

# China Property Sector

## Whole sector wins if Evergrande could survive

Sep2021 property sales of major developers was weaker than expected as it recorded a sharp YoY decline of -38% vs. -19% in Aug. Despite a weakening fundamental, we have not seen any firm policy loosening as PBOC meeting was mainly targeting financial risks instead of spurring property sector and Dongguang just further tightened its secondary housing transaction. Therefore, we still need to wait for standing bureau meeting in late Oct to adjust the tone. In the short term, Evergrande's potential disposal of its PM arm would provide HKD40bn cash to alleviate its short-term liquidity and we think this is positive for the whole sector on less price war. Market may stay volatile until Evergrande further improved its liquidity so we maintain our picks on core assets CR Land, Longfor and KWG (for high beta).

- **Major developers' sales decline widened sharply in Sep:** CRIC released preliminary sales data showing a 38% YoY decline in Sep 2021 alone among our tracked developers. This is much worse than that in Aug 2021 at -19% YoY despite a lower base (+13% YoY in Sep2020 and +30% YoY in Aug2020) showing a quickly weakening sentiment due to overall economy slowdown, still tight policy and Evergrande issue. This has dragged 9M21 YoY growth to 5% from 19% in 8M21 (Figure 2) with overall completion rate of 66% only (vs. 70% in 9M20). In particular, Evergrande dropped the most and only recorded RMB7bn sales in September (-91% YoY) and then SCE, KWG and COLI all recorded >40% decline in Sep.
- **PBOC and CBIRC meeting aims to prevent financial risks instead of spurring property sector.** Those two regulators seldom hosted meetings directly for property sector as it is under MOHURD's responsibility. In our view, the main purpose of this meeting is from the point of financial stability after more and more smaller developers are in deep trouble. That means it aims to make banks more cautious on its property exposure instead of encouraging more lending to the property sector as it mentioned not to spur the sector in the short term. So we still need to wait until the potential standing bureau meeting in late Oct for the policy loosening.
- **Saving Evergrande is to save the whole sector.** According to the [eastmoney](#), Hopson (754 HK) would acquire 51% stakes of Evergrande Services (6666.HK) for over HKD40bn. That would translate into 40% premium of its last trading price and trigger the general offer. If true, this would certainly be positive to Evergrande group. More importantly, this is also positive to the whole sector in the near term as this may alleviate the price war led by Evergrande's fire sales, which affected buyers' sentiment.
- **Our top picks remain CR Land and Longfor:** despite the fact that Evergrande issue may start to see some silver lining, it is still far from being able to pay back the debts given RMB570bn interest-bearing debts + RMB900bn payables. Besides, the real policy loosening may not be firm before the potential standing bureau meeting in late Oct. We think the market may still face volatility and thus suggest to hold core assets CR Land/Longfor for long-only funds and KWG for high beta.

**OUTPERFORM**  
(Maintain)

### China Property Sector

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**Figure 1: Policy trend in recent years by quarter**

	Policy trend	Details
1Q17	Relax	Henan, Suzhou relaxed the commercial apartment policy
2Q17	Tighten	20 Cities (mainly Tier 2) tightened the policy
3Q17	Tighten	4 Tier 3 cities tightened the policy
4Q17		No policy
1Q18		No policy
2Q18	Tighten	Dalian, Shenyang, Ningbo, Changchun and other cities tightened the policy
3Q18	Tighten	Political bureau meeting to prevent property price going up
4Q18	Relax	Political bureau meeting did not mention property
1Q19		No policy
2Q19	Tighten	Political bureau meeting reiterated housing is for living
3Q19	Tighten	Political bureau meeting reiterated not to use property to spur economy
4Q19	Relax	5bps cut in 5YR LPR
1Q20	Relax	10bps cut in 5YR LPR
2Q20	Tighten	Political bureau meeting reiterated housing is for living
3Q20	Tighten	"Three red line" Policy
4Q20	Neutral	Political bureau meeting to encourage healthy property market; 7 cities relaxed Hukou policy; Loan cap
1Q21	Neutral	Banks' two lending caps towards developers; centralized land supplies in 22 cities
2Q21	Tighten	Political bureau to ban speculation on school district housing and reiterate on housing is for living
3Q21	Tighten	Political bureau meeting continued to stress housing is for living and expedite social housing with tax supports

Source: CMBIS

**Figure 2: Developer sales data in 9M21**

Company	Sep sales (RMB bn)	YoY	9M21 sales	2021		Completion rate		
				YoY target	YoY			
Country Garden (attri)	2007 HK	40	-37%	443	-1%	624	9%	71%
Vanke	2202 HK	36	-34%	481	-2%	790	12%	61%
Sunac	1918 HK	47	-33%	462	21%	700	22%	66%
Evergrande	3333 HK	7	-91%	444	-17%	750	4%	59%
COLI	688 HK	20	-44%	277	7%	400	11%	69%
CR Land	1109 HK	22	-24%	230	20%	315	11%	73%
Shimao	813 HK	23	-30%	222	10%	330	10%	67%
Longfor	960 HK	20	-33%	202	8%	310	15%	65%
CIFI	884 HK	16	-39%	193	25%	265	15%	73%
Jinmao	817 HK	14	-14%	176	9%	250	8%	70%
Seazen	1030 HK	19	-25%	171	4%	260	4%	66%
Agile	3383 HK	10	-17%	102	14%	150	9%	68%
Aoyuan	3883 HK	11	-9%	99	18%	150	13%	66%
R&F	2777 HK	11	-31%	93	-1%	150	8%	62%
SCE	1966 HK	8	-57%	83	20%	120	18%	69%
KWG	1813 HK	5	-49%	77	16%	124	20%	62%
Times	1233 HK	7	-33%	67	12%	110	10%	61%
<b>Average</b>			<b>-42%</b>		<b>5%</b>	<b>12%</b>		<b>66%</b>

Source: CRIC

Figure 3: YoY sales growth by major developers



Source: Company data; CMBIS

Figure 4: Property sector comps

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			PB	Dividend Yield	
						20A	21E	22E	20A	20A	21E
Vanke - H	2202 HK	21.30	290,239	BUY	33.92	4.5	4.0	3.8	0.9	7%	7%
COLI	688 HK	17.74	194,161	BUY	30.49	3.7	3.5	3.1	0.4	7%	8%
Country Garden	2007 HK	8.05	180,964	BUY	13.36	4.1	3.1	2.8	0.8	7%	6%
CR Land	1109 HK	32.85	234,251	BUY	44.79	6.5	6.1	5.6	1.0	4%	4%
Longfor	960 HK	35.90	217,801	HOLD	34.27	8.7	5.9	5.7	1.7	5%	6%
Shimao	813 HK	14.26	50,391	BUY	44.94	3.2	2.7	2.3	0.4	11%	11%
Agile	3383 HK	7.28	28,516	BUY	13.89	2.5	2.4	2.2	0.5	15%	13%
KWGW	1813 HK	7.61	24,223	BUY	17.87	3.0	2.5	2.1	0.5	15%	16%
China Aoyuan	3883 HK	4.11	11,080	BUY	15.48	1.4	1.2	1.1	0.5	29%	21%
Times China	1233 HK	6.47	12,837	BUY	16.20	2.1	1.5	1.3	0.6	14%	15%
China SCE	1966 HK	2.73	11,526	BUY	5.60	2.5	2.2	1.7	0.5	13%	13%
Redsun	1996 HK	2.41	8,031	BUY	3.52	4.0	3.2	2.7	0.5	7%	7%
Vanke - A	000002 CH	21.31	240,823	BUY	31.36	5.4	4.8	4.6	1.1	6%	7%
Radiance	9993 HK	4.24	17,152	BUY	5.55	4.0	3.5	2.9	0.8	7%	8%
Dafa	6111 HK	5.02	4,156	BUY	8.32	10.2	5.5	4.8	1.0	2%	3%
Shinsun	2599 HK	5.07	15,430	BUY	7.75	3.9	3.4	3.0	1.8	4%	5%
Dexin	2019 HK	2.79	7,537	BUY	3.56	6.3	5.5	4.8	1.3	6%	7%
<b>Average</b>						<b>4.5</b>	<b>3.6</b>	<b>3.2</b>	<b>0.8</b>	<b>9.3%</b>	<b>9.3%</b>

Source: BBG; CMBIS

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