

# China Property Sector

## Now is the time to buy

The property sector has experienced a lackluster YTD performance (-18%) on continuous defaults, lockdown, weak sales and no big policy support. April was just the perfect summary of all these (Top 5 developer Sunac defaulted, SH/YRD lockdown, sales down 47% YoY and only city-level policy support). However, we **turn positive for the first time** as breakthroughs have been observed in May – first nationwide policy relaxation since 2015, strong recovery in construction, MoM sales improvement in May and historical-low valuation (and historical-high short ratio). Therefore, we **strongly recommend investors to buy:** COLI>Vanke>CR Land (long-term consolidators with all PB<1) and CIFI>Midea (survivors and beta). For PM industry, we recommend COPH (22/23E earnings beat) and CR MixC (consumption V-shape) and beta names including Ever Sunshine (YRD region eased lockdown) and CGS (government support on parentco).

### ■ Why we think it is time to long?

- **Policy saw first nationwide relaxation since 2015.** On 15 May, PBoC and CBIRC said for purchases of first homes, commercial banks could reduce the lower limit of interest rates on home loans by 20 bps, based on the corresponding tenor of benchmark LPR, which is down to 4.4%. Compared with the current mortgage rate at 5.17%, this means a RMB150K interest saved on every million and in turn reduced monthly mortgage payment by RMB500. This marks the first nationwide relaxation after new mortgage lending has continued its negative growth this April. On a local level, under differentiated rules by cities, we see strong tier-2 cities like Nanjing, Suzhou, Haikou continue to relax purchase restrictions.
  - **Accelerating construction resumption to pick up boosting sellable resources.** In our latest survey, many property projects across YRD region have resumed work and production. Even in Shanghai, some projects are adopting a close looped operation to ensure safety of workers and accelerate construction. We expect more projects to roll onto the selling phase in coming months, which will boost sellable resources to pick up.
  - **Sales recovery visibility improves with narrowing decline in May.** Primary sales saw 40.3% WoW increase during the week of 9-15 May in 16 major cities under CREIS' tracking. Major cities' sales YTD in May has recorded -40% YoY Vs. -50% YoY in that of April. We still do not expect to see actual improvement in sales till 3Q22 but the visibility improves given the policy, pandemic and latest sales sentiment.
  - **Valuation – industry PB ratio at historic low of 0.4x.** This valuation has reflected almost all the default risks of developers and the remaining survivors will re-rate. From funds perspective, Country Garden and CIFI are heavily short (20 cover days) so it may strong short cover.
- **The sharp decline of NBS property data in Apr2022 is in line with market expectation on pandemic**
- **Property investment declined 10% YoY in April.** This is actually better than feared as the pandemic has led to construction halt in lots of cities of YRD region (20% of national REI). We think it was still due to the high

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PPI at 8% in April as the other two factors both fell sharply in April (land transaction volume -67% YoY and new start -44% YoY). This has dragged down 4M22 REI to -3% YoY.

- **Property sales saw volume and value down 39%/ 47% YoY in Apr 22.** It is well anticipated to have a widening trend compared to Mar 22 at -18%/-26% as 26 cities were under full/partial lockdown contributing 24% of national GDP. Also, the national number this time is more in line with major developers sales in April (-58% YoY). That has concluded 4M22 sales volume and value decline to 21% and 30%.
- **Completion decline narrowed in April surprisingly.** The completed GFA only saw 13% decline YoY, vs. -16% in Mar. This is the only figure that shows improvement and we think it could be driven by the home delivery push by the local governments.

**Figure 1: Quick view of national property data in 4M22**

	Apr-22	YoY	Mar-22	YoY	4M22	YoY	1Q22	YoY	2021	YoY
Property GFA sold (mn sqm)	88	-38.7%	153	-17.7%	398	-20.9%	310	-13.8%	1,794	1.9%
Property sales (RMB bn)	811	-46.8%	1,422	-26.1%	3,779	-29.5%	2,968	-22.7%	18,193	4.8%
New starts (mn sqm)	99	-44.0%	149	-22.2%	397	-26.3%	298	-17.5%	1,989	-11.4%
GFA under construction (mn sqm)	8,186	0.0%	8,063	1.0%	8,186	0.0%	8,063	1.0%	9,754	5.2%
GFA completion (mn sqm)	31	-13.4%	47	-15.6%	200	-11.9%	169	-11.5%	1,014	11.2%
Property investment (RMB bn)	1,138	-10.1%	1,327	-2.4%	3,915	-2.7%	2,777	0.7%	14,760	4.4%
Domestic loans of developers (RMB bn)	131	-28.2%	142	-29.7%	684	-24.4%	553	-23.5%	2,330	-12.7%

Source: NBS, CMBIGM

**Figure 2: First batch land auctions in 2022**

First Batch Land Supply in 2022						2021
City	Value (RMB Bn)	YoY	Plots Sold	Premium	Failed Ratio	Value (RMB Bn)
Hangzhou	83	-30%	59	6.4%	2%	118
Beijing	48	-57%	17	4.0%	6%	111
Chengdu	39	11%	44	3.1%	12%	35
Ningbo	27	-26%	33	5.9%	0%	36
Nanjing	19	-81%	14	4.5%	30%	99
Changsha	17	-54%	22	0.2%	9%	38
Xiamen	15	-19%	9	6.2%	10%	19
Hefei	15	-45%	17	13.4%	41%	27
Chongqing	10	-84%	13	4.5%	0%	64
Wuhan	9	-89%	10	6.5%	9%	79
Fuzhou	8	-48%	12	4.0%	29%	16
Nantong	6	-86%	8	1.4%	11%	41
Tianjin	4	-91%	6	3.0%	80%	50
<b>Toral</b>	<b>301</b>		<b>264</b>			<b>732</b>
<b>Average</b>		<b>-53.7%</b>		<b>4.9%</b>	<b>18%</b>	

Source: CMBIGM

**Figure 3: Near term offshore maturities**

Company	Date	Amount	Bond Details
R&F	05/16/22	153	RMB 4600mn Bond GZRFPR 6.8 05/16/22 with 995mn outstanding
Seazen	05/17/22	308	RMB 2000mn Bond FTLNHD 6.3 05/17/22
Zhongliang	05/19/22	300	USD 300mn Bond ZHLGHD 8.5 05/19/22
Seazen	05/20/22	300	USD 300mn Bond FTLNHD 6.5 05/20/22
Yuexiu	05/20/22	300	RMB 1950mn Bond GZCCDC 3.85 05/28/22
Shimao	05/22/22	77	RMB 500mn Bond SHSHMA 4.15 05/22/22
Greentown	05/25/22	154	RMB 1000mn Bond GRNCH 3.9 05/25/22
Jinke	05/28/22	325	USD 325mn Bond JINKE 6.85 2024/5/28
Greenland	06/03/22	150	USD 150mn Bond GRNHK 9.625 06/03/22
Jinmao	06/04/22	123	RMB 800mn Bond SINOCH 3 06/04/22
Seazen	06/11/22	400	USD 400mn Bond FUTLAN 6.45 06/11/22
Sunac	06/13/22	354	RMB 2300mn Bond TJSZD 7 06/13/22
Vanke	06/13/22	78	RMB 505mn Bond VANRLE 3.85 06/13/22
Sunac	06/14/22	600	USD 600mn Bond SUNAC 7.25 06/14/22
Sinic	06/18/22	208	USD 210mn Bond SINHLD 10.5 06/18/22 with 208mn outstanding
Jinke	06/20/22	154	RMB 1000mn Bond JINKE 6.8 06/20/22
Greenland	06/25/22	500	USD 500mn Bond GRNLGR 6.75 06/25/22
Dafa	06/30/22	113	USD 138.384mn DAFAPG 12.5 06/30/22
Zhenro	06/30/22	2	RMB 1600mn Bond ZHPRHK 7.125 06/30/22 with 10mn outstanding
Kaisa	06/30/22	1,147	USD 1255mn Bond KAISAG 8.5 006/30/22 with 1147mn outstanding

Source: Bloomberg, CMBIGM

**Figure 4: Property sector comps**

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	TP (LC)	P/E			PB 21A	Dividend Yield	
					20A	21A	22E		21A	22E
Vanke - H	2202 HK	17.70	243,563	33.92	4.5	4.0	3.8	0.7	7%	7%
COLI	688 HK	23.20	253,921	30.49	5.8	5.5	4.9	0.5	6%	6%
Country Garden	2007 HK	4.42	102,316	13.36	2.7	2.1	1.8	0.7	12%	9%
CR Land	1109 HK	33.80	241,026	44.79	8.1	7.6	7.0	0.9	5%	5%
Longfor	960 HK	36.25	220,279	52.59	10.6	7.2	6.9	1.5	5%	6%
Shimao	813 HK	4.42	16,786	44.94	1.2	1.0	0.9	NA	26%	29%
Agile	3383 HK	3.22	12,613	13.89	1.3	1.3	1.2	0.2	23%	21%
KWG	1813 HK	2.41	7,672	17.87	1.1	0.9	0.8	0.3	33%	32%
Times China	1233 HK	2.41	5,065	16.20	0.9	0.7	0.6	0.3	35%	26%
China SCE	1966 HK	1.21	5,109	5.60	1.3	1.2	0.9	0.3	25%	25%
Redsun	1996 HK	2.58	8,681	3.52	5.2	4.1	3.5	0.4	6%	8%
Vanke - A	000002 CH	18.67	210,655	31.36	4.8	4.2	4.0	0.7	7%	6%
Radiance	9993 HK	4.28	17,314	5.55	4.8	4.2	3.5	0.6	8%	10%
Dafa	6111 HK	3.80	3,129	8.32	9.3	5.0	4.4	0.9	NA	NA
Dexin	2019 HK	3.08	8,320	3.56	8.3	7.3	6.4	1.0	6%	7%
<b>Average</b>					<b>4.7</b>	<b>3.8</b>	<b>3.4</b>	<b>0.6</b>	<b>14.6%</b>	<b>14.1%</b>

Source: BBG, CMBIGM

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