

China Property Sector

Bumpy road ahead despite better-than-feared 2M22 data

2M22 property data were much better than feared, especially with property investment at 4% YoY. However, still weak sales sentiment (-42% YoY in first two weeks of Mar) could further double down on pandemic and rising unsold inventory in 2M22. Together with debt peak in Mar/Apr, we expect supply side reform to accelerate, leaving more non-SOEs to fade away. Therefore, we suggest investors to gradually add long-term market share gainers (Longfor, CR Land, COLI) amid the recent sell-off.

■ NBS property data in 2M22 – A beat over market concerns

Property investment a positive surprise – It rose 4% YoY in 2M22 to RMB1.45tn despite a very high base of 2M21 (+38% YoY). This is also much better than the figures in Nov/Dec 2021 at -4%/-14% YoY. We think the reason could be 1) the delay of some construction from 2021 to this year so it has led to GFA under construction remained resilient to grow 2% YoY. 2) Social housing - the new target for 2022E is set at 2.4mn units (vs. 942k in 2021). 3) Positive PPI for the construction materials (+10.5% YoY in 2M22) also helps boost the construction costs that may offset the land transaction slide (-26.7% YoY in 2M22).

Property sales saw volume and value down 10%/ 19% YoY in 2M22. It has showed a narrowing trend compared with -16% / -18% in Dec 2021. This is much better than the market expectation as major developers all recorded 40% YoY decline in 2M22 and also the base was as high as +105% / +133% YoY in 2M2021. We think the part of the reason is due to heavy promotion by many developers to boost liquidity so that is why ASP was down 9% YoY.

New Starts were in line but completion missed in 2M22: New starts saw 12% YoY decline in 2M22 to 149mn sq m, better than -31.2% / -21% YoY in Dec/Nov. However, the completed GFA missed the market expectation and recorded 10% YoY decline in 2M22 (vs. +1.9% / +15.4% YoY in Dec/Nov).

Risk now is the rising unsold inventory: The completed but unsold inventory in 2M22 reached 570mn sq m (+9% YoY). In particular, residential inventory saw high spike at +15% YoY, one of the highest before 2014. This is equivalent to a digestion by 2.5-month sales, still below 2014 but certainly, this rings the alarm.

- **Mar/Apr sales to double down on Covid-zero among pandemic:** Primary sales of major 15 cities recorded 42% YoY decline in the first two weeks of March based on the CREIS data, even with policy support. Now following the tight restriction of several big cities (Shenzhen/Shanghai), we expect sales sentiment to further weaken and lower our estimate of sales recovery to late 3Q if policy support remains at this level.
- **So supply side reform will accelerate as developers' confidence is fading:** As mentioned above, policy support remains lack of breakthrough for developers as 1) no rates cut (today MLF at 2.85%, same as last time). Even 5-10bps cut is hardly helpful as mortgage rate for first home remains at 5.47% as of Feb which is too high. 2) Demand support for 300mn new citizens may take time as the overall economy remains volatile. Therefore debt crisis, weakening sales and lack of policy support will put more developers under pressure and thus boost supply side reform (a gradual SOE-dominated market). Looking at the debt schedule, we expect Redsun and Redco may face difficulties repaying their debts due in April.

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Figure 1: Quick view of national property data in 2M22

	2M2022	YoY	Dec-21	YoY	Nov-21	YoY	Oct-21	YoY	2021	YoY
Property GFA sold (mn sqm)	157	-9.6%	213	-15.6%	151	-14.0%	127	-21.7%	1,794	1.9%
Property sales (RMB bn)	1,546	-19.3%	2,026	-17.8%	1,448	-16.3%	1,239	-22.6%	18,193	4.8%
New starts (mn sqm)	150	-12.2%	161	-31.2%	161	-21.0%	138	-33.1%	1,989	-11.4%
GFA under construction (mn sqm)	7,845	1.8%	9,754	5.2%	9,597	6.3%	9,429	7.1%	9,754	5.2%
GFA completion (mn sqm)	122	-9.8%	327	1.9%	115	15.4%	63	-20.6%	1,014	11.2%
Property investment (RMB bn)	1,450	3.7%	1,029	-13.9%	1,238	-4.3%	1,237	-5.4%	14,760	4.4%
Domestic loans of developers (RMB bn)	411	-21.1%	166	-31.6%	149	-20.6%	138	-27.2%	2,330	-12.7%
Inventory (mn sqm)	570	8.8%	510	2.4%	502	1.8%	502	1.4%	510	2.4%

Source: NBS, CMBIGM

Figure 2: Onshore debt maturity peaks in 2022

Company	Onshore Bond Maturities in 2022 (RMB Mn)												Total	
	January	February	March	April	May	June	July	August	September	October	November	December		
R&F				1,955	4,611					551	3,503		4,010	14,630
CMB Shekou		301	3,007	2,205			1,905	3,007			1,363			11,788
Greentown	2,000		3,007	501	1,002			1,403	1,565	501				9,981
Huafa	1,500	781		351		3,097	1,002		2,005					9,238
C&D	3,000			1,153	1,002	1,002					1,103	1,002		8,563
Gemdale			1,283				4,511				2,733			8,526
Evergrande							8,220							8,220
Seazen	1,000		1,433	993	2,005		231				2,165			7,827
Shimao	2,000		1,002		501				1,002		1,538			7,046
CR Land							3,208	2,005						5,213
Longfor		1,604	1,487				2,000					10		5,100
Sunac					2,707	2,306								5,012
Sino-Ocean			2,005					1,504				1,002		4,511
Poly	1,500								3,007					4,507
Logan			2,005									2,496		4,501
Yuexiu					1,955			2,506						4,461
COLI												4,448		4,448
Yango			1,975											3,082
Agile							1,504				1,108			3,007
Greenand							1,002		1,002		952			2,957
Jinke						1,002	698		802					2,502
CIFI			802	1,584										2,386
Zhenro						1,604								1,604
Times China									1,103					1,103
Jinmao						802								802
Vanke						506	8							514
Country Garden			130		70							91		291
Monthly Total	11,000	2,686	18,136	8,742	13,853	10,320	25,290	11,227	11,038	15,106	10,413	4,010	141,822	
As % of 2022	8%	2%	13%	6%	10%	7%	18%	8%	8%	11%	7%	3%	100%	

Source: Bloomberg, CMBIS

Source: Bloomberg, CMBIGM

Figure 3: Near term offshore maturities

Company	Date	Amount	Bond Details	Px as of 03/14	Px as of 03/07	Comments
Yango	03/18/22	23	USD Bond SUNSHI 10.25 03/18/22 with US\$22.758mn outstanding	12.00	13.05	
Seazen	03/20/22	200	USD 200mn Bond FTLNHD 7.50 03/20/22			Early Redemption
Evergrande	03/23/22	2,025	USD 2,025mn Bond EVERRE 8.25 03/23/22	12.00	15.65	
Country Garden	04/05/22	100	USD 100mn Bond COGARD 3.75 04/05/22	100.05	100.01	
CFLD	04/08/22	350	USD 350mn Bond CHFOTN 7.125 04/08/22	14.00	17.75	
Kaisa	04/09/22	550	USD 550mn Bond KAISAG 11.25 04/09/22	11.50	19.10	
Excellence CM	04/10/22	95	USD 100mn Bond EXCECP 7.2 04/10/22 with 95mn outstanding	90.00	99.46	
Redsun	04/11/22	402	USD 450mn Bond REDSUN 9.95 04/11/22 with 401.8 outstanding	54.00	55.00	Partially Boughtback
Evergrande	04/11/22	1,450	USD 1450mn Bond EVERRE 9.5 04/11/22	10.00	14.08	
Redco	04/13/22	247	USD 285mn Bond REDPRO 8 04/13/22 with 246.5mn outstanding	22.00	23.75	
Zhenro	04/13/22	218	USD 220mn Bond ZHPRHK 5.985 04/13/22 with 217.5mn outstanding	10.00	14.37	Exchange Offer
Powerlong	04/13/22	200	USD 200mn Bond PWRLNG 3.9 04/13/22	82.00	83.34	Partially Boughtback
Fantasia	04/17/22	297	USD 300mn Bond FTHDGR 11.75 04/17/22 with 296.5 outstanding	19.00	19.29	
Times	04/20/22	167	USD 200mn Bond TPHL 5.3 04/20/22 with 166.8mn outstanding	78.00	76.75	Partially Boughtback
Greenland	04/21/22	250	USD 250 Bond GRNLGR 6.75 04/21/22	84.00	86.50	
Dexin	04/23/22	200	USD 200mn Bond DEXICN 11.875 04/23/22	82.00	81.00	
CIFI	04/23/22	246	RMB 1600mn Bond CIFIHG 6.7 04/23/22 with 1551mn outstanding	87.00	81.47	
Times	04/26/22	175	USD 225mn Bond TPHL 5.75 04/26/22 with 175mn outstanding	78.00	76.75	
Jinmao	04/27/22	200	USD 200mn Bond CHJMAO 6.4 04/27/22	100.23	100.34	
Sino Ocean	04/30/22	500	USD 500mn Bond SINOCE 5.25% 04/30/22	98.50	99.00	

Source: Bloomberg, CMBIGM

Figure 4: Property Sector Comps

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	TP (LC)	P/E			PB	Dividend Yield	
					20A	21E	22E	20A	20A	21E
Vanke - H	2202 HK	14.78	220,669	33.92	3.1	2.8	2.6	0.6	10%	10%
COLI	688 HK	21.50	235,314	30.49	4.5	4.2	3.7	0.5	5%	6%
Country Garden	2007 HK	4.20	97,223	13.36	2.2	1.6	1.4	0.4	13%	12%
CR Land	1109 HK	33.50	238,886	44.79	6.7	6.2	5.7	1.0	4%	4%
Longfor	960 HK	33.25	202,004	52.59	8.1	5.5	5.3	1.5	5%	6%
Shimao	813 HK	3.79	14,394	44.94	0.8	0.7	0.6	0.1	42%	42%
Agile	3383 HK	3.40	13,318	13.89	1.2	1.1	1.0	0.2	32%	28%
KWVG	1813 HK	2.64	8,402	17.87	1.0	0.9	0.7	0.2	42%	48%
Times China	1233 HK	1.99	4,183	16.20	0.7	0.5	0.4	0.2	47%	50%
China SCE	1966 HK	1.23	5,193	5.60	1.1	1.0	0.8	0.2	28%	29%
Redsun	1996 HK	2.06	6,878	3.52	3.4	2.7	2.3	0.5	8%	9%
Vanke - A	000002 CH	16.09	179,293	31.36	4.1	3.6	3.5	0.8	8%	9%
Radiance	9993 HK	4.21	17,030	5.55	3.9	3.5	2.8	0.8	7%	8%
Dafa	6111 HK	3.07	2,528	8.32	6.2	3.4	2.9	0.6	3%	5%
Dexin	2019 HK	2.64	7,132	3.56	5.9	5.2	4.6	1.2	6%	7%
Average					3.5	2.9	2.6	0.6	17.5%	18.2%

Source: BBG, CMBIGM

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