

China Property Sector

Strong Feb sales to fuel the sector rotation; Neutral to the land reform

Today we saw a strong sector performance (up 10%+) today in both A and H shares. We attribute to the following reasons: 1) follow the trend of sector rotation to cyclicals. 2) Feb sales of major developers will be announced over the weekend and we expect a huge YoY increase (>100% YoY vs. 55% in Jan and 30% in Dec 2020) on both good demand and lower base. 3) Several cities raised banks' upper limit of property loan ratio. This would lessen the concern of faster-than-expected tightening. As for the land reform, we think it is **neutral** to the sector as it may not significantly lower the land price. **For the potential policy tone**, the key is to watch Plenary Session of the Central Committee on 5 Mar and Politburo Standing Committee meeting in Apr.

- **Strong Feb and Mar sales ahead.** Following a strong Jan sales (+55% YoY by major developers), the good sentiment continues in Feb based on our data track. Together with the relatively low base in Feb and Mar 2020 (-27% and -10%), we expect Feb and Mar sales to record robust YoY increase and that would contribute a strong 1Q21. Based on our forecast, we think major developers could record 20%+ sales growth in 1H21 vs. their annual target of 10% growth. Therefore, we may see a sales beat in 2021E.
- **Multiple provinces raises banks' property loan ratio limit:** Compared to the PBOC guidance, Guangdong, Hainan, Shanghai and Zhejiang raised the limits slightly especially for low-tier banks. For example, Shanghai raised the upper limit of property loan ratio for Tier 3 and 5 banks to 29.5% and 24% respectively (vs. PBOC's 27.5% and 22.5%) of total loans. This reflects that the overall property policy will continue to follow the "one city one policy", which lessens the worry of nation-wide tightening.
- **Land reform – Neutral to developers:** Today multiple cities announced to organize land supply in no more than three batches this year. This would increase the total land supply per batch comparing to previously piece-by-piece policy. This aims to reform the land market and stabilize the land price. We do not think this would significantly lower the land price as 1) total land supply per year remains unchanged; 2) this may lower the land auction rate that could reduce effective land supply per year; and 3) more developers may join the auction for high-quality plots which could be priced even more expensively. As for the developers, we think this would be neutral as 1) developers may not do counter-cycle land acquisitions like previously as now government controls the timing, and 2) high-quality lands will still be chased competitively. In a nutshell, we think the overall impact is neutral.
- **Top picks: CR Land/Shimao/KWG.** The industry is trading at 5x 2021E PE, still at 1SD deviation below the historical average. We prefer stocks that can deliver high sales growth in 2021E and also benefit from consumption: CR Land (20/21E earnings to be back to high-teens growth on sales of high-margin projects in Shenzhen, rental income to grow 30% in 2021E and potential spin-off of its shopping malls). Shimao (21E sales to grow 15% YoY, higher than the industry, 20/21E earnings to grow 20% and potential spin-off) and KWG (Sales likely to achieve 20% YoY growth, top of the industry).

OUTPERFORM
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Figure 1: We expect sales to be strong in Feb and Mar 2021



Source: Company data, CMBIS

Figure 2: Valuation table

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			NAV/share (LC)	Discount to NAV	TP Discount
						19A	20E	21E			
Vanke - H	2202 HK	34.05	449,796	BUY	33.92	8.8	7.8	6.9	48.46	29.7%	30%
COLI	688 HK	20.25	221,650	BUY	30.49	4.8	4.5	4.3	43.55	53.5%	30%
Country Garden	2007 HK	10.02	220,795	BUY	13.36	4.9	4.9	4.1	26.72	62.5%	50%
CR Land	1109 HK	36.25	258,497	BUY	44.79	7.9	8.8	7.3	63.98	43.3%	30%
Longfor	960 HK	44.90	272,126	HOLD	34.27	12.9	12.6	10.1	48.95	8.3%	30%
Shimao	813 HK	24.90	88,089	BUY	44.94	6.7	6.0	5.1	59.92	58.4%	25%
Agile	3383 HK	11.04	43,244	BUY	13.89	5.1	4.9	4.1	27.78	60.3%	50%
KWG	1813 HK	12.02	38,230	BUY	17.87	3.5	5.0	4.3	25.52	52.9%	30%
Times China	1233 HK	11.52	22,335	BUY	16.20	3.8	3.2	2.8	32.40	64.4%	50%
Yuzhou	1628 HK	3.01	17,138	BUY	4.82	3.8	3.3	2.8	9.65	68.8%	50%
China SCE	1966 HK	3.31	13,975	BUY	5.60	3.5	3.3	2.9	9.34	64.6%	40%
Redsun	1996 HK	2.76	9,175	BUY	3.52	6.2	5.8	4.4	5.87	53.0%	40%
Sinic	2103 HK	3.99	14,245	BUY	5.06	6.3	5.3	4.3	10.11	60.5%	50%
Vanke - A	000002 CH	32.99	374,480	BUY	31.36	9.5	8.4	7.5	48.46	31.9%	35%
Average						6.3	6.0	5.1		50.9%	38.6%

Source: Bloomberg, CMBIS estimates

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