, if the scope extends to rental service apartment, this would further benefit Vanke (RMB2.5bn revenue in 2020 with 184k units) and Longfor (RMB1.8bn revenue in 2020 with 90k units) which are the leaders of the business.

OUTPERFORM
(Maintain)

China Property Sector

Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

Bowen Li

(852) 3657 6239

bowenli@cmbi.com.hk

Related Report

"China Property Sector – Prefer to hold retail names during volatile 2Q" – 30 Mar 2021

Please cast your valuable vote for CMBIS research team in the 2021 Asiamoney Brokers Poll:

<https://euromoney.com/brokers>

Figure 1: Details of 9 public REITs

代码	180101	508001	180801	508000	508056	508027	508006	180201	180301
名称	博时招商蛇口产业园封闭式基础设施证券投资基金	浙商证券沪杭甬高速封闭式基础设施证券投资基金	中航首银生物质封闭式基础设施证券投资基金	华安虹江光大封闭式基础设施证券投资基金	中金普洛斯仓储物流封闭式基础设施证券投资基金	东吴-苏州工业园区产业园封闭式基础设施证券投资基金	富国首创水务封闭式基础设施证券投资基金	平安广州交投广河高速公路封闭式基础设施证券投资基金	红土创新益田港仓储物流封闭式基础设施证券投资基金
基础设施项目类型	产业园	收费公路	污水处理	产业园	仓储物流	产业园	市政设施	收费公路	仓储物流
准予募集份额(亿份)	9	5	1	5	15	9	5	7	8
战略配售认购份额(亿份)	5.85	3.72	0.60	2.77	10.80	5.40	3.80	5.53	4.80
网下发售份额(亿份)	2.25	1.09	0.30	1.56	3.36	2.88	0.96	1.12	2.24
公众发售份额(亿份)	0.90	0.19	0.10	0.67	0.84	0.72	0.24	0.35	0.96
询价区间	2.10元/份-2.42元/份	8.27元/份-9.511元/份	12.5元/份-14.0元/份	2.78元/份-3.20元/份	3.70元/份-4.26元/份	3.558元/份-4.094元/份	3.491元/份-4.015元/份	12.471元/份-13.257元/份	2.163元/份-2.381元/份
公众投资者认购日(预计)	5.31—6.2	5.31—6.4	5.31—6.1	5.31—6.4	5.31—6.4	5.31—6.4	5.31—6.4	6.1—6.4	5.31
封闭期	50年	20年	21年	20年	50年	40年	26年	99年	36年
基金管理人	博时基金管理有限公司	浙江浙商证券资产管理有限公司	中航基金管理有限公司	华安基金管理有限公司	中金基金管理有限公司	东吴基金管理有限公司	富国基金管理有限公司	平安基金管理有限公司	红土创新基金管理有限公司
原始权益人	招商局蛇口工业区控股股份有限公司	浙江沪杭甬高速公路、杭州市临安交通投资集团、杭州市临安区交通投资、杭州余杭交通集团有限公司	首钢环境产业有限公司	上海光全投资中心(有限合伙)、光控安石(北京)投资管理有限公司	普洛斯中国控股有限公司	苏州工业园区科技发展有限公司、苏州工业园区建屋产业园开发有限公司、苏州工业园区兆润投资控股集团有限公司	北京首创股份有限公司	广州交通投资集团有限公司	深圳市益田港集团有限公司
交易所	深圳交易所	上海交易所	深圳交易所	上海交易所	上海交易所	上海交易所	上海交易所	深圳交易所	深圳交易所
ABS管理人	博时资本管理有限公司	浙江浙商证券资产管理有限公司	中航证券有限公司	上海国泰君安证券资产管理有限公司	中国国际金融股份有限公司	东吴证券股份有限公司	富国资产管理(上海)有限公司	平安证券股份有限公司	深创投红土资产管理(深圳)有限公司
基金托管人	招商银行股份有限公司	招商银行股份有限公司	招商银行股份有限公司	招商银行股份有限公司	兴业银行股份有限公司	招商银行股份有限公司	招商银行股份有限公司	中国工商银行股份有限公司	招商银行股份有限公司

Source: Yicai, Wind

Figure 2: US REITs Market

Sector	Number of Constituents	March 31, 2021			Dividend Yield (%)	Market Capitalization (\$) ¹	
		Total Return (%)				Equity	Implied
		2020	March	2021: YTD			
FTSE Nareit All Equity REITs	157	-5.12	5.53	8.32	3.31	1,268,662,653	1,302,715,720
FTSE Nareit Equity REITs	149	-8.00	4.57	8.87	3.57	1,019,891,089	1,053,898,230
Industrial	13	12.17	7.30	6.33	2.51	141,887,746	145,765,759
Office	19	-18.44	3.79	5.19	3.73	87,774,962	92,979,597
Retail	32	-25.18	2.23	18.08	4.38	148,472,582	155,863,693
Shopping Centers	18	-27.64	3.00	26.09	3.99	52,501,762	53,505,908
Regional Malls	4	-37.15	0.08	31.57	4.87	39,870,218	45,392,035
Free Standing	10	-10.46	3.02	3.77	4.37	56,100,602	56,965,749
Residential	20	-10.69	6.67	11.88	2.95	185,321,597	191,809,950
Apartments	15	-15.34	7.41	15.22	3.34	128,336,968	132,049,759
Manufactured Homes	3	-1.69	1.36	0.60	2.28	28,530,136	29,303,335
Single Family Homes	2	6.04	8.97	9.44	1.81	28,454,494	30,456,857
Diversified	15	-21.76	2.79	8.48	5.04	50,144,804	53,236,574
Lodging/Resorts	13	-23.60	0.38	17.96	3.98	39,786,318	40,016,892
Health Care	17	-9.86	3.90	6.58	4.31	116,600,313	117,445,350
Self Storage	5	12.91	5.57	10.31	3.25	76,999,668	79,838,613
Timber	4	10.33	4.72	7.22	2.25	35,006,723	35,006,723
Infrastructure	4	7.25	10.47	6.00	2.25	213,764,840	213,810,767
Data Centers	5	21.00	4.59	-2.35	2.47	117,253,291	120,388,878
Specialty	10	-8.24	3.27	14.24	5.61	55,649,808	56,552,923
FTSE Nareit Mortgage REITs	33	-18.77	5.86	11.87	8.27	71,008,501	71,556,959
Home Financing	20	-22.59	6.14	10.66	8.98	43,110,734	43,135,924
Commercial Financing	13	-10.73	5.40	13.91	7.11	27,897,766	28,421,036

Source: NAREIT

Figure 3: Valuation table

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			P/B		NAV/share (LC)	Discount to NAV	TP Discount
						20A	21E	22E	20A	21E			
Vanke - H	2202 HK	26.20	361,593	BUY	33.92	6.0	5.3	4.9	1.1	1.0	48.47	45.9%	30%
COLI	688 HK	18.48	202,260	BUY	30.49	3.8	3.2	2.9	0.5	0.5	43.55	57.6%	30%
Country Garden	2007 HK	9.79	215,850	BUY	13.36	5.0	3.8	3.4	1.0	0.9	26.72	63.4%	50%
CR Land	1109 HK	36.05	257,070	BUY	44.79	7.2	8.0	7.0	1.1	1.1	63.98	43.7%	30%
Longfor	960 HK	46.05	279,306	HOLD	34.27	11.2	9.6	7.5	2.1	2.1	48.95	5.9%	30%
Shimao	813 HK	21.90	77,476	BUY	44.94	5.0	4.2	3.6	0.7	0.7	59.88	63.4%	25%
Agile	3383 HK	11.38	44,576	BUY	13.89	3.9	3.8	3.4	0.7	0.6	27.68	58.9%	50%
KWG	1813 HK	11.36	36,131	BUY	17.87	4.5	3.7	3.1	0.7	0.6	25.52	55.5%	30%
China Aoyuan	3883 HK	8.50	22,915	BUY	15.48	3.2	2.6	2.2	1.0	0.8	30.95	72.5%	50%
Times China	1233 HK	11.38	22,064	BUY	16.20	3.7	2.8	2.4	1.0	0.7	32.40	64.9%	50%
China SCE	1966 HK	3.43	14,482	BUY	5.60	3.1	2.8	2.3	0.6	0.5	9.34	63.3%	40%
Redsun	1996 HK	2.56	8,520	BUY	3.52	4.2	3.4	2.9	0.6	0.5	5.87	56.4%	40%
Sinic	2103 HK	4.16	14,852	BUY	4.95	6.3	5.6	5.4	1.5	1.3	9.90	58.0%	50%
Vanke - A	000002 CH	26.57	299,458	BUY	31.36	7.7	6.8	6.0	1.4	1.4	48.46	45.2%	35%
Radiance	9993 HK	4.68	18,932	BUY	5.55	4.4	3.8	3.2	0.9	0.6	13.87	66.3%	60%
Dafa	6111 HK	6.04	5,000	BUY	8.32	12.2	6.6	5.8	1.2	1.2	15.13	60.1%	45%
Shinsun	2599 HK	6.16	18,747	BUY	7.75	4.8	4.2	3.7	2.2	0.9	12.92	52.3%	40%
Dexin	2019 HK	3.11	8,401	BUY	3.56	5.9	4.0	3.7	1.4	1.1	7.12	56.3%	50%
Average						5.7	4.7	4.1	1.0	0.9		55.0%	40.8%

Source: CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.