

China Property Sector

Could virtual property drive Metaverse to the next dimension?

Short answer is Yes. Just like the real world, we think the rapid growth of virtual property market (overall transaction has increased 15 fold from 2019-2021) would greatly help and accelerate the metaverse at an early stage. This is mainly because it will become an important/stable source of funding (sell lands/crypto) for the gaming developers and way of attracting more business users on value appreciation or commercial use purpose (like Justin Bieber's Concert, LV/Gucci's Advertisement). Although the risk of virtual real estate remains high as its ASP in major platforms has been up 8 times in just 18 months, it has added a new dimension of playing to the eco-system of Metaverse because it has sort of linked the virtual world to the real one via celebrities and companies' engagements. Together with long battle with COVID, we think the trend seems inevitable and our tech/internet analysts have selected the key beneficiary names: 1) **Tech:** Goertek (002241 CH, BUY) which has 25-30% exposure to Metaverse hardware, Sunny Optical (2382 HK, HOLD), BOE (000725 CN, NR). 2) **Internet:** Facebook (FB US, NR), Roblox (RBLX US, NR), Tencent (700 HK, BUY), ByteDance (Private company).

What is metaverse property? First, we need to understand two concepts: 1) **Metaverse** is a variety of online 3D virtual environments where people can play games, build, work and even trade crypto. 2) **Virtual property** is the equivalent of property but in metaverses. Non-Fungible Tokens (a unique set of codes that can not be forged or replicated) have been created to differentiate and formulate each unit and transaction. Players can buy/sell from primary/secondary markets in the platform and use it for both immersive residential/commercial purposes.

Who are the players in this virtual property market? 1) **Land suppliers** are the game developers, which provide the land plots. Leaders include Decentraland, The Sandbox (invested by Sun Hung Kai for US\$93mn), Cryptovoxels, Somnium Space. In China, there is a similar game called Honnverse, which is developed by Inmyshow (600556 CH). 2) **Buyers.** Major players are crypto commerce like Metaverse Group (virtual real estate company); Token.Com (NFT and metaverse real estate); **Luxury brands** like Louis Vuitton, Gucci, Burberry to do advertisements; celebrities like Snoop Dogg and JJ Lin; retail investors.

How are properties zoned and priced? Take Decentraland as an example. The game operator rolled out 90,601 parcels of land (48 times the size of Vatican City) on its platform with 1 parcel as minimum unit (232 sqm). They divide into different zones such as Crypto Valley (Silicon Valley), Fashion Street (Beverly hills), Gambling (Las Vegas) and so on. Then buyers can bid the land accordingly and then construct into residential/commercial areas. Or They can just buy from secondary market. After that, they can either sell or hold/operate using the digital currency "Mana" (1 Mana = USD4.59 floating). For example, Boson Protocol, a crypto business runner, bought an entire block of the gambling district of Decentraland in June21. **How virtual houses are priced?** Similar to real world, it is mainly based on the location and celebrity effects. For example, a house near JJ Lin's (林俊杰) has been labelled at RMB3.2mn which is equivalent to a decent unit in Manhattan or Guangzhou.

How quickly has this market soared? This virtual property market saw 200% CAGR from US\$400/parcel in 2019 to US\$3600/parcel in Mar21 (Figure 3) in the major platforms. In Nov21, two adjacent parcels were sold for US\$2.43mn in Decentraland, which tops the average home price in Manhattan. The rationale

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behind is mainly due to the popularity of NFT that drives both the exchange rate (MANA to USD) and home prices.

Why would people buy? 1) These properties can be used for real purposes. Justin Bieber performed at a live concert in Nov21 in a rented virtual land and luxury brands LV/Gucci plan to do advertisement. 2) Speculation purpose as NFT concept has driven up the value quickly.

What are the risks? 1) **Technical glitch or being hacked.** On 24 Nov, properties disappeared on Honnverse due to technical glitches or your accounts got hacked 2) **Discontinuation of game.** If the game stops being popular or get discontinued, the property vanishes. 3) **Deflation of metaverse coin.** If metaverse coin deflates, then the property is worth less in the real world. 4) **Political risk** as the country may ban the metaverse games that instigate this kind of activities.

Who are the beneficiaries in technology sector? As Metaverse/AR/VR is expanding its footprint from gaming to property, we believe technology supply chain is poised to benefit and this industry is evolving to become the next multibillion-dollar market. We identify 3 major supply chain beneficiaries: **1) Assembly:** Goertek (002241 CH, BUY) as the largest VR assembly player with mainstream clients such as Facebook, Sony and Pico. **2) Optics** (cameras/fresnel lenses): Sunny Optical (2382 HK, HOLD) as the major camera lens/module suppliers for AR/VR devices. and **3) Display:** BOE (000725 CH, NR) as the leading micro-OLED panel maker to benefit from surging demand for VR/AR headsets.

Who are the beneficiaries in internet sector? Our internet analyst is also positive on the long-term development of metaverse. Given the recent acceleration on the block-chain technology, it will benefit both international players like **Facebook** (FB US, NR), **Roblox** (RBLX US, NR) and domestic players such as **Tencent** (700 HK, BUY) and **ByteDance** (Private company) due to their advantage in gaming, contents and digital assets.

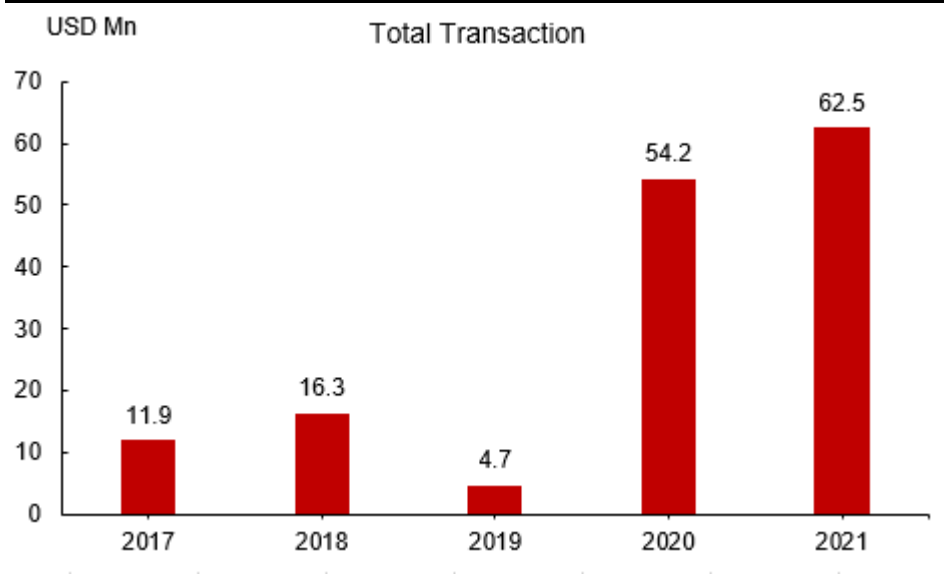
What is the impact on property market in China? As the virtual property speculation is at an early stage with the relatively small size, we do not think it will move much money away from real property even if the government allows it.

Figure 1: Comps of major beneficiaries

Company In their respective currencies	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			P/B		P/S	
						21E	22E	23E	21E	21E	22E	23E
Tech												
GOERTEK	002241 CH	52.09	177,956	BUY	47	40.3	30.2	24.4	6.8	2.3	1.7	1.4
SUNNY OPTICAL	2382 HK	232.40	254,908	HOLD	210	36.7	29.4	24.0	11.4	5.0	4.1	3.5
BOE TECHNOLOGY-A	000725 CH	4.88	185,680	NR	NA	7.6	8.1	7.1	1.5	0.9	0.8	0.7
Internet												
META	FB US	324.46	902,570	NR	NA	21.4	20.9	18.1	6.8	7.7	6.4	5.5
ROBLOX	RBLX US	126.10	72,991	NR	NA	NA	NA	992.9	122.9	26.4	22.7	18.3
TENCENT	700 HK	468.80	4,502,263	BUY	640	27.9	24.4	19.9	4.3	6.5	5.5	4.7
INMYSHOW	600556 CH	12.65	22,868	NR	NA	52.7	34.8	24.0	6.5	5.0	3.4	2.4

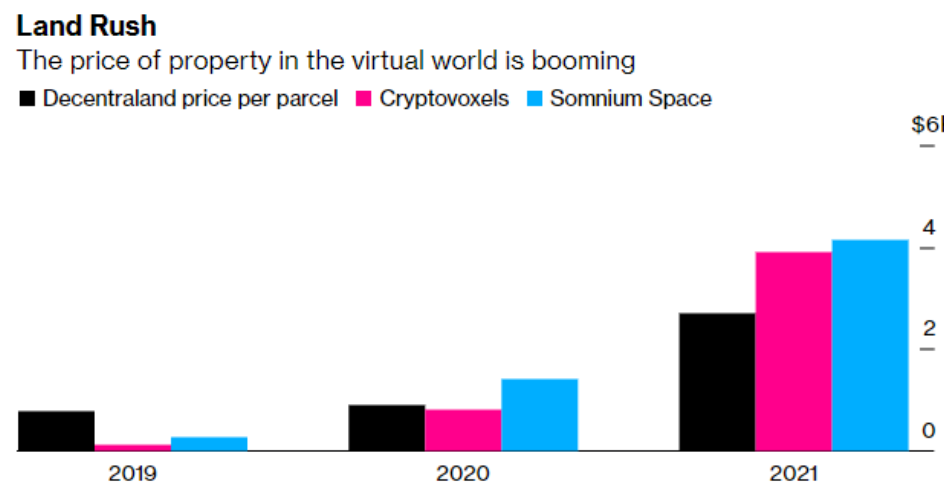
Source: Bloomberg, CMBIS

Figure 2: Virtual housing sales reached US\$63mn in 2021



Source: NonFungible
For 2021, total transaction as of 1 Dec 2021.

Figure 3: Virtual housing prices grew 8 times in 18 months as of Mar2021



Source: NonFungible

Figure 4: Justin Bieber used virtual property to do virtual concert



Source: Wave

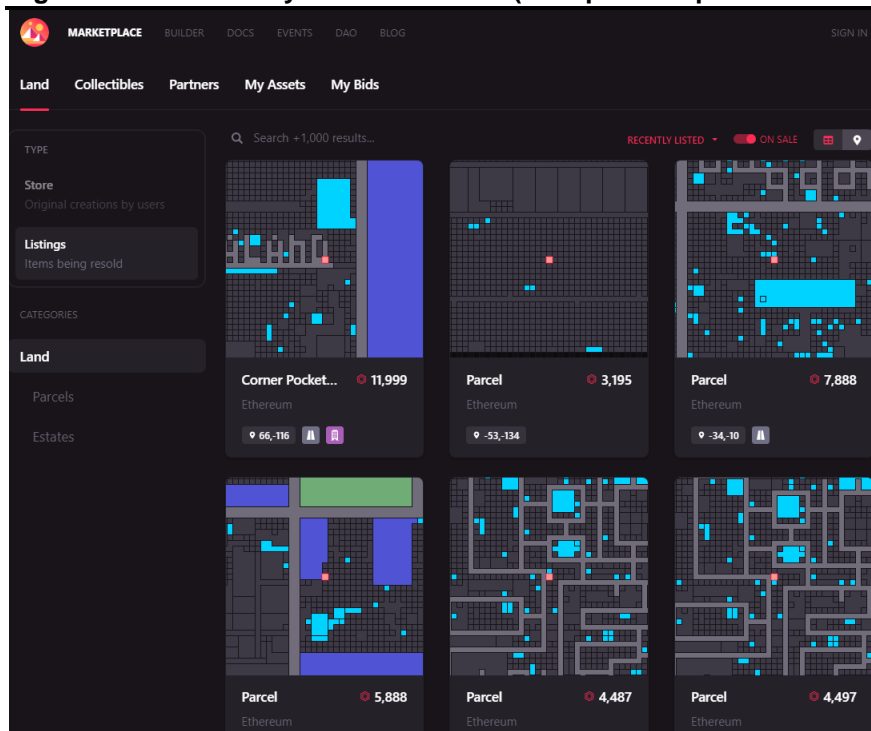
Figure 5: LV/Gucci bought advertisement spaces in Token tower



Tokens.com has broken digital ground on a tower in Decentraland that it hopes will generate revenue from leases and advertising. Tokens.com

Source: Tokens.com

Figure 6: Where to buy in Decentraland (red spot with price in each map)



Source: Decentraland

Figure 7: What is the currency? Decentraland’s own crypto MANA

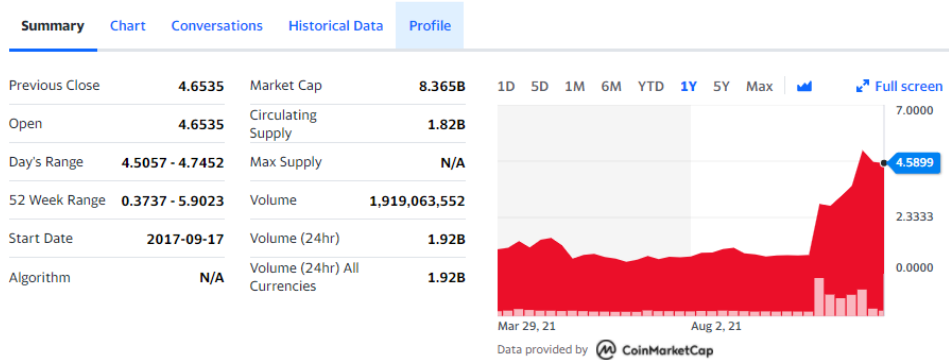
Decentraland USD (MANA-USD)

CCC - CoinMarketCap. Currency in USD

[★ Add to watchlist](#)

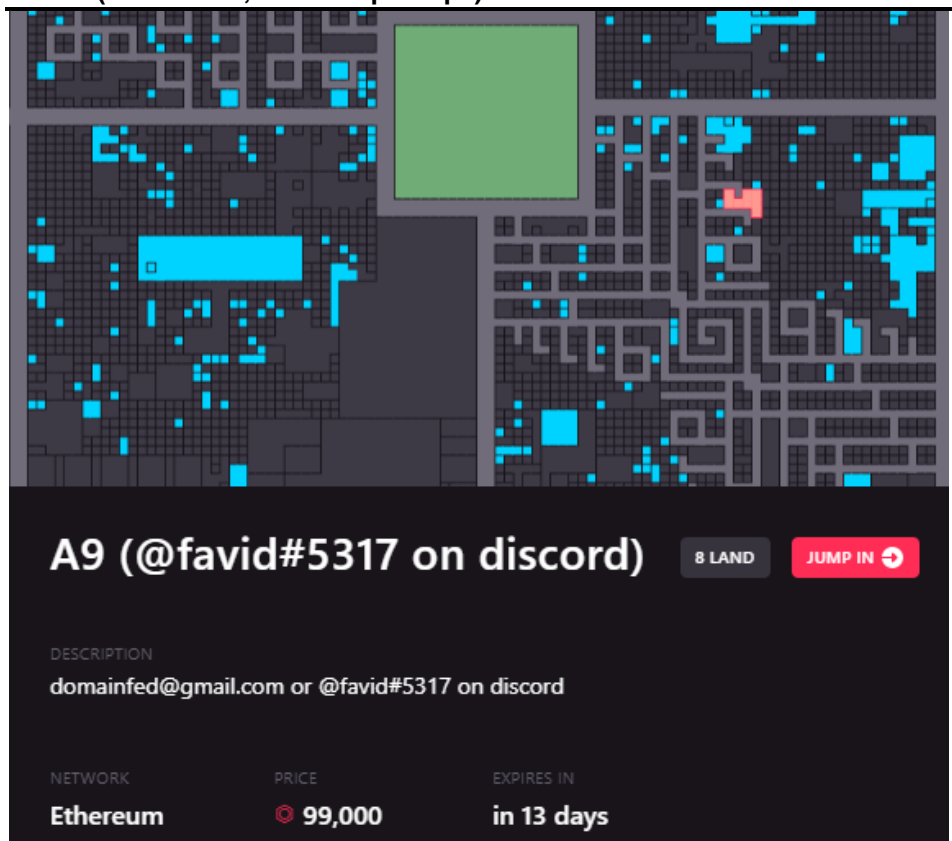
4.5849 -0.0950 (-2.0307%)

As of 08:33AM UTC. Market open.



Source: Yahoo Finance

Figure 8: A real case: Property adjacent to JJ Lin’s house selling for 99k MANA (RMB3.2mn, RMB12k per sqm)



A9 (@favid#5317 on discord) 8 LAND [JUMP IN ↻](#)

DESCRIPTION
domainfed@gmail.com or @favid#5317 on discord

NETWORK	PRICE	EXPIRES IN
Ethereum	99,000	in 13 days

Source: Decentraland

Figure 9: What the above plot looks like in the game



Source: Decentraland

Figure 10: What will this get you in Manhattan and Guangzhou

			<p>阳光城三房, 户型朝南, 楼层好, 视野宽阔, 包...</p> <p>阳光城丽景湾</p> <p>低楼层 (共30层) 2017年建 3室2厅 113平米 南</p> <p>0人关注 / 1月前发布</p> <p>VR房源</p> <p>300万 26,549元/平</p>
<p>CO-OP IN LENOX HILL 61 East 77th Street #8E</p> <p>\$499,000 + \$26,000</p> <p>Studio 1 Bath</p> <p>Listing by Compass (90 5th Avenue, New York, NY 10011-7624)</p>	<p>OPEN HOUSE, SUN 1-2</p> <p>CO-OP IN WASHINGTON HEIGHTS 515 Edgecombe Avenue #43</p> <p>\$400,000</p> <p>1 Bed 1 Bath</p> <p>Listing by LG Fairmont Group (225 Broadway Suite 2140, New York, NY 10007)</p>		<p>双城国际 精装修住宅 200米到地铁站 明火 有阳台 房主自售</p> <p>双城国际公寓</p> <p>中楼层 (共29层) 1998年建 1室1厅 38平米 北</p> <p>20人关注 / 5月前发布</p> <p>近地铁 满两年 VR精装修</p> <p>300万 78,948元/平</p>
			<p>翠逸家园 精装两房 高层东南向 房主自售</p> <p>翠逸家园</p> <p>高楼层 (共17层) 2000年建 2室2厅 76.23平米 东南</p> <p>89人关注 / 3年前发布</p> <p>VR房源</p> <p>300万 39,355元/平</p>
<p>CO-OP IN CENTRAL PARK SOUTH 150 Central Park South #1108</p> <p>\$475,000</p> <p>Studio 1 Bath</p> <p>Listing by Avalon Partners NY (3 Columbus Circle, New York, NY 10019)</p>	<p>CO-OP IN WEST VILLAGE 304 West 10th Street #2A</p> <p>\$489,000</p> <p>Studio 1 Bath</p> <p>Listing by Compass (90 5th Avenue, New York, NY 10011-7624)</p>		<p>温馨三房 户型方正 北向望花园 位置安静 交通便利</p> <p>滨江绿园</p> <p>低楼层 (共11层) 2004年建 3室2厅 110.5平米 北</p> <p>64人关注 / 2年前发布</p> <p>满五年 VR房源</p> <p>300万 27,150元/平</p>

Source: Streteasy

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