

# China Property Sector

## Rally, beat, then rally?

Property and PM sectors made strong and non-stop rallies in last two weeks (up16/14% vs. 4% in HSI), after the improving high-frequency data. This reconfirmed our call on 16 May ([now is the time to buy](#)) to be the first in market to turn positive on fundamental recovery when everyone back then was bearish. Now, developers' June sales came out with a strong beat, in line with our leading indicator **GAIN** (ZENG, XIAO, MIAO). This has made almost all investors getting super excited into the space and its supply chain. However, we are now slightly **concerned**: 1) **Sales recovery will be bumpy rather than smooth**. The economic revival takes time, and GAIN index also turns slightly negative YoY in June indicating July's sales may weaken. 2) **Regulatory risk could be back** after Binjiang overspent RMB22bn in Hangzhou's land auction (vs. its cash balance of RMB16bn as of Mar 22). As an evidence, Jiyuan in Henan has challenged the bottom line of policymakers by allowing instalments for already-low 20% downpayment and got cancelled in just one day. 3) **Weak 1H results** impacted by COVID may lead to guidance correction. Therefore, we expect some profit taking from hedge fund. For LO, we still suggest COLI/CIFI/CRL on proven market share gain story. PM sectors may see more upside on the additional consumer angle (Community VAS): Ever Sunshine/Jinke Service/CGS.

- **Developers' preliminary June sales BEAT at +60% MoM/-31% YoY:** Following the recovery of weekly high frequency data, developers also recorded stronger-than-expected June sales at +60% MoM/-31% YoY (vs. consensus of +30% and -40% respectively, figure 1). We think that this is mainly due to strong policy support, pent-up demand from lockdown, sales promotion and relatively low base in May. The strong June has helped tightened 6M22 YoY decline to -42% vs. -48% in 5M22. However, individual names are even more polarized: **quality and SOE names outperformed strongly** with Yuexiu/CRL/Binjiang showing positive YoY growth. COLI, Gemdale and Longfor also improved as well. However, **POEs with debt issues continued to face trouble** such as Sunac (-82% YoY), Aoyuan (-80%), KWG (-77%) and Shimao (-69%). For those in between, we believe CIFI (-48%) is capable of coming back given enough land resources in YRD/Tier 1-2 cities and continuous land acquisitions in 1H22, but SCE (-51%) may take time after halting the land acquisitions for quite a while.
- **Leading indicator GAIN shows a slightly weakening July.** The strong recovery of sales in June is consistent with our one-month leading indicator GAIN that made a sharp turn of 20% YoY in May (-27% in 4M22) and suggested June's sales to explode (Figure 2). Based on the latest figure, Gain's June figure is back to negative YoY territory at -8% but still the second best month of the year. This would imply July sales may weaken slightly but still better than the first four months of the year. So the worst is behind us despite a bit bumpy road ahead.
- **Binjiang's overspending in Hangzhou may trigger regulators' frowning.** Today Binjiang alone acquired 12 plots with total amount of RMB22bn in Hangzhou. Binjiang's own spending of RMB22bn is not just 40% of the total land auction, but also 40% higher than its cash balance of RMB16bn as of Mar 22. This leveraging and high-profile spending in Hangzhou may put regulators back to the radar and it could be negative for the whole industry. As an evidence, Jiyuan in Henan province back off its stance to allow instalments for already-low 20% downpayment after one day.

**OUTPERFORM**  
(Maintain)

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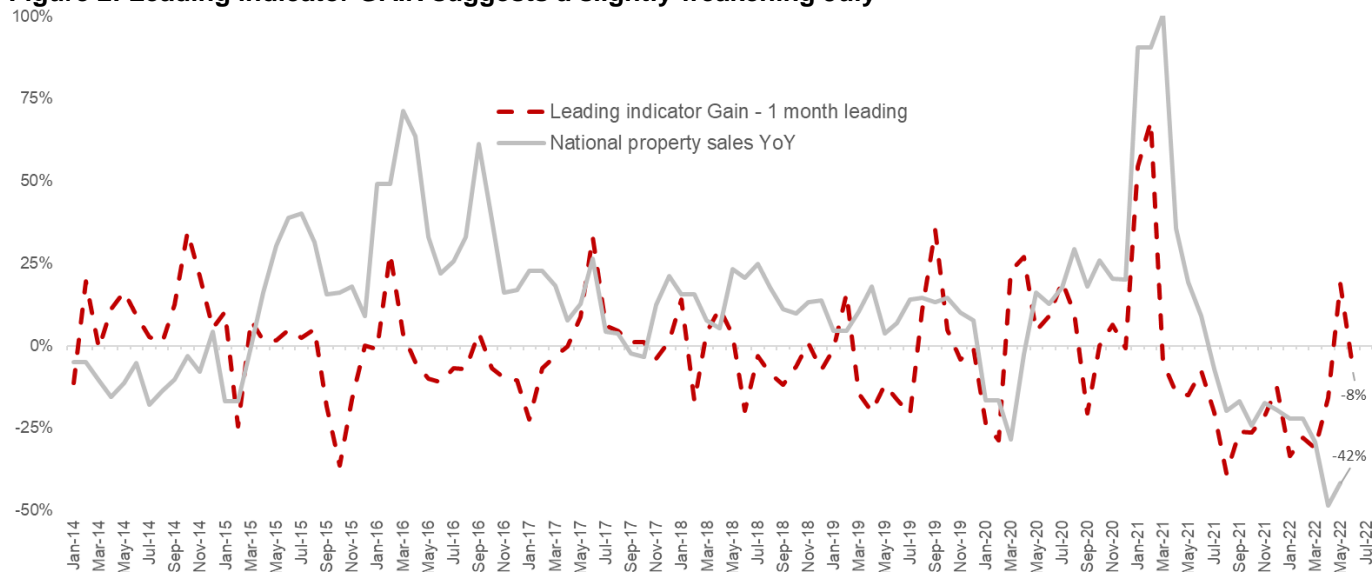
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**Figure 1: Preliminary June sales for major developers**

Sales (RMB bn)	Jun-22	YoY	MoM	May-22	YoY	6M22	YoY	2021 sales	YoY
Yuexiu	13.6	77%	37%	9.9	39%	48.2	-1%	118.2	22%
Binjiang	23.4	29%	151%	9.3	-16%	68.4	-22%	169.1	24%
Sino-Ocean	13.7	19%	85%	7.4	-28%	43.0	-18%	136.3	4%
CR Land	39.7	3%	95%	20.3	-19%	121.0	-27%	315.7	11%
Poly	51.0	-1%	34%	38.0	-26%	210.2	-26%	538.5	7%
CM Shekou	41.2	-7%	153%	16.3	-44%	118.8	-33%	326.8	18%
Longfor	28.2	-9%	211%	9.1	-69%	85.9	-40%	290.1	10%
Gemdale	28.4	-16%	100%	14.2	-55%	100.6	-38%	286.5	18%
COLI*	41.0	-21%	47%	27.9	-19%	137.5	-34%	369.5	2%
Country Garden (attri)	34.2	-36%	19%	28.7	-50%	184.8	-39%	558.0	-2%
Vanke	41.6	-39%	35%	30.8	-47%	209.6	-41%	627.8	-11%
CIFI	13.5	-48%	25%	10.8	-60%	63.1	-54%	247.3	7%
China SCE	6.1	-51%	26%	4.8	-54%	32.6	-45%	104.5	3%
Shimao	9.5	-69%	56%	6.1	-79%	43.8	-71%	269.1	-10%
KWG	2.3	-77%	-43%	4.1	-64%	23.9	-57%	103.8	0%
Aoyuan	3.0	-80%	26%	2.4	-79%	14.9	-78%	121.0	-9%
Sunac China	14.0	-82%	9%	12.9	-82%	112.7	-65%	597.4	4%
<b>Average</b>	<b>404</b>	<b>-31%</b>	<b>60%</b>	<b>253</b>	<b>-51%</b>	<b>1,619</b>	<b>-42%</b>	<b>5,180</b>	<b>-2%</b>

Source: CRIC, CMBIGM

**Figure 2: Leading indicator GAIN suggests a slightly weakening July**

Source: NBS, CMBIGM

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