

# China Property Sector

## What is the end game? A detailed analysis of chairpersons' possible bailout

As stated in our [11/01 sector report](#), we have suggested investors now is the opportunity to accumulate short-term survivors (Shimao/Sunac) and long-term winners (Longfor/COLI/CRL) as fundamentals and policy have bottomed in Sep and slightly improved in late Oct. The recent data and news also proved this trend with Oct mortgage loans up 4% for the first time since Apr 2021 and possible MTN support from NAFMII. However, we continue to think developers' destiny are in the hands of themselves as the offshore bond crisis remains. So for troubled developers, we think the bear case is whether the chairpersons can bailout in the extreme condition. **In this report we did a deep analysis on whether chairpersons' personal wealth can cover the cash needs.** our conclusion is valuation-distressed **Shimao** and **Sunac** can survive even in a very tight regulation for sales proceed. Suggest investors to long the names mentioned above.

- **Mortgage loans increased YoY in Oct for the first time since Apr 2021...:** PBOC just released the Oct loan data on 10 Nov after market close. In general the liquidity has shown some improvement as 1) M2 grew 8.7% YoY in Oct, higher than the market expectation of 8.3% and that in Aug/Sep (8.2%/8.3%). 2) Mid-to-long term household loans (as a proxy of mortgage data) grew 4% YoY in Oct at RMB422bn, vs. a decline of 19-34% in Jun-Sep 2021. We think this is a proof of PBOC's push for faster mortgage approval. However, the total amount was still -10% MoM compared to Sep so the steps are not huge. Finally it's worth noting that TSF in Oct was below the market expectation which may indicate generally weak loan demand of overall economy.
- **Overall policy is also getting more gentle towards the sector...:** According to [JingWeiView](#) (a state-owned news agency), NAFMII (the regulator of MTN) has organized a meeting with major developers and investors which may help boost the issuance of domestic MTN and developers' liquidity. Also, recently Wuhan slightly relaxed the HPR for corporates' senior executives which are allowed to buy one unit. We view these as positive signs. However, it's definitely not enough to turn around the industry.
- **Then can SOE bailout the industry? Unlikely.** We do not think they will massively bailout the troubled developers due to 1) the potential hidden debt and legal risks (such as Vanke's involvement in Taihoe, China Fortune and Guangxin asset). 2) Restriction of "Three Red Lines" which may limit the debt-heavy takeover. According to [CLS](#), some SOEs suggest PBOC to change rules of "Three red line" to give flexibility for such M&A. However, this can hardly apply to the industry in our view and thus it is unlikely.
- **So who can bailout developers? Some Chairpersons.** With developers facing offshore bond crisis, we think the most likely bailout would come from Chairperson of the developers given that 1) the property business is still their largest wealth (70% of total wealth). 2) Currently it is trading at huge discount (industry average at 0.7x PB and 3x PE). 3) Property sector is the business of credit and reputation which many chairpersons value the most. The next question would be "Who is personally rich enough to bailout?" Based on our analysis (Figure 1), valuation-distressed names like Sunac and Shimao can survive even if we assume a much higher restricted cash ratio of 30-40% (as % of total cash).

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### China Property Sector

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- **What is the end game? 1) Most developers can survive in this crisis but would downsize.** The impact of this offshore bond crisis has spread out to developers with more than 10% of market shares. This would force them to de-leverage by paying back debts and pause land acquisitions, which lead to decline of sales and earnings in the coming years. Therefore we estimate 2022E sales volume to down 2% YoY. **2) This crisis would benefit long-term.** The most important thing for developers is to buy the right lands at a right price. Opposite to the industry, we see quality players like Longfor and COLI to aggressively buy lands in Tier 1-2 cities in 2H21 when the land price faced pressure. **3) This crisis may accelerate Central government's determination to reduce its reliance on property such as property tax.** This is mainly because households and financial system are too exposed to the sector and it could again be the snake in the grass.

### Our detailed analysis of the possibility of chairpersons' bailout.

Firstly we use [Hurun's wealth ranking in Dec 2020](#) as the main source of total wealth of developers' chairpersons and their family.

Secondly, the personal wealth is then implied by deducting the attributable market cap (as of Dec 2020) of the listco.

Thirdly, we calculate the cash shortage in a very restricting situation for sales proceed by using ST debts – ST cash \* (1 – ratio of restricted cash). We generally assume 30-50% ratio for the stress testing.

Lastly, we add the personal wealth to the cash shortage to see if it can be covered.

Our conclusion is Shimao and Sunac are enough to survive while Evergrande/R&F/Sinic may need extra help.

**Figure 1: Cash shortage if chairpersons are willing to bailout**

Company	Chairperson's wealth by HuRun	Worth of its listco	Personal wealth	Cash shortage (1H21 ST debt - total cash * non-restricted cash ratio - personal wealth)
Evergrande	204	126	78	-75
Shimao	102	46	56	61
Country Garden	215	177	38	63
R&F	41	18	23	-8
Agile	45	22	23	17
Longfor	110	97	13	53
Sunac	59	50	9	4
Times	19	11	8	15
Central China	14	6	7	10
KWG	24	18	6	15
Kaisa	9	5	4	0
CIFI	24	21	3	20
Aoyuan	13	10	2	0
Redsun	7	5	2	9
Sinic	11	10	1	-1

Source: CMBI research; Restricted ratio is assumed at 30-50% of total cash for different developers as stress testing

### What is the end game?

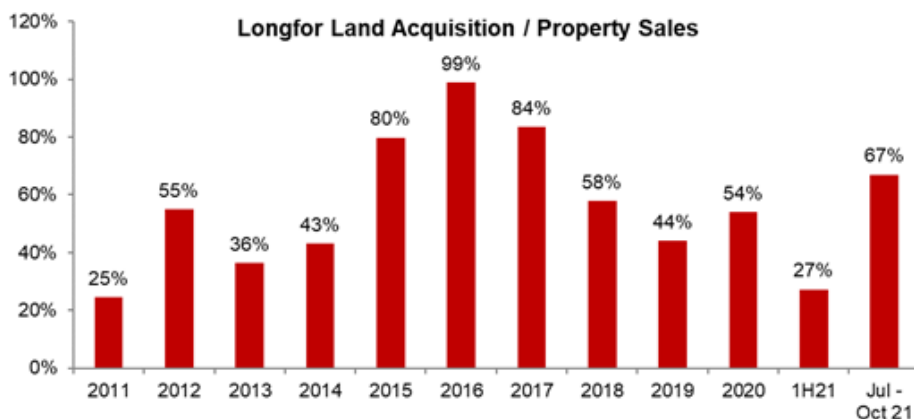
- 1) Most developers can survive in this crisis but would downsize.**  
Survivability can be seen from the graph above and downsize is due to the land acquisition pause in 2H21. Together with still weak fundamental, we think the property sales volume in 2022E may not pick up significantly. Our estimates for 2022E sales volume and real estate investment are 0%/5%.

**Figure 2: Our forecast for 2022E property sales and REI**

	Residential GFA Sold (sqm mn)	YoY	Residential Sold (RMB bn)	YoY	REI (RMB bn)	YoY
2010	931	9%	4,395	15%	3,404	33%
2011	970	4%	4,862	11%	4,431	30%
2012	985	1%	5,347	10%	4,937	11%
2013	1,157	18%	6,770	27%	5,895	19%
2014	1,052	-9%	6,240	-8%	6,435	9%
2015	1,124	7%	7,275	17%	6,460	0%
2016	1,375	22%	9,906	36%	6,870	6%
2017	1,448	5%	11,024	11%	7,515	9%
2018	1,479	2%	12,639	15%	8,519	13%
2019	1,501	1%	13,944	10%	9,707	14%
2020	1,549	3%	15,457	11%	10,445	8%
<b>2021E</b>	<b>1,590</b>	<b>3%</b>	<b>16,281</b>	<b>5%</b>	<b>11,144</b>	<b>7%</b>
<b>2022E</b>	<b>1,558</b>	<b>-2%</b>	<b>16,281</b>	<b>0%</b>	<b>11,702</b>	<b>5%</b>

Source: CMBIS

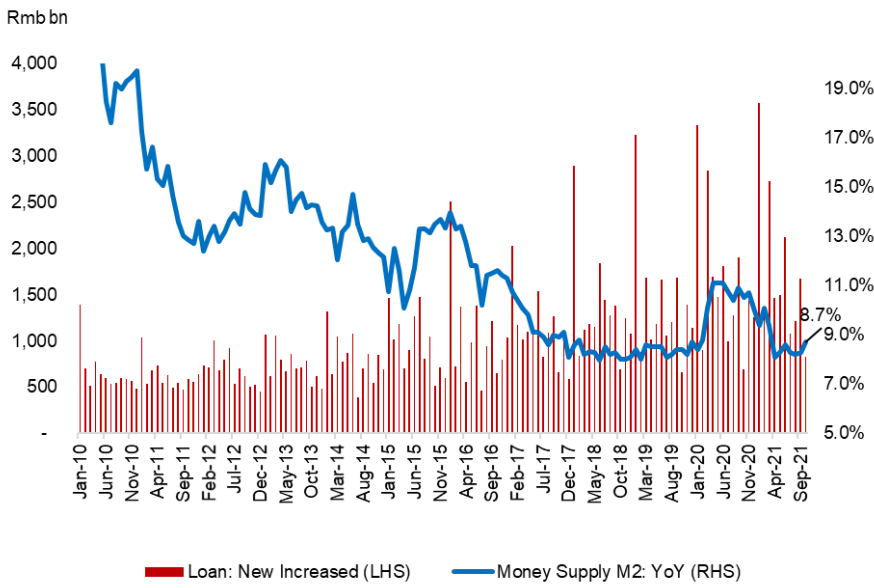
- 2) **This crisis would benefit long-term:** This can be seen from Longfor's aggressive land acquisition in Tier 1-2 cities in 2H21.

**Figure 3: Longfor's consistent anti-cycle land acquisitions**

Source: CMBIS

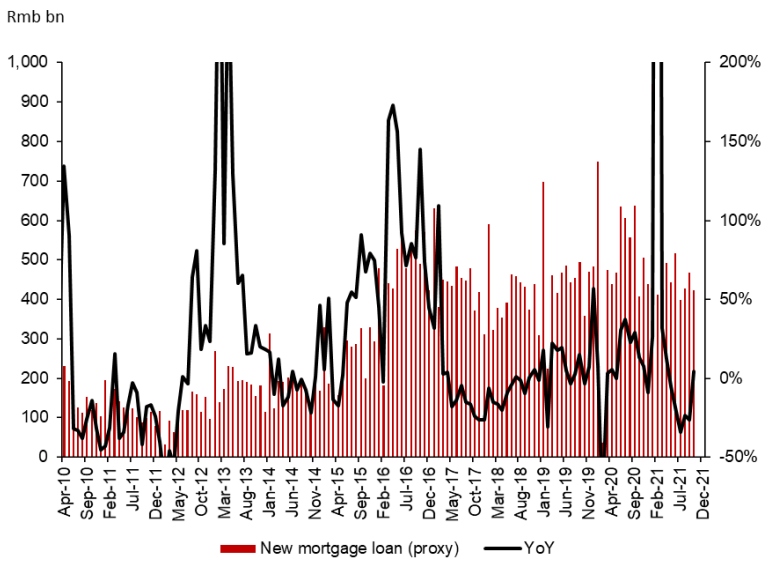
- 3) **This crisis may accelerate Central government's determination to reduce its reliance on property – [property tax](#)**

**Figure 4: M2 growth accelerated in Oct 2021 at 8.7% vs. 8.2/8.3% in Aug/Sep**



Source: PBOC

**Figure 5: Mortgage loans increased YoY in Oct for the first time since Apr 2021**



Source: PBOC

Figure 6: Developer sales data in 10M21

Company		Oct sales		10M21 sales		2021 target		Completion rate
		(RMB bn)	YoY	(RMB bn)	YoY (RMB bn)	YoY	YoY	
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%
<b>Average</b>			<b>-21%</b>		<b>5.2%</b>		<b>12%</b>	<b>74%</b>

Source: CRIC

Figure 7: YoY sales growth by major developers



Source: Company data; 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%
<b>Average</b>						<b>4.2</b>	<b>3.3</b>	<b>3.0</b>	<b>0.8</b>	<b>10.8%</b>	<b>10.7%</b>

Source: BBG; CMBIS

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