

China Property Sector

There are no saviors but developers themselves

Oct 2021 property sales of major developers has shown slight improvement compared to Sep due to higher promotion and more stabilized sentiment. This may lessen market worries on the fundamentals to further weaken. At this stage, we may start to suggest investors to look at deep value stocks such as Shimao/Sunac as 1) PBOC has indeed provided some sort of liquidity in the market with net injection of RMB680bn from 25-29 Oct, much higher than Sep 2021 and Oct 2020 in the same period. 2) Industry default risk is getting slimmer as developers are trying their best to survive via asset disposal (RMB55bn in 2H21) and property sales of core projects (Shanghai/Beijing). 3) Impact of property tax trial is better than market fear. Together by considering valuation of 0.8x PB (many <0.4x), we think now is the opportunity to long those deep value ones (could survive in short term) together with quality ones (long-term winner).

- **Major developers' sales stabilized MoM in Oct:** CRIC released preliminary sales data showing a 32% YoY decline in Oct 2021 alone among our tracked developers. This is slightly better than Sep 2021 at -38% YoY despite a higher base (+16% YoY in Oct2020 and +13% YoY in Sep2020), partly due to promotions and more stabilized macro policy. This has put 10M21 YoY growth to 5% with overall completion rate of 74% only. In particular, R&F, Aoyuan, Vanke, Shimao and SCE recorded >30% sales decline in Oct while Jinmao did achieved 9% sales growth in Oct.
- **Impact of property tax trial is not yet shown.** While the property tax pilot program has been officially announced and in the draft stage, market is worrying about the massive selling in the short term by those who own many units. Based on the 8 Tier 1-2 cities we track, the average daily transaction of secondary market during 23-29 Oct (after the announcement) was only 978 units, 20% lower than the historical average. This is better than the market fear as we think the real impact may only come after the details are out like the tax rate and scope.
- **Industry default risk is getting slimmer:** On the policy front, there is no material policy relaxation except that PBOC has tried to maintain a reasonable liquidity in the market (net injection of RMB680bn from 25-29 Oct). Therefore, developers have been mainly relying on themselves to survive via asset disposal and property sales. For asset disposals, we have seen RMB55bn transaction in 2H21 from Evergrande to Sunac showing their determination. For property sales, we have just seen some encouraging figures in some projects such as >Rmb10bn sales in Beijing Yihaoyuan by Sunac and >RMB2bn in Shanghai Jiading Impression by Ronshine. Together with Evergrande is not even giving up; we think the industry default risk has peaked.

OUTPERFORM
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Figure 1: Asset sales since June 2021

Company	Date	Action	Amount (HKD mn / %)
Sunac	29-Oct	Sold 1863.9mn BEKE stakes	4,309
Fantasia	26-Oct	Sold 100% Link Joy	4,013
Red Star Macalline	21-Oct	Private placement	4,496
Sunac	18-Oct	Sold 60% of Qingdao Sunac Yacht	NA
Red Star Macalline	15-Oct	Sold 80% stake in PM company	846
Fantasia	13-Oct	Sold 48.98% stake in Shenzhen Aojifu	NA
Evergrande	29-Sep	Sold 1.753bn stake in Shengjing Bank	12,157
Aoyuan	27-Sep	Sold 108mn shares to Successful Lotus	400
		Sold 162mn placement shares to Joy Pacif	600
Times China	26-Sep	Sold 48.98% stake in FengShi Management	NA
R&F	20-Sep	Sold 100% Wealth Best Global	12,168
Yango	15-Sep	Equity swap of 100% Yango Intelligent Life	4.8% of Onewo
Evergrande	31-Aug	Sold 1.9% Shengjing Bank*	1,217
		Sold 7.08% Shenzhen High-tech Investor	1,265
		Sold 49% Evergrande Spring*	2,433
		Sold 5 projects' equity and non-core assets	11,280
	1-Aug	Sold 11% HengTen Networks	3,250
Red Star Macalline	18-Jul	Sold 70% stake of Red Star Real Estate	4,860
Languang	12-Jul	Sold 70% stake in Suzhou project company	NA
Greenland	5-Jul	Sold 100% Shanghai Lumin PM	1,533
Red Star Macalline	2-Jun	Sold multiple logistics companies	2,813

*Announced in its 1H21 results

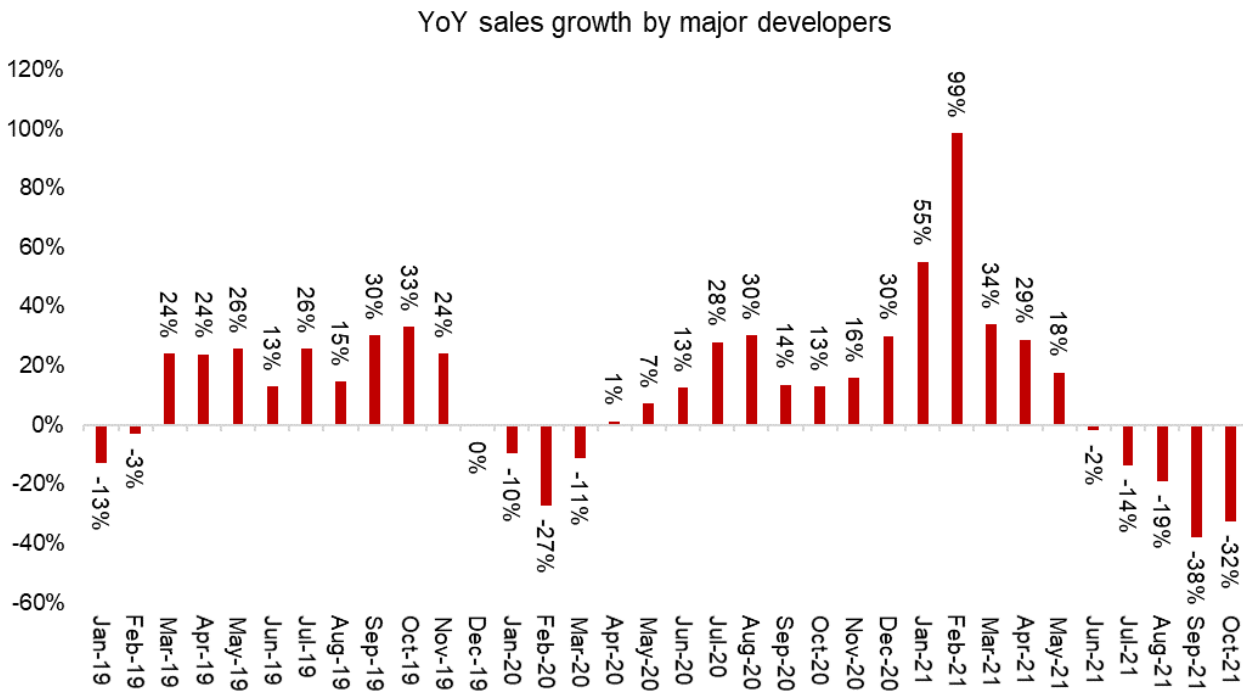
Source: Company announcements; CMBIS

Figure 2: Developer sales data in 10M21

Company	Oct sales (RMB bn)	YoY	10M21 sales (RMB bn)	YoY (RMB bn)	2021 target YoY	Completion rate
Country Garden (attri) 2007 HK	47	-17%	490	-2%	624 9%	79%
Vanke 2202 HK	37	-31%	518	-5%	790 12%	66%
Sunac 1918 HK	51	-28%	513	14%	700 22%	73%
COLI 688 HK	26	-7%	303	6%	400 11%	76%
CR Land 1109 HK	20	-22%	250	15%	315 11%	79%
Shimao 813 HK	20	-32%	242	5%	330 10%	73%
Longfor 960 HK	26	-7%	228	6%	310 15%	74%
CIFI 884 HK	16	-19%	209	20%	265 15%	79%
Jinmao 817 HK	20	9%	196	9%	250 8%	78%
Seazen 1030 HK	24	-10%	194	2%	260 4%	75%
Agile 3383 HK	11	-27%	113	8%	150 9%	75%
Aoyuan 3883 HK	10	-33%	109	10%	150 13%	72%
R&F 2777 HK	11	-38%	104	-6%	150 8%	69%
SCE 1966 HK	8	-32%	90	13%	120 18%	75%
KWG 1813 HK	9	-25%	86	10%	124 20%	69%
Times 1233 HK	9	-19%	76	7%	110 10%	69%
Average		-21%		5.2%	12%	74%

Source: CRIC

Figure 3: YoY sales growth by major developers



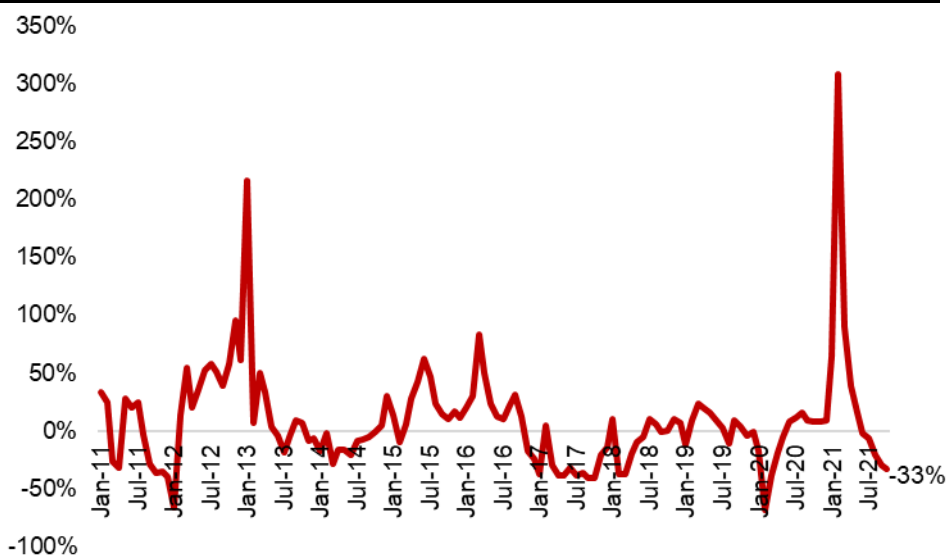
Source: Company data; CMBIS

Figure 4: Average transactions since property tax announcement

	Average Transaction by Units								
	Hangzhou	Nanjing	Qingdao	Suzhou	Xiamen	Wuxi	Jongguar	Foshan	Overall
After property tax announcement	60	264	142	180	136	77	44	76	978
2008-10M21	134	242	119	146	118	100	96	184	1,139

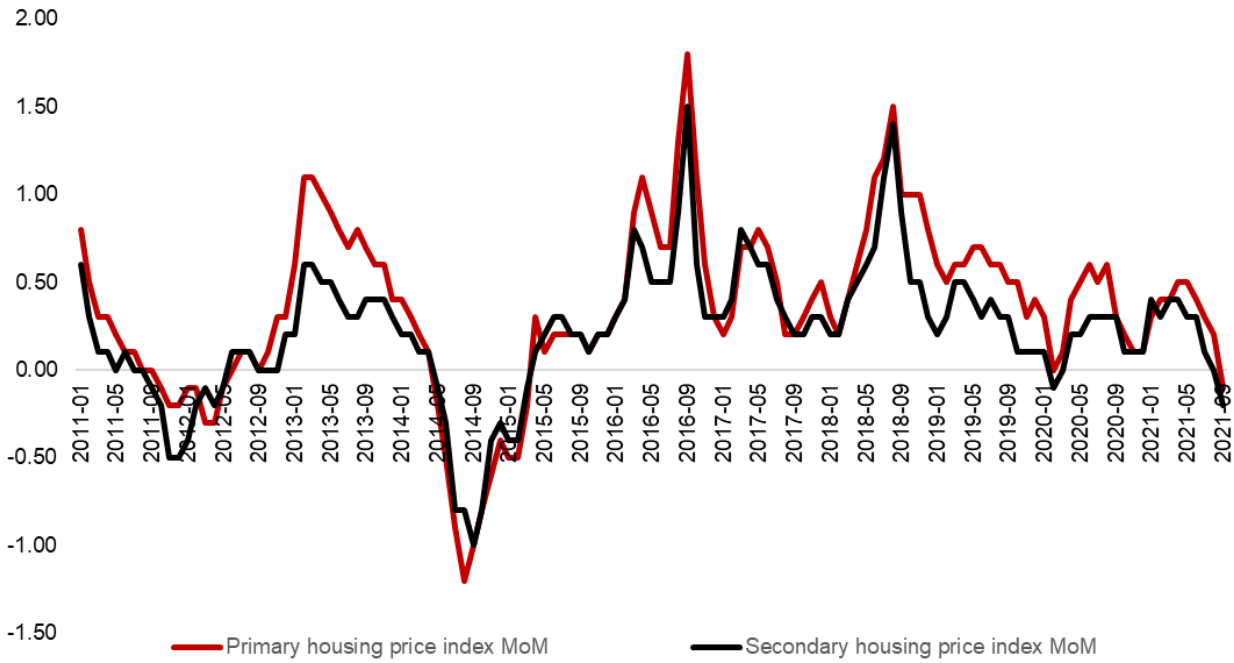
Source: NBS; CMBIS

Figure 5: 30 cities' transaction volume YoY growth



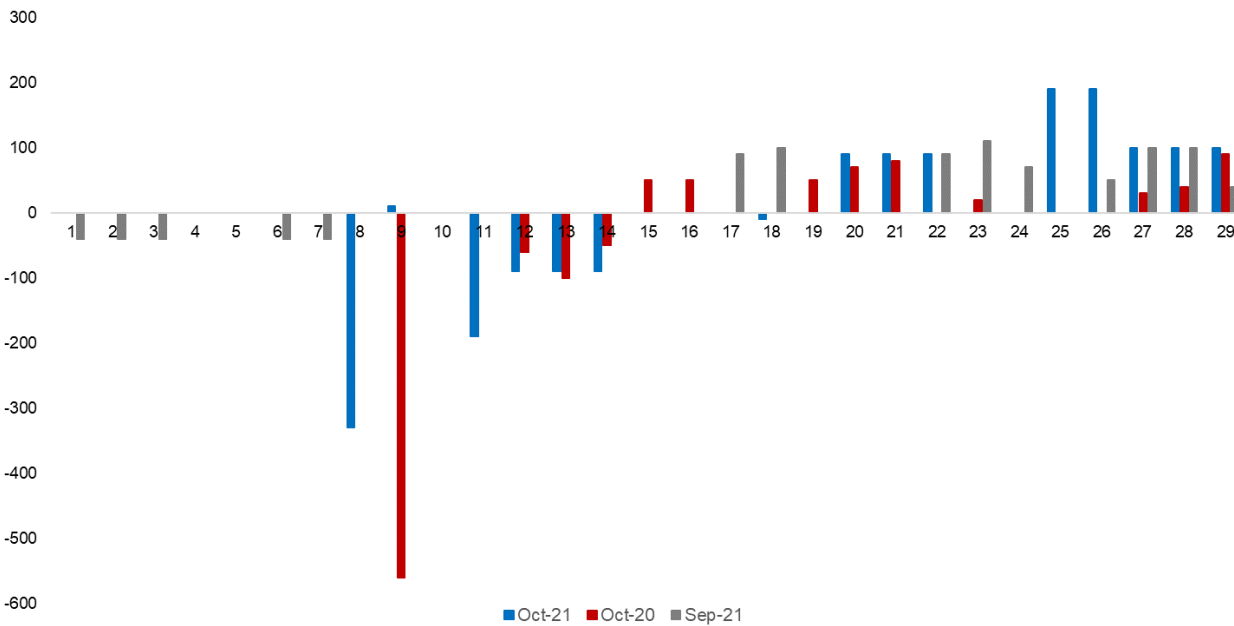
Source: NBS; CMBIS

Figure 6: Primary housing index Vs secondary housing index (MoM growth in 70 cities)



Source: NBS; CMBIS

Figure 7: PBOC net injections



Source: BBG; CMBIS

Figure 8: Property sector comps

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			PB	Dividend Yield	
						20A	21E	22E	20A	20A	21E
Vanke - H	2202 HK	18.22	249,851	BUY	33.92	3.9	3.4	3.3	0.8	8%	8%
COLI	688 HK	17.16	187,813	BUY	30.49	3.6	3.4	3.0	0.4	7%	8%
Country Garden	2007 HK	7.31	164,329	BUY	13.36	3.7	2.8	2.5	0.8	8%	7%
CR Land	1109 HK	30.30	216,067	BUY	44.79	6.0	5.6	5.2	0.9	4%	5%
Longfor	960 HK	37.80	229,553	HOLD	34.27	9.2	6.3	6.0	1.8	5%	5%
Shimao	813 HK	12.24	43,252	BUY	44.94	2.7	2.3	2.0	0.4	13%	13%
Agile	3383 HK	6.12	23,972	BUY	13.89	2.1	2.0	1.9	0.4	18%	16%
KWVG	1813 HK	6.80	21,644	BUY	17.87	2.7	2.2	1.9	0.4	16%	18%
China Aoyuan	3883 HK	3.07	8,608	BUY	15.48	1.0	0.9	0.8	0.4	38%	29%
Times China	1233 HK	5.31	10,536	BUY	16.20	1.7	1.2	1.0	0.5	17%	19%
China SCE	1966 HK	2.43	10,260	BUY	5.60	2.2	1.9	1.5	0.4	14%	15%
Redsun	1996 HK	2.24	7,479	BUY	3.52	3.7	2.9	2.5	0.5	8%	8%
Vanke - A	000002 CH	18.21	205,579	BUY	31.36	4.6	4.1	3.9	0.9	7%	8%
Radiance	9993 HK	4.07	16,464	BUY	5.55	3.8	3.3	2.7	0.8	7%	8%
Dafa	6111 HK	5.04	4,173	BUY	8.32	10.2	5.5	4.8	1.0	2%	3%
Shinsun	2599 HK	4.60	14,000	BUY	7.75	3.6	3.1	2.8	1.7	4%	5%
Dexin	2019 HK	2.61	7,051	BUY	3.56	5.9	5.2	4.5	1.2	6%	7%
Average						4.2	3.3	3.0	0.8	10.8%	10.7%

Source: BBG; CMBIS

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