

China Property Sector

Introduce leading indicator (GAIN) to gauge property sales; Reiterate strong buy

Strong policy and sign of sales recovery have fueled the sector rally for four consecutive days. This is in line with our view that [“Now is the time to Buy”](#) and we think the rally cycle will last much longer as it is mainly driven by sales recovery this time. To better gauge the sales trend, we introduce a leading indicator (GAIN) that shows likely a continuous sales rebound in May/June. So the improving fundamental could continue to support the sector re-rating from current 0.4x PB. As for re-rating upside, we estimate our Top buy **COLI/Vanke H/CIFI** at 40%/40%/30% in ST and >60% in LT. For PM, we like COPH>CR Mixc>CGS>Ever Sunshine. **Catalyst:** Shenzhen relaxes policy; **Risk:** Pandemic

- **Introduce leading indicator (GAIN) to estimate property sales.** As market is paying special attention to the sales trend, we set a formula on our own leading indicator (GAIN) to help assess the sentiment. Basically, we use different key words in Baidu index that are used by genuine home buyers to generate **number of searches and then do the linear regression with sales**. It shows that GAIN figure is consistently leading the national sales YoY by one month based on the back-testing since 2014 (Figure 1). Logically speaking, it takes buyers at least one month from deep thinking/searching to actual action. Based on the model, GAIN figure shows narrowing decline in April and strong rebound in May which implies a sequential improvement in May and June. This is actually in line with our latest observation that new home sales in 30 cities saw 58% WoW increase during the week of 8-15 May.
- **Policy support is pouring now:** Firstly, PBOC made the first nationwide relaxation since 2015 to adjust the lower limit of first-home mortgage rate to 4.4% (from 4.6%). Right after that, Tianjin, Jinan, Zhengzhou and Guangzhou quickly adopted the 4.4% mortgage rate which is the lowest in history (Figure 3). 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. Based on RMB6tn newly increase mortgage amount in 2021, this could save up to RMB900bn interest or 5% of 2021 sales value. Secondly, high-tier cities like Hangzhou, Suzhou and Nanjing are stepping up to ease the purchase restrictions. Even Guangzhou and Shenzhen are rumoured to be in the next wave to relax. So a national mortgage rate cut and high-tier cities relaxation could help quickly boost the local sentiment given the very low inventory (22 months in 2022 vs. 36 in 2014).
- **Property price already rebounded in tier 1 and high tier 2 cities:** Based on NBS's April data, property price in 70 cities went down 0.3% MoM (Figure 2) mainly driven by -0.6% in lower tier cities and -0.1% in tier 2 cities. However, tier 1 cities still saw 0.2% MoM increase in property price and this has made 2% increase YTD. In particular, Beijing/Hangzhou saw 0.7% and 0.6% MoM increase, leading other cities.
- **Re-rating upside for quality names. In the short term,** our valuation metric is PB, which indicates liquidation value in challenging physical market. So quality SOE with growth potential like COLI/Vanke H could rerate to 1x PB from 0.5/0.7x, implying >40% upside as A-share peer Poly development is already trading > 1.1x PB. For non-SOE CIFI, it is trading at 0.6x PB and may rerate to 0.8x (30% upside). **In the long run,** after property market enters a more mature stage, we can look at PE. If we refer to US market where top 10 developers are trading at 9x PE (Figure 5), that means COLI/Vanke H/CIFI may have >60% upside as they are trading at 5.5/4.0/3.5x 2021A PE.

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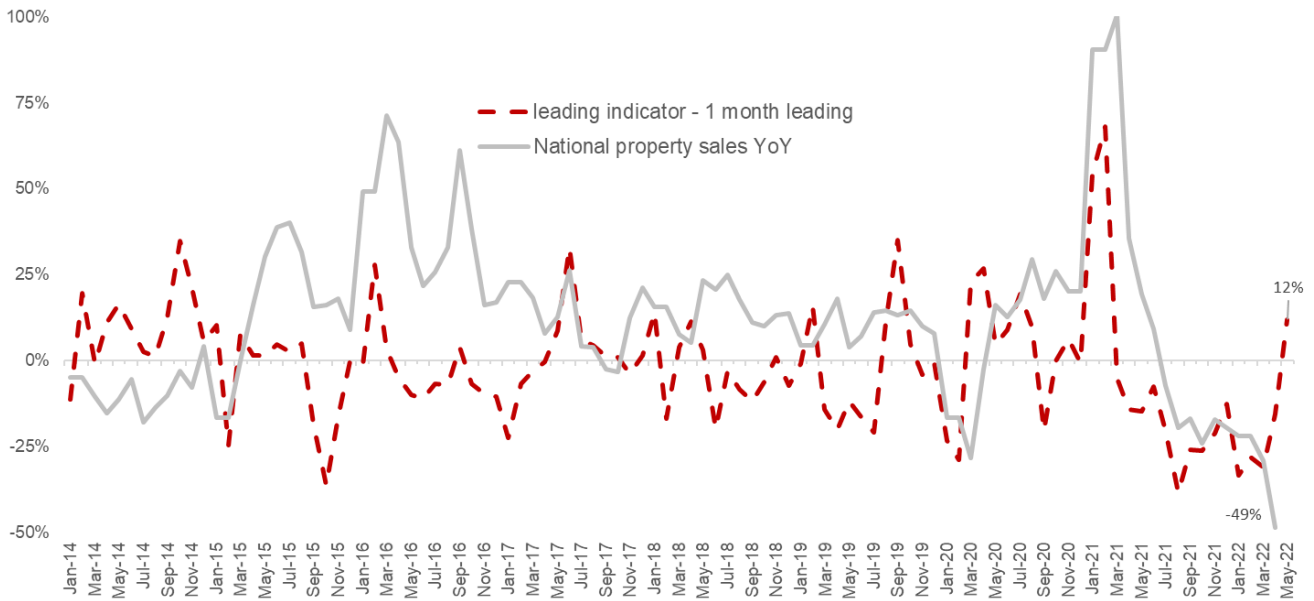
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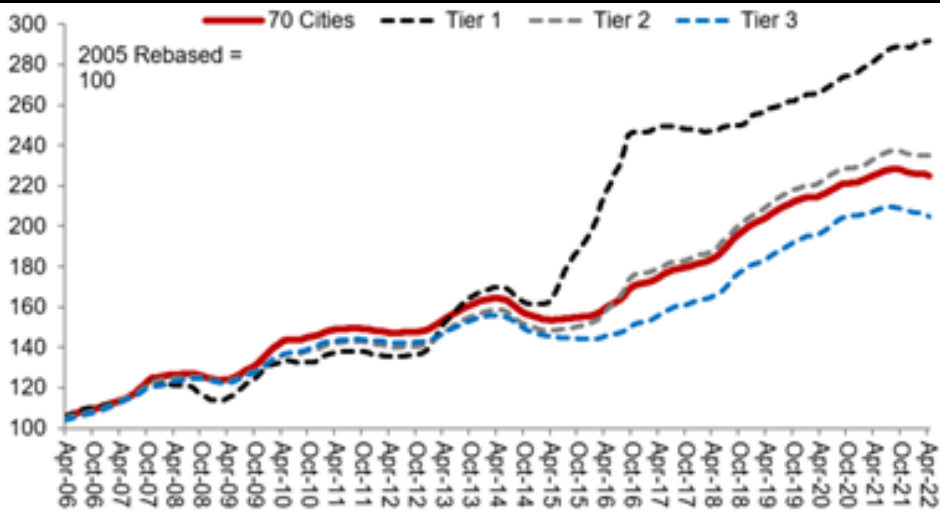
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Figure 1: Leading indicator GAIN (1-month leading) forecasts property sales to see sequential rebound in May and June



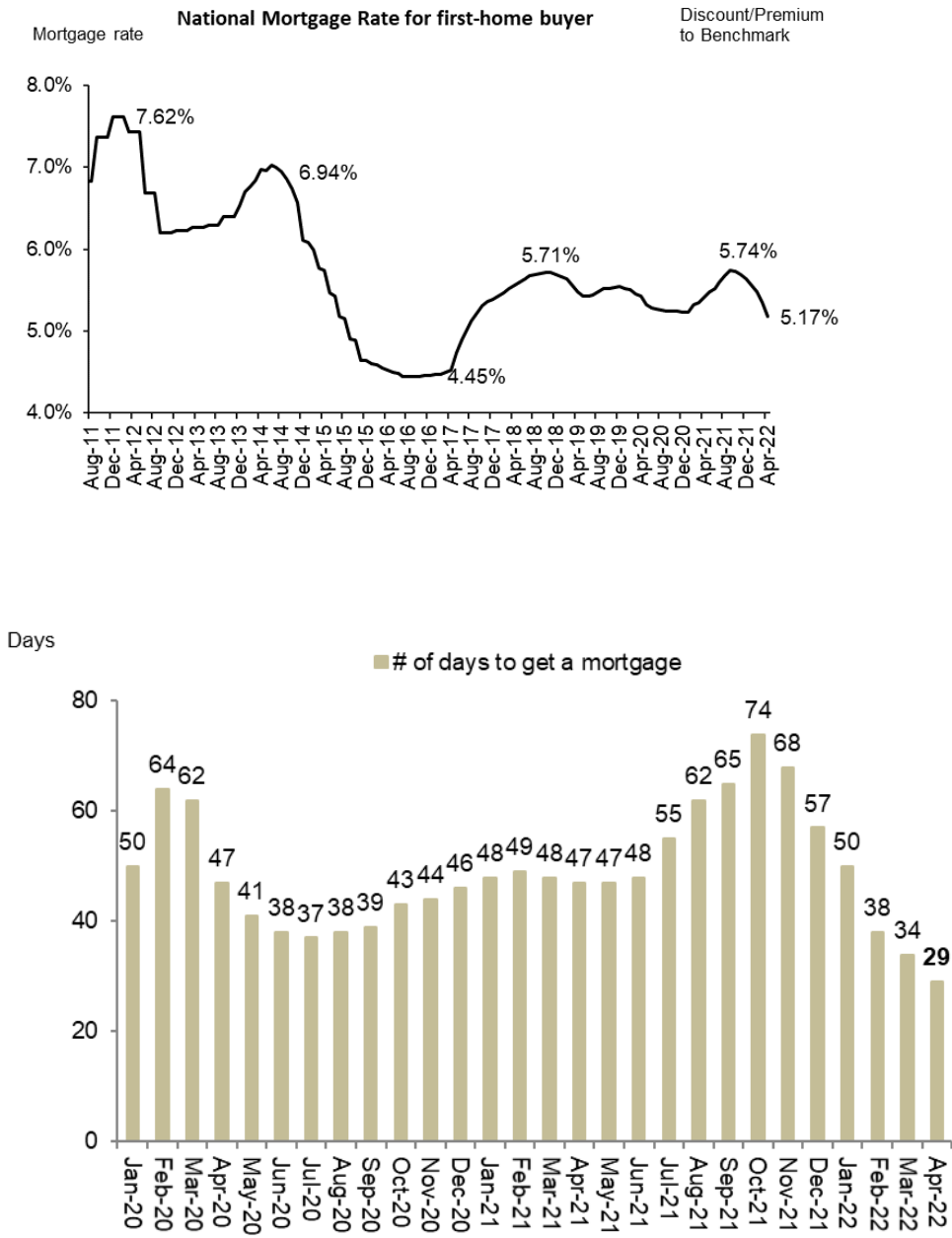
Source: NBS, CMBIGM, WIND

Figure 2: Tier 1 cities saw ASP rebound since January 2022

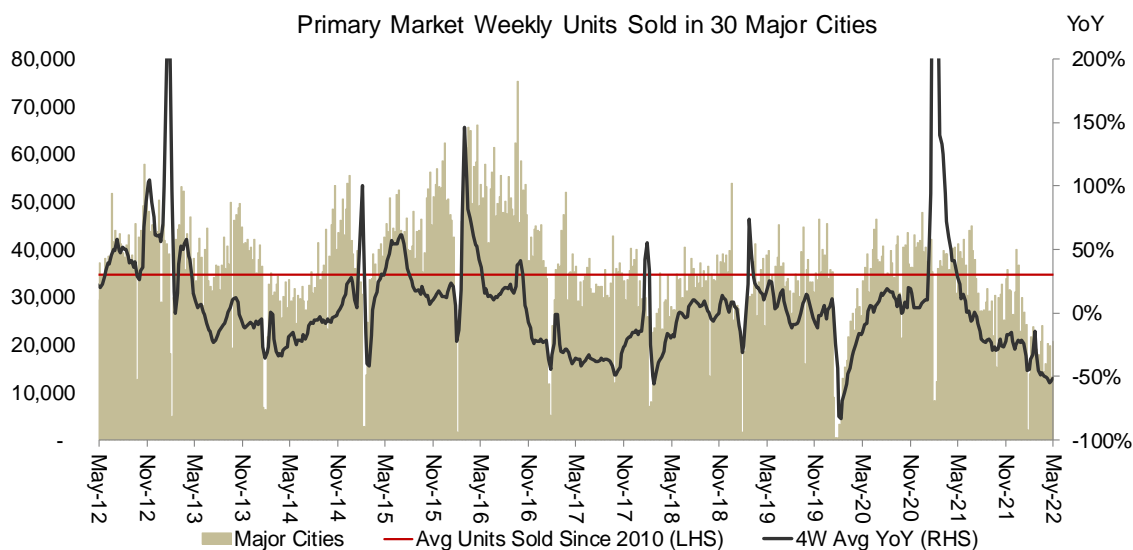


Source: NBS

Figure 3: Mortgage rate continued the downward trend while PBOC even set the lower limit to 4.4%



Source: Wind, BEIKE

Figure 4: New home sales of 30 cities saw 58% WoW increase during the week of 8-15 May


Primary Market	4/10/2022	4/17/2022	4/24/2022	5/1/2022	5/8/2022	5/15/2022
Units Sold	14,392	16,116	20,238	19,902	13,086	20,657
Weekly WoW	-40%	12%	26%	-2%	-34%	58%

Source: Wind, CMBIGM

Figure 5: Property Sector Comps

Company	Ticker	Sales in 2021 (USD Bn)	Market Share	PE 2021A (x)	PE 2022E (x)	PB 2021A (x)	Net Gearing Ratio
DR Horton	DHI	26.5	9.1%	7.2	5.3	1.9	36%
Lenner	LEN	25.3	8.7%	6.1	5.5	1.3	32%
Pulte Group	PHM	13.4	4.6%	6.5	4.7	1.6	35%
NVR, Inc.	NVR	8.7	3.0%	15.0	10.8	5.5	51%
Toll Brothers	TOL	8.4	2.9%	7.8	5.1	1.2	67%
Taylor Morrison	TMHC	7.2	2.5%	5.9	3.7	1.0	73%
KB Home	KBR	5.7	2.0%	21.9	21.1	4.4	56%
Century Communities	CCS	4.0	1.4%	4.2	3.6	1.2	57%
LGI Homes	LGIH	3.1	1.0%	7.1	7.1	2.1	58%
Meritage Homes	MTH	1.5	0.5%	5.0	3.9	1.2	38%
Total			35.7%				
Average				8.7	7.1	2.1	50%

Source: BBG, CMBIGM

Figure 6: Property Sector Comps

Company	Ticker	Last price (LC)	Mkt Cap (LC m n)	TP (LC)	P/E			PB	Dividend Yield		
					20A	21A	22E	21A	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%	
Average					4.7	3.8	3.4	0.6	14.6%	14.1%	

Source: BBG, CMBIGM

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