21 Apr 2020

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China Property Sector

Expert talk

- **Expert forecasted contracted sales area to retreat 10-15% in 2020.** Last Friday (17 Apr), we invited Mr. David Hong (the General Manager of International Product and business Development and Head of Research at E-House (China) Holdings Ltd) to share his view on China property market outlook, especially after epidemic. He expects full year contracted sales amount and area to retreat by 5-8% and 10-15%, respectively. Furthermore, he believes sales will concentrate in the first and second tier cities. In other words, ASP will stand firm. Downside risk involves pandemic that affects export demand which finally hurts wealth of SME owners.

- **City-wide transactions peaked in Mar.** In terms of unit transaction, David found transactions had peaked in Mar and retreated in Apr. Unit transactions in the first tier cities in Mar reached 67% of that in 4Q19. Second tier and third tier cities were 88% and 66%, respectively. However, unit transaction in the first, second and third tier cities in the latest week in Apr were 67%, 41% and 51% of that in 4Q19. It may be because the promotion in Mar absorbed the purchasing power that reduced the sales in Apr and it is too early to say there is absolute recovery in Apr.

- **Land market was more robust.** NBS reported that real estate investment gained 1.2% YoY in Mar 2020. According to CRIC, land market was more robust than property market. Land transaction in Mar resumed to 40% of that in 4Q19. Major land buyers were SOE, such as Greentown, one month ago. From Mar to now, major land buyers are the leading developers, such as COLI (688 HK), Evergrande (3333 HK), Yango (000671 CH) and Greenland (600606 CH). Furthermore, premium of land base price was as high as that before epidemic. David believed that developers were too optimistic to policy relaxation. Therefore, the best timing of land acquisition has passed. Now, land price is relatively high in Beijing, Shanghai and Hangzhou.

- **Leading developers' major battlefield in the third/fourth tier cities.** David pointed out the difficulties of obtaining land in the first tier cities. Recently, a few developers formed a syndicate to bid a land in Shanghai that resulted in investigation. The leading developers (with annual sales more than RMB100bn) need to invest aggressively in the third/fourth tier cities for expansion. On 10 Apr, a site in Changzhou was auctioned which attracted more than 10 developers for bidding. Finally, a local developer successfully won the bidding with average land cost of RMB19,793 per sq m, compared with neighbour site of around RMB8,000 per sq m.

OUTPERFORM
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China Property Sector

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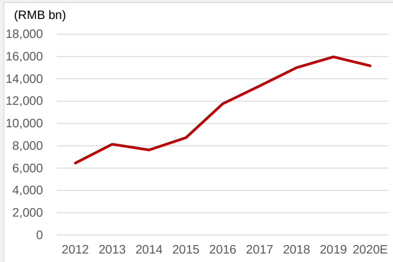
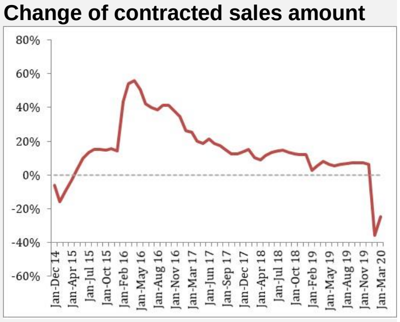
Annual contracted sales



Source: NBS, CMBIS estimate

Change of contracted sales amount



Source: Company, CMBIS

1-Year forward P/E

Source: Wind, CMBIS

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Q&A

1. **Shenzhen property market is bustling. What is your opinion? Is it sustainable?**

   Shenzhen is full of immigrants from different provinces in China. It likes a city in the United States. Shenzhen property market is different from that in other parts in China. We should separate the primary and secondary property market in Shenzhen for study.

   For secondary market, a project in Nanshan recorded ASP of RMB200,000 per sq m because of suspension of sales. It raised the alert from local authorities. Therefore, the buyer needed to pay large amount of money for down-payment because banks in Shenzhen could not give the valuation of RMB200,000 per sq m.

   For primary market, there is location discrimination. Nanshan is the best, then Futian, Baoan. Shenzhen has special reasons that drive the sales price as well as sales volume up. In the long term, Shenzhen is the best choice for investment. However, its short term risk is high after the recent surging of property price.

2. **China GDP posted a 6.8% decline in 1Q20. What do you think for China property market in a sluggish growth economic environment?**

   Although 2020 GDP expectation is low, many people have a high expectation for 2021 recovery. I believe that China government will postpone this year economic target to next year due to the impact from COVID-19. Furthermore, I believe most of the people are too optimistic to housing policies, especially for the off-shore financing channel. I still believe China government will strike on the stability for the property market. Even there is no stimulus policy, I expect China property market will perform well this year.

3. **Local governments launched a lot of policies supporting housing market. However, they withdrew these policies quickly. Can you explain the dilemma between the Central government and local governments?**

   Firstly, the Central government still implements "One city, one policy" for property market. So policy adopted in Shenzhen cannot be used in Wuhan because of different situations. In the past, it had happened. Central government prefers stability, rather than volatility in particular market or city.

4. **A few days ago, State Administration of Foreign Exchange (SAFE) studied the issue of US$ bond. What is your opinion?**

   Currently, issuing new US$ bond is only allowed for refinancing the existing ones. There is no sign of relaxation. On the other hand, onshore bond market is very bustling. In Apr, size of onshore bond market issuing amounted to hundreds billion yuan. As a result, there is no huge demand for the relaxation of US$ bond issuing.

5. **Moody's issued a new report regarding Chinese developers' financial outlook. Moody's downgraded sector outlook to "negative". It also mentioned that small developers may face financial difficulties. Will it drag down the whole sector performance or provide opportunities for leading developers conducting M&A?**

   Nationally, there are more than 100,000 developers or related corporations. Every year, there were some corporations facing different kinds of risks, such as tight in capital liquidity. Even Top-50 developers also had difficulties in the past. In 2016-17, land price was higher than property price. Furthermore, a series of policies, such as restriction on price, implemented in this period. Corporations faced the challenges for cash collection. I am not worried about the future of property market once the epidemic is over. The market is healthy if HK based developers can acquire new lands. In other words, margin of properties in this city is reasonable or land market in this city is rational. Since I expect the outbreak will pass soon, if there is no crisis now, it will not happen later. Even a few developers have difficulties, they can sell their projects to other developers to solve the liquidity problem. I believe that we are now in the trough and downside risk is limited.

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