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China Property Sector

Tightening likely to toughen; continue to prefer retail names

We think the property sector (especially developers) may face downward pressure due to 1) tough words towards property sector in the latest standing bureau committee meeting, as expected. This could mean a full tightening is on the way mainly via the monetary policy in our view. 2) April sales slowed down on the higher base and low season and this may persist in 2Q-3Q. 3) Margin: Land reform failed to address the hot land market in 22 cities and indirectly pushed other cities' land prices even higher. This may lead to further margin squeeze. Therefore, we suggest investors to stay on the retail names such as **CR Land/KWG** which also reported very strong April sales (+89%/99% YoY). The sector is currently trading at 1.1x 2020 PB, which may face pressure to 1x PB.

- **Policy to tighten at the central government level:** the standing bureau committee meeting on 30 Apr not only reiterated "**housing is for living, not for speculating.**", but also especially mentioned "**the over-heated school-district housing, etc.**" for the first name. Literally speaking, this is one of the toughest wordings towards property sector, similar to previous "don't use property to spur the economy" and "prevent property pricing from rising". It reflects the recent city-level tightening is not enough to tackle the overheated market, especially in Tier 1-2 cities with population inflow and good education resources. Therefore we think a full tightening would be in place in 2Q mainly via monetary approach. This would hurt the sector sentiment in our view.

- **April sales growth slowed down on high base:** According to CRIC, major developers reported 26% YoY sales growth in April, compared to 60% in Mar and 66% in 1Q. The slowdown was mainly due to the slightly higher base and traditionally low season. As base continued to climb in 2Q-3Q, we expect overall sales growth may further slow down. At the developer level, CR Land/CIFI/KWG reported very strong monthly sales growth at 89%/104%/99% YoY while Yuzhou/Greenland saw slight YoY decline of 4% and 2%.

- **Land reform failed to cool down the land market:** During Feb 2021, the land supply reform "supply in less than 3 batches" has been rolled out in 22 cities aiming to cool down the land market. However, based on the recent trials in Guangzhou/Chongqing/Wuxi, the land price/premium remained high and even some land kings re-appeared. Based on our detailed analysis of 42 plots in Guangzhou, the overall GP margin was only around 10% based on the nearby projects' selling price. A similar situation was in Chongqing and Wuxi as well. We think the reason behind is that 1) the land supply in batches made developers fear of missing out for the land replenishment; 2) continued good sales momentum and 3) most developers improved balance sheet under the "three red lines" and have the capacity to expand the loan amount accordingly. **What's even worse,** the land supply reform in 22 cities have pushed developers to look for land resources in other cities and made the land premium even higher at a national level (22% in April, the highest since 2Q20). To summarize, we think the margin pressure would be there for long.

- **Sector preference:** Under the tough conditions, we continue to prefer shopping mall exposure under the theme of consumption recovery. Also, 2021 would be the recent peak year of mall openings which may see 23% YoY in number of malls among major players and this could also boost rental. Therefore our top picks in the industry are CR Land and KWG.

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China Property Sector

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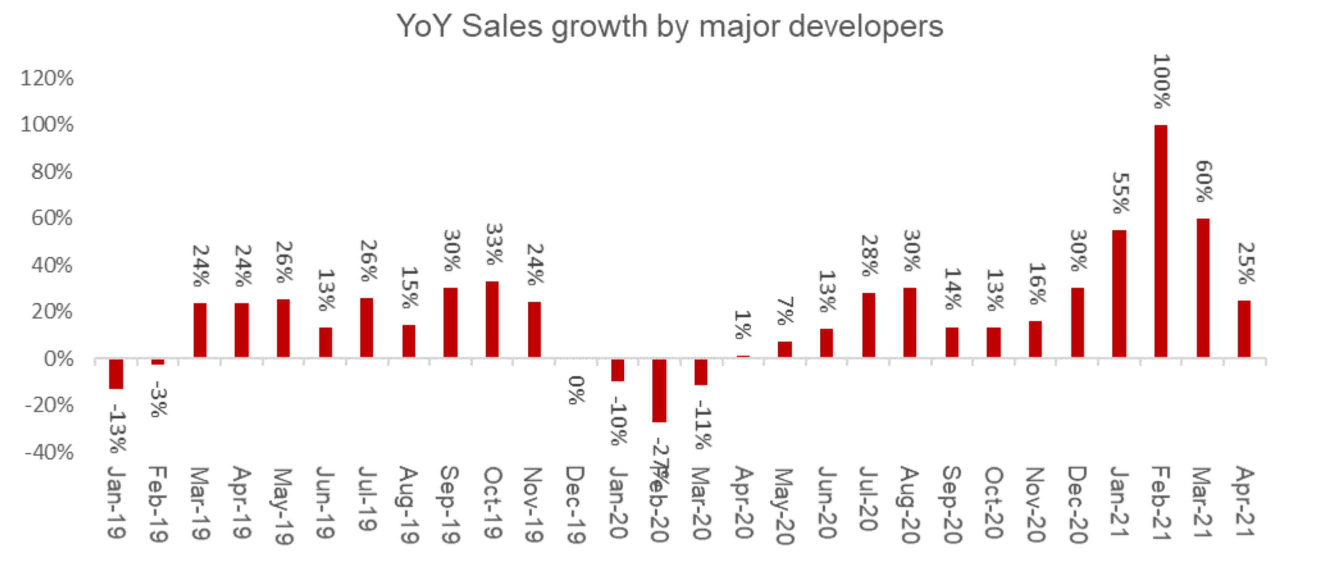
Figure 1: 2021 would be the recent peak year of malls opening

Retail names	2021E Number of malls opening	2021E number of malls	YoY (%)
Seazen	30	130	30%
Powerlong	22	76	41%
CR Land	12	76	19%
Longfor	11	60	22%
KWG	6	16	60%
Average	81	358	23%

Source: Company data, CMBIS

Figure 2: Major developers' sales performance



Source: CMBIS estimates

Figure 3: Valuation table

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E 20A	P/E 21E	P/E 22E	NAV/share (LC)	Discount to NAV	TP Discount
Vanke - H	2202 HK	25.85	371,250	**BUY**	33.92	5.9	5.3	4.8	48.47	46.7%	30%
COLI	688 HK	19.60	214,518	**BUY**	30.49	4.1	3.4	3.0	43.55	55.0%	30%
Country Garden	2007 HK	9.39	207,031	**BUY**	13.36	4.8	3.7	3.2	26.72	64.9%	50%
CR Land	1109 HK	36.35	259,210	**BUY**	44.79	7.2	6.8	6.2	63.98	43.2%	30%
Longfor	960 HK	48.75	295,656	**HOLD**	34.27	11.9	10.1	7.9	48.95	0.4%	30%
Shimao	813 HK	22.85	80,836	**BUY**	44.94	5.2	4.4	3.7	59.88	61.8%	25%
Agile	3383 HK	12.18	47,710	**BUY**	13.89	4.1	4.1	3.7	27.68	56.0%	50%
KWG	1813 HK	12.66	40,268	**BUY**	17.87	5.0	4.1	3.5	25.52	50.4%	30%
China Aoyuan	3883 HK	8.13	21,918	**BUY**	15.48	3.1	2.5	2.1	30.95	73.7%	50%
Times China	1233 HK	10.84	21,017	**BUY**	16.20	3.5	2.7	2.3	32.40	66.5%	50%
China SCE	1966 HK	3.63	15,326	**BUY**	5.60	3.3	2.9	2.4	9.34	61.1%	40%
Redsun	1996 HK	2.70	8,976	**BUY**	3.52	4.5	3.5	3.1	5.87	54.0%	40%
Sinic	2103 HK	4.03	14,388	**BUY**	4.95	6.1	5.4	5.2	9.90	59.3%	50%
Vanke - A	000002 CH	27.70	310,268	**BUY**	31.36	8.0	7.1	6.3	48.46	42.8%	35%
Radiance	9993 HK	4.70	19,013	**BUY**	5.55	4.4	3.9	3.2	13.87	66.1%	60%
Dafa	6111 HK	6.26	5,183	**BUY**	8.32	12.7	6.8	6.0	15.13	58.6%	45%
Shinsun	2599 HK	6.25	19,021	**BUY**	7.75	4.8	4.3	3.8	12.92	51.6%	40%
Dexin	2019 HK	3.02	8,158	**BUY**	3.56	5.7	3.9	3.6	7.12	57.6%	50%
Average						**5.8**	**4.7**	**4.1**		**53.9%**	**40.8%**

Source: CMBIS estimates

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