

China Property Sector

Eyes on the standing bureau meeting on Friday

Another disappointing sale in Nov will put heavier weights on developers as almost none of them can meet the annual sales target including SOEs. Now all the eyes are on the policy/financing front and it indeed showed some silver lining with more property loans issued in Oct/Nov, financing channels even for non-SOEs including (Corporate bonds, MTN and ABS) and direct support from chairman (Sunac/CIFI/Seazen). However, this may not U-turn the industry without more policy support. Therefore, we think the coming standing bureau meeting on Friday would be very important. Our base case (50% chance) is that it would mention to promote a healthy property market and delete “housing is for living”. If that were the case, then it would be very positive for the industry on the hope of policy support. We still suggest investors to focus on survivor (Shimao/Sunac) and long-term winners (COLI, Longfor, CRL).

Scenario analysis for the coming standing bureau meeting: Based on history, standing bureau would gather on the second Friday in Dec to discuss the economy and policy for next year. Given the still fragile sentiment towards property sector, here are our base/bull/bear case studies: **1) Base case (50% chance):** The meeting will mention, “maintain a healthy property market” and delete “housing is only for living”. This would imply that more direct help would be put to stabilize the market. **2) Bull case (20% chance):** The meeting does not mention property like the one in 2018. This would imply a potential massive relaxation on property policy and thus very positive for the industry. **3) Bear case (30% chance):** The meeting will maintain the same wording like the one in July 2021. Then we think the policy would stay like right now and the industry recovery would take some time.

Major developers’ sales remained lacklustre in Nov: CRIC released preliminary Nov sales data showing a 28% YoY decline among our tracked developers. This shows still weak sentiment despite a slight improvement in Sep/Oct 2021 at -38/-32% YoY. This has put 11M21 YoY growth to 3% with overall completion rate of 81% only, which means almost all developers cannot meet their annual target. In particular, R&F, Aoyuan, Sunac and Shimao recorded >40% sales decline in Nov while Agile achieved 9% sales YoY growth in Nov.

Silver lining is coming from financing: According to [Hexun news](#), property loans in Nov continued to improve significantly MoM and YoY (Rmb200bn more). Besides the traditional financing channels, developers including non-SOEs could issue MTN, corporate bonds ([Logan](#)), and ABS ([Country Garden](#)) to further cement its cash position when facing the offshore bond crisis. On the mortgage side, the average mortgage rate of 100 cities is on a downward trend in Nov and saw 4ppts decline according to [Beke's report](#). With the hope of RRR cut as mentioned by Premier Li, we think the financing has provided some hopes for the winter of the industry.

More quick and direct support from Chairman of developers: despite the monetary policy towards relaxing, it may not be quick enough to turn around the industry in a short period. Facing the offshore debt crisis and weakening fundamental, we think Chairperson’s bailout would be the most effective way to buy time until property market return to healthy level as stated in our previous report. As a proof, on 14 Nov Sunac announced that its chairperson – Sun Hongbin has provided out of his own funds \$450mn to support business

OUTPERFORM
(Maintain)

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Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

Xiao Xiao

(852) 3761 8952

xiaoxiao@cmbi.com.hk

development. CIFI and Seazen also came out to do rights issue with Chairman's full subscription if no investors are willing to do it.

Figure 1: Scenario studies on the coming standing bureau meeting

	Comments on property from standing bureau meeting	GDP
1Q2017	Acceleration of building property market long-term mechanism	6.9%
2Q2017	Stablization of proerty market, continuity of policies, and building long-term mechanism	6.9%
3Q2017	No meeting	6.8%
4Q2017	Reforming housing syteme and building long-term mechanism	6.8%
1Q2018	Healthy development of the property market	6.8%
2Q2018	Rule by city and curb pricing spikes. Acceleration of building a long-term mechanism	6.7%
3Q2018	Not mentioned	6.5%
4Q2018	Not mentioned	6.4%
1Q2019	Housing is for living and not speculating. Rule by city and build long-term mechanism	6.4%
2Q2019	Housing is for living and not speculating. Build long-term mechanism and not used as short term economic stimulus	6.2%
3Q2019	No Meeting	6.0%
4Q2019	Not mentioned	6.0%
1Q2020	Housing is for living. Healthy development of the property market	-6.8%
2Q2020	Housing is for living. Healthy development of the property market	3.2%
3Q2020	No Meeting	4.9%
4Q2020	Stable development of the property market. Improve property eco-system	6.5%
1Q2021	Housing is for living. No school-district housing speculation	18.3%
2Q2021	Housing is for living. Acceleration of affordable housing development	7.9%
3Q2021	No Meeting	4.9%
4Q2021	<p>1) Base case (50% chance): The meeting mentions "maintain a healthy property market" and delete "housing is only for living". This would imply more direct help would be put to stabilize the market.</p> <p>2) Bull case (20% chance): The meeting does not property like the one in 2018. This would imply a potential massive relaxation on property policy and thus very positive for the industry.</p> <p>3) Bear case (30% chance): The meeting maintains the same wording like the one in July2021 then we think the policy would stay like right now and the industry recovery would take some time.</p>	

Source: NBS

Figure 2: Most developers are set to miss 2021 sales target

Company		Nov sales		11M21 sales		2021 target		Completion rate
		(RMB bn)	YoY	(RMB bn)	YoY	(RMB bn)	YoY	
Country Garden (attri)	2007 HK	20	-30%	271	10%	315	11%	86%
Vanke	2202 HK	17	-36%	226	13%	265	15%	85%
Sunac	1918 HK	38	-33%	532	-5%	624	9%	85%
COLI	688 HK	18	-11%	214	7%	250	8%	85%
CR Land	1109 HK	28	-20%	331	3%	400	11%	83%
Shimao	813 HK	12	9%	125	8%	150	9%	83%
Longfor	960 HK	8	-26%	98	8%	120	18%	81%
CIFI	884 HK	20	-31%	213	-3%	260	4%	82%
Jinmao	817 HK	23	-21%	250	3%	310	15%	81%
Seazen	1030 HK	18	-43%	260	-1%	330	10%	79%
Agile	3383 HK	37	-47%	550	6%	700	22%	79%
Aoyuan	3883 HK	7	-53%	116	2%	150	13%	77%
R&F	2777 HK	8	-38%	94	3%	124	20%	76%
SCE	1966 HK	8	-47%	112	-11%	150	8%	75%
KWG	1813 HK	11	-17%	87	4%	110	10%	79%
Times	1233 HK	53	-8%	574	-5%	790	12%	73%
Average			-28%		3.0%		12%	81%

Source: NBS

Figure 3: Cash shortage if chairpersons are willing to bailout

As of Dec 2020 (RMB Bn)				Cash shortage (1H21 ST debt - total cash * non-restricted cash ratio - personal wealth)
Company	Chairperson's wealth by HuRun	Worth of its listco	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

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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