

# China Property Sector

## NBS Oct data in line; Chairpersons in action to buy time

The weak Oct data is in line with our expectation, which assumes 20/15% sales volume/value decline in 4Q. Looking forward, we expect that property market will start to pick up QoQ in 1Q22E due to more abundant liquidity (1Q Household loans/full year ratio >32%). Also for the offshore debt crisis, we think some chairpersons have been in action to bailout the developers (such as Mr. Sun Hongbin's USD450mn for Sunac) and this can buy some time until the fundamental and liquidity both improved. Together with low base in 2H21 and government's push for healthy market, we are more positive than the market on sales and REI in 2022E at -2% and +5% YoY. Suggest investors to look at short-term survivors (Shimao/Sunac) and long-term winners (Longfor/COLI/CRL).

■ **NBS national property data in Oct was in line with our expectation.** In particular,

- **Property sales further weakened in Oct** with volume and value down 22%/23% YoY (vs. -13%/-16% in Sep 2021) as it takes time to reboot buyers' confidence despite the start of slight policy relaxation. This is in line with our expectation that assumed 20/15% volume and sales decline in 4Q. With our assumption and strong market in 1H21, we expect 2021E property sales volume/value to finish at 3%/5% YoY in 2021E
- **Property investment declined 5.4% YoY in Oct** however the YTD figure remained stable at 7.2% YoY, still above the historical line of policy relaxation at 5%.
- **New Starts decline widened in Oct due to high base:** It recorded 138mn sqm at -33% YoY vs. (-13%/26% YoY in Aug/Sep). We think this is mainly dragged by 25% YoY decline in national land purchases. This has led to 8% YoY decline in new starts in 10M21 (-1% YoY in 2020), which may setup a low base for 2022E.
- **Property completion fell 21% YoY in Oct** but grew 16% YoY in 10M21.

**How to buy time:** despite the monetary policy towards relaxing, it may not be quick enough to turnaround the industry in a short period. Facing the offshore debt crisis and weakening fundamental, we think Chairperson's bailout would be most effective way to buy time until property market back to healthy level as stated in our [previous report](#). As a proof, On 14 Nov Sunac announced that its chairperson – Sun Hongbin has provided out of his own funds \$450mn to support business development. Therefore, we think this would lower the default risk of the industry especially for the market leaders.

**Our views for next year:** 1) **Most developers can survive in this crisis** but leveraged ones would downsize. The impact of this offshore bond crisis has spread out to developers with more than 10% of market shares. This would force them to de-leverage by paying back debts and pause land acquisitions, which lead to decline of sales and earnings in the coming years. Therefore we estimate 2022E sales volume to down 2% YoY assuming some modest policy support. 2) **This crisis would benefit long-termists.** The most important thing for developers is to buy the right lands at a right price. Opposite to the industry, we see quality players like Longfor and COLI to aggressively buy lands in Tier 1-2 cities in 2H21 when the land price faced pressure. 3) **This crisis may accelerate Central government's determination to reduce its reliance on property such as property tax.**

**OUTPERFORM**  
(Maintain)

### China Property Sector

**Jeffrey Zeng**  
(852) 3916 3727  
jeffreyzeng@cmbi.com.hk

**Xiao Xiao**  
(852) 3761 8952  
xiaoxiao@cmbi.com.hk

**Figure 1: Quick view of national property data in Oct 2021**

	Oct-21	YoY	Sep-21	YoY	Aug-21	YoY	10M21	YoY	2020	YoY
Property GFA sold (mn sqm)	127	-21.7%	161	-13.1%	125	-11.8%	1,430	7.3%	1,761	2.6%
Property sales (RMB bn)	1,239	-22.6%	1,575	-15.8%	1,262	-13.1%	14,719	11.8%	17,361	8.7%
New starts (mn sqm)	138	-33.1%	174	-13.5%	166	-26.4%	1,667	-7.7%	2,244	-1.2%
GFA under construction (mn sqm)	9,429	7.1%	9,281	7.9%	9,100	8.4%	9,429	7.1%	9,268	3.7%
GFA completion (mn sqm)	63	-20.6%	43	0.7%	50	17.5%	573	16.3%	912	-4.9%
Property investment (RMB bn)	1,237	-5.4%	1,451	-3.5%	1,317	4.9%	12,493	7.2%	10,144	7.0%
Domestic loans of developers (RMB bn)	138	-27.2%	185	-25.1%	152	-35.2%	2,015	-10.0%	2,668	5.7%

Source: NBS

**Figure 2: Cash shortage if chairpersons are willing to bailout**

Company	Chairperson's wealth by HuRun	Worth of its listco	Personal wealth	Cash shortage (1H21 ST debt - total cash * non-restricted cash ratio - personal wealth)
Evergrande	204	126	78	-75
Shimao	102	46	56	61
Country Garden	215	177	38	63
R&F	41	18	23	-8
Agile	45	22	23	17
Longfor	110	97	13	53
Sunac	59	50	9	4
Times	19	11	8	15
Central China	14	6	7	10
KWG	24	18	6	15
Kaisa	9	5	4	0
CIFI	24	21	3	20
Aoyuan	13	10	2	0
Redsun	7	5	2	9
Sinic	11	10	1	-1

Source: CMBI research; Restricted ratio is assumed at 30-50% of total cash for different developers as stress testing

**Figure 3: NBS data summary**

	Residential GFA Sold (sqm mn)	YoY	Residential Sold (RMB bn)	YoY	REI (RMB bn)	YoY
2010	931	9%	4,395	15%	3,404	33%
2011	970	4%	4,862	11%	4,431	30%
2012	985	1%	5,347	10%	4,937	11%
2013	1,157	18%	6,770	27%	5,895	19%
2014	1,052	-9%	6,240	-8%	6,435	9%
2015	1,124	7%	7,275	17%	6,460	0%
2016	1,375	22%	9,906	36%	6,870	6%
2017	1,448	5%	11,024	11%	7,515	9%
2018	1,479	2%	12,639	15%	8,519	13%
2019	1,501	1%	13,944	10%	9,707	14%
2020	1,549	3%	15,457	11%	10,445	8%
2021E	1,590	3%	16,281	5%	11,144	7%
2022E	1,558	-2%	16,281	0%	11,702	5%

Source: NBS

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

### For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

### For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

### For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.