

China Property Sector

NBS Aug data deteriorated rapidly

■ **What is new?** NBS just released its Aug data on property sector today and below are the key highlights.

- **Property sales weakened quickly in Aug** with volume and value down 12%/13% YoY in Aug 2021 (vs. -9%/-7% in Jul 2021) due to financing and policy tightening. This has dragged down 8M21 sales volume and value YoY increase to 16% and 23%.
- **New Starts continued to fall sharply in Aug** (-26% YoY vs. -22% in July) to 166mn sq m. As a result, new starts in 8M21 dropped 3.2% YoY. We think this is partly due to the delay of 2nd batch of land supply to Sep/Oct in 22 cities, and also developers turned more cautious on land acquisitions.
- **Property completion remained strong** with volume up 18% YoY in Aug to 50mn sq m (vs. 26% YoY in July).
- **On the financing part**, domestic loans for developers were very tight in Aug with value down 35% YoY (vs. 17% YoY) despite the RRR cut in July.

■ **Our view on the industry**

- **Property policy loosening?** We still think a loosening window (mainly financing part) may not come until late 4Q as the current priority is to stabilize land prices in order to lower the overall industry risk and stabilize property price.
- **2nd Batch of land supply:** As most of 22 cities revised down the land premium cap to 10-15% (bidding price unchanged), our calculation shows GP margin on average could return to 18% vs. 1st batch's <15%. However, with lower premium cap, more plots will be decided by the lottery mechanism and therefore it may be harder for market leaders to acquire lands. Net net, for market leaders we may see less lands but higher margins so profits might be flat but safety is improving. It is mildly positive in our view.
- **About Evergrande:** Given that the negative news has impacted its property sales significantly, we do not think the Company could solve the liquidity issue by itself. In this case, the key lies on government's aid and it is possible that the government could provide some sort of help as its RMB1.35tn bank loans and bills are indeed a threat to the overall financial stability (which is gov's key task together with environment and solving poverty). Regarding how government is going to help, we think it could be similar to Anbang's case which means CBIRC could step in to manage the liquidation of its assets together with Evergrande management team.

OUTPERFORM
(Maintain)

China Property Sector

Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

Xiao Xiao

(852) 3761 8952

xiaoxiao@cmbi.com.hk

Hope you could help vote in II China:

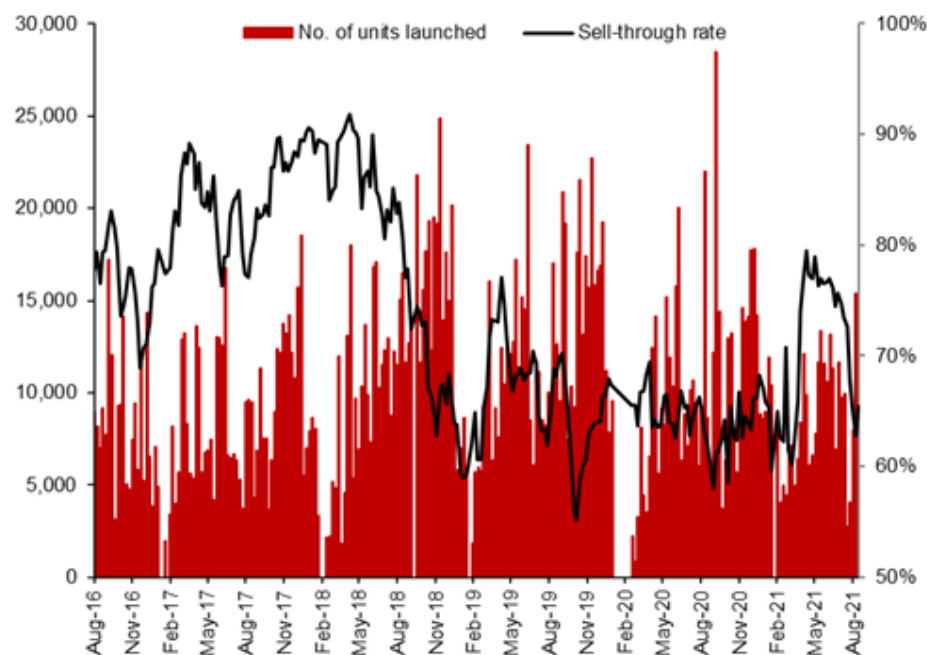
<https://voting.institutionalinvestor.com>

Figure 1: Quick view of national property data in Aug 2021

	Aug-21	YoY	Jul-21	YoY	8M21	YoY	2020	YoY
Property GFA sold (mn sqm)	125	-11.8%	130	-8.5%	1,142	15.9%	1,761	2.6%
Property sales (RMB bn)	1,262	-13.1%	1,350	-7.1%	11,905	22.8%	17,361	8.7%
New starts (mn sqm)	166	-26.4%	177	-21.5%	1,355	-3.2%	2,244	-1.2%
GFA under construction (mn sqm)	9,100	8.4%	8,919	9.0%	9,100	8.4%	9,268	3.7%
GFA completion (mn sqm)	50	17.5%	53	25.6%	467	26.0%	912	-4.9%
Property investment (RMB bn)	1,317	4.9%	1,272	1.4%	9,806	10.9%	10,144	7.0%
Domestic loans of developers (RMB bn)	152	-35.2%	194	-17.2%	1,692	-6.1%	2,668	5.7%

Source: NBS

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 8M21

Company		8M21 Sales		2021 Target		Completion Rate
		(RMB bn)	YoY	(RMB bn)	YoY	
Country Garden	2007 HK	561	6%	624	9%	90%
Vanke	2202 HK	445	1%	790	12%	56%
Evergrande	3333 HK	437	-3%	750	4%	58%
Sunac	1918 HK	415	33%	700	22%	59%
COLI	688 HK	257	15%	400	11%	64%
CR Land	1109 HK	208	28%	315	11%	66%
Shimao	813 HK	199	18%	330	10%	60%
Jinmao	817 HK	199	36%	250	8%	80%
Longfor	960 HK	182	16%	310	15%	59%
CIFI	884 HK	177	38%	265	15%	67%
Seazen	1030 HK	152	9%	260	4%	58%
Agile	3383 HK	92	19%	150	9%	61%
Aoyuan	3883 HK	88	23%	150	13%	58%
R&F	2777 HK	83	5%	150	8%	55%
SCE	1966 HK	75	46%	120	18%	63%
KWG	1813 HK	72	29%	124	20%	58%
Times	1233 HK	60	22%	110	10%	55%
Average			20%			63%

Source: Company data

Figure 4: Three red line indicators in 1H21

Company	Liability to Asset Ratio		Cash to ST Debt	Lines Crossed
	Net Gearing	(excl. pre-sales)		
Vanke	20.2%	71.2%	2.2 x	1
COLI	32.5%	53.4%	2.6 x	0
Country Garden	49.7%	78.5%	1.7 x	1
CR Land	28.5%	60.9%	2.3 x	0
Longfor	46.0%	68.3%	3.9 x	0
Shimao	50.4%	68.3%	1.7 x	0
Agile	45.3%	68.3%	1.2 x	0
Times China	70.8%	76.6%	2.5 x	1
KWG	64.1%	74.5%	1.8 x	1
Aoyuan	80.7%	78.5%	1.2 x	1
China SCE	77.9%	69.5%	1.2 x	0
Redsun	53.9%	69.4%	1.7 x	0
Sinic	50.5%	73.5%	1.4 x	1
Dafa	56.4%	69.0%	1.4 x	0
Dexin	72.4%	73.6%	1.4 x	1

Source: Companies, CMBIS

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.

Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

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.