China Property Sector

Pandemic, Policy and Political bureau meeting

The worse-than-expected pandemic in YRD region has just become the last straw for the already-distressed property market. Even developers that still hang on tight like Powerlong, CIFI, Seazen are impacted due to their high exposure to the region (67%/35%/34%). We think some betting money on policy support may scale back as current local government policy support is too little and central government is too busy with other priorities. This may lead to some volatilities in the coming weeks until we see pandemic being well controlled and stronger policy support. Given the current situation, we only expect property sales to stabilize in late 3Q and thus suggest investor to hold quality names COLI>Vanke H>CR Land (all PB <1 with long-term market share gain story) and CIFI>Midea (survivor and beta). As for PM sector, COPH (earnings growth to further accelerate) >CR Mixc (Consumption V-shape) >CGS (Beta).

- **How bad is lockdown/partial lockdown affecting sales? – Up to 25% of national sales.** Based on our channel check, most of developers are heavily hit by the pandemic for their projects in the Yangtze River delta region (Shanghai, Jiangsu and Zhejiang). For example, Country Garden currently has 150 projects completely shut down (no sales nor construction) in the region, which represents 20% of their overall sellable resources. Other YRD players such as Powerlong, Seazen and CIFI are estimated to suffer more due to their more concentrated land bank (67%/35%/34% in the region, stated in Figure 2). What's even worse, the recent resumption has not listed property in the priority list and thus it implies they have to wait till at least May or even early June. On a more macro level, YRD sales has contributed 26% of national level in 2021 and if we assume a missing April, then national sales fall is likely to widen further than Mar 2022. Based on the high-frequency data we track, MTD sales in April was down 56% YoY in the major 15 cities.

- **Is the current policy support enough? – No.** Despite the fact that >70 cities have relaxed property policies, it is UNLIKELY to overturn the market mainly because it is just too little. This can be seen from two aspects: 1) 90% of cities that relaxed policies are lower-tier cities. They are already suffering population outflow and thus hard to spur demand even with lower down payment or interest rate. 2) For the remaining 10% high-tier cities, local governments are only taking baby steps (Eg. Suzhou only shortened resell forbidden period from 5 years to 3 years, which is not enough to support or encourage demand. Also, this has limited room for further relaxing as they need to wait for its effectiveness.

- **Why don't local governments do more in high-tier cities? – Accountability and low inventory.** We think this time is different from 2014 (big property cycle) mainly from the inventory perspective (report: unsold inventory remains significantly lower in 2021 than 2014). From the narrow definition of inventory (completed but unsold), it was 275mn sqm as of Mar 2022 vs. 404mn sqm in 2014 (18% of 2021 sales vs. 26% in 2014). From the general definition of inventory (accumulated new starts - sales), current level was 2.8bn sqm, still 10% below 2014. The corresponding inventory month was only 22 months (of past 1 year sales), close to the historically low and much lower than 36 months in 2014 (Figure 3). With low inventory and short supply in land sales (2H21 and 1Q22 both down 40% YoY), big policy relaxation, especially in high tier cities may lead to rapid property price rise.

OUTPERFORM
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For example, Shenzhen already saw 0.8% MoM price increase in Mar 2022 after lowering interest rate. Therefore, those local governments are afraid of being held accountable for violating central government's policy, just like Shenzhen's case in Mar 2021.

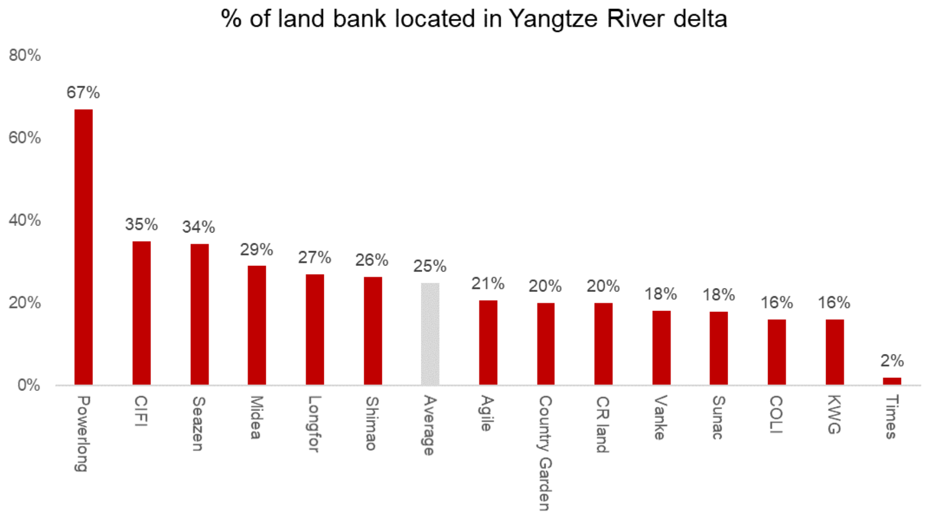
- **Any silver lining from the coming standing bureau meeting?** Based on the history, standing bureau would gather this or next Friday to discuss on the economy and policy for 2H. **With so many priorities this year like 20th NPC production resumption and COVID control,** we don't expect any big changes on property stance.
  - **Base case (80% chance)**: The meeting maintains the same wording like the one in Dec 2021 "housing is for living, not for speculating" in order to maintain a healthy property market and satisfy the adequate housing demand. In this case, we think local government would continue to relax with baby steps which are unlikely to turn around the downward trend in the near term.
  - **Bull case (10% chance)**: The meeting does not mention property like the one in 2018. This would imply a potential nation-wide relaxation on property policy and thus provide some silver lining for the industry.
  - **Bear case (10% chance):** The meeting re-iterates the firm stance "not to spur economy using property in the short term". That will provide a warning to local governments on the potential relaxation and thus is very negative for the already-very-difficult industry.
- **What is the end game?** With property sales continued to deteriorate, supply side reform is set to accelerate, meaning more non-SOEs will face liquidity issue and thus further impact buyers' confidence towards primary market. If the policy support stays like the current strength, we expect full year sales value to be down 20% to RMB15tn level in 2022E. SOE developers could take 45-50% of market share, up from 36% in 2H21. For the distressed developers, we think selected high-quality ones will have the chance being taken over or strategically invested by SOEs or AMC in the medium-to-long term but it will not happen so soon (at least not before NPC).

Figure 1: How much Yangtze River Delta (Shanghai, Zhejiang and Jiangsu) contributed to national sales?

Residential sales (Rmb bn)	YRD region	National sales	Contribution (%)
2013	1,456	6,770	22%
2014	1,307	6,240	21%
2015	1,721	7,275	24%
2016	2,457	9,906	25%
2017	2,496	11,023	23%
2018	2,866	12,639	23%
2019	3,208	13,944	23%
2020	3,888	15,457	25%
2021	4,290	16,273	26%

Source: NBS, CMBIGM

Figure 2: Which developers have more exposures to Yangtze River Delta?



Source: Company data, CMBIGM

Figure 3: General inventory remains low

Source: NBS, CMBIGM

Figure 4: Quick view of national property data in 1Q2022

	Mar-22	YoY	1Q22	YoY	2M2022	YoY	Dec-21	YoY	2021	YoY
Property GFA sold (mn sqm)	153	-17.7%	310	-13.8%	157	-9.6%	213	-15.6%	1,794	1.9%
Property sales (RMB bn)	1,422	-26.1%	2,968	-22.7%	1,546	-19.3%	2,026	-17.8%	18,193	4.8%
New starts (mn sqm)	149	-22.2%	298	-17.5%	150	-12.2%	161	-31.2%	1,989	-11.4%
GFA under construction (mn sqm)	8,063	1.0%	8,063	1.0%	7,845	1.8%	9,754	5.2%	9,754	5.2%
GFA completion (mn sqm)	47	-15.6%	169	-11.5%	122	-9.8%	327	1.9%	1,014	11.2%
Property investment (RMB bn)	1,327	-2.4%	2,777	0.7%	1,450	3.7%	1,029	-13.9%	14,760	4.4%
Domestic loans of developers (RMB bn)	142	-29.7%	553	-23.5%	411	-21.1%	166	-31.6%	2,330	-12.7%

Source: NBS, CMBIGM

Figure 5: Onshore debt maturity peaks in 2022

Onshore Bond Maturities in 2022 (RMB Mn)													
Company	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**	**Total**
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	501	2,005				9,238
C&D	3,000			1,153	1,002	1,002		301		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		1,002	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							1,108			3,082
Agile							1,504			1,504			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 6: Near term offshore maturities

Debt Maturing in 2022 (USD Mn)						
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Company	**Date**	**Amount**	**Bond Details**	**Px as of 04/18**	**Px as of 04/11**	**Comments**
Times	04/20/22	167	USD 200mn Bond TPHL 5.3 04/20/22 with 166.8mn outstanding	98.00	96.50	Partially Boughtback
Greenland	04/21/22	250	USD 250 Bond GRNLGR 6.75 04/21/22	96.00	96.50	
Dexin	04/23/22	200	USD 200mn Bond DEXICN 11.875 04/23/22	96.00	96.00	Partially Boughtback
CIFI	04/23/22	246	RMB 1600mn Bond CIFIHG 6.7 04/23/22 with 1551mn outstanding	99.00	95.50	
Times	04/26/22	175	USD 225mn Bond TPHL 5.75 04/26/22 with 175mn outstanding	98.00	96.00	Partially Boughtback
Jinmao	04/27/22	200	USD 200mn Bond CHJMAO 6.4 04/27/22	99.33	99.30	
Sino Ocean	04/30/22	500	USD 500mn Bond SINOCE 5.25% 04/30/22	99.67	99.67	

Source: Bloomberg, CMBIGM

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