

# China Property Sector

## NBS Jun data missed; 3Q will be even tougher

NBS Jun data came **weak on property investment** which has further slid to -9% and dragged 1H to -5% YoY, the worst in the recent history. June's sales gave some hopes to developers but soon got shattered after the quiet season in July/August and the delivery risk after home buyers' lobbying to refuse mortgage payment for unfinished units. Even though our estimate shows a maximum of **630mn sqm GFA** could face delivery issue (which means RMB6tn sales, RMB3tn mortgage and RMB1.2tn construction due to complete them), there is no quick solution at the moment: banks are saying very limited exposure; CBIRC is liaising with PBOC/MOHURD to push banks to solve in a market-oriented way. We think this may not comfort the market or home buyers so the sales sentiment will be further hit from an already-low starting point. Following this trend of worsening sales, all the survivors (Longfor, CIFI, Country Garden, Seazen) will all face huge pressure causing short-term volatility. Now all the eyes will be on the political bureau meeting in end-July to discuss 2H economy. We think it is very hard for the property market to turn around at this moment if there is no big help from the top level.

■ **NBS property data in June 2022 – A miss on investment, completion, new starts**

- **Property investment further weakened to 9% YoY in June (vs. -8% YoY in May)**, despite a lower base. This lacklustre figure was partly driven by -45% YoY in new starts (vs. -42% in May 22). This has led to a REI YoY decline of 5% in 1H22, the worst ever in the recent history.
- **Property sales saw volume and value growth strongly rebounded to 66%/68% MoM in June 22 from 25%/30% in May 21.** This is mainly due to the strong policy support, pent-up demand from lockdown, sales promotion and relatively low base. This has slightly helped narrowed 1H22 sales value decline to -29% YoY. However, based on our leading indicator, the sales sentiment will weaken in July and August partly due to the low season. Also the high frequency data in July and our channel check suggests similar results. What is even worse, the recent mortgage issue will further hurt the sentiment as buyers will not have the confidence to buy in the primary market.
- **Completion decline widened in June.** The completed GFA saw 40% decline YoY, vs. -31% in May. We think this is mainly due to the liquidity constraint by developers who have chosen to halt construction. This has caused a rising number of home buyers lobbying to refuse mortgage payment for unfinished units.
- **Completed but unsold inventory continued to decline MoM:** The overall unsold residential inventory was 263mn sqm in June 2022 (down 2% MoM). We think this is due to the sales > new starts causing inventory digestion.

■ **Mortgage issue will make 3Q even tougher for primary market if no quick solution:** The property crisis finally turned into an alarming event after a rapidly rising number of house buyers refused to pay mortgage for the unfinished projects of developers. With so many developers under distress or default, we calculated the total GFA of construction halt could be as many as 630mn sqm or 6mn units (11% of total construction and 86% of 2021 completed GFA). If this goes further viral, we think it may again hurt the

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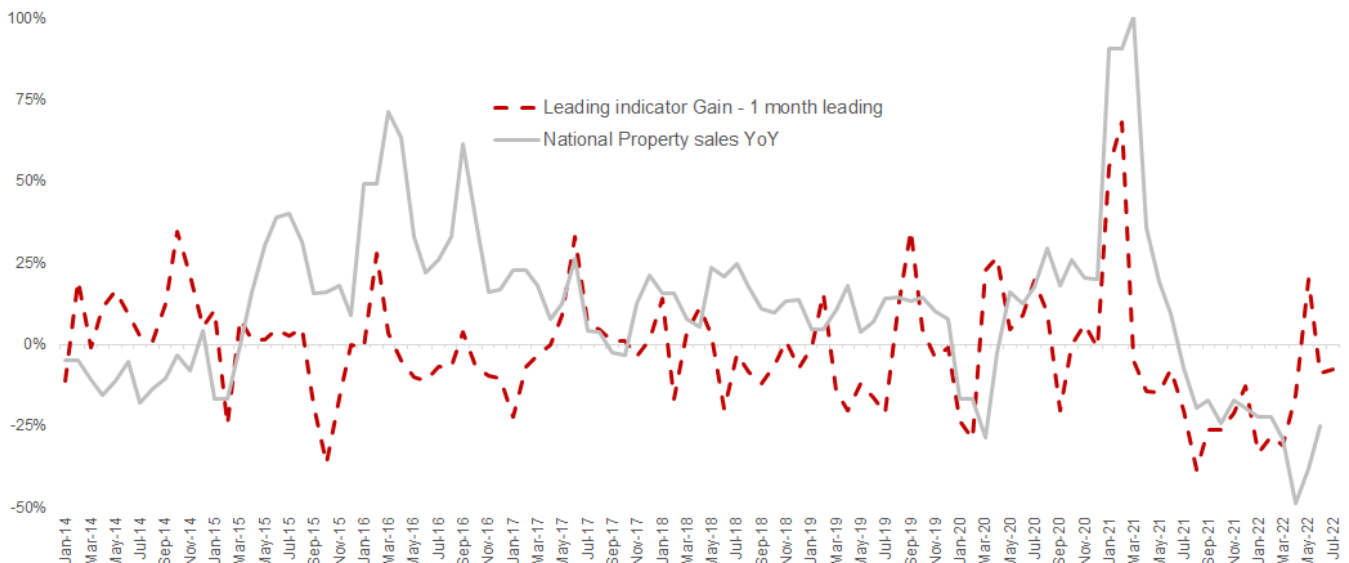
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already-fragile primary sales market on the delivery risk. By then even high quality names like Longfor may be under huge stress as buyers may not be rational enough to tell. The short-term solution has to rely on the bailout by banks and local government based on our channel check. However, we think the banks will be selective to choose almost-finished projects so they can benefit most (that means mortgage >> costs to finish projects).

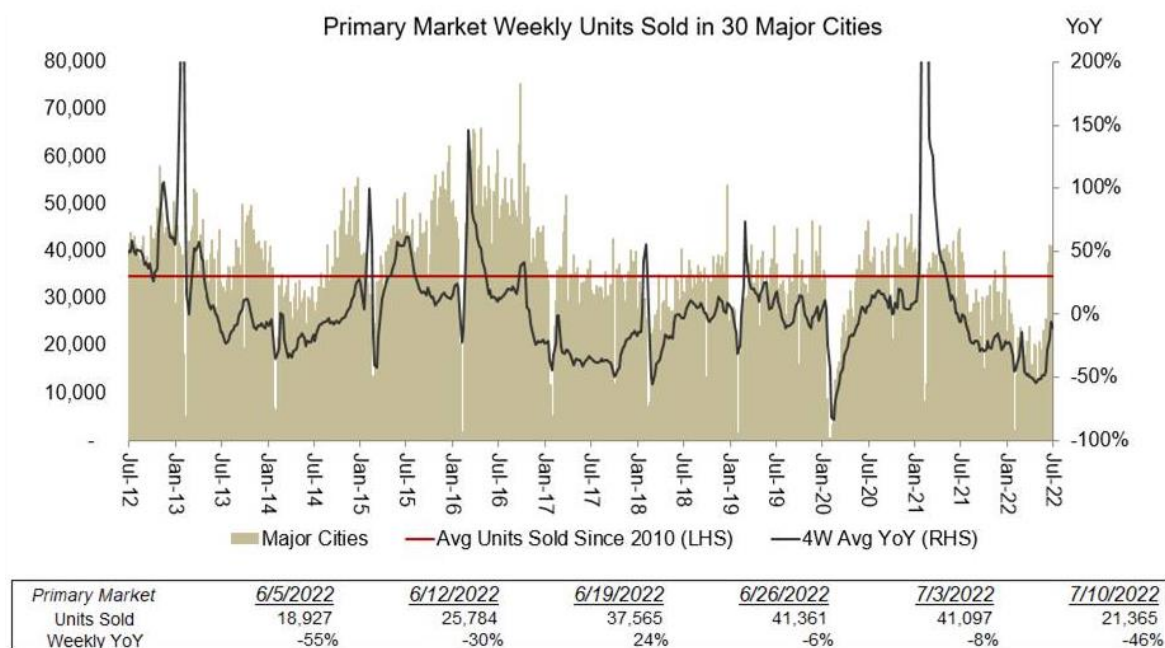
**Figure 1: Quick view of national property data in 6M22**

	Jun-22	YoY	May-22	YoY	MoM	1H22	YoY	2021	YoY
Property GFA sold (mn sqm)	182	-18.3%	110	-31.8%	25.1%	689	-22.2%	1,794	1.9%
Property sales (RMB bn)	1,774	-20.8%	1,055	-37.7%	30.1%	6,607	-28.9%	18,193	4.8%
New starts (mn sqm)	148	-45.1%	119	-41.8%	19.6%	664	-34.4%	1,989	-11.4%
GFA under construction (mn sqm)	8,488	-2.8%	8,315	-1.0%	1.6%	8,488	-2.8%	9,754	5.2%
GFA completion (mn sqm)	53	-40.7%	33	-31.3%	6.5%	286	-21.5%	1,014	11.2%
Property investment (RMB bn)	1,618	-9.4%	1,298	-7.8%	14.0%	6,831	-5.4%	14,760	4.4%
Domestic loans of developers (RMB bn)	176	-32.1%	121	-34.0%	-7.6%	981	-27.2%	2,330	-12.7%

Source: NBS, CMBIGM

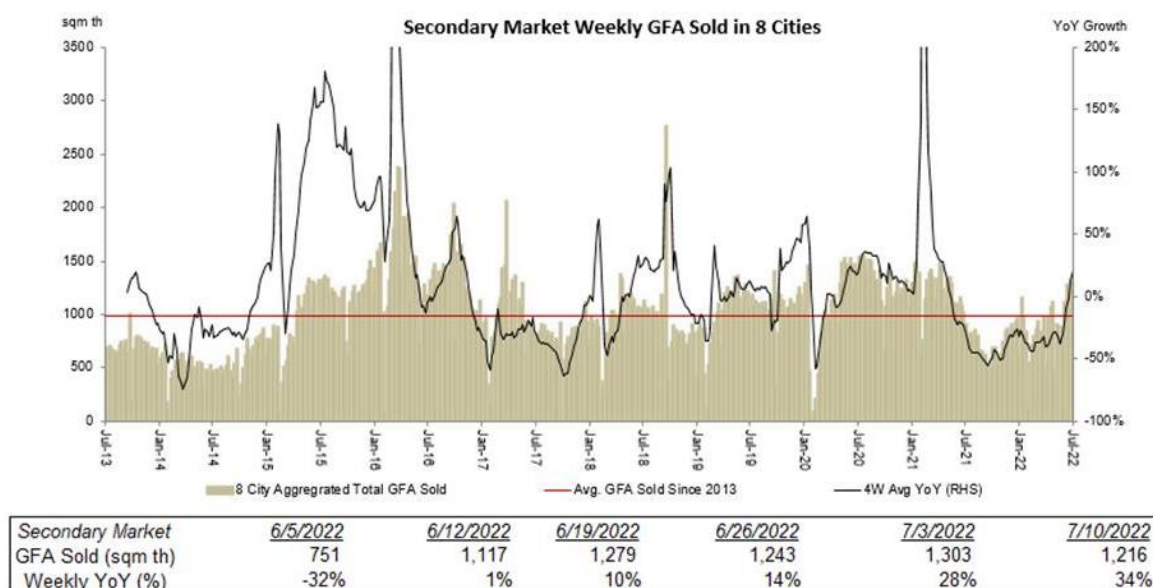
**Figure 2: Leading indicator GAIN suggests a slightly weakening July and Aug**

Source: Company, CRIC, CMBIGM

**Figure 3: Primary market weekly units sold in 30 cities**

Source: Wind, CMBIGM

Figure 4: Secondary market weekly GFA sold in 8 cities



Source: Wind, CMBIGM

Figure 5: Property sector comps

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	TP (LC)	P/E				PB 22E	Dividend Yield	
					20A	21A	22E	23E		21A	22E
Vanke - H	2202 HK	16.50	238,936	33.92	6.2	7.6	5.9	5.8	0.7	10%	7%
COLI	688 HK	23.10	252,827	30.49	3.5	4.1	5.3	5.3	0.6	7%	7%
Country Garden	2007 HK	3.62	83,823	13.36	5.6	4.6	2.5	2.5	0.3	18%	12%
CR Land	1109 HK	33.95	242,095	44.79	6.4	5.9	6.3	6.2	0.8	6%	6%
Longfor	960 HK	29.85	181,429	52.59	11.2	7.4	5.6	5.6	1.1	8%	9%
Shimao	813 HK	4.42	16,786	NA	5.8	NA	1.1	1.1	0.1	0%	0%
Agile	3383 HK	2.65	10,380	NA	3.6	2.0	1.8	1.8	0.1	0%	0%
KWG	1813 HK	1.70	5,412	NA	4.4	5.5	1.2	1.2	0.1	0%	0%
Times China	1233 HK	1.77	3,720	NA	3.6	1.8	0.8	0.8	0.1	0%	0%
China SCE	1966 HK	0.78	3,293	NA	3.0	2.1	0.8	0.8	0.1	0%	0%
CIFI	884 HK	2.72	24,871	NA	5.6	4.2	2.6	2.6	0.4	18%	11%
Seazen	1030 HK	2.79	18,151	NA	3.3	3.1	2.2	2.2	0.3	0%	0%
Midea	3990 HK	10.78	14,611	NA	4.1	3.2	2.5	2.5	0.4	19%	18%
Vanke - A	000002 CH	18.39	205,854	31.36	6.2	7.6	7.6	6.5	0.8	9%	7%
Poly Development	600048 CH	16.62	198,946	NA	6.5	6.8	6.6	5.7	0.9	6%	6%
Binjiang Real Estate	002244 CH	9.25	28,781	NA	6.1	4.8	6.7	5.7	1.2	4%	4%
<b>Average</b>					<b>5.3</b>	<b>4.7</b>	<b>3.7</b>	<b>3.5</b>	<b>0.5</b>	<b>6.5%</b>	<b>5.4%</b>

Source: BBG, CMBIGM

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