

China Property Sector

“Skrik” of “Hanzawa Naoki”

We think [CIFI event](#) became the triggering point for PBOC and MOF to urgently roll out [stimulus measures](#) (cut mortgage rates and refund individual income tax for qualified home buyers). Together with better-than-expected Sep sales, we expect a sector rebound in the near term led by short cover. However, **the three driving forces (policy, sales and financing)** still indicate a bumpy recovery mainly because 1) policy support is only 60% of that in 2015. 2) Oct sales may weaken again as forecasted by our leading indicator and 3) 4Q property loans may still decline by 25% YoY and most of them may go to SOEs rather than POEs. Therefore, we prefer names from long-term perspective with little to none default probability, outperforming sales and land acquisitions: A-share developers (Binjiang A, Huafa A), and H-share ones (Yuexiu, COLI, Longfor).

Policy: Current policy support is only 60% of that in 2015 but property market is much worse: We did a comparison study between now and 2015 when government was trying to stabilize the market in both years. The conclusion is the current sales recovery will be much bumpy and lengthy than 2015 as 1) the policy support was much stronger in 2015 in terms of policy relaxation (almost no home purchasing restrictions for most cities in 2015), downpayment ratio (20% for most cities) and tolerance for speculation/home price increase. 2) The property market was much worse now in terms of sales, property investment and home prices. Therefore with policy relaxation in baby steps plus pandemic here and there, we expect the sales recovery to be bumpy.

Sales: Our leading indicator Gain suggested a weakening Oct after being corrected again in Sep: The preliminary Sep sales beat market expectation (at 0% MoM) with 10% MoM by major developers and 6% MoM in 30 cities. We think this is mainly attributed to more supplies and contained pandemic in 2nd half of Sep. At the company level, SOE names Yuexiu, CM Shekou, COLI&CRL were outperforming with sales up 18-183% YoY while POE names CIFI/Country Garden were still seeing -31/38% decline. Looking into Oct, our Gain, which has been corrected for each month since the launch in May, suggested the sales to weaken slightly YoY, in line with our forecast for a bumpy recovery. In a longer term, we expect overall sales to stabilize in 2023E (stay flat afterwards) after 25% YoY decline in 2022E (Chart 5).

Financing- underpin only instead of spurring: BBG reported on 30 Sep that PBOC demanded banks to net increase property loans by at least RMB600bn in Sep-Dec 2022. To us, this is merely to support the market from further deteriorating, rather than boosting as 1) Compared to RMB800bn net increase in property loans in 4Q21, this rumored RMB600bn is still 25% below the same period. 2) If there is no change on individual banks' KPI assessment, these SOE banks are likely to lend most of money to SOEs so POEs which need money most are still hard to get real liquidity.

Actions to take: The 930 policy will help support the sector rebound in the near term led by short cover. However, as we expect a bumpy recover, it would be better to look at developers with little to none default probability, outperforming sales (good cash inflow and earnings) and land acquisitions (future market share gain). So the first quadrant of Chart 7 are the names that satisfy the above and we prefer A-share developers (Binjiang A, Huafa A), and H-share ones (Yuexiu, COLI, Longfor). Hedge fund may hedge with names in the 4th quadrant. **Catalyst:** more policy support from central government after Oct meeting. **Risks:** more POEs unable to pay debts; pandemic.

OUTPERFORM
(Maintain)

China Property Sector

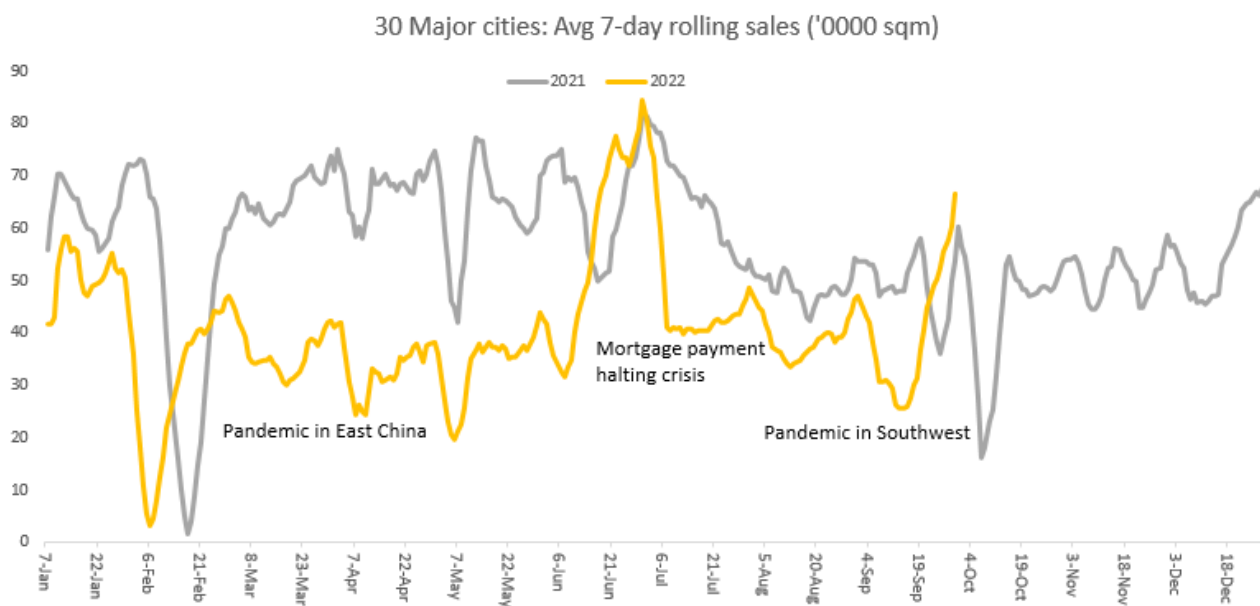
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Figure1: A comparison of 2015 and 2022

Comparison Policy	2022 (up to latest data)	2015
Downpayment	First-home buyer: 30% for selective Tier 1-2 cities Second-home buyer: 40% for selective Tier 1-2 cities	First-home buyer: 20% almost nation-wide Second-home buyer: 30% almost nation-
Avg Mortgage rate	4.62%. Selective cities can go below 4.1% for first home buyers	4.70%
Home purchasing restrictions	Tier 2 cities remain tightly restricted	Almost no restrictions in cities expect for 4 Tier 1 cities
Individual income tax	1-2% of total transaction value or 20% of price difference; refund for home buyers if they sell and purchase a new one in the same city in 1 year	1-2% of total transaction value or 20% of price difference
M2	10.7%	12.3%
Property market		
Sales YoY	-30%	17%
Property Inv YoY	-7%	0%
Property price YoY	-2.1%	0.3%
Inventory month	28	32

Source: CMBIGM

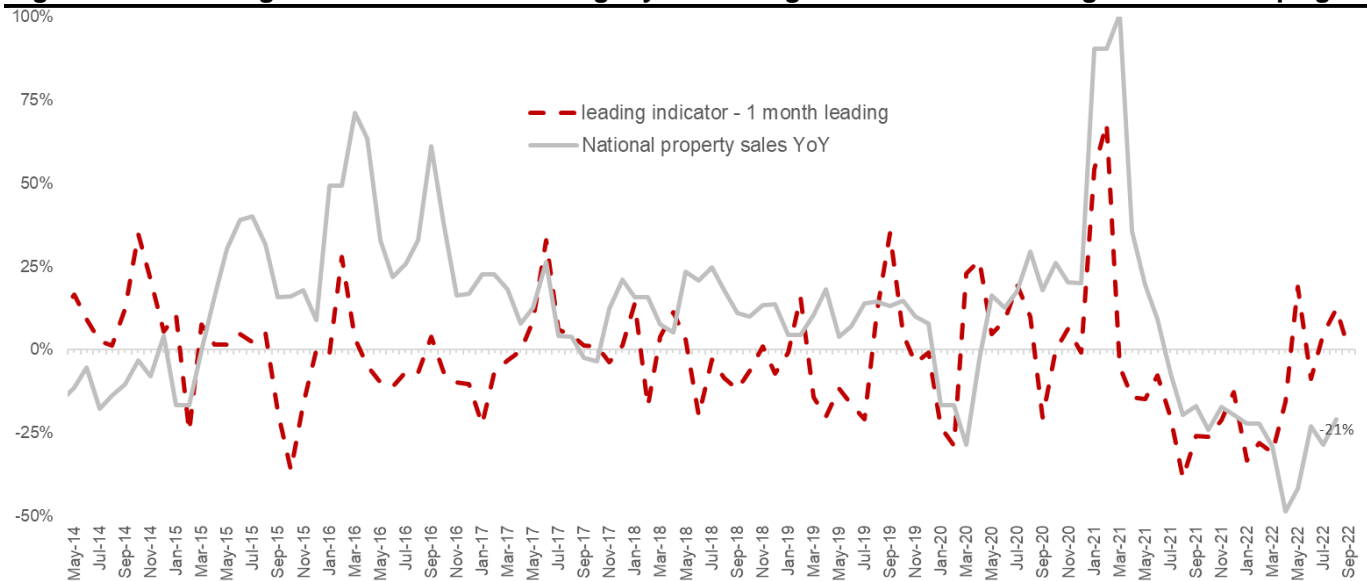
Figure 2: High-frequency sales data improved since 2nd half of Sep on more supplies and contained pandemic

Source: CMBIGM, Wind

Figure 3: Major developers' Sep sales went up 10% MoM, better than market's expectation of 0%

Sales (RMB bn)	Sep-22	YoY	MoM	Aug-22	YoY	9M22	YoY	2021 sales	YoY
Yuexiu	17.0	183%	109%	8.1	-36%	80.0	12%	115.2	20%
CM Shekou	35.0	50%	47%	23.8	17%	201.6	-16%	326.8	18%
CR Land	31.1	41%	42%	22.0	9%	202.1	-12%	315.7	11%
COLI*	24.0	18%	7%	22.5	-10%	202.5	-26%	369.5	2%
Poly	38.4	7%	0%	38.5	-18%	320.1	-22%	534.9	6%
Gemdale	22.5	6%	6%	21.2	12%	162.9	-29%	286.7	18%
Longfor	19.2	-5%	-14%	22.3	11%	145.6	-28%	290.1	10%
Binjiang	12.3	-6%	-6%	13.1	-13%	105.0	-18%	169.1	24%
Vanke	33.0	-9%	7%	31.0	-16%	312.9	-35%	627.8	-11%
Country Garden (attri)	31.7	-31%	10%	28.9	-36%	275.7	-38%	558.0	-2%
CIFI	10.0	-38%	-34%	15.1	-25%	104.3	-46%	247.3	7%
China SCE	4.5	-40%	28%	3.5	-56%	45.7	-45%	104.5	3%
Sino-Ocean	8.1	-50%	-11%	9.1	-13%	69.1	-23%	136.3	4%
Shimao	8.0	-64%	29%	6.2	-74%	64.8	-71%	269.1	-10%
Sunac China	8.6	-82%	-20%	10.8	-76%	143.2	-69%	597.4	4%
Average	303	-14%	10%	276	-25%	2,435	-35%	4,948	4%

Source: CMBIGM, Wind

Figure 4: Our leading indicator forecasted a slightly weakening sales in Oct after being correct for Sep again


Source: CMBIGM, Wind

Figure 5: We expect property sales to stabilize in 2023E but keep flat for the longer term


Source: CMBIGM, Wind

Figure 6: BBG said PBOC requested >RMB600bn property loan increase in Sep – Dec 2022

Net increase of property loans (mortgage + developers)		
	Rmb bn	YoY
1Q21	450	
2Q21	750	
3Q21	620	
4Q21	800	
1Q22	1020	
2Q22	-110	
3Q22	NA	
4Q22E	>600	-25%

Source: BBG

Figure 7: Buy stocks outperform the industry in both sales and land acquisitions



Source: Company data

Figure 8: Short recover may support the near-term sector rebound



Source: Company data

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