

China Property Sector

The worst of epidemic is over

- **Rebounded sharply MoM but dropped YoY in Mar 2020.** NBS released property market data. Contracted sales amount and area shrank by 24.7% to RMB2,037bn and 26.3% to 220mn sq m in 1Q20 because of the cities lockdown arisen from COVID-19. Although we saw market had recovered in Mar after business activities started to resume, property sales experienced a YoY decline of 14% in Mar 2020. After the outbreak was under control in most part of China in Mar, many developers claimed that their businesses resumed to normal in Apr 2020. Our rated developers as well as Evergrande and Sunac on average set 2020 sales target as 12%.
- **Shenzhen property market rebounded strongly.** Following to the launching of more personal or SME loan, Shenzhen property market became robust in Apr. Pre-sales of projects in Nanshan or Baoan was resilient with sold-out in short period of time. However, we read the news that Shenzhen banking authority started to investigate the usage of proceeds yesterday. We are afraid that China government will adopt more conservative policies for the rest of year to avoid property market overheat.
- **Change of our view for property policies relaxation.** Now COVID-19 is under control in China. We believe China government will focus more on economic recovery now. However, current property market is running ahead of the economic situation. On the other hand, China government accepts China economic growth below 4% in 2020. So it does not rely on China property market to support economic growth. Furthermore, China Politburo meeting restated that "house is for living, not for speculation" on its 17 Apr meeting. Therefore, we do not expect there will be massive further stimulus policies to support house purchasing, such as lift of Restriction on Purchase or substantial down payment reduction for second home.
- **But support property companies sustainability.** Although we are prudent to policies targeting property buyers, we believe China government will ensure property companies to run smoothly in order to avoid massive bankrupt or huge unemployment. For example, China government will supply more land for developers. Secondly, we believe financing channels for healthy developers will be enhanced.
- **Maintain sector to have 5% decline in sales.** Same as our previous report dated 17 Feb 2020, we forecast property sales and area to decline by 5% and 10% in 2020, respectively. After about 11% decline in share price for rated developers since 17 Feb 2020, we are more confident in them. Our top picks include Vanke (2202 HK, BUY, TP: HK\$36.69), Country Garden (2007 HK, BUY, TP: HK\$14.55), China Aoyuan (3883 HK, BUY, TP: HK\$15.48) and Poly Development (600048 CH, BUY, TP: RMB22.16).

Valuation table for Top picks

| Company | Ticker | Last price (LC) | Mkt Cap (LC mn) | Rating | TP (LC) | P/E | | | NAV/share (LC) | Discount to NAV |
|------------------|-----------|-----------------|-----------------|--------|---------|-----|-----|-----|----------------|-----------------|
| | | | | | | 19A | 20E | 21E | | |
| Vanke - H | 2202 HK | 25.10 | 322,758 | BUY | 36.69 | 6.5 | 5.7 | 5.0 | 52.42 | 52.1% |
| Country Garden | 2007 HK | 9.64 | 210,856 | BUY | 14.55 | 4.7 | 4.1 | 3.7 | 26.45 | 63.6% |
| China Aoyuan | 3883 HK | 9.18 | 24,812 | BUY | 15.48 | 5.3 | 3.5 | 3.0 | 30.95 | 70.3% |
| Poly Development | 600048 CH | 15.88 | 189,491 | BUY | 22.16 | 6.8 | 5.7 | 4.9 | 27.73 | 42.7% |

Source: CMBIS estimates

OUTPERFORM
 (Maintain)

China Property Sector

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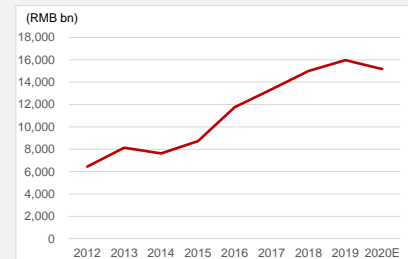
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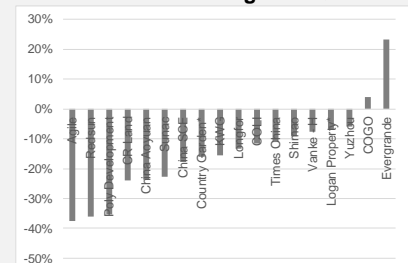
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Annual contracted sales



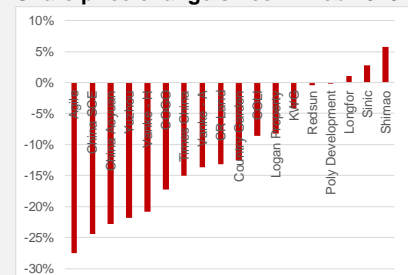
Source: NBS, CMBIS estimate

Contracted sales change in 1Q20



Source: Company, CMBIS, *Attributable

Share price change since 14 Feb 2020



Source: Bloomberg, CMBIS

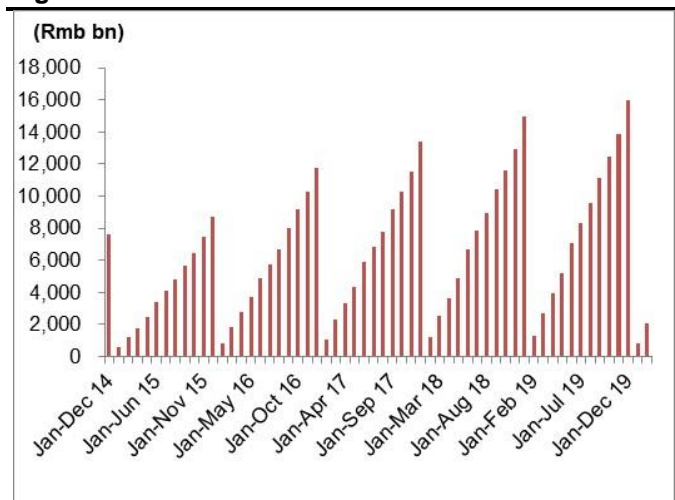
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1. "China Property Sector – too optimistic to COVID-19 impact" – 17 Feb 2020
2. "China Property Sector – No Golden Sep this year" – 18 Sep 2019

V-shaped rebound in Mar but YoY decline

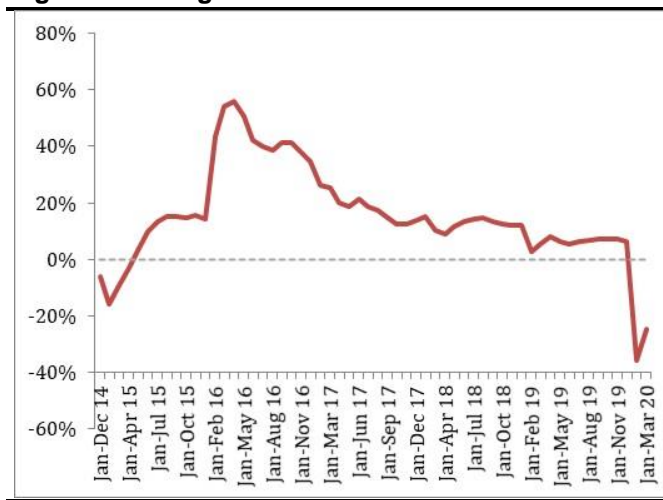
Following to the re-opening of sales centers, we see there was a substantial improvement in sales activities in Mar. NBS released property market data. Contracted sales amount and area shrank by 24.7% to RMB2,037bn and 26.3% to 220mn sq m in 1Q20 because of the cities lockdown arisen from COVID-19. However, situation has improved compared with 35.9% contracted sales amount decline and 39.9% area decline in 2M20. Although we saw market had recovered in Mar after business activities started to resume, property sales experienced a 14% YoY decline in Mar 2020.

Figure 1: Contracted sales amount



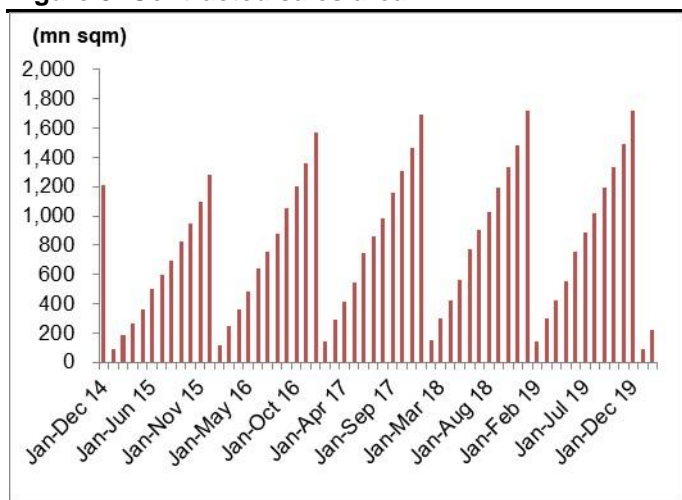
Source: NBS, CMBIS

Figure 2: Change of contracted sales amount



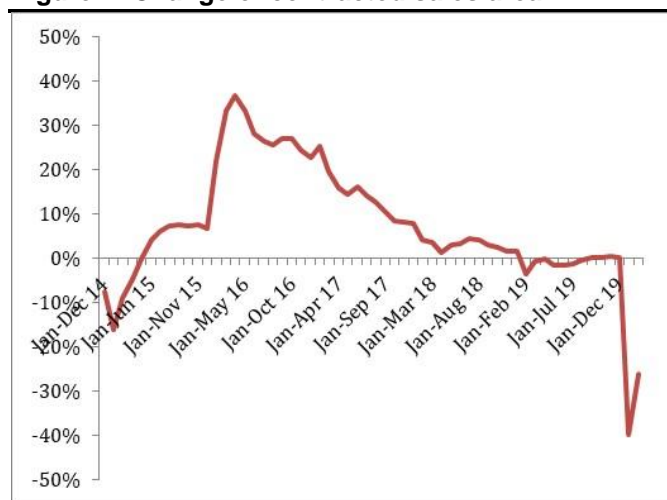
Source: NBS, CMBIS

Figure 3: Contracted sales area



Source: NBS, CMBIS

Figure 4: Change of contracted sales area



Source: NBS, CMBIS

Shenzhen property market rebound strongly

Following to the launching of more personal or SME loan, Shenzhen property market became robust in Apr. Pre-sales of projects in Nanshan or Baoan was resilient with sold-out in short period of time. However, we read the news that Shenzhen banking authority started to investigate the usage of proceeds yesterday. We are afraid that China government will adopt more conservative policies for the rest of year to avoid property market overheat

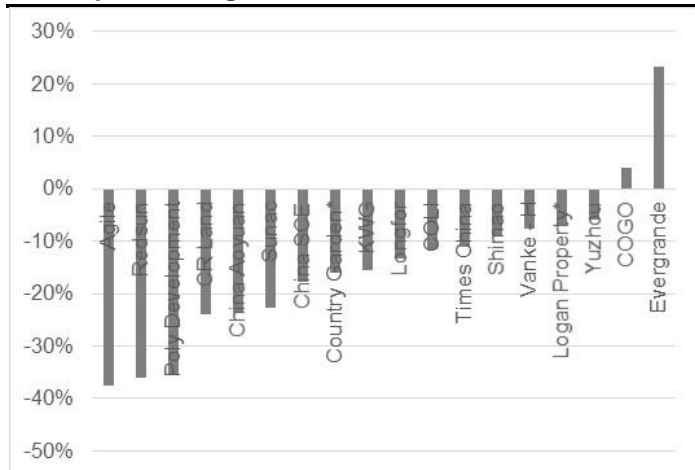
Rated developers target to have 12% contracted sales growth in 2020

Within 16 developers under our coverage as well as Evergrande (3333 HK, NR) and Sunac (1918 HK, NR), 16 of them recorded sales drop in Jan-Mar 2020. Our rated developers as well as Evergrande and Sunac posted a 15% on average decline in contracted sales in 1Q20.

Agile (3383 HK, BUY), Redsun (1996 HK, BUY) and Poly Development posted 38%, 36% and 35% tumble in contracted sales in 1Q20, respectively. In our previous sector report dated 17 Feb 2020, we mentioned that about 16% of full year contracted sales was conducted in 1Q last eight years. Developers still have chance to catch up for the rest of three quarters.

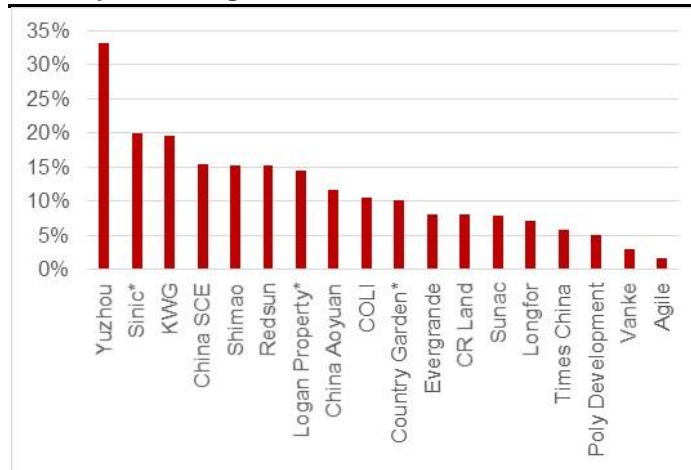
After the outbreak was under control in most part of China in Mar, life began to return normal. Many developers claimed that more than 95% of their sales centers and construction sites reopened and resumed services in Apr 2020. These rated developers as well as Evergrande and Sunac on average set their 2020 sales target as 12%.

Figure 5: Change of contracted sales amount for rated developers, Evergrande and Sunac in 1Q20



Source: Companies data, CMBIS

Figure 6: 2020 sales target growth for rated developers, Evergrande and Sunac



Source: Companies data, CMBIS

Maintain sector to have 5% decline in sales forecast

No massive of stimulating policies for buyers

Now COVID-19 is under control in China. We believe China government will focus more on economic recovery now. However, current property market is run ahead of the economic situation. On the other hand, China government accepts China economic growth below 4% in 2020. So it does not rely on China property market to support economic growth. Furthermore, China Politburo meeting restated that "house is for living, not for speculation" on its 17 Apr meeting. Therefore, we do not expect there will be massive further stimulus policies to support house purchasing, such as lift of Restriction on Purchase or substantial down payment reduction for second home.

Support corporations sustainability

Although we are prudent to policies targeting property buyers, we believe China government will ensure property companies to run smoothly in order to avoid massive bankrupt or huge unemployment. For example, China government will supply more land for developers. Secondly, we believe financing channels for healthy developers will be enhanced.

Mild consolidation in property market in 2020

Suffering from COVID-19, China economy experienced a 6.8% decline in 1Q20. Our economist believes that trade and consumption in China are likely to experience difficulties in Apr and May. Therefore, she forecasts China real GDP to grow at 2.8% in 2020 in the base case. In the bull case, China real GDP may grow at 3.5% in 2020.

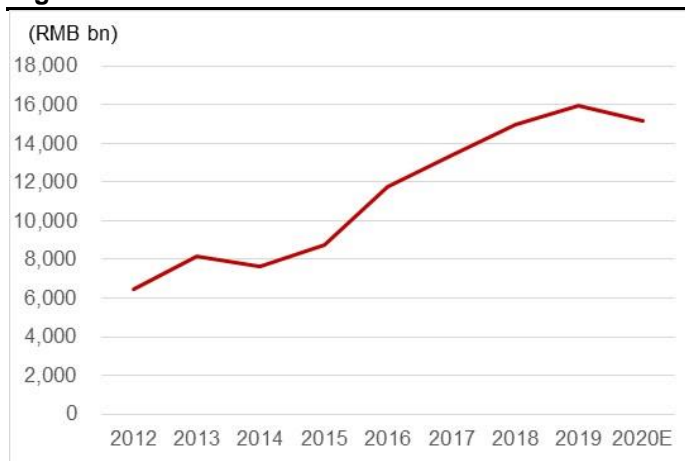
Figure 7: GDP forecast by quarter

| Real GDP growth | 1Q20A | 2Q20E | 3Q20E | 4Q20E | Annual |
|-----------------|-------|-------|-------|-------|--------|
| Base case | -6.8% | 3.0% | 6.5% | 7.0% | 2.8% |
| Bull case | -6.8% | 3.5% | 7.5% | 8.0% | 3.5% |

Source: NBS, CMBIS estimate

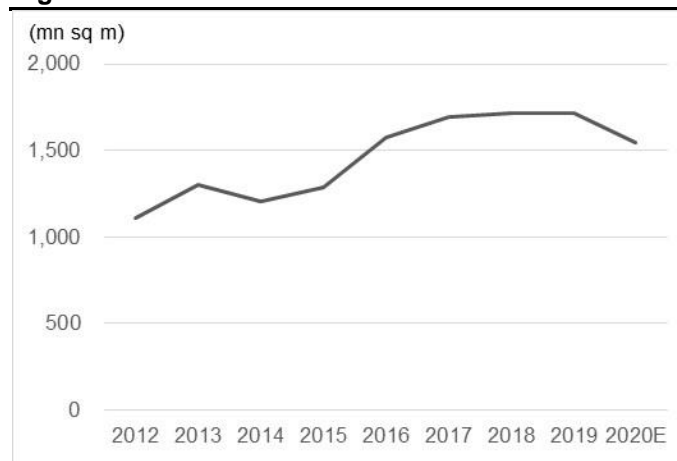
Same as our previous report dated 17 Feb 2020, we forecast property sales and area to decline by 5% and 10% in 2020, respectively. Due to strong fundamental in the first and second tier cities, we believe property markets there are solid and healthy. However, we think property market in the lower tier cities may face more challenges in 2020.

Figure 8: Annual contracted sales amount



Source: NBS, CMBIS estimate

Figure 9: Annual contracted sales area



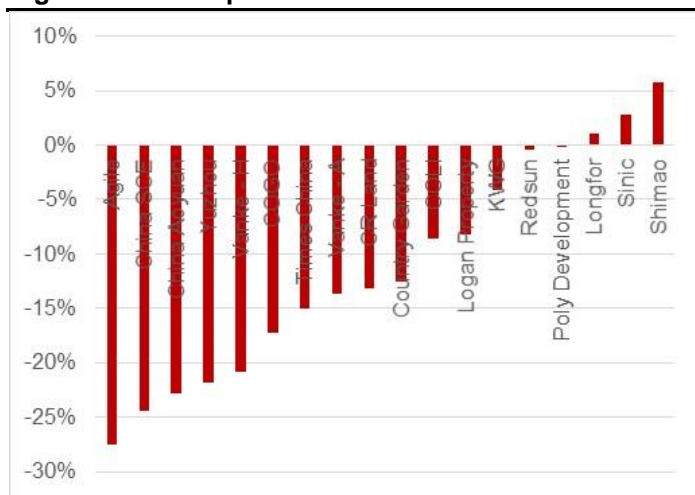
Source: NBS, CMBIS estimate

Value emerged after 11% share price correction

Dated back from our previous report date 17 Feb 2020, we were cautious to the industry outlook due to the uncertainty to the outbreak.

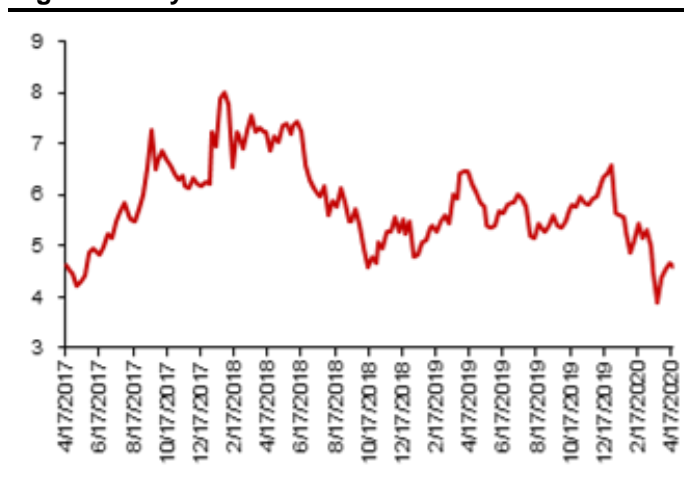
Now, epidemic in China is under control. Furthermore, after about 11% decline in share price for rated developers since 17 Feb 2020, we are more confident in them. In terms of valuation, companies under our universe are on average trading at 5.3x 2020E P/E or 52.6% discount to NAV. In the trough, they can be trading at 4.0-5.0x forward P/E or 50% discount to NAV.

Figure 10: Share price since 14 Feb 2020



Source: Bloomberg, CMBIS

Figure 11: 1 year forward PE



Source: Wind, CMBIS

Our top picks include Vanke (2202 HK, BUY, TP: HK\$36.69), Country Garden (2007 HK, BUY, TP: HK\$14.55), China Aoyuan (3883 HK, BUY, TP: HK\$15.48) and Poly Development (600048 CH, BUY, TP: RMB22.16).

Figure 12: Valuation table

| Company | Ticker | Last price (LC) | Mkt Cap (LC mn) | Rating | TP (LC) | P/E | | | NAV/share (LC) | Discount to NAV |
|------------------|-----------|-----------------|-----------------|--------|---------|------------|------------|------------|----------------|-----------------|
| | | | | | | 19A | 20E | 21E | | |
| Vanke - H | 2202 HK | 25.10 | 322,758 | BUY | 36.69 | 6.5 | 5.7 | 5.0 | 52.42 | 52.1% |
| COLI | 688 HK | 26.20 | 287,052 | BUY | 28.12 | 6.2 | 6.3 | 5.5 | 40.17 | 34.8% |
| Country Garden | 2007 HK | 9.64 | 210,856 | BUY | 14.55 | 4.7 | 4.1 | 3.7 | 26.45 | 63.6% |
| CR Land | 1109 HK | 31.45 | 224,268 | BUY | 44.25 | 6.9 | 7.6 | 6.3 | 63.22 | 50.3% |
| Longfor | 960 HK | 38.10 | 228,223 | HOLD | 34.27 | 10.9 | 10.7 | 8.6 | 48.95 | 22.2% |
| Shimao | 813 HK | 30.35 | 104,996 | BUY | 32.21 | 8.2 | 7.4 | 6.1 | 46.02 | 34.1% |
| Logan Property | 3380 HK | 12.44 | 68,557 | BUY | 14.50 | 5.5 | 5.1 | 4.3 | 29.00 | 57.1% |
| Agile | 3383 HK | 8.34 | 32,668 | BUY | 10.65 | 3.9 | 3.9 | 3.3 | 26.62 | 68.7% |
| KWG | 1813 HK | 11.22 | 35,643 | BUY | 13.70 | 3.3 | 5.1 | 4.4 | 22.84 | 50.9% |
| China Aoyuan | 3883 HK | 9.18 | 24,812 | BUY | 15.48 | 5.3 | 3.5 | 3.0 | 30.95 | 70.3% |
| Times China | 1233 HK | 12.96 | 25,166 | BUY | 16.20 | 4.3 | 3.7 | 3.2 | 32.40 | 60.0% |
| Yuzhou | 1628 HK | 3.23 | 16,866 | BUY | 4.81 | 4.1 | 3.4 | 2.9 | 9.62 | 66.4% |
| China SCE | 1966 HK | 3.43 | 14,345 | BUY | 4.79 | 3.5 | 3.7 | 3.7 | 7.99 | 57.1% |
| COGO | 81 HK | 4.75 | 16,261 | BUY | 7.21 | 3.6 | 3.1 | 2.8 | 10.30 | 53.9% |
| Redsun | 1996 HK | 2.47 | 8,200 | BUY | 3.22 | 5.6 | 5.2 | 3.9 | 5.36 | 53.9% |
| Sinic | 2103 HK | 4.14 | 14,781 | BUY | 5.02 | 6.5 | 5.1 | 4.0 | 10.08 | 58.9% |
| Vanke - A | 000002 CH | 26.58 | 294,623 | BUY | 31.60 | 7.7 | 6.7 | 5.9 | 52.42 | 49.3% |
| Poly Development | 600048 CH | 15.88 | 189,491 | BUY | 22.16 | 6.8 | 5.7 | 4.9 | 27.73 | 42.7% |
| Average | | | | | | 5.7 | 5.3 | 4.5 | | 52.6% |

Source: Company data, CMBIS estimates

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| | |
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| HOLD | : Stock with potential return of +15% to -10% over next 12 months |
| SELL | : Stock with potential loss of over 10% over next 12 months |
| NOT RATED | : Stock is not rated by CMBIS |
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