

China Property Sector

Sign of recovery

- **Positive sales growth in May.** NBS released property market data. Contracted sales amount and area shrank by 10.6% to RMB4,627bn and 12.3% to 487mn sq m in 5M20. The decline was narrowed from 4M20 because business activities resumed in China. There were double up for sales in amount and GFA in May. Contracted sales amount and area gained by 14.0% to RMB1,441bn and 9.7% to 147mn sq m in May 2020, respectively. It seems the worst was over.
- **Steady rise in property prices.** NBS revealed that property prices of newly built housing increased by 2.9%, 5.4% and 4.8% YoY in the first, second and third tier cities in May 2020, respectively. Only eight out of 70 leading cities in China recorded annual decline of property price for newly built housing in the period. We believe the pent-up demand was released after COVID-19 cases declined. Furthermore, the loosening monetary policy as well as rate cut stimulated the housing demand.
- **Need to catch up in 2H20.** Although contracted sales were almost frozen in 1Q20, a few CMBIS rated developers posted contracted sales growth in 5M20. Yuzhou (1628 HK) recorded a 44.4% growth to RMB30.7bn in the period. Other developers, such as Evergrande (3333 HK, NR), Shimao (813 HK, BUY), Logan Property (3380 HK, BUY), China SCE (1966 HK, BUY) and Redsun Properties (1996 HK, BUY) also posted positive sales growth in 5M20. In terms of hit rate, only Evergrande performed well and accomplished 42% of full year sales target of RMB650bn. Times China (1233 HK, BUY), Sunac (1918 HK, NR) and China Aoyuan (3883 HK, BUY) achieved hit rate of 17.0%, 23.5% and 25.2% by May, respectively. They need to accelerate in 2H20 in order to fulfil the tasks.
- **Market is still fragile.** On the one hand, we see China property market started to recover in May. On the other hand, we are afraid the market is fragile. First, the rising COVID-19 cases has alarmed again in Beijing. There may be second-wave of epidemic. Furthermore, we are more concerned about the China economic outlook. Our economist forecasts China GDP growth to be 2.8-3.5% in 2020, which is historical low since reform. Our major concern focuses on the job market. Any substantial rise in unemployment rate would drag down housing demand immediately.
- **Cautious optimistic outlook.** We maintain our forecast on property sales and area decline of 5% and 10% in 2020, respectively. 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	24.85	321,932	BUY	36.69	6.4	5.6	4.9	52.42	52.6%
Country Garden	2007 HK	9.86	215,669	BUY	14.55	4.8	4.2	3.8	26.45	62.7%
China Aoyuan	3883 HK	8.53	23,056	BUY	15.48	4.9	3.2	2.8	30.95	72.4%
Poly Development	600048 CH	14.53	173,382	BUY	22.16	6.2	5.2	4.5	27.73	47.6%

Source: CMBIS estimates

OUTPERFORM (Maintain)

China Property Sector

Samson Man, CFA

(852) 3900 0853

samsonman@cmbi.com.hk

Chengyu Huang

(852) 3761 8773

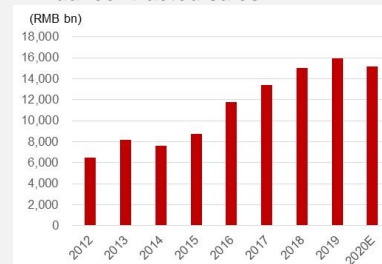
huangchengyu@cmbi.com.hk

Bowen Li

(852) 3657 6239

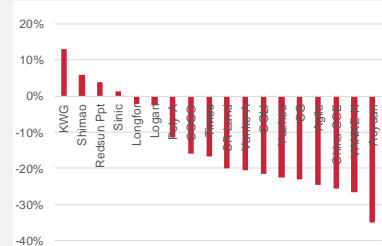
bowenli@cmbi.com.hk

Annual contracted sales



Source: NBS, CMBIS

Share price change YTD



Source: Bloomberg, CMBIS

Related Reports

1. "China Property Sector – The worst of epidemic is over" – 21 Apr 2020
2. "China Property Sector – too optimistic to COVID-19 impact" – 17 Feb 2020

Please cast your valuable vote for CMBIS research team in the 2020 Asiamoney Brokers Poll:

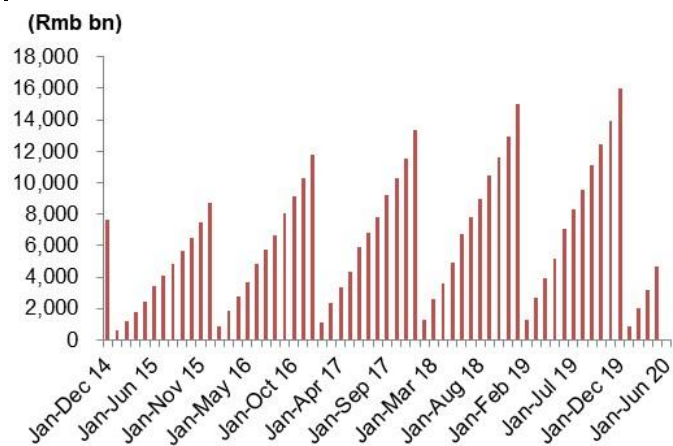
<https://euromoney.com/brokers>

Property market recovered in May

NBS released property market data. Contracted sales amount and area shrank by 10.6% to RMB4,627bn and 12.3% to 487mn sq m in 5M20. Compared with 18.6% and 19.3% decline in contracted sales amount and area in 4M20, China property market rejuvenated in May. We believe pent-up demand was released after the outbreak in China became less serious.

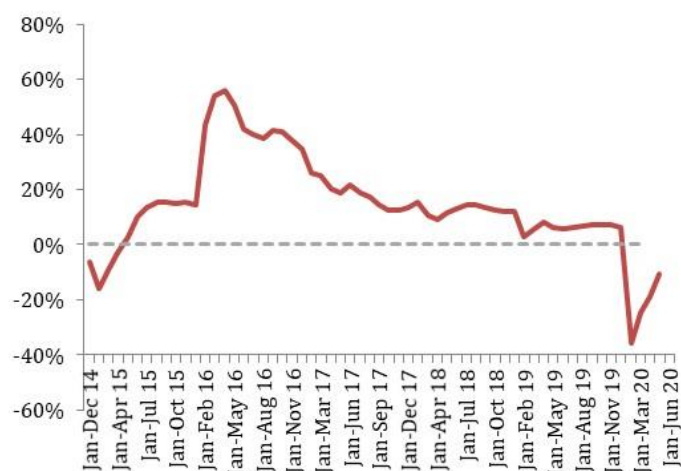
There were double up for sales in amount and GFA in May. Contracted sales amount and area gained by 14.0% YoY to RMB1,441bn and 9.7% YoY to 147mn sq m in May 2020, respectively. It seems the worst was over. In Apr 2020, contracted sales amount and area tumbled by 5.0% YoY to RMB1,150bn and 2.1% YoY to 120mn sq m, respectively.

Figure 1: Contracted sales amount



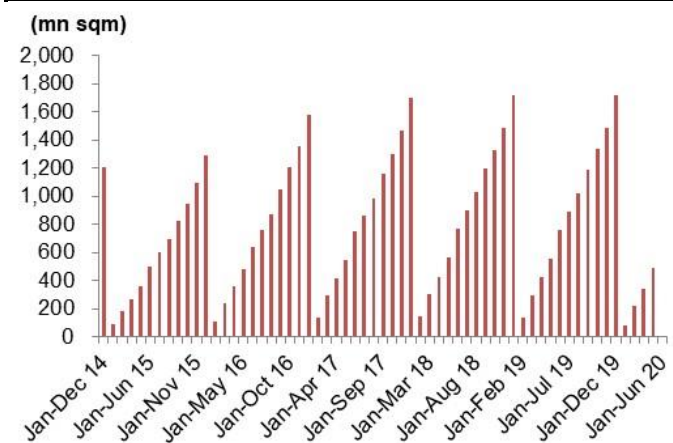
Source: NBS, CMBIS

Figure 2: Change of contracted sales amount



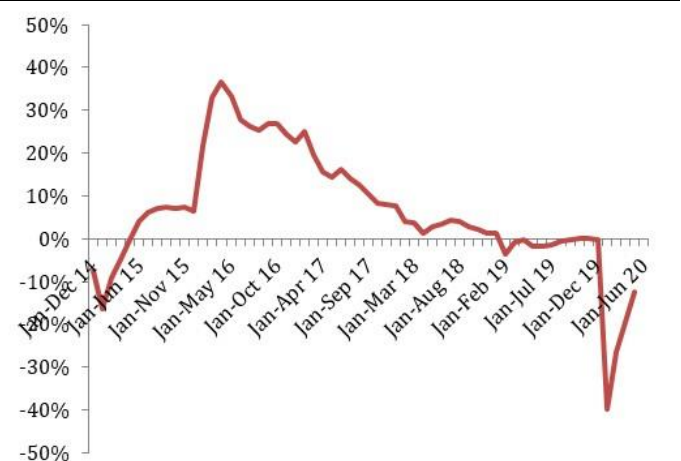
Source: NBS, CMBIS

Figure 3: Contracted sales area



Source: NBS, CMBIS

Figure 4: Change of contracted sales area



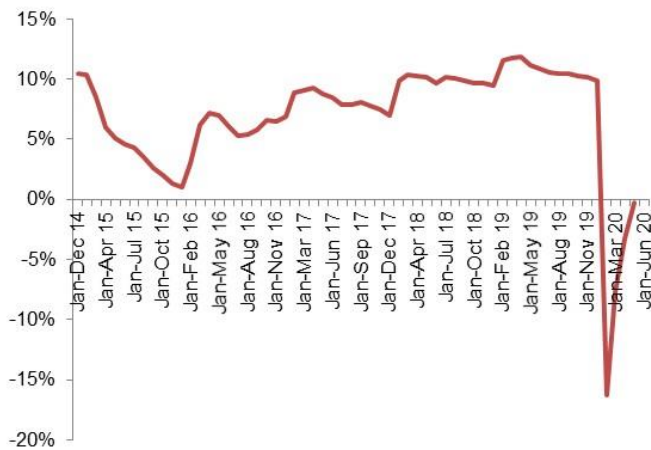
Source: NBS, CMBIS

Developers are cautious

Investment in real estate market slightly dropped 0.3% to RMB4.59tn in 5M20. The decline was reduced from -3.3% in 4M20. We believe the resumption of construction work after COVID-19 drove up investment in real estate. In fact, investment in real estate market expanded by 8.1% to RMB1.28tn in May 2020, compared with 7.0% in Apr 2020.

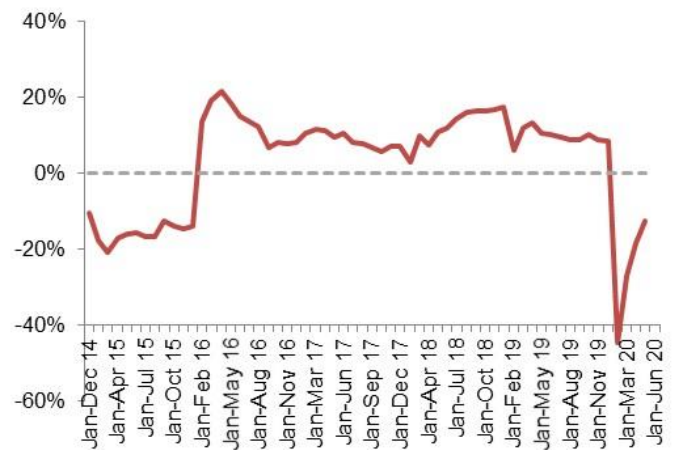
However, we believe developers are more cautious. New starts tumbled by 12.8% YoY to 695mn sq m in 5M20 or 20.1% YoY to 218mn sq m in May 2020. Land sales also fell 8.1% YoY to 47.52mn sq m in 5M20. All reflected their conservative stance. Any new starts will bring in next 24 months continuous investment.

Figure 5: Change of investment in real estate market



Source: Companies data, CMBIS

Figure 6: Change in new starts



Source: Companies data, CMBIS

1.9% rise in contracted sales ASP in 5M20

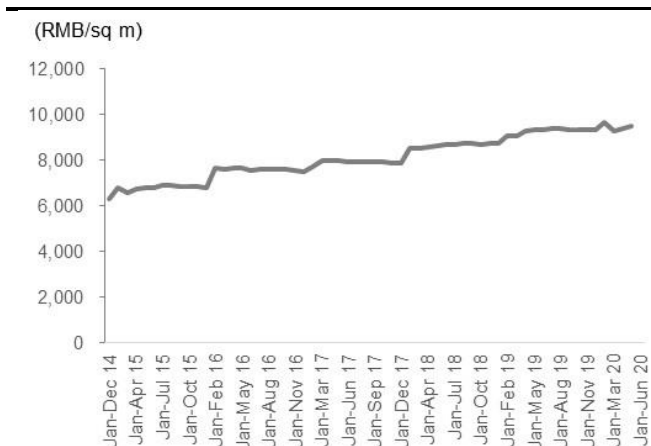
Contracted sales ASP reached RMB9,500 per sq m in 5M20

Based on the contracted sales amount and area in 5M20, contracted sales ASP gained by 1.9% to RMB9,500 per sq m in the period. Apart from 0.8% rise in 4M20, appreciation of property price was less since Mar 2017.

Property price in the second tier cities rose most

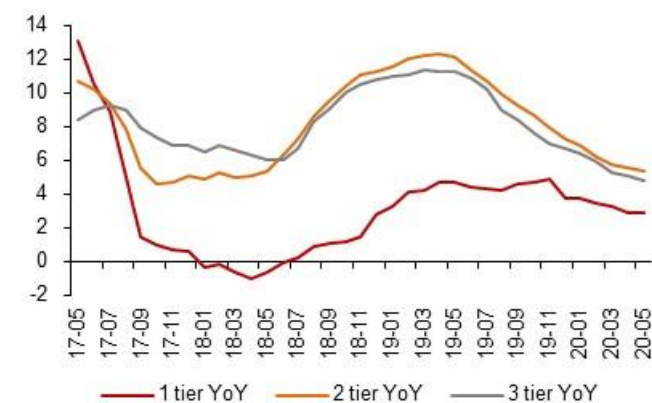
NBS also revealed that property prices of newly built housing increased by 2.9%, 5.4% and 4.8% YoY in the first, second and third tier cities in May 2020, respectively. Only eight out of 70 leading cities in China recorded annual decline of property price for newly built housing in the period. We believe the pent-up demand was released after COVID-19 cases declined. Furthermore, the loosening monetary policy as well as rate cut stimulated the housing demand. As a result, it drove the property price up.

Figure 7: Contracted sales ASP in China



Source: NBS, CMBIS

Figure 8: Property price change in the first, second and third tier cities



Source: NBS, CMBIS

Stability is the main theme

We believe stability is still the main theme of China property market. Rise in property price is acceptable but its magnitude, no matter is upside or downside, should be within single digit. If there is large movement of property price, Chinese government may implement new policies to stabilize property price.

Catch up in 2H20

Sales frozen in 1Q20

Due to the outbreak, many sales centers were closed in Feb and Mar 2020. Therefore, many developers suffered from the sales drop in 1Q20. For example, Agile, Redsun Properties and Poly Development recorded more than 30% sales decline in 1Q20.

Pick-up started in Mar

Following the re-opening of sales centers in Mar, developers were more willing to launch properties for sales. Many developers experienced a three-digit MoM sales growth in Mar. Although not all developers would have strong sequential rebound in Apr and May, their sales momentum could be maintained. Most of developers recorded consecutive YoY contracted sales growth in Apr and May.

Figure 9: Monthly contracted sales of major developers

Company (RMB bn)	Ticker	2020				
		Jan	Feb	Mar	Apr	May
Evergrande	3333 HK Equity	40.6	44.7	62.1	65.2	60.2
Vanke - H	2202 HK Equity	54.9	28.0	54.9	48.0	61.3
Country Garden (Attr)	2007 HK Equity	32.9	20.9	47.0	49.0	56.1
Sunac	1918 HK Equity	18.6	12.2	30.9	33.8	45.2
Poly Development	600048 CH Equity	23.6	20.1	27.4	37.6	47.1
COLI	688 HK Equity	17.5	11.5	22.6	24.0	21.6
CR Land	1109 HK Equity	11.0	5.5	22.4	18.9	21.2
Longfor	960 HK Equity	10.1	7.0	21.1	22.1	22.1
Shimao	813 HK Equity	10.2	6.5	20.3	21.2	22.0
Logan Property (Attr)	3380 HK Equity	6.1	2.7	7.1	9.8	11.6
Agile	3383 HK Equity	5.0	3.0	7.7	10.7	13.8
KWG	1813 HK Equity	5.2	1.7	6.2	6.5	9.2
China Aoyuan	3883 HK Equity	5.1	2.0	7.3	8.7	10.3
Times China	1233 HK Equity	6.7	1.1	4.7	4.7	7.5
Yuzhou	1628 HK Equity	3.4	1.2	5.7	9.6	10.8
China SCE	1966 HK Equity	5.0	1.9	6.0	6.1	9.1
COGO	81 HK Equity	2.8	1.2	4.2	4.0	5.1
Powerlong	1238 HK Equity	3.5	1.3	3.2	5.8	7.4

Company (YoY)	Ticker	2020				
		Jan	Feb	Mar	Apr	May
Evergrande	3333 HK Equity	-6.1%	107.8%	13.1%	11.6%	12.5%
Vanke - H	2202 HK Equity	12.3%	-35.1%	-4.2%	-20.3%	5.7%
Country Garden (Attr)	2007 HK Equity	-0.5%	-50.0%	4.2%	3.8%	3.3%
Sunac	1918 HK Equity	-22.2%	-33.2%	-17.9%	-13.7%	1.8%
Poly Development	600048 CH Equity	-29.8%	-39.9%	-35.8%	0.4%	12.4%
COLI	688 HK Equity	-32.2%	-37.3%	-13.2%	-7.5%	-21.4%
CR Land	1109 HK Equity	-32.7%	-39.3%	-13.3%	6.2%	-0.5%
Longfor	960 HK Equity	-32.3%	-29.9%	7.6%	12.5%	9.9%
Shimao	813 HK Equity	-11.4%	-35.2%	5.8%	40.7%	36.7%
Logan Property (Attr)	3380 HK Equity	40.0%	-44.9%	-9.3%	34.7%	14.1%
Agile	3383 HK Equity	-18.5%	-58.3%	-35.0%	16.1%	24.0%
KWG	1813 HK Equity	1.2%	-57.9%	-2.2%	-3.0%	45.0%
China Aoyuan	3883 HK Equity	-9.6%	-65.2%	-2.9%	-8.8%	2.3%
Times China	1233 HK Equity	59.6%	-65.3%	-30.0%	-10.0%	25.5%
Yuzhou	1628 HK Equity	22.8%	-61.0%	11.7%	87.4%	108.7%
China SCE	1966 HK Equity	7.9%	-56.4%	-10.6%	7.1%	68.5%
COGO	81 HK Equity	-14.7%	-57.3%	22.4%	-6.8%	-10.5%
Powerlong	1238 HK Equity	10.4%	-54.4%	-30.9%	8.6%	13.7%

Source: Companies data, CMBIS

A few posted YoY growth in 5M20

Some CMBIS rated developers posted contracted sales growth in 5M20. Yuzhou recorded a 44.4% growth to RMB30.7bn in the period. Other developers, such as Evergrande, Shimao, Logan Property, China SCE and Redsun Properties also reported positive sales growth in 5M20.

Most of them have less than 35% hit rate by May

In terms of hit rate, only Evergrande performed well and accomplished 42% of full year sales target of RMB650bn. Times China, Sunac and China Aoyuan achieved hit rate of 17.0%, 23.5% and 25.2% by May, respectively. They need to accelerate the sales pace in 2H20 in order to fulfil the tasks.

Figure 10: Accumulated contracted sales of major developers in 5M20

Company	Ticker	5M20 (RMB bn)	YoY change	Hit rate	Sales target (RMB bn)
Evergrande	3333 HK Equity	272.8	17.8%	42.0%	650.0
Vanke - H	2202 HK Equity	247.1	-7.7%	38.0%	650.0
Country Garden (Att)	2007 HK Equity	206.0	-7.0%	33.9%	607.4
Sunac	1918 HK Equity	140.7	-13.9%	23.5%	600.0
Poly Development	600048 CH Equity	155.7	-17.6%	32.1%	485.0
COLI	688 HK Equity	97.2	-21.4%	26.0%	374.0
CR Land	1109 HK Equity	79.0	-12.5%	30.2%	262.0
Longfor	960 HK Equity	82.3	-2.2%	31.7%	260.0
Shimao	813 HK Equity	80.3	11.5%	26.8%	300.0
Logan Property	3380 HK Equity	37.3	8.1%	33.9%	110.0
Agile	3383 HK Equity	40.2	-11.8%	33.5%	120.0
KWG	1813 HK Equity	28.7	0.8%	27.9%	103.0
China Aoyuan	3883 HK Equity	33.3	-13.2%	25.2%	132.0
Times China	1233 HK Equity	24.6	-2.1%	17.0%	145.0
Yuzhou	1628 HK Equity	30.7	44.4%	30.7%	100.0
China SCE	1966 HK Equity	28.1	5.0%	30.3%	93.0
COGO	81 HK Equity	17.3	-11.1%	28.8%	60.0
Powerlong	1238 HK Equity	21.2	-5.8%	28.3%	75.0
Redsun	1996 HK Equity	20.6	1.5%	27.5%	75.0
Sinic	2103 HK Equity	32.7	N.A.	29.8%	110.0

Source: Companies data, CMBIS

Full of uncertainty

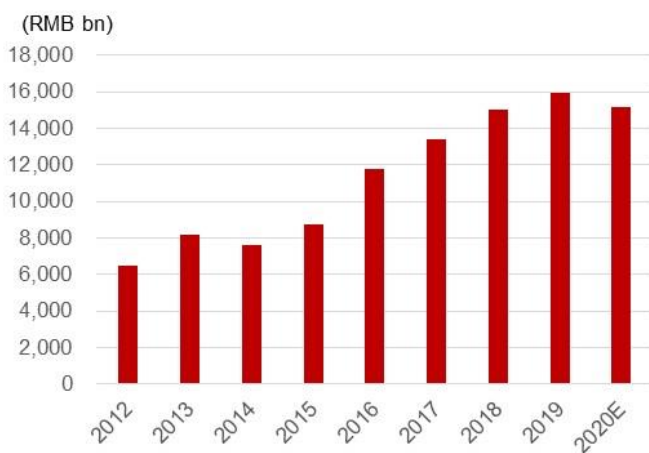
On the one hand, we see China property market started to recover in May. On the other hand, we are afraid the market is fragile.

First, COVID-19 cases has alarmed again in Beijing. Beijing reported 36 new cases of COVID-19 in the 24 hours to midnight on Sat 13 Jun. All of them linked with the largest wholesale food market in Beijing. If there is second-wave of epidemic, sales centres may be forced to close again, which in turn affects property sales.

Furthermore, we are more concerned about the China economic outlook. Our economist forecasts China GDP growth to be 2.8-3.5% in 2020, which is historical low since reform. Our major concern focuses on the job market. According to our latest report ([link](#)) of "Takeaways of 2020 Government Work Report" published on 25 May 2020. Chinese government lowered employment targets in 2020 due to COVID-19 disruptions. Urban surveyed jobless rate will stay around 6.0% in 2020, compared with around 5.5% a year ago. Any substantial rise in unemployment rate would drag down housing demand immediately.

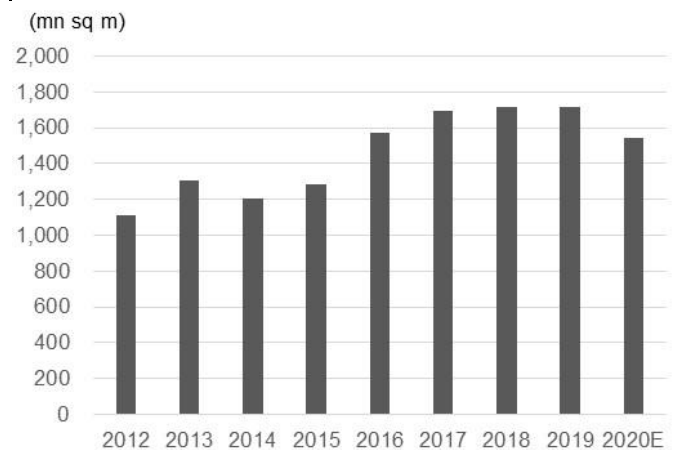
As a result, we maintain our market forecast. We project contracted sales amount and area decline by 5% to RMB15.17tn and 10% to 1,544mn sq m in 2020, respectively.

Figure 11: Annual contracted sales amount in China



Source: NBS, CMBIS estimates

Figure 12: Annual contracted sales area in China



Source: NBS, CMBIS estimates

Valuation close to the trough

Although property sector did not have a huge rally in 1H20, a few property companies successfully raised fund in the capital market. Four major developers had undergone five times of share placement. Totally, they raised HK\$23.9bn.

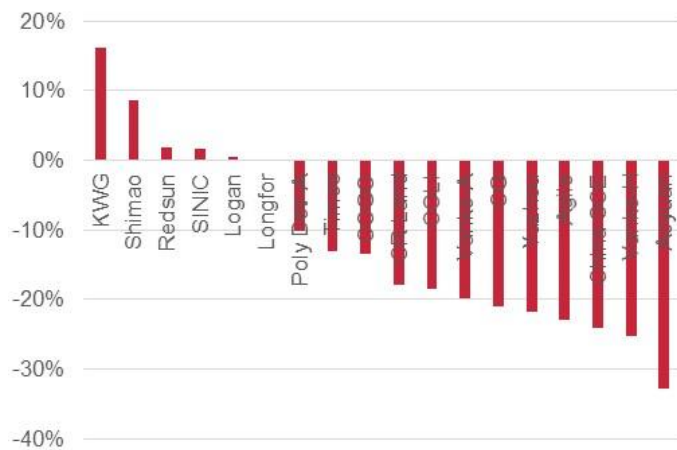
Figure 13: Equity fund raising YTD

Date	Company	Ticker	No. of shares (mn)	Issuing price (HK\$)	discount to previous closing	Net proceeds (HK\$mn)
10/1/2020	Sunac	1918 HK	186.9	42.80	8.25%	7,958
17/1/2020	Shimao	813 HK	158.0	29.58	7.85%	4,638
23/4/2020	Shimao	813 HK	78.2	29.73	2.20%	2,311
4/6/2020	Vanke	2202 HK	315.6	25.00	4.76%	7,865
7/6/2020	CIFI	884 HK	185.0	6.28	1.26%	1,153

Source: Companies data, CMBIS

In our previous sector reported dated 21 Apr 2020, companies under our universe are on average trading at 5.3x 2020E P/E or 52.6% discount to NAV. Now, they return to the start point after ex-dividend for most stocks. Their valuations retreated slightly on average trading at 5.3x 2020E P/E or 53.3% discount to NAV. It is close to the trough.

Figure 14: Share price change YTD



Source: Bloomberg, CMBIS

Figure 15: 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 16: 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	24.85	321,941	BUY	36.69	6.4	5.6	4.9	52.42	52.6%
COLI	688 HK	24.75	271,166	BUY	28.12	5.8	6.0	5.2	40.17	38.4%
Country Garden	2007 HK	9.86	215,669	BUY	14.55	4.8	4.2	3.8	26.45	62.7%
CR Land	1109 HK	31.85	227,120	BUY	44.25	6.9	7.6	6.4	63.22	49.6%
Longfor	960 HK	36.55	219,101	HOLD	34.27	10.5	10.3	8.2	48.95	25.3%
Shimao	813 HK	32.80	116,036	BUY	37.85	8.9	8.1	6.7	50.46	35.0%
Logan Property	3380 HK	13.14	72,527	BUY	14.50	5.8	5.4	4.5	29.00	54.7%
Agile	3383 HK	9.03	35,371	BUY	10.65	4.2	4.2	3.6	26.62	66.1%
KWG	1813 HK	12.24	38,885	BUY	13.70	3.6	5.6	4.7	22.84	46.4%
China Aoyuan	3883 HK	8.53	23,056	BUY	15.48	4.9	3.2	2.8	30.95	72.4%
Times China	1233 HK	13.50	26,215	BUY	16.20	4.4	3.8	3.3	32.40	58.3%
Yuzhou	1628 HK	3.32	17,360	BUY	4.81	4.2	3.5	2.9	9.62	65.5%
China SCE	1966 HK	3.45	14,428	BUY	4.79	3.5	3.7	3.8	7.99	56.8%
COGO	81 HK	4.67	15,987	BUY	7.21	3.5	3.1	2.7	10.30	54.7%
Redsun	1996 HK	2.63	8,732	BUY	3.22	5.9	5.6	4.1	5.36	50.9%
Sinic	2103 HK	4.12	14,709	BUY	5.02	6.5	5.1	4.0	10.08	59.1%
Vanke - A	000002 CH	25.82	294,058	BUY	31.60	7.4	6.5	5.7	52.42	50.7%
Poly Development	600048 CH	14.53	173,382	BUY	22.16	6.2	5.2	4.5	27.73	47.6%
Average						5.8	5.4	4.6		52.6%

Source: Company data, Bloomberg, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Disclosure

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
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
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.