

# China Property Sector

## Unsold inventory remains significantly low despite a weak finish of 2021 vs. 2014

Weaker-than-expected Dec data sent the market down again. Based on our investor feedback, they may wait after 1Q due to weak earnings, property demand and liquidity issues. **The next watch is whether PBOC will lower mortgage rate (5Y-LPR) on 20 Jan (Thu) following 10bps cut in MLF today.** We think the massive credit easing for property is unlikely as 2021 is still better than 2014 (which marked the start of easing in 2015) in terms of **inventory, property price and contribution to GDP**. We still prefer defensive names on market share gain story like COLI (688 HK, Buy), CR Land (1109 HK, Buy), Longfor (960 HK, Hold) and their respective PM Company: COPH (2669 HK, NR), Onewo (private) via proxy (Long Vanke H, short Vanke A).

- **NBS national property data in Dec was below expectation.** In particular,
  - **Property investment declined 13.9% YoY in Dec, dragging 2021's REI down to 4.4% YoY.** It is the worst single month YoY decline in 10 years excluding the pandemic in Jan/Feb 2020, dragging the full year growth to +4.4% YoY and 2-Year average growth to 5.7%. The continued worsening in property investment of 4.4% is below the historical line of massive policy relaxation at 5%.
  - **Property sales saw volume and value down 16%/18% YoY in Dec.** It also showed a widening YoY decline compared with -14/-16% in Nov 2021, despite a similar base in 2020. The whole year growth are still positive at 2%/5% YoY with 2 year average at 2%/7%.
  - **New Starts remained weak in Dec:** It recorded 161mn sq m at -31% YoY vs. -21%/-33% YoY in Nov/Oct. This has led to 11% YoY decline in new starts in 2021 (-1% YoY in 2020), dragging the 2-Year average growth to -6%, which was mainly attributable to the 15% YoY decline in land purchase area in 2021.
  - **Property completion's growth has slowed at 2% YoY in Dec** vs. +15% YoY in Nov. The 2021 whole year growth is at 11.2% YoY, rebounding from the 2020 pandemic, with 2-Year average at 3%.
- **A comparison between 2014 and 2021:** Despite worsening property data in 2H21, we still see positive YoY growth in sales volume, REI and relatively low inventory. Moreover, property sales value reached new high at RMB18.2tn. We think the government will compare 2021 with 2014 for top decision-making mainly because 2014 marks the actual beginning for a massive policy relaxation in 2015. We analysed on the grounds of inventory, sales, property price and REI's contribution to GDP and found some industry risks lower than that of 2014: **1) Direct contribution to GDP:** Property REI only accounts for 13.4% of GDP while 14.9% in 2014 (-1.5ppts). This means the government has successfully lowered dependency on the property sector since 2014. **2) Unsold Inventory:** The nominal volume for unsold residential inventory is at 228mn sq m (+1.7% YoY) in 2021, down 44% from the 2014 level of 407mn sq m (+26% YoY). Its contribution as of sales is 13% versus 34% in 2014, which means it can be absorbed much faster. **3) Property price** is still rising at 2% YoY in 70 major cities whereas -5% YoY in 2014. Therefore, we think this round of easing will be lower than that of 2014.
- **Debt maturities + Migrant Worker Salary mount in 1Q22: On debt maturities,** there are 24 public debts with a total amount of US\$8.4bn due in

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1Q22. Multiple developers like Dafa (6111 HK, BUY), Yuzhou (1628 HK, NR), R&F (2777 HK, NR) have done or are soliciting exchange offer on their outstanding USD bonds due January, which could provide a short-term solution on their repayment pressure. However, we think rating downgrade, which caused early redemption/cross acceleration, is a trigger for more defaults. When bond price drops under 60, there will be risk of downgrade and we think Agile (3383 HK, BUY) might be the next to face this downgrade risk.

**On migrant worker wages**, the Supreme Court of China said it would support, guarantee and protect migrant worker's wages on 14 Jan. This will lead to further cash pressure on developers with high accounts payables. Companies with higher accounts payable over total liabilities are prone to this risk including Times China (1233 HK, Buy), Country Garden (2007 HK, Buy), and Shimao (813 HK, Buy).

**Figure 1: Quick view of national property data in Dec 2021**

	Dec-21	YoY	Nov-21	YoY	Oct-21	YoY	2021	YoY	2020	YoY
Property GFA sold (mn sqm)	213	-15.6%	151	-14.0%	127	-21.7%	1,794	1.9%	1,761	2.6%
Property sales (RMB bn)	2,026	-17.8%	1,448	-16.3%	1,239	-22.6%	18,193	4.8%	17,361	8.7%
New starts (mn sqm)	161	-31.2%	161	-21.0%	138	-33.1%	1,989	-11.4%	2,244	-1.2%
GFA under construction (mn sqm)	9,754	5.2%	9,597	6.3%	9,429	7.1%	9,754	5.2%	9,268	3.7%
GFA completion (mn sqm)	327	1.9%	115	15.4%	63	-20.6%	1,014	11.2%	912	-4.9%
Property investment (RMB bn)	1,029	-13.9%	1,238	-4.3%	1,237	-5.4%	14,760	4.4%	10,144	7.0%
Domestic loans of developers (RMB bn)	166	-31.6%	149	-20.6%	138	-27.2%	2,330	-12.7%	2,668	5.7%

Source: NBS

**Figure 2: A quick comparison between 2014 and 2021**

Property Sector	2014	2021	Direct contribution to GDP	2014	2021
Property REI	9,504	14,760		14.9%	13.4%
% YoY	11%	4%			
New starts	1,796	1989			
% YoY	-11%	-11%			
Sales volume	1,206	1,794			
% YoY	-8%	2%			
Property price YoY in 70 cities	-5%	2%			
Unsold residential inventory	407	228	As of sales	34%	13%
% YoY	26%	1.7%			
Average financing cost (%)	7.5%	7.0%	For 2021, not including the latest refinance		
Property industry net gearing	85%	80%			

Source: CMBIS

**Figure 3: Debt maturity in 1Q22**

Debt Maturing in Jan 2022 (USD Mn)						
Company	Date	Amount	Bond Details	Px as of 01/12	Comments	
Aoyuan	01/20/22	188	USD 188mn Bond CAPG 4.20 01/20/22	18.00		
Poly	01/21/22	236	RMB 1500mn Bond POLYRE 3.60 01/21/22	100.03		
CIFI	01/22/22	49	HKD 385mn Term Loan	-		
Aoyuan	01/23/22	500	USD 500mn Bond CAPG 8.50 01/23/22	17.00	No News	
Yuzhou	01/23/22	242	USD Bond YUZHOU 8.625 01/23/22 with US\$242mn outstanding	27.00	Exchange Offer	
Shinsun	01/23/22	300	USD 300mn Bond SHXREG 12.50 01/23/22	45.00	No News	
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	27.00	Exchange Offer	
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	99.75		
Zhongliang	01/31/22	203	USD Bond ZHLGHD 7.50 01/31/22 with US\$203mn outstanding	96.50		
Ronshine	02/01/22	198	USD Bond RONXIN 5.50 02/01/22 with US\$197.5mn outstanding	75.00		
China South City	02/12/22	348	USD Bond CSCHCN 11.50 02/12/22 with US\$348mn outstanding	79.00		
Yango	02/20/22	110	USD 110mn Bond YANGOG 12.50 02/20/22	13.00		
Modern Land	02/26/22	200	USD 200mn Bond MOLAND 11.80 02/26/22	19.00		
Ronshine	03/01/22	456	USD Bond RONXIN 10.50 03/01/22 with US\$456.49mn outstanding	61.00		
Jinmao	03/03/22	500	USD 500mn Bond CHJMAO 3.60 03/03/22	100.25		
Agile	03/07/22	500	USD 500mn Bond AGILE 6.70 03/07/22	57.00		
SCE	03/10/22	500	USD 500mn Bond CHINSC 5.875 03/10/22	94.00		
Jiayuan	03/11/22	133	USD Bond JIAYUA 13.75 03/11/22 with US\$132.63mn outstanding	84.90		
Greenland	03/12/22	350	USD 350mn Bond GRNLGR 7.25 03/12/22	90.00		
Yango	03/18/22	23	USD Bond SUNSHI 10.25 03/18/22 with US\$22.758mn outstanding	24.00		
Seazen	03/20/22	200	USD 200mn Bond FTLNHD 7.50 03/20/22	95.00		
Evergrande	03/23/22	2,025	USD 2,025mn Bond EVERRE 8.25 03/23/22	13.50		

Source: CMBIS

**Figure 4: Accounts payable as % of total liabilities**

Company %	AP / Total Liabilities							
	F2013A	F2014A	F2015A	F2016A	F2017A	F2018A	F2019A	F2020A
Evergrande	42%	39%	35%	29%	30%	42%	46%	50%
Times China	59%	56%	54%	27%	25%	29%	38%	40%
Country Garden	24%	24%	30%	33%	38%	36%	38%	40%
Shimao	31%	34%	36%	39%	38%	39%	40%	40%
Agile	39%	36%	36%	36%	31%	34%	34%	39%
CIFI	25%	38%	32%	35%	35%	34%	37%	38%
Vanke	38%	36%	38%	39%	38%	40%	41%	36%
Longfor	19%	26%	26%	28%	31%	34%	34%	35%
Sunac	38%	42%	37%	38%	30%	28%	29%	34%
China Aoyuan	21%	20%	24%	19%	19%	23%	27%	30%
CR Land	22%	24%	24%	27%	28%	28%	27%	29%
COLI	57%	61%	23%	22%	26%	29%	29%	28%
Dexin			13%	18%	23%	22%	23%	27%
China SCE	20%	17%	18%	18%	22%	28%	32%	26%
KWG	37%	39%	44%	44%	41%	17%	21%	25%
Dafa			10%	11%	14%	19%	25%	23%
Shinsun					16%	13%	14%	20%
Radiance					16%	15%	15%	16%
Redsun			22%	20%	18%	12%	15%	16%

Source: CMBIS

**Figure 5: Property Sector Comps**

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			PB		Dividend Yield	
						20A	21E	22E	20A	21E	20A	21E
Vanke - H	2202 HK	19.80	284,338	BUY	33.92	4.2	3.7	3.5	0.9	8%	8%	
COLI	688 HK	22.10	241,880	BUY	30.49	4.6	4.4	3.8	0.5	5%	6%	
Country Garden	2007 HK	6.39	147,918	BUY	13.36	3.3	2.5	2.2	0.7	9%	8%	
CR Land	1109 HK	35.65	254,218	BUY	44.79	7.1	6.6	6.1	1.1	3%	4%	
Longfor	960 HK	40.70	247,224	HOLD	34.27	9.9	6.7	6.5	1.9	4%	5%	
Shimao	813 HK	4.98	18,913	BUY	44.94	1.1	1.0	0.8	0.2	32%	32%	
Agile	3383 HK	3.66	14,336	BUY	13.89	1.2	1.2	1.1	0.2	30%	26%	
KWG	1813 HK	4.50	14,324	BUY	17.87	1.8	1.5	1.2	0.3	25%	28%	
Times China	1233 HK	3.58	7,103	BUY	16.20	1.2	0.8	0.7	0.3	26%	28%	
China SCE	1966 HK	1.70	7,178	BUY	5.60	1.6	1.4	1.1	0.3	21%	21%	
Redsun	1996 HK	2.53	8,447	BUY	3.52	4.2	3.3	2.9	0.6	7%	7%	
Vanke - A	000002 CH	20.70	232,006	BUY	31.36	5.3	4.7	4.5	1.1	6%	7%	
Radiance	9993 HK	4.28	17,314	BUY	5.55	4.0	3.5	2.9	0.8	7%	8%	
Dafa	6111 HK	4.37	3,618	BUY	8.32	8.8	4.8	4.2	0.9	2%	4%	
Dexin	2019 HK	2.91	7,861	BUY	3.56	6.5	5.8	5.0	1.3	6%	7%	
<b>Average</b>						<b>4.3</b>	<b>3.5</b>	<b>3.1</b>	<b>0.7</b>	<b>12.7%</b>	<b>13.2%</b>	

Source: BBG, CMBIS

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