

China Property Sector

No Golden Sep this year

We believe the property sales in Sep will remain flattish given the uncertain economic outlook and tightening mortgage policy. We still forecast 2019 full year property sales to decline by 5%. It may be too bearish but we believe the direction is right. In general, valuation of property stocks is undemanding. On average, they are trading at 4.8x 2020E P/E or 49.2% discount to NAV. Until policy relaxation is announced, we do not find re-rating ahead. Currently, our top picks are mainly mid-size developers, including Agile (3383 HK), Shimao (813 HK) and COGO (81 HK).

- **Stable property sales growth.** NBS released China property market data for 8M19. National property sales amount grew 6.7% YoY (vs 6.2% in 7M19) to RMB9.54tn and sales volume declined by 0.6% YoY (vs -1.3% in 7M19) to 1,018mn sq m in 8M19. Although sales pace improved a little, we believe the credit availability is crucial to the property market, no matter it targets individual property buyers or developers. New mortgage policy linked to LPR will start on 8 Oct. Except Shanghai, mortgage rate in the majority cities does not change a lot no matter it is linked with LPR or base rate.
- **Don't expect strong sales in Sep and Oct.** Our economist expects Chinese economy will be stable in 4Q19 but it is temporary. It is critical to see the negotiation results of China-US trade. Top officials of both governments will meet in Washington in Oct. We expect there will be some partial deals by year end. As a result, we believe property buyers will be more prudent unless economic outlook becomes clear. We expect China property market will not have "Golden Sep & Silver Oct" this year.
- **Firm property price due to limited supply.** Based on NBS property sales figures, ASP of contracted sales gained by 7.3% to RMB9,364 per sq m in 8M19. Inventories had experienced continuous decline since Mar 2017 to 498mn sq m in Aug 2019. In addition, completion also had experienced decline since Nov 2017. Therefore, we are not surprised that property price stays firm in the future. Average property price in tier-1/2/3 cities rose 4.2% YoY, 9.9% YoY and 9.9% YoY in Aug 2019, respectively, compared with 4.3%, 10.7% and 10.2% in Jul 2019.
- **Developers' cautious attitude towards market.** Contracted sales of the property developers we cover decelerated to 24% in 8M19 from 50% in 2018 due to housing policy curbs, tightened funding environment in real estate, as well as high base in 2018. But hit rate on average of 67% was on track in 8M19. Net gearing ratios remained relatively stable. On average, net gearing ratio increased from 56.8% as at Dec 2018 to 58.8% as at Jun 2019. Balance sheet was manageable. Gross margin was under pressure. Gross margin of the companies under our universe on average narrowed from 34.1% in 1H18 to 32.8% in 1H19. Under price limit and increased land cost of land bank, there has been pressure on gross margin. We believe margin decline would become a trend in the sector.

MARKET PERFORM (Maintain)

China Property Sector

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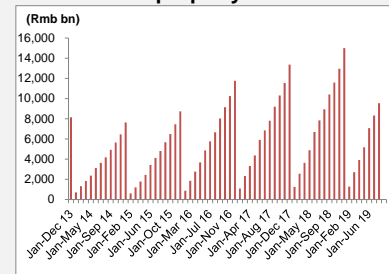
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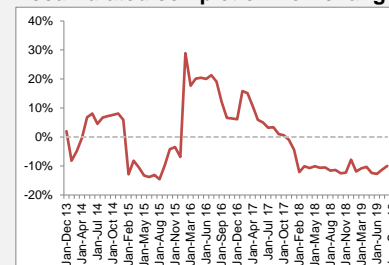
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Accumulated property sales amount



Source: NBS, CMBIS

Accumulated completion YoY change



Source: NBS, CMBIS

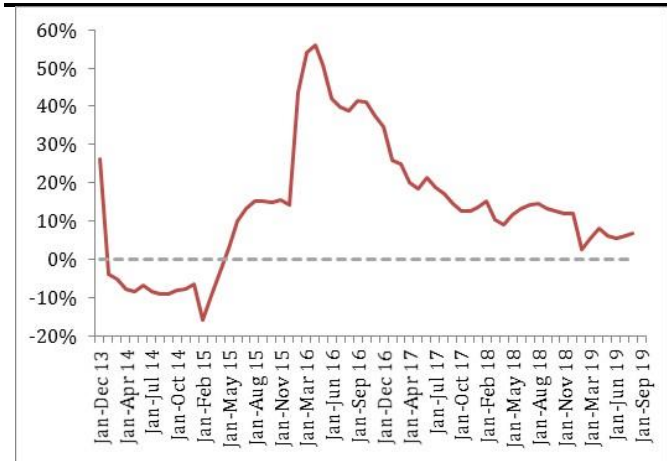
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Sales growth is stabilized

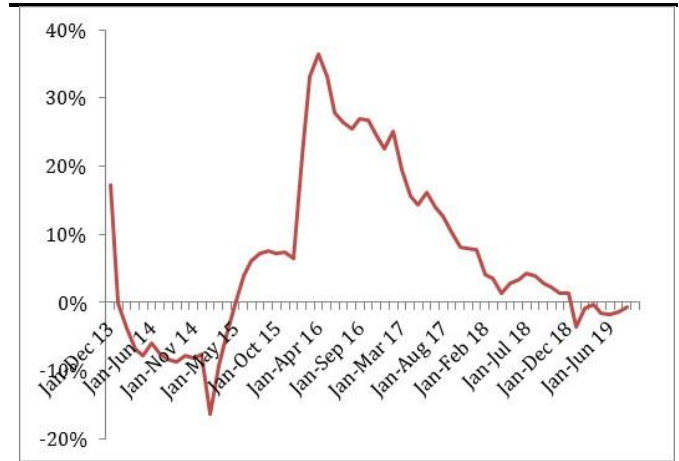
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Figure 1: Accumulated properties sales amount growth



Source: NBS, CMBIS

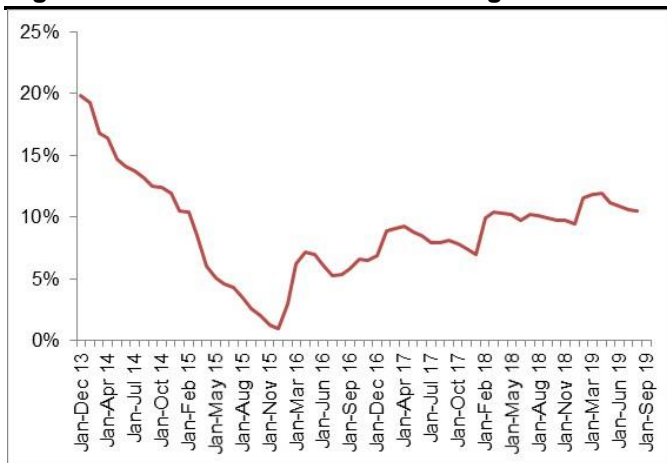
Figure 2: Accumulated properties sales area growth



Source: NBS, CMBIS

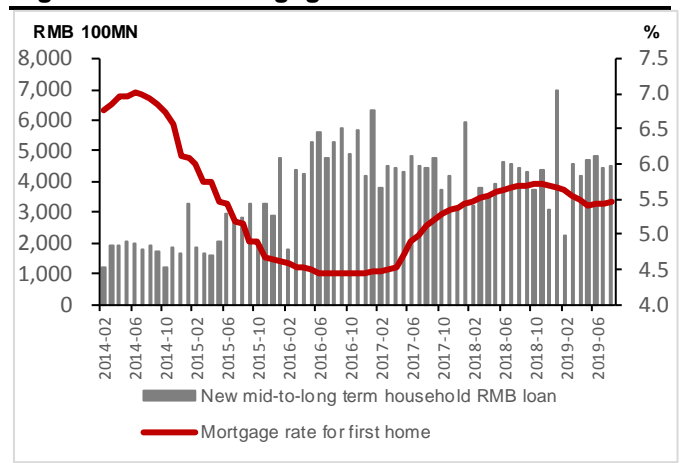
Although sales pace improved a little, we believe the credit availability is crucial to the property market, no matter it targets individual property buyers or developers. New mortgage policy linked to LPR will start on 8 Oct. Except Shanghai (it is discount to base rate now), mortgage rate in the majority cities does not change a lot no matter it is linked with LPR or base rate.

Figure 3: Real estate investment change



Source: NBS, CMBIS

Figure 4: China mortgage rate for first home



Source: Wind, CMBIS

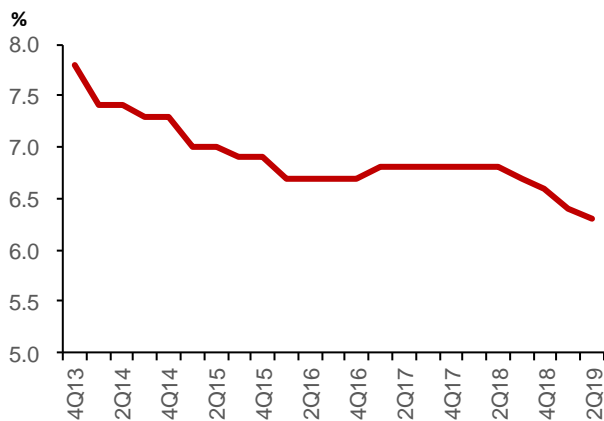
Now, we believe austerity measures curing property market will not intensify in 2H19. However, we maintain our forecast of a 5% decline in contracted sales amount and 10% decline in GFA in 2019. It may be pessimistic but we believe the direction is correct.

Property market will not be robust in Sep

Our economist expects Chinese economy will be stable in 4Q19 but it is temporary. It is because: 1) Previous supportive policies will gradually take effect and be translated into economic performance; 2) Infrastructure spending will catch up while construction is likely to speed up to make up for delays due to summer weather; 3) Consumption and retail sales will likely to be promoted by car sales that is expected to rebound in 4Q19 and 4) The 70th National Day and earlier Lunar New Year in 2020 may uplift economic activities in 4Q19.

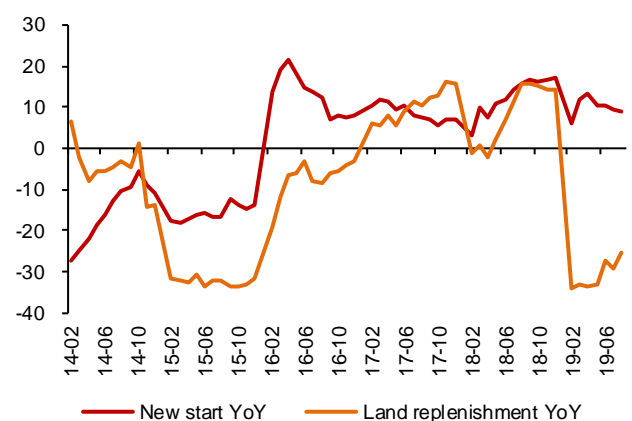
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Figure 5: China economic growth



Source: Wind, CMBIS

Figure 6: New start vs. land sales area



Source: NBS, CMBIS

Stabilized property price

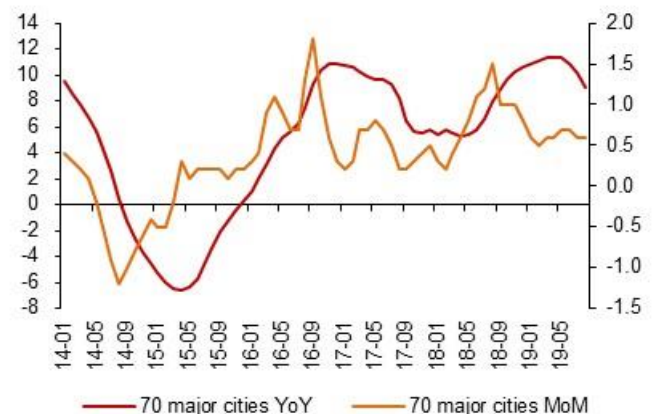
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Figure 7: Property price change in different tier of cities



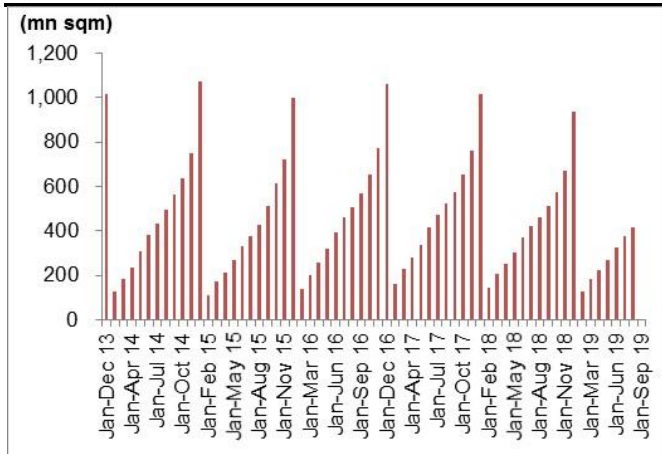
Source: Wind, CMBIS

Figure 8: Average properties price change in 70 major cities



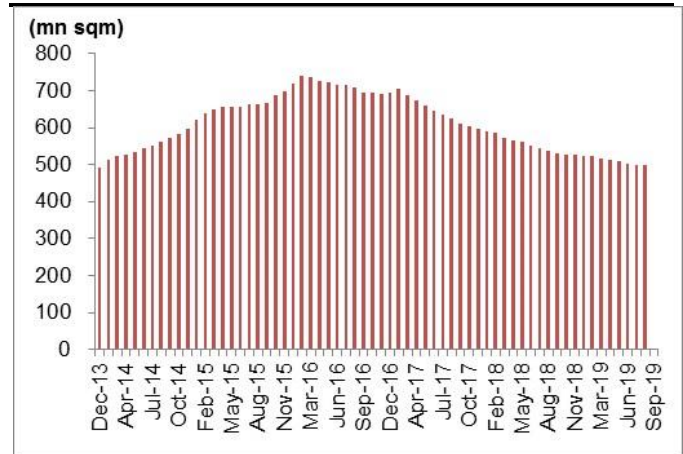
Source: Wind, CMBIS

Figure 9: Accumulated completion



Source: NBS, CMBIS

Figure 10: Inventories



Source: NBS, CMBIS

Developers' cautious attitude towards market

Contracted sales of the property developers we cover decelerated to 24% in 8M19 from 50% in 2018 due to housing policy curbs, tightened funding environment in real estate, as well as high base in 2018. But hit rate on average of 67% was on track in 8M19, given about 20% growth mild sales target in 2019.

Under uncertainties in real estate market, developers have become cautious in investment. On the other hand, sales and cash collection are emphasized in tightening funding environment to ensure liquidity. Accordingly, net gearing ratios remained relatively stable. On average, net gearing ratio increased from 56.8% as at Dec 2018 to 58.8% as at Jun 2019. Balance sheet was manageable.

Gross margin was under pressure. Gross margin of the companies under our universe on average narrowed from 34.1% in 1H18 to 32.8% in 1H19. Under price limit and increased land cost of land bank, there has been pressure on gross margin. We believe margin decline would become a trend in the sector.

Figure 11: Selected peers' sales in 8M19

Company	Ticker	8M19 sales RMB bn	8M19 YoY	19Target RMB bn	Hit rate	2018 YoY	19 Target vs 18 sales
Vanke - H	2202 HK	427.3	10%	N.A	N.A.	15%	N.A
COLI	688 HK	254	27%	292	87%	29%	16%
Country Garden	2007 HK	371.4	-2%	N.A	N.A.	31.6%*	N.A
CR Land	1109 HK	152.2	13%	242	63%	38%	15%
Longfor	960 HK	147.6	12%	220	67%	29%	10%
Shimao	813 HK	141.9	41%	210	68%	75%	19%
Logan Property	3380 HK	65.6	34%	85	77%	65%	18%
Agile	3383 HK	75.8	26%	113	67%	14%	10%
KWG	1813 HK	48.9	14%	85	58%	128%	30%
China Aoyuan	3883 HK	68	28%	114	60%	100%	25%
Times China	1233 HK	43.2	18%	75	58%	46%	24%
Yuzhou	1628 HK	40.7	49%	68	60%	39%	21%
China SCE	1966 HK	49.1	69%	70	70%	54%	36%
COGO	81 HK	39.2	7%	58	68%	36%	15%
Poly Development	600048 CH	310.0	16%	N.A	N.A.	31%	N.A
Average			24%		67%	50%	20%

Source: Company data, CMBIS

Figure 12: Selected peers' gross margin

Company	Ticker	1H18 GPM %	FY18 GPM %	1H19 GPM %
Vanke - H	2202 HK	34.4	37.5	36.2
COLI	688 HK	36.3	38.2	34.9
Country Garden	2007 HK	26.5	27.0	27.2
CR Land	1109 HK	48.1	43.4	38.2
Longfor	960 HK	37.1	34.1	32.6
Shimao	813 HK	31.0	31.5	30.1
Logan Property	3380 HK	37.0	33.7	34.8
Agile	3383 HK	49.6	43.9	30.3
KWG	1813 HK	31.1	32.8	35.0
China Aoyuan	3883 HK	28.6	31.1	29.8
Times China	1233 HK	28.2	30.9	32.5
Yuzhou	1628 HK	31.5	30.7	27.0
China SCE	1966 HK	32.3	34.6	28.9
COGO	81 HK	24.7	29.1	35.1
Poly Development	600048 CH	35.4	32.5	39.8
Average		34.1	34.1	32.8

Source: Company data, CMBIS

Figure 13: Selected peers' net gearing

Company	Ticker	1H18 NG %	FY18 NG %	1H19 NG %
Vanke - H	2202 HK	33.0	31.0	35.0
COLI	688 HK	27.0	32.0	34.0
Country Garden	2007 HK	59.0	50.0	59.0
CR Land	1109 HK	47.0	34.0	44.0
Longfor	960 HK	55.0	53.0	53.0
Shimao	813 HK	60.0	57.0	57.0
Logan Property	3380 HK	67.0	63.0	65.0
Agile	3383 HK	88.0	79.0	81.0
KWG	1813 HK	77.0	66.0	77.0
China Aoyuan	3883 HK	68.0	59.0	64.0
Times China	1233 HK	67.0	63.0	71.0
Yuzhou	1628 HK	63.0	67.0	73.0
China SCE	1966 HK	69.0	60.0	66.0
COGO	81 HK	Net cash	Net cash	27.0
Poly Development	600048 CH	93.3	80.6	76.6
Average		62.4	56.8	58.8

Source: Company data, CMBIS

In general, valuation of property stocks is undemanding. On average, they are trading at 4.8x 2020E P/E or 49.2% discount to NAV. Until policy relaxation is announced, we do not find re-rating ahead. Currently, our top picks are mainly mid-size developers, including Agile (3383 HK), Shimao (813 HK) and COGO (81 HK).

Figure 14: Peers valuation under coverage

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			NAV/share (LC)	Discount to NAV
						18A	19E	20E		
Vanke - H	2202 HK	28.40	332,350	BUY	35.90	8.3	7.0	6.0	44.87	36.7%
COLI	688 HK	25.40	278,288	HOLD	28.36	6.2	5.7	5.6	40.51	37.3%
Country Garden	2007 HK	10.26	222,236	BUY	15.20	5.7	4.9	4.4	27.64	62.9%
CR Land	1109 HK	32.80	227,335	HOLD	34.81	8.4	7.3	7.6	49.73	34.0%
Longfor	960 HK	29.90	178,242	HOLD	26.06	9.7	8.9	8.2	37.23	19.7%
Shimao	813 HK	23.45	77,420	BUY	26.54	7.9	5.6	4.7	37.91	38.1%
Logan Property	3380 HK	11.52	63,166	BUY	13.10	7.0	5.4	4.8	26.20	56.0%
Agile	3383 HK	9.58	37,525	BUY	16.05	4.7	3.4	3.6	29.19	67.2%
KWG	1813 HK	6.98	22,160	BUY	11.40	4.9	2.4	3.4	19.00	63.3%
China Aoyuan	3883 HK	9.24	24,859	BUY	14.30	9.2	5.0	3.6	28.60	67.7%
Times China	1233 HK	12.70	24,661	BUY	16.20	4.7	4.1	3.4	27.20	53.3%
Yuzhou	1628 HK	3.44	17,308	BUY	5.28	4.0	3.5	3.0	8.80	60.9%
China SCE	1966 HK	3.85	15,886	BUY	4.83	3.9	3.8	3.7	8.05	52.2%
COGO	81 HK	3.80	13,009	BUY	5.23	5.1	3.4	3.0	10.47	63.7%
Vanke - A	000002 CH	26.82	301,450	BUY	33.92	8.8	7.4	6.1	40.25	33.4%
Poly Development	600048 CH	14.48	172,258	BUY	20.72	9.1	7.0	5.6	24.61	41.2%
Average						6.7	5.3	4.8		49.2%

Source: Company data, CMBIS estimates

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