

China Property Sector

Eyes on the standing bureau meeting on Friday

Another disappointing sale in Nov will put heavier weights on developers as almost none of them can meet the annual sales target including SOEs. Now all the eyes are on the policy/financing front and it indeed showed some silver lining with more property loans issued in Oct/Nov, financing channels even for non-SOEs including (Corporate bonds, MTN and ABS) and direct support from chairman (Sunac/CIFI/Seazen). However, this may not U-turn the industry without more policy support. Therefore, we think the coming standing bureau meeting on Friday would be very important. Our base case (50% chance) is that it would mention to promote a healthy property market and delete “house is for living”. If that were the case, then it would be very positive for the industry on the hope of policy support. We still suggest investors to focus on survivor (Shimao/Sunac) and long-term winners (COLI, Longfor, CRL).

Scenario analysis for the coming standing bureau meeting: Based on the history, standing bureau would gather on the Friday of second week in Dec to discuss on the economy and policy for next year. Given the still fragile sentiment towards property sector, here are our base/bull/bear case study: **1) Base case (50% chance):** The meeting will mention, “maintain a healthy property market” and delete “housing is only for living”. This would imply that more direct help would be put to stabilize the market. **2) Bull case (20% chance):** The meeting does not mention property like the one in 2018. This would imply a potential massive relaxation on property policy and thus very positive for the industry. **3) Bear case (30% chance):** The meeting will maintain the same wording like the one in July 2021. Then we think the policy would stay like right now and the industry recovery would take some time.

Major developers’ sales remained lacklustre in Nov: CRIC released preliminary Nov sales data showing a 28% YoY decline among our tracked developers. This shows still weak sentiment despite a slight improvement in Sep/Oct 2021 at -38/32% YoY. This has put 11M21 YoY growth to 3% with overall completion rate of 81% only, which means almost all developers cannot meet their annual target. In particular, R&F, Aoyuan, Sunac and Shimao recorded >40% sales decline in Nov while Agile achieved 9% sales YoY growth in Nov.

Silver lining is coming from financing: According to [Hexun news](#), property loans in Nov continued to improve significantly MoM and YoY (Rmb200bn more). Besides the traditional financing channels, developers including non-SOEs could issue MTN, corporate bonds ([Logan](#)), and ABS (Country Garden) to further cement its cash position when facing the offshore bond crisis. On the mortgage side, the average mortgage rate of 100 cities is on a downward trend in Nov and saw 4ppt decline according to [Beke's report](#). With the hope of RRR cut as mentioned by Premier Li, we think the financing has provided some hopes for the winter of the industry.

More quick and direct support from Chairman of developers: despite the monetary policy towards relaxing, it may not be quick enough to turn around the industry in a short period. Facing the offshore debt crisis and weakening fundamental, we think Chairperson’s bailout would be the most effective way to buy time until property market return 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. CIFI and Seazen also came out to do rights issue with Chairman’s full subscription if no investors are willing to do it.

OUTPERFORM
(Maintain)

China Property Sector

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Figure 1: Scenario studies on the coming standing bureau meeting

| | Comments on property from standing bureau meeting | GDP |
|--------|--|-------|
| 1Q2017 | Acceleration of building property market long-term mechanism | 6.9% |
| 2Q2017 | Stablization of proerty market, continuity of policies, and building long-term mechanism | 6.9% |
| 3Q2017 | No meeting | 6.8% |
| 4Q2017 | Reforming housing syteme and building long-term mechanism | 6.8% |
| 1Q2018 | Healthy development of the property market | 6.8% |
| 2Q2018 | Rule by city and curb pricing spikes. Acceleration of building a long-term mechanism | 6.7% |
| 3Q2018 | Not mentioned | 6.5% |
| 4Q2018 | Not mentioned | 6.4% |
| 1Q2019 | Housing is for living and not speculating. Rule by city and build long-term mechanism | 6.4% |
| 2Q2019 | Housing is for living and not speculating. Build long-term mechanism and not used as short term economic stimulus | 6.2% |
| 3Q2019 | No Meeting | 6.0% |
| 4Q2019 | Not mentioned | 6.0% |
| 1Q2020 | Housing is for living. Healthy development of the property market | -6.8% |
| 2Q2020 | Housing is for living. Healthy development of the property market | 3.2% |
| 3Q2020 | No Meeting | 4.9% |
| 4Q2020 | Stable development of the property market. Improve property eco-system | 6.5% |
| 1Q2021 | Housing is for living. No school-district housing speculation | 18.3% |
| 2Q2021 | Housing is for living. Acceleration of affordable housing development | 7.9% |
| 3Q2021 | No Meeting | 4.9% |
| 4Q2021 | <p>1) Base case (50% chance): The meeting mentions “maintain a healthy property market” and delete “housing is only for living”. This would imply more direct help would be put to stabilize the market.</p> <p>2) Bull case (20% chance): The meeting does not property like the one in 2018. This would imply a potential massive relaxation on property policy and thus very positive for the industry.</p> <p>3) Bear case (30% chance): The meeting maintains the same wording like the one in July2021 then we think the policy would stay like right now and the industry recovery would take some time.</p> | |

Source: NBS

Figure 2: Most developers are set to miss 2021 sales target

| Company | | Nov sales | | 11M21 sales | | 2021 target | | Completion rate |
|------------------------|---------|-----------|-------------|-------------|-------------|-------------|------------|-----------------|
| | | (RMB bn) | YoY | (RMB bn) | YoY | (RMB bn) | YoY | |
| Country Garden (attri) | 2007 HK | 20 | -30% | 271 | 10% | 315 | 11% | 86% |
| Vanke | 2202 HK | 17 | -36% | 226 | 13% | 265 | 15% | 85% |
| Sunac | 1918 HK | 38 | -33% | 532 | -5% | 624 | 9% | 85% |
| COLI | 688 HK | 18 | -11% | 214 | 7% | 250 | 8% | 85% |
| CR Land | 1109 HK | 28 | -20% | 331 | 3% | 400 | 11% | 83% |
| Shimao | 813 HK | 12 | 9% | 125 | 8% | 150 | 9% | 83% |
| Longfor | 960 HK | 8 | -26% | 98 | 8% | 120 | 18% | 81% |
| CIFI | 884 HK | 20 | -31% | 213 | -3% | 260 | 4% | 82% |
| Jinmao | 817 HK | 23 | -21% | 250 | 3% | 310 | 15% | 81% |
| Seazen | 1030 HK | 18 | -43% | 260 | -1% | 330 | 10% | 79% |
| Agile | 3383 HK | 37 | -47% | 550 | 6% | 700 | 22% | 79% |
| Aoyuan | 3883 HK | 7 | -53% | 116 | 2% | 150 | 13% | 77% |
| R&F | 2777 HK | 8 | -38% | 94 | 3% | 124 | 20% | 76% |
| SCE | 1966 HK | 8 | -47% | 112 | -11% | 150 | 8% | 75% |
| KWG | 1813 HK | 11 | -17% | 87 | 4% | 110 | 10% | 79% |
| Times | 1233 HK | 53 | -8% | 574 | -5% | 790 | 12% | 73% |
| Average | | | -28% | | 3.0% | | 12% | 81% |

Source: NBS

Figure 3: Cash shortage if chairpersons are willing to bailout

| Company | As of Dec 2020 (RMB Bn) | | | Cash shortage (1H21 ST debt - total cash * non-restricted cash ratio - personal wealth) |
|----------------|----------------------------------|------------------------|--------------------|--|
| | Chairperson's wealth by HuRun | Worth of its listco | 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

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