

China Property Sector

NBS May data is at the sweet spot

We think NBS May data is at the sweet spot to drive up sector sentiment as 1) **on one hand**, May's property sales beat with 30% MoM increase in sales value, higher than the seasonality of +10% MoM in May 2021 and YoY decline narrowing. This has ignited the decline of overall inventory again. 2) On the other hand, property investment remained very weak at -8% YoY driving 5M22 REI at -4% (the worst ever), which means property loosening needs to be further strengthened for GDP growth (REI indirectly contributed 20%). Therefore, we call this **as the sweet spot (sales recovering + weak REI = more policies to support fundamental)**. In the recent history, this sweet spot only happened in 2H15 which led to heavy policy loosening (national rate cut in Oct 2015, deed tax cut in Feb 2016) and 36%/11% sales value rise in 2016/2017. Therefore, we remain strong buy on the sector and top picks are COLI/CIFI/CR Land. For PM sector, we think it may benefit from both property sales recovery (GFA growth) and consumption (Community VAS). So PM sector could see more upside and our preference is Ever Sunshine/Jinke PM/CGS (beta). **Key risk: debt default.**

- NBS property data in May 2022 **slightly beat market expectation** which has been the strongest since 2016 (PBOC lowered first-home mortgage rate floor by 35bps to 4.25%), partly on reopening and policy support. Details are below:

Positive surprise:

- **Property sales saw volume and value improved MoM by 25%/ 30% in May 22.** This is better than the seasonality in May 2021 (at only 13%/10% MoM). The YoY decline in May also narrowed to 32%/38% compared to 39%/47% in April owing to slightly lower base and easing pandemic starting from 2nd half of May. That has concluded 5M22 sales volume/value decline at 24%/32% which remained challenging. However, given the policy and high-frequency data, we expect sales to further improve in Jun and 2H, led by tier 1-2 cities so 1H/2H sales value at -28% YoY/+10% YoY (low base at -17% in 2H21). Therefore, 2022E sales value is estimated to decline at -9% YoY.
- **Completed but unsold inventory declined MoM:** The overall unsold inventory was 554/268mn sqm in May 2022 (down 1% MoM).

Negative surprise:

- **Property investment remained weak to decline 8% YoY in May (vs. -10% YoY).** This lacklustre figure was partly driven by -42% YoY in new starts and -67% in primary land GFA transaction among top 100 cities. This has led to a REI YoY decline of 4% in 5M22, the worst ever. As REI has a direct/indirection contribution of 20% to overall GDP, we may see policy relaxation trend to continue.
 - **Completion decline widened in May.** The completed GFA saw 31% decline YoY, vs. -13% in Apr. This is the only figure that shows a worsening sign compared to April.
- **Further sales recovery in June according to our leading indicator (GAIN):** the national sales improvement in May has proven in line with GAIN (Figure 2, one-month leading) which shows May is the inflection point and Jun will rebound strongly. Based on the high-frequency data, primary sales in first two weeks of June continued to strengthen at 31% MoM and -38% YoY (a narrowing decline).

OUTPERFORM
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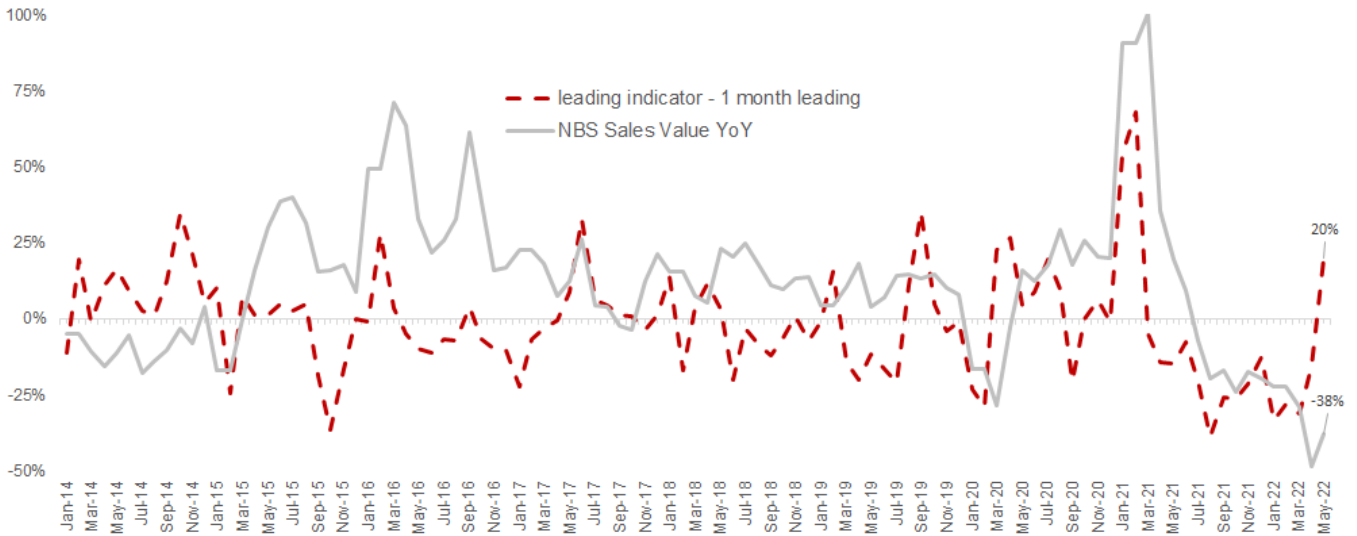
- **Key risk: coming debt payment:** Jun/July 2022 is another debt repayment peak with USD10.6bn, vs. USD8bn in Aug/Sep and USD8bn in Apr/May. Names that face potential pressure are Powerlong (USD200mn due in 25 July), Central China (USD500mn in Aug) and Agile (USD600mn in Aug) and KWG (USD900 in Sep). Since the sales recovery is unlikely to be fast enough to solve all the debt issues, we think these names will face some volatility in the next few months.

Figure 1: Quick view of national property data in 5M22

	May-22	YoY	MoM	Apr-22	YoY	5M22	YoY	2021	YoY
Property GFA sold (mn sqm)	110	-31.8%	25.1%	88	-38.7%	507	-23.6%	1,794	1.9%
Property sales (RMB bn)	1,055	-37.7%	30.1%	811	-46.8%	4,834	-31.5%	18,193	4.8%
New starts (mn sqm)	119	-41.8%	19.6%	99	-44.0%	516	-30.6%	1,989	-11.4%
GFA under construction (mn sqm)	8,315	-1.0%	1.6%	8,186	0.0%	8,315	-1.0%	9,754	5.2%
GFA completion (mn sqm)	33	-31.3%	6.5%	31	-13.4%	234	-15.3%	1,014	11.2%
Property investment (RMB bn)	1,298	-7.8%	14.0%	1,138	-10.1%	5,213	-4.0%	14,760	4.4%
Domestic loans of developers (RMB bn)	121	-34.0%	-7.6%	131	-28.2%	805	-26.0%	2,330	-12.7%

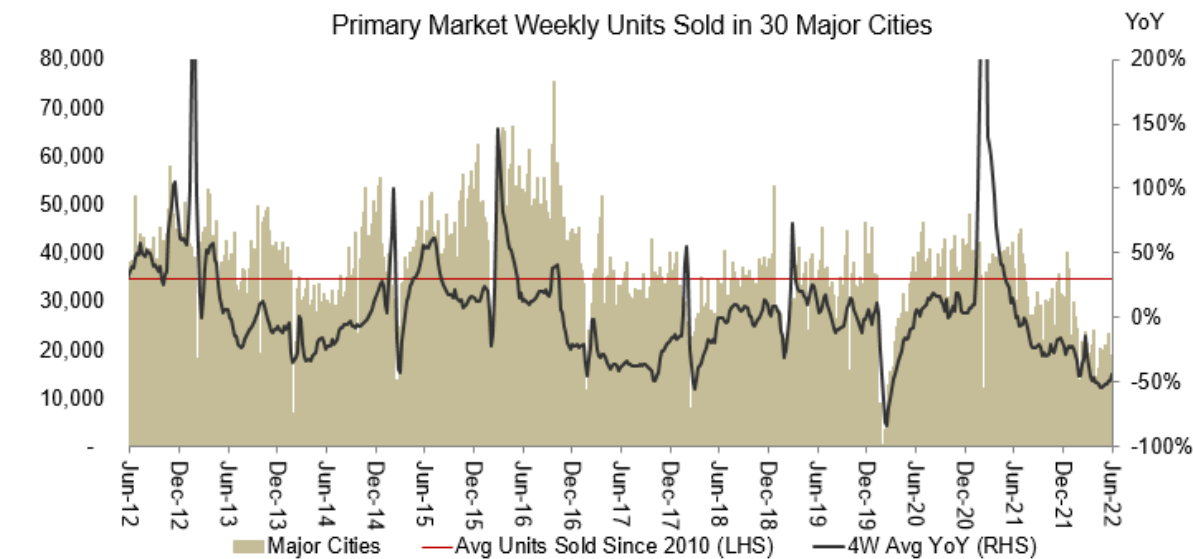
Source: NBS, CMBIGM

Figure 2: Leading indicator GAIN – a strong sales recovery in June



Source: NBS, CMBIGM

Figure 3: High-frequency data in 30 major cities



Primary Market	5/8/2022	5/15/2022	5/22/2022	5/29/2022	6/5/2022	6/12/2022
Units Sold	13,086	21,010	19,338	23,267	18,927	25,784
Weekly YoY	-58%	-49%	-51%	-39%	-55%	-30%

Source: Wind, CMBIGM

Figure 4: Recent big policy

Recent Housing Policy Relaxations		
City	Date	Policy
National	5/20/2022	Cut LPR to 4.45%
National	5/15/2022	Cut first-home Mortgage rate can be as low as 5Y LPR - 20bps
Wenzhou	6/14/2022	New mortgage rule with only interests payment in first 3 yrs
Nanjing	6/13/2022	Further relaxed purchase restrictions on non-residents
Guangzhou	6/6/2022	Relaxes HPR by allowing interruption in social security payments
Qingdao	6/5/2022	Relaxes HPR
Foshan	6/5/2022	Relaxes HPR
Tianjin	5/18/2022	Relax Hukou restrictions
Hangzhou	5/17/2022	3rd child families can buy up to 3 homes
Suzhou	5/9/2022	Relaxes housing transfer lockup from 3 yrs to 2 yrs

Source: Wind, CMBIGM

Figure 5: Property sector comps

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	TP (LC)	P/E			PB	Dividend Yield	
					20A	21A	22E	21A	21A	22E
Vanke - H	2202 HK	16.66	232,788	33.92	4.3	3.8	3.6	0.7	8%	6%
COLI	688 HK	21.55	235,862	30.49	5.4	5.1	4.5	0.5	6%	6%
Country Garden	2007 HK	4.19	96,992	13.36	2.6	2.0	1.7	0.7	13%	9%
CR Land	1109 HK	32.40	231,042	44.79	7.8	7.3	6.7	0.9	5%	5%
Longfor	960 HK	32.45	197,223	52.59	9.5	6.5	6.2	1.5	6%	7%
Shimao	813 HK	4.42	16,786	44.94	1.2	1.0	0.9	NA	26%	29%
Agile	3383 HK	2.84	11,124	13.89	1.2	1.1	1.0	0.2	26%	8%
KWG	1813 HK	2.10	6,685	17.87	1.0	0.8	0.7	0.3	38%	10%
Times China	1233 HK	2.18	4,582	16.20	0.9	0.6	0.5	0.3	39%	9%
China SCE	1966 HK	1.06	4,475	5.60	1.2	1.0	0.8	0.3	28%	12%
Redsun	1996 HK	2.58	8,214	3.52	5.2	4.1	3.5	0.4	6%	NA
Vanke - A	000002 CH	17.75	199,788	31.36	4.5	4.0	3.8	0.7	7%	6%
Radiance	9993 HK	4.03	16,302	5.55	4.5	4.0	3.3	0.6	8%	NA
Dafa	6111 HK	0.40	325	8.32	1.0	0.5	0.5	0.9	NA	NA
Dexin	2019 HK	2.67	7,213	3.56	7.2	6.4	5.6	1.0	7%	NA
Average					3.8	3.2	2.9	0.6	16.0%	9.7%

Source: BBG, CMBIGM

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