

China Property Sector

Three reasons to drive the rally

In line with our [leading indicator \(GAIN\)](#), property sales are recovering much faster than market expectation with both primary/secondary sales reached yearly high last week. Also policy made a big breakthrough to re-introduce housing vouchers to boost shanty town redevelopment (Nanjing/Zhengzhou/Xuchang) and we believe this would be even more efficient to help digest inventory and accelerate primary sales. Investment-wise, as we argue, now is the [sweet spot](#) to buy as sales are recovering while policy will continue to enhance amid weak REI. Therefore, we remain strong buy on the sector and our 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.**

- **Policy enhancement – shanty town redevelopment re-emerged in Zhengzhou/Nanjing/Xuchang:** Zhengzhou and Xuchang (Henan province) announced to give house-purchase coupon for relocated households to buy units in the city. This coupon is only valid for new projects, which could indirectly help clear inventory for developers. Nanjing's Lishui district is also following a similar approach. This is the new policy breakthrough to boost primary sales and digest inventory. We think this would be much more effective than previous policy relaxation amid the challenging macro.
- **Both primary and secondary sales recorded year-high weekly sales:** Based on our high-frequency data, secondary sales of eight major tier 1-2 cities in the week of 12-19 Jun recorded a yearly high volume and also positive YoY growth for the first time. Primary sales in 30 major cities also saw a similar trend and increased 9% YoY last week. By looking at the figure 2 and 3, we can see clear sales recovery, faster than market expectation but in line with our LEADING INDICATOR (GAIN). Benefiting from improving macro and breakthrough in policy relaxation, we expect sales to further recover and maintain 10% sales value YoY increase in 2H22E.
- **PM sector: M&A is back to boost valuation.** Last Friday, Jinmao Services announced to acquire Beijing capital's PM unit for RMB450mn (100% stake) which is equivalent to 14x 2021E PE. Also China Merchants Service acquired Xinzhong PM's 67% stakes for RMB536mn and this deal looks relatively expensive at 20x 2021 PE even though Xinzhong PM is a subsidiary of Bank of China. The recent two transactions have not accelerated the industry consolidation, but also indicated a valuation bottom for the whole industry which is trading at 13x 2021 PE only (7x only for those with troubled parentco).
- **Key risk: coming debt payment:** Jun/July 2022 is another debt repayment peak with USD10.6bn, vs. USD8bn in Aug/Sep and US\$8bn in Apr/May. Names that face potential pressure are Powerlong (US\$200mn due in 25 July), Central China (US\$500mn in Aug), Agile (US\$600mn in Aug) and KWG (US\$900mn in Sep). With sales recovery unlikely to be fast enough solving all the debt issues, we think these names will face some volatility in the next few months.

OUTPERFORM
(Maintain)

China Property Sector

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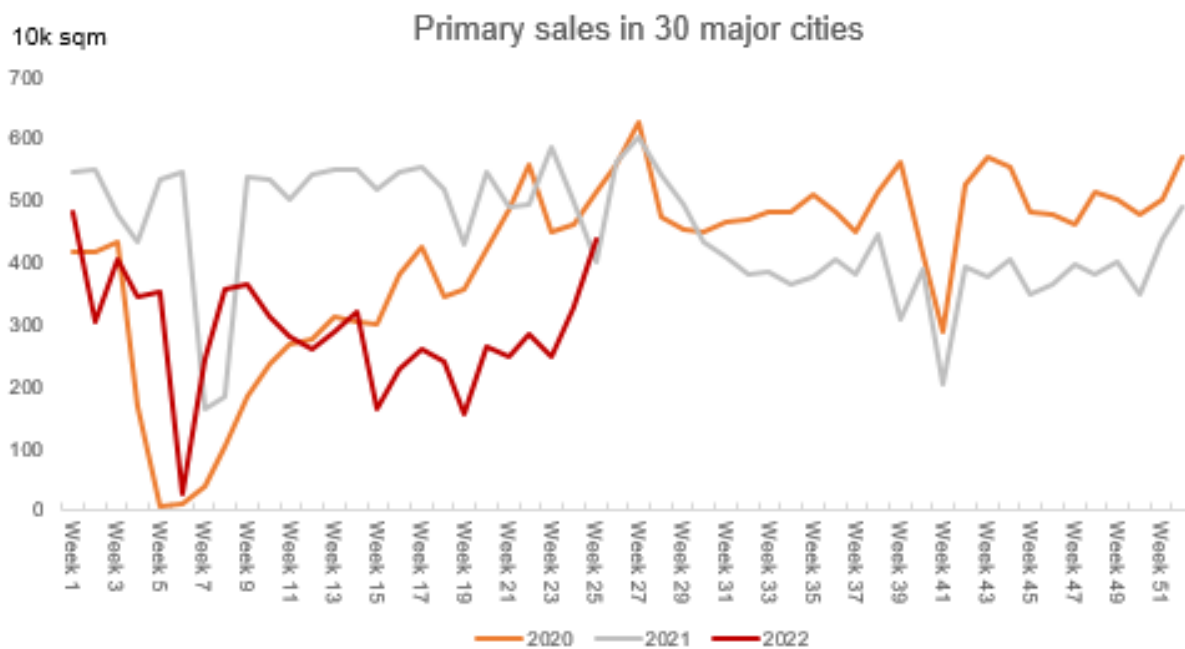
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Figure 1: Shanty town redevelopment re-emerged

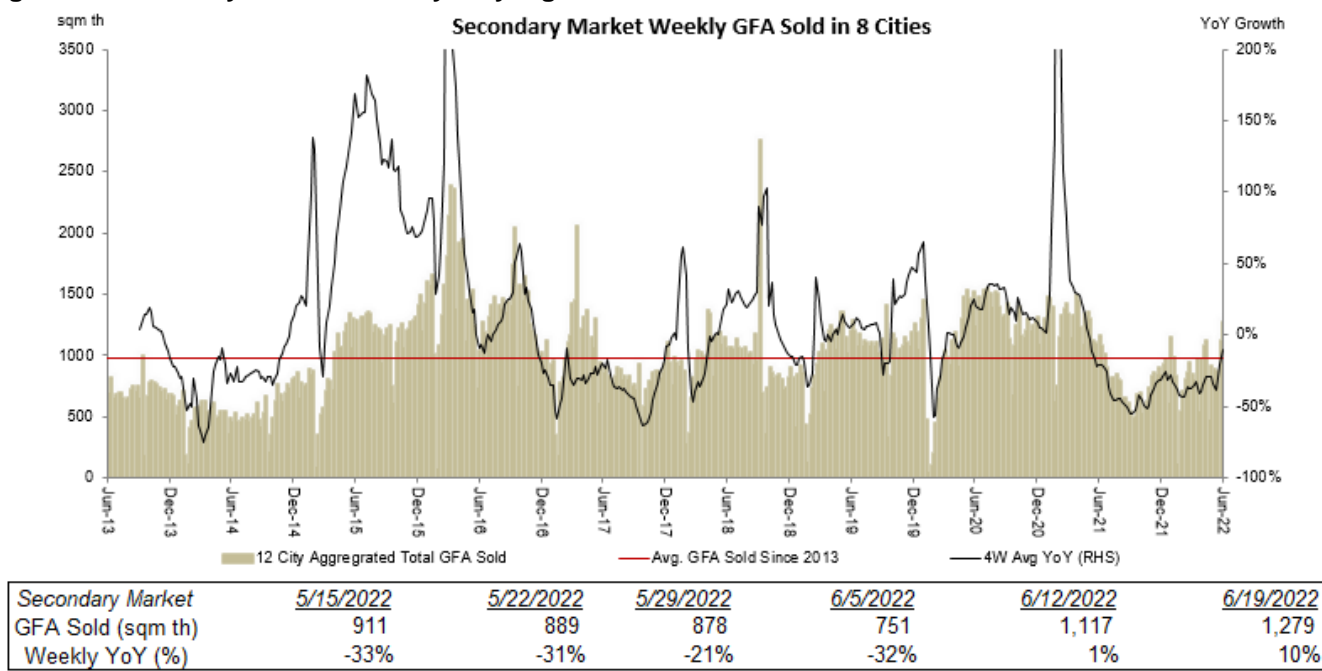
Shanty Town Redevelopment using "Housing Vouchers"		
Lishui	Housing Vouchers	Monetary compensation will be issued in the form of "housing vouchers" and can be used for resettlement in Lishui District
	Housing Supermart Concept	Housing Supermart will help allocate resettlement housing transactions
	Residential Purchase Subsidy	Granting 0.8% purchase subsidy from June 2022-June 2023
	Reduce Mortgage Rates	Promote the municipal policy on lowest mortgage rate city-wide
Zhengzhou	Housing Vouchers	Housing Vouchers will be given for resettlement and is not counted in the family's purchase limit
	Transition Fee	Housing voucher resettlement policy will grant 3 months transition fees, payable in cash
	Residential Purchase Subsidy	Housing subsidy of 8% included in the face value of housing voucher
Xuchang	Housing Vouchers	Housing voucher for resettlement redeemable within 1 year

Source: CMBIGM

Figure 2: Primary sales reached yearly high

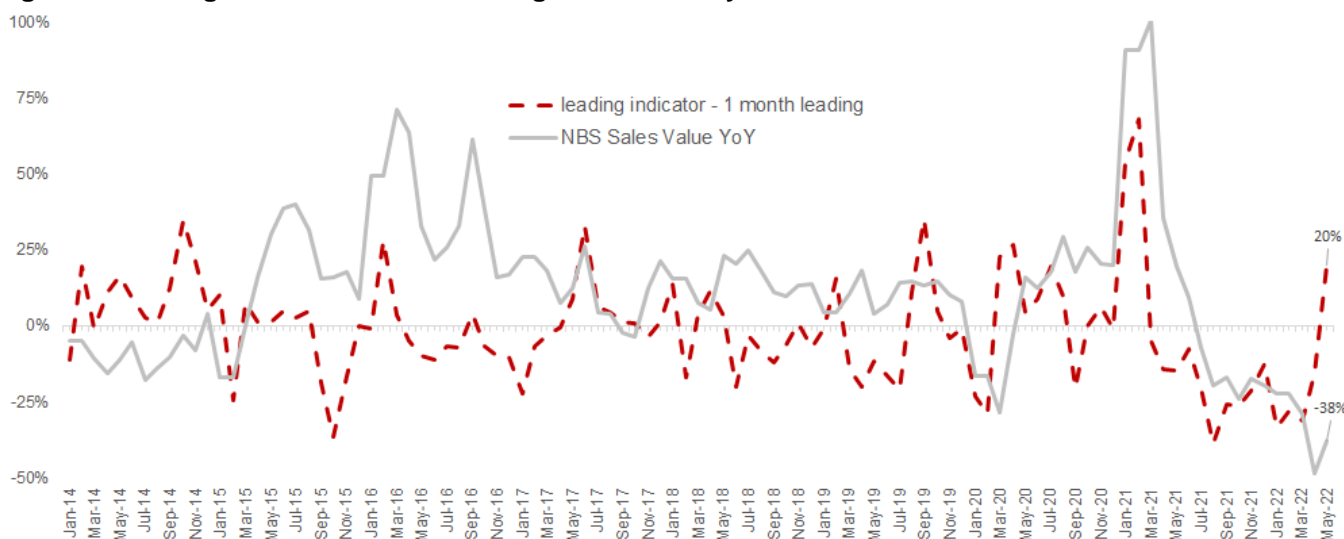
Source: Wind, CMBIGM

Figure 3: Secondary sales reached yearly high



Source: Wind, CMBIGM

Figure 4: Leading indicator GAIN – a strong sales recovery in June



Source: Wind, CMBIGM

Figure 5: 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 6: 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	16.94	238,477	33.92	4.3	3.8	3.7	0.7	8%	7%
COLI	688 HK	21.75	238,051	30.49	5.4	5.2	4.6	0.5	6%	6%
Country Garden	2007 HK	4.31	99,770	13.36	2.7	2.0	1.8	0.7	12%	10%
CR Land	1109 HK	33.00	235,321	44.79	7.9	7.4	6.8	0.9	5%	5%
Longfor	960 HK	31.90	193,880	52.59	9.4	6.4	6.1	1.5	6%	7%
Shimao	813 HK	4.42	16,786	44.94	1.2	1.0	0.9	NA	NA	29%
Agile	3383 HK	2.79	10,929	13.89	1.1	1.1	1.0	0.2	NA	24%
KWG	1813 HK	2.05	6,526	17.87	1.0	0.8	0.7	0.3	NA	37%
Times China	1233 HK	2.22	4,666	16.20	0.9	0.6	0.5	0.3	NA	28%
China SCE	1966 HK	1.03	4,349	5.60	1.1	1.0	0.8	0.3	NA	30%
Redsun	1996 HK	2.58	8,247	3.52	5.2	4.1	3.5	0.4	6%	8%
Vanke - A	000002 CH	18.15	204,051	31.36	4.6	4.1	3.9	0.7	7%	6%
Radiance	9993 HK	4.04	16,343	5.55	4.5	4.0	3.3	0.6	8%	11%
Dafa	6111 HK	0.38	309	8.32	0.9	0.5	0.4	0.9	NA	NA
Dexin	2019 HK	2.70	7,294	3.56	7.3	6.4	5.6	1.0	7%	8%
Average					3.8	3.2	2.9	0.6	7.3%	15.5%

Source: BBG, CMBIGM

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