

# China Property Sector

## Mildly positive if M&A debt is excluded in “Three red line” calculation

We think the exclusion of M&A debt in “Three red line” will be positive for high-quality developers as they could accelerate the consolidation. However, we do not expect a meaningful bailout of distressed developers due to limited capacity from overall weak property sentiment, unattractive risk reward compared to open land market and previously unsuccessful examples. **We still suggest investors to stick to Longfor, COLI, CR Land** and their PM firms (such as COSP) as there could be more technical defaults in the next two weeks of Jan.

**What's new:** According to [CLS](#), some high-quality developers were told by the banks that their M&A debt for bailout of other developers could be excluded in the calculation of “Three red line”. Following the news, we see [CCB's chairman](#) seeing no demand for M&A by developers even though they support it.

- **Which developers could be in the list:** We think mainly large SOEs and one/two high-quality non-SOEs, for example, COLI, CR Land, Vanke, Poly Development, Jinmao or Longfor are in the green category.
- **Will they significantly bail out distressed developers? Unlikely mainly for three reasons:** **Firstly**, under the overall weak property sentiment, all developers including good ones are actually suffering the lacklustre sales, declining margin and massive spending on land acquisitions to stabilize the land market. For example, among the developers we track, only CR Land achieved its 2021 sales target while others are all missing by 12% on average. Therefore, they have limited capacity to bail out. **Secondly**, risk-reward is not attractive compared to open market auction which may see many more good opportunities, such as the third round of land sales in Hangzhou. **Lastly**, the previous unsuccessful examples such as Shenzhen's bailout on Evergrande in Dec 2021 may lead to a cautious view by those developers.
- **What's the potential target and size if they have to?** We think property management could be the target as the risk is lower and SOE's PM arm is falling behind on M&A. However, the size may be not big as PM sector is also seeing huge de-rating.
- **What to do in the property sector now:** We still suggest investors to stick to Longfor, COLI and CR Land as they benefit from the quick sector consolidation. In 1Q, developers faced heavy debt maturity repayments and construction accounts payable peak (migrant workers need to be paid before the Lunar New Year). There could be potentially more defaults (Figure 1).

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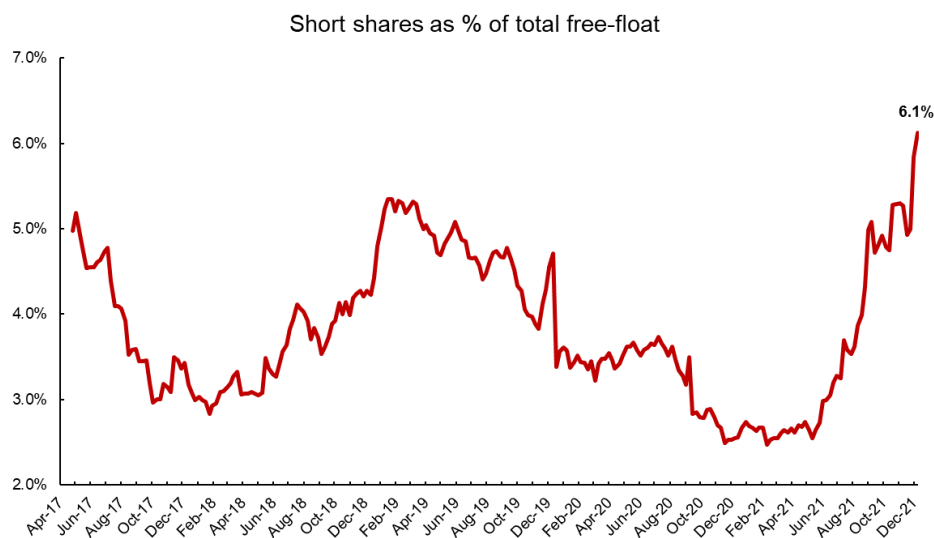
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**Figure 1: Debt Maturing in Jan 2022 (USD mn)**

Company	Date	Amount	Bond Details	Current Px
Logan	01/03/22	62	USD Bond LOGPH 5.75 01/03/22 with US\$61.7mn outstanding	99.75
Seazen	01/07/22	49	RMB MTN FTLNHD 5.50 01/07/22 with RMB310mn outstanding	99.92
KWG	01/11/22	250	USD 250mn Bond KWG 6.00 01/11/22	98.00
R&F	01/13/22	725	USD 725mn Bond GZRFPR 5.75 01/13/22	63.00
Zhenro	01/13/22	100	USD 100mn Bond ZHPRHK 5.35 01/13/22	98.20
Shimao	01/15/22	315	RMB Bond SHSHMA 4.65 01/15/22	85.00
Radiance	01/16/22	300	USD 300mn Bond JNHUIG 10.50 01/16/22	98.95
Dafa	01/18/22	185	USD Bond DAFAPG 9.95 01/18/22 with US\$185mn outstanding	90.00
Aoyuan	01/20/22	188	USD 188mn Bond CAPG 4.20 01/20/22	20.00
Poly	01/21/22	236	RMB 1500mn Bond POLYRE 3.60 01/21/22	100.00
CIFI	01/22/22	49	HKD 385mn Term Loan	-
Aoyuan	01/23/22	500	USD 500mn Bond CAPG 8.50 01/23/22	18.00
Yuzhou	01/23/22	242	USD Bond YUZHOU 8.625 01/23/22 with US\$242mn outstanding	50.00
Shinsun	01/23/22	300	USD 300mn Bond SHXREG 12.50 01/23/22	45.75
Sinic	01/24/22	242	USD Bond SINHLD 8.50 01/24/22 with US\$242mn outstanding	5.00
Yuzhou	01/25/22	347	USD Bond YUZHOU 6.00 01/25/22 with US\$347mn outstanding	47.00
Powerlong	01/26/22	128	HKD 1000mn Bond PWRLNG 6.00 01/26/22	-
Country Garden	01/27/22	425	USD 245mn Bond COGARD 7.125 01/27/22	98.51
Zhongliang	01/31/22	203	USD Bond ZHLGHD 7.50 01/31/22 with US\$203mn outstanding	96.50

Source: Bloomberg, CMBI research

**Figure 2: Sell stake as % of free-float stakes**

Sell stake as % of free-float stake:	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Shimao	1.00	0.92	1.09	1.28	1.73	1.80	4.86	6.58	7.55	8.18	11.94	20.62
R&F	5.65	5.13	4.51	4.97	5.00	6.57	8.56	10.19	16.86	15.15	12.37	14.81
Aoyuan	2.41	2.44	2.76	3.36	3.07	5.33	7.54	7.98	8.90	11.79	13.21	8.68
Agile	4.41	3.59	2.98	3.03	3.05	2.93	2.88	2.69	3.52	3.88	5.33	8.49
Evergrande	7.57	6.08	6.33	6.75	6.96	9.29	9.99	10.43	8.26	7.29	5.29	6.74
Sunac	1.97	1.48	1.22	1.33	1.03	1.48	1.96	1.41	2.82	4.23	4.02	5.40
Country Garden	4.86	4.49	4.89	5.24	5.24	4.83	5.16	5.05	5.68	4.91	4.71	4.29
KWG	3.47	2.88	3.36	3.21	2.65	2.65	2.64	2.39	2.80	3.02	3.68	4.13
Times	1.70	1.56	3.16	3.47	3.32	4.09	3.93	4.50	4.50	3.38	2.82	2.57
Vanke	1.80	2.02	1.91	1.52	1.19	1.19	1.94	2.43	2.19	2.21	2.67	2.46
Longfor	1.35	1.62	1.72	1.57	1.42	1.70	1.96	0.53	1.98	1.31	2.29	2.29
CIFI	1.37	1.63	1.24	1.39	0.99	1.09	1.27	1.21	1.57	1.03	1.70	2.25
CR Land	0.99	1.55	1.72	1.49	1.27	0.93	0.74	0.53	1.98	1.31	2.26	1.79
COLI	1.13	1.14	1.50	1.23	0.85	0.87	1.36	0.67	0.97	0.88	1.45	1.17
<b>Average</b>	<b>2.84</b>	<b>2.61</b>	<b>2.74</b>	<b>2.85</b>	<b>2.70</b>	<b>3.20</b>	<b>3.91</b>	<b>4.04</b>	<b>4.97</b>	<b>4.90</b>	<b>5.27</b>	<b>6.12</b>

Source: CMBI research

**Figure 3: Most developers missed 2021 sales target**

Company		Nov sales		11M21 sales		2021 target		Completion rate
		(RMB bn)	YoY	(RMB bn)	YoY	(RMB bn)	YoY	
CR Land	1109 HK	45	16%	316	11%	315	11%	100%
Jinmao	817 HK	22	-29%	236	2%	250	8%	94%
Longfor	960 HK	40	43%	290	7%	310	15%	94%
CIFI	884 HK	22	-31%	247	7%	265	15%	93%
COLI	688 HK	41	4%	371	3%	400	11%	93%
Agile	3383 HK	14	-38%	139	1%	150	9%	93%
Seazen	1030 HK	21	-32%	234	-7%	260	4%	90%
Country Garden (Attri.)	2007 HK	22	70%	557	-2%	624	9%	89%
China SCE	1966 HK	7	-40%	105	3%	120	18%	87%
Times	1233 HK	8	-52%	95	-6%	110	10%	86%
Sunac	1918 HK	48	-12%	598	4%	700	22%	85%
KWG	1813 HK	10	-21%	104	0%	124	20%	84%
Shimao	813 HK	12	-68%	270	-10%	330	10%	82%
Aoyuan	3883 HK	5	-73%	121	-9%	150	13%	81%
R&F	2777 HK	8	-65%	120	-20%	150	8%	80%
Vanke	2202 HK	56	-45%	620	-12%	790	12%	79%
<b>Average</b>			<b>-23%</b>		<b>-2.0%</b>		<b>12%</b>	<b>88%</b>

Source: NBS

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