

China Property Sector

Better wait until 4Q to position the sector

With tightening policy likely to continue towards 4Q, we suggest investors to **avoid** the high-gear names and still stay focused on retail names Longfor (+15% earnings growth in 1H21) / CR Land (strong 1H21 rental income). Fundamentally, sales momentum remained resilient to reduce the risk of further liquidity issue, but developers' margins are likely going further down in 1H21 results therefore now it is NOT a good timing to buy while a better timing would be 4Q on less-tightening policy and liquidity improvement.

- **Eyes on economy meeting of standing bureau committee on 30 Jul.** Based on the schedule in the past years, standing bureau committee normally will gather on 30 Jul to discuss on the economy condition and decide on the policy direction for 2H. While we do NOT expect any specific policy loosening towards property sector, there could be some tone adjustment on the monetary side in order to hedge against downward pressure on export/FAI and worsening Covid situation. If that is the case, it could slightly alleviate the liquidity concern and indirectly stabilize the property sector sentiment.
- **July sales remained resilient:** Based on the high frequency data among Top 30 cities (mainly in Tier 1-2 cities), MTD sales volume (GFA) in July was -3% YoY vs. -1% in June mainly due to the high base last year (+12% YoY in Jul 2021 and +9% YoY in Jun 2020). Based on its high correlation with national sales (see the chart on page 2), we still expect positive YoY growth in Jul 2021 for national GFA sold. This may counter some concerns that policy tightening could lead to quick sales decline.
- **Sell-through rate stayed at 75-80% healthy level among 10 Tier 1-2 cities:** Since April, the sell-through rate has picked up quickly from 60-70% to 75-80% range. This is partly because 1) there still are around 20% price discounts between new projects and nearby secondary prices. 2) The increasing land prices from 1st-batch land supply in Tier 1-2 cities also pushed up the expectation of property price. We think this would be beneficial for high-asset-over developers with land bank exposures in Tier 1-2 cities.
- **.... but margins are still on the downward trend despite most developers meeting the sales target:** as of 1H21, major developers we track have achieved 26% YoY sales growth and 47% of annual sales target. That would imply even a flat sales growth in 2H would be enough to meet the target of 11% sales growth. However, margin-wise we do not see any sign of pick up given the still high land prices and increasing property price caps.
- **Latest policy tracking and its impacts**

 - **Mortgages:** based on our channel check, besides higher rates it took longer time for banks to issue mortgages from average 30 days to around 40 days now. This may affect the cash collection rates by at least 3ppt.
 - **PBOC may impose the rule of land/sales ratio <40%:** There is no black and white on this rule for now. If it is true, the impacts are 1) less competition in land markets for Tier 1-2 cities where land value/sales value is much higher than 40%. In this regards, the land prices could stabilize in those high-tier cities. 2) Developers' future sales growth may be impacted, as their land acquisitions will be restricted towards more lower-tier cities, which could see lower sell-through rate.

OUTPERFORM
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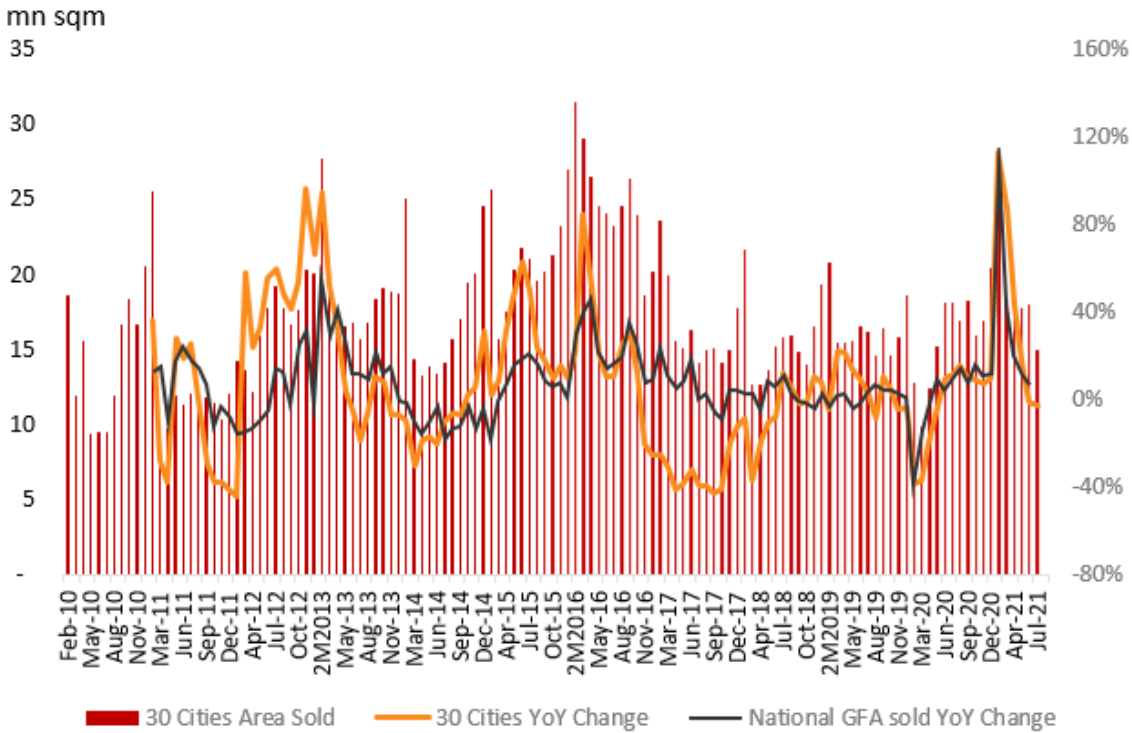
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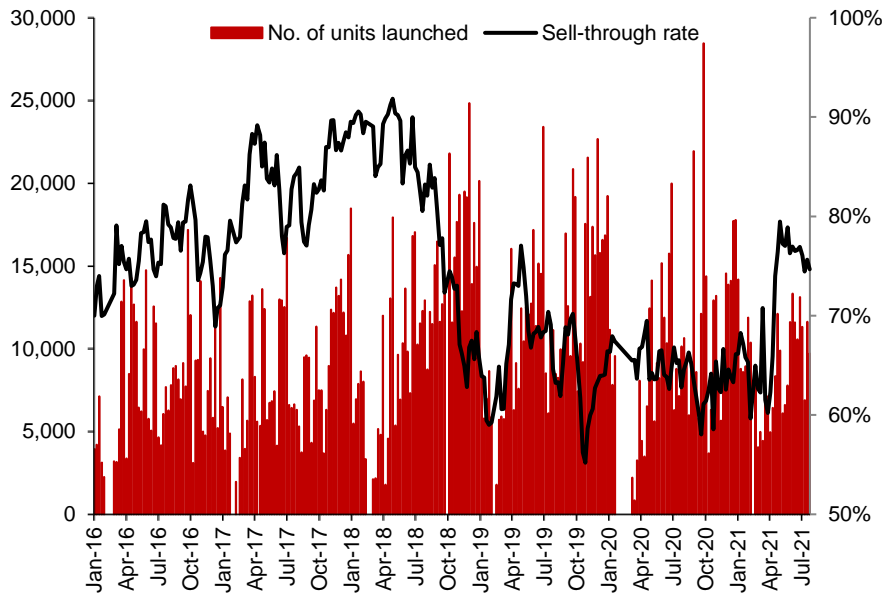
Figure 1: High-frequency sales volume data among 30 cities



Source: Wind, NBS

30 cities are: Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Nanjing, Wuhan, Chengdu, Qingdao, Suzhou, Nanchang, Fuzhou, Xiamen, Changchun, Wuxi, Dongguan, Hui Zhou, Baotou, Yangzhou, Anqing, Yueyang, Shaoguan, Nanning, Jiangyin, Shijiazhuang, Kunming, Changsha, Lanzhou, Tianjin, Harbin

Figure 2: Sell-through rate in 10 Tier 1-2 cities



Source: CREIS

10 cities are: Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Nanjing, Wuhan, Chengdu, Chongqing, Tianjin

Figure 3: Developers' sales recap in 1H21

Company		1H21 sales		2021 target		Completion rate
		(RMB bn)	YoY	(RMB bn)	YoY	
Evergrande	3333 HK	356	2%	750	4%	47%
Vanke	2202 HK	355	11%	790	12%	45%
Sunac	1918 HK	321	64%	700	22%	46%
Country Garden (attri)	2007 HK	301	13%	624	9%	48%
COLI	688 HK	205	19%	400	11%	51%
CR Land	1109 HK	165	49%	315	11%	52%
Shimao	813 HK	153	38%	330	10%	46%
Longfor	960 HK	143	28%	310	15%	46%
CIFI	884 HK	136	69%	265	15%	51%
Jinmao	817 HK	130	27%	250	8%	52%
Seazen	1030 HK	119	22%	260	4%	46%
Agile	3383 HK	75	37%	150	9%	50%
Aoyuan	3883 HK	68	33%	150	13%	45%
R&F	2777 HK	65	18%	150	8%	43%
SCE	1966 HK	59	47%	120	18%	49%
KWG	1813 HK	56	53%	124	20%	45%
Times	1233 HK	45	39%	110	10%	41%
Average			26%		11%	47%

Source: Company data

Figure 4: Three red line indicators by Top 40 developers in 2020

Company	Net Gearing	Debt to Asset Ratio less contract liability	Cash to ST debt	Lines crossed
Country Garden	55.6%	80.5%	1.9	1
Evergrande	159.3%	83.4%	0.5	3
Vanke	18.1%	70.4%	1.8	1
Sunac	96.0%	78.7%	1.1	1
China Overseas	32.6%	53.3%	2.5	0
Shimao	50.3%	68.5%	1.7	0
Greentown	63.8%	71.9%	2.0	1
CR Land	29.5%	59.7%	2.2	0
China Merchant Shekou	28.8%	58.8%	1.2	0
Longfor	46.5%	51.0%	4.2	0
Seazen	43.7%	74.1%	1.7	1
CIFI	64.0%	72.5%	2.7	1
Jinke	75.1%	69.9%	1.3	0
Zhongliang	65.8%	79.9%	1.1	1
Logan	61.4%	69.8%	1.8	0
R&F	130.2%	76.7%	0.4	3
Zhenro	64.7%	76.6%	2.2	1
Agile	61.0%	71.9%	1.1	1
Aoyuan	82.7%	78.0%	1.0	1
Sino-Ocean	54.8%	69.0%	1.5	0
Meidi	79.2%	77.6%	1.5	1
Shinsun	136.4%	82.4%	1.1	2
Sinic	63.6%	73.2%	0.8	2
SCE	59.2%	68.7%	1.3	0
Kaisa	97.9%	70.3%	1.6	1
Yuzhou	85.8%	77.9%	1.2	1
KWG	61.7%	75.1%	1.6	1
Languang	88.6%	73.0%	1.1	1
Central China	56.8%	85.5%	1.5	1
Times	65.6%	78.6%	2.1	1
Radiance	75.3%	69.0%	1.1	0
Yuexiu	47.5%	69.2%	1.7	0
OCT	73.3%	70.0%	2.2	0

Source: Companies, CMBIS

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