

# China Property Sector

## Equity financing reopens to fuel another rally

We think the third arrow from CSRC is positive to the sector as 1) the signal is stronger than the previous 16 measures by PBOC because the equity financing channel has been long freeze for A-share property names. So that means the attitude towards property sector is a U-turn to help developers in need. 2) It opens up the imagination that troubled developers may issue equity to SOEs or local government for mixed ownership. Also, SOEs themselves may issue equity for M&A purpose to boost market share in the long run. Therefore, we think below names will benefit most from this policy: Country Garden, Midea and Seazen (policy support to keep them safe), Jinke, Zhongnan construction (mixed ownership) and Vanke A (M&A).

- **What's new?** After market closed, CSRC's Chairman Yi Huiman announced that in order to maintain stable and healthy development of real estate market, CSRS decided to reopen the equity financing channel for developers after 5-yrs restriction, details including: 1) Allow M&A activities between listed developers. 2) Allow listed developers to purchase property-related assets by issuing new shares, funds raised have to be used on existing projects or debt repayment other than land purchase or starting new projects. 3) Allow listed developers to refinance in a non-public manner but funds should mainly use on "housing completion" or "people's livelihood ensuring" projects. 4) Reopen refinancing channel for H-share companies with real estate as the main business. 5) Allow qualified fund manager to set up real estate PE funds.
- **What's the implication of the industry?** After piles of supporting policies that did not have effective results as expected, we see reopening of equity financing channel as a major breakthrough as 1) it is a strong signal that policy turns to "save companies" from "save industry only". 2) The policy will provide large financing space which will be enough to bring survivors back to life. 3) Equity financing will not directly enlarge developer's debt scale compared to previous policies. As such, developer's possibility to default will be greatly reduced and the market is likely to see a turning point if sales get back to recovery trend. Policy will not only solve developers financing issue but also has positive impact on fundamental wise. Some debt problems and default issues may be resolved by M&A activities or restructuring, the home completion will also be accelerated at the meaning time, these will both have positive impact on lifting home buyer's sentiment by relieving their major concerns. That means while many positive news on COVID control are signaling an accelerated reopening, developers are facing more favorable conditions to deliver better sales.

**OUTPERFORM**  
(Maintain)

### China Property Sector

#### Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

#### Miao Zhang

(852) 3761 8910

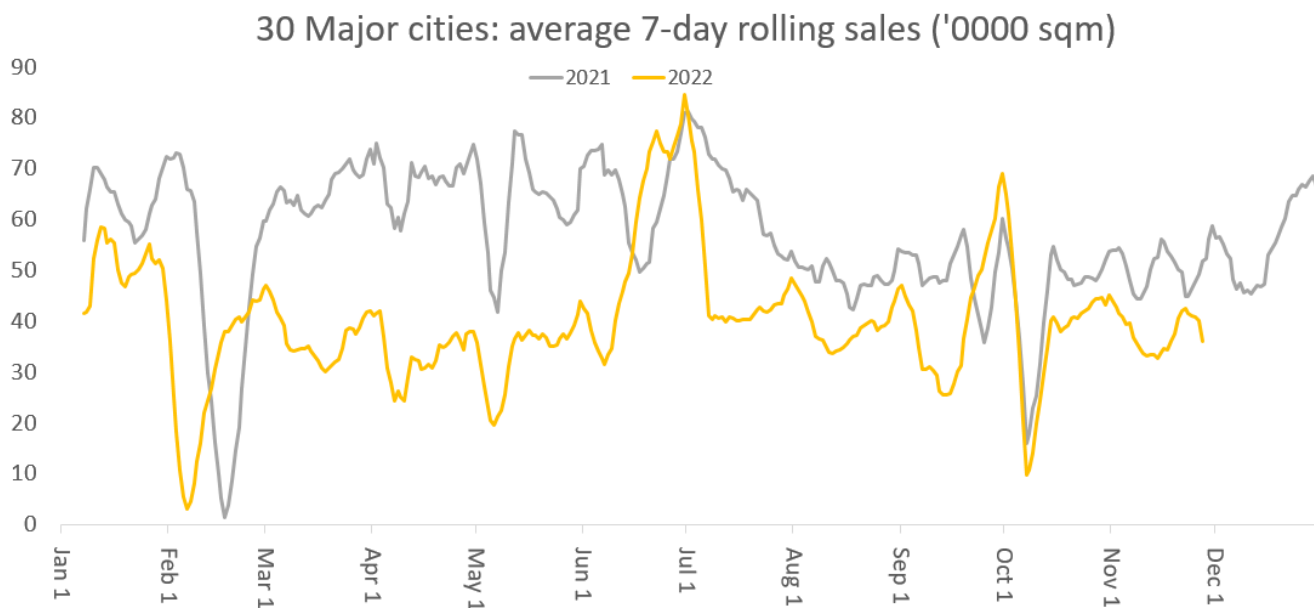
zhangmiao@cmbi.com.hk

#### Bella Li

(852) 3757 6202

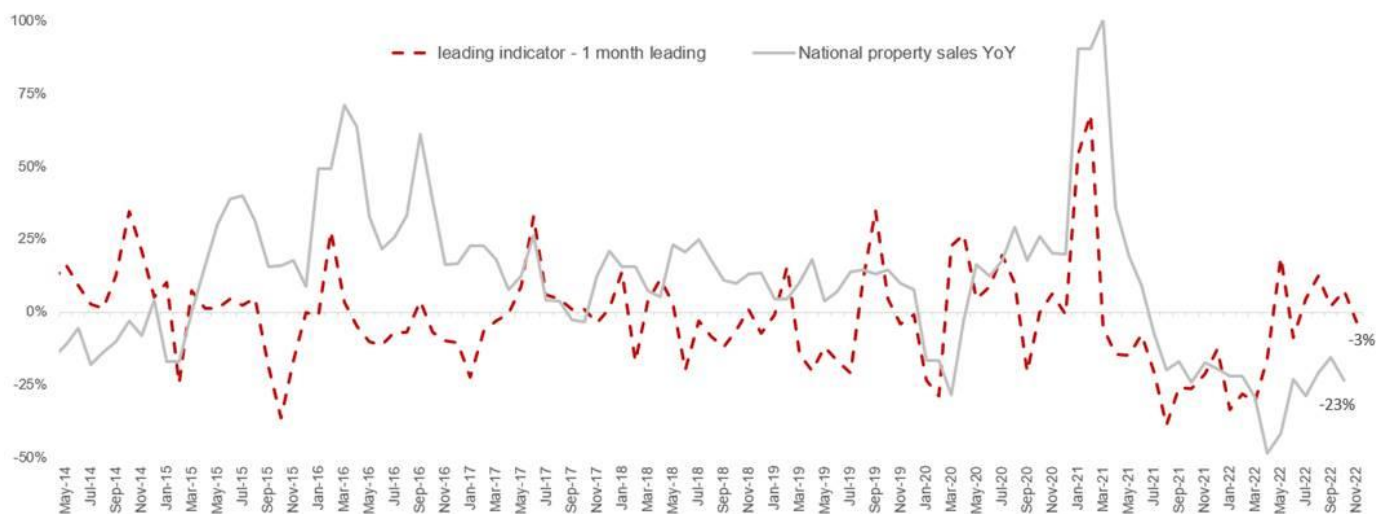
bellali@cmbi.com.hk

**Figure1: MTD Nov sales is still weakening at -27% YoY vs. -14%/-20% in Sep/Oct**



Source: Wind

**Figure 2: Our Leading indicator also weakened in Nov, pointing to a sluggish Dec sales**



Source: CMBIGM, NBS

Figure 3: Comp sheet of developers

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	TP (LC)	P/E				PB	Dividend Yield	
					20A	21A	22E	23E	22E	21A	22E
Vanke - H	2202 HK	14.58	208,607	33.92	3.6	6.2	6.7	6.3	0.6	8%	6%
COLI	688 HK	19.84	217,146	30.49	5.1	5.0	5.6	5.3	0.5	7%	5%
Country Garden	2007 HK	2.92	75,505	13.36	1.7	2.0	4.2	4.2	0.3	13%	7%
CR Land	1109 HK	33.20	236,747	44.79	8.7	7.4	7.7	7.1	0.9	5%	5%
Longfor	960 HK	20.75	130,335	52.59	5.8	4.5	4.8	4.5	0.8	10%	7%
Shimao	813 HK	4.42	16,786	NA	1.1	1.1	1.3	1.2	0.1	26%	29%
Agile	3383 HK	2.41	10,151	NA	0.9	3.0	1.8	1.9	0.1	25%	0%
KWG	1813 HK	1.71	5,444	NA	0.7	1.1	2.1	2.0	0.1	26%	0%
Times China	1233 HK	1.22	2,564	NA	0.4	0.6	1.1	1.0	0.1	8%	0%
China SCE	1966 HK	0.67	2,829	NA	0.7	0.8	1.0	1.1	0.1	30%	0%
CIFI	884 HK	1.23	11,622	NA	1.1	1.2	1.9	1.9	0.2	15%	5%
Seazen	1030 HK	3.47	22,575	NA	2.2	2.0	3.2	3.3	0.4	0%	0%
Midea	3990 HK	10.80	14,638	NA	2.7	2.8	4.3	4.3	0.5	18%	10%
Vanke - A	000002 CH	17.12	192,072	31.36	4.7	8.8	8.3	7.6	0.8	6%	5%
Poly Development	600048 CH	16.33	195,477	5.55	6.7	7.1	7.0	6.6	0.9	4%	4%
Binjiang Real Estate	002244 CH	10.92	33,977	3.56	14.6	11.3	9.3	7.8	1.4	2%	2%
<b>Average</b>					<b>3.8</b>	<b>4.1</b>	<b>4.4</b>	<b>4.1</b>	<b>0.5</b>	<b>12.6%</b>	<b>5.2%</b>

Source: CMBIGM, NBS

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## CMB International Global Markets Limited

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

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