

China Property Sector

CNY: Crowded malls, pent-up buyers but overbuilt houses

Our CNY channel check indicates the following trends: 1) Shopping malls are the key beneficiaries after reopening. Wuyue/Wanda/CR all saw quick traffic recovery after COVID and restaurants performed the best. 2) Decent one-off pent-up demand for home purchase may boost Feb sales, in line with our sales leading indicator GAIN. 3) Overbuilt and unsold inventory poses the biggest risk for the property and financial system. Therefore, we suggest the following stock recommendation in Feb: 1) Shopping malls: Seazen>Longfor>CR Land; 2) Developers: COLI>Vanke>CIFI.

■ Shopping malls saw fast recovery: Wuyue>Wanda; Restaurants>others.

Based on our channel check, the traffic in some of the big shopping malls like Wuyue and Wanda were better than 2022, thanks to the quick recovery after Pandemic. From mall perspective, Wuyue and Wanda both saw almost 100% occupancy rate and Wuyue was doing better than Wanda in terms of traffic. The key reasons other than location are mainly that Wuyue provides more children facilities and right mall size to fit in quality tenants. Wanda's advantage is being able to attract EV tenants like Huawei, Xpeng and Li Auto given its huge size, reconfirming our report: [NEV swiping right for hip malls](#). In terms of tenant performance, restaurants are the obvious winners with most traffic while the rest is still lagging much behind.

■ We expect sales to see short-term boost in Feb due to pent-up demand and low base:

Jan sales is still likely to end up badly as a result of COVID and CNY distortion (MTD sales went down 33% YoY in major 30 cities vs. -21/25% in Dec/Nov 2022). However, our channel check and leading sales indicator GAIN (ZENG, MIAO) both indicated a short-term boost in Feb. From channel check perspective, the traffic in property registration department has improved exponentially after COVID (Chart 3). From GAIN Index perspective which has been very accurate since we first launch in May 2022, it has indicated a strong sales recovery in Feb 2022, at a scale similar to Jun and Sep in 2022. Also, the base is much lower in Feb 2022 due to CNY therefore Feb sales is worth expecting. Looking beyond Feb, it is largely dependent on the policy strength after "Two Sessions" on 5 Mar. If it starts to allow relaxation in Tier 1 cities like Guangzhou, then the sentiment may continue.

■ Overbuilt inventory remains the biggest challenge:

In the short-to-medium term, the oversupply of lands and inventory in a national scale would pose the biggest risk on the property price and thus demand sentiment. According to our calculation, the national inventory month has piled into 26 months of sales which is the highest since 2017. Our channel check also indicates a similar case especially lower tier cities (Chart 6). If we take other demand factors into consideration: the population is already declining in 2022 (0.34% in 2021 vs. 7% in 2014 and 5% in 2008), urbanization rate has less room than before (65% in 2021 vs. 56% in 2014 and 47% in 2008), high household leverage (62% in 2021 vs. 36% in 2014 and 18% in 2008), this implies the overall recovery would take much longer time than previous policy relaxation cycles. Therefore, we forecast property sales value to decline another 10% in 2023 after -27% in 2022.

OUTPERFORM
(Maintain)

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2023 forecast	2023E	YoY
Property GFA sold (mn sqm)	1,249	-8%
Property sales (RMB bn)	11,998	-10%
New Starts (mn sqm)	1,110	-8%
Property investment (RMB bn)	12,626	-5%
GFA completion (mn sqm)	948	+10%

Figure1: Traffic recovered quickly in shopping malls like Wuyue and Wanda



Source: CMBIGM

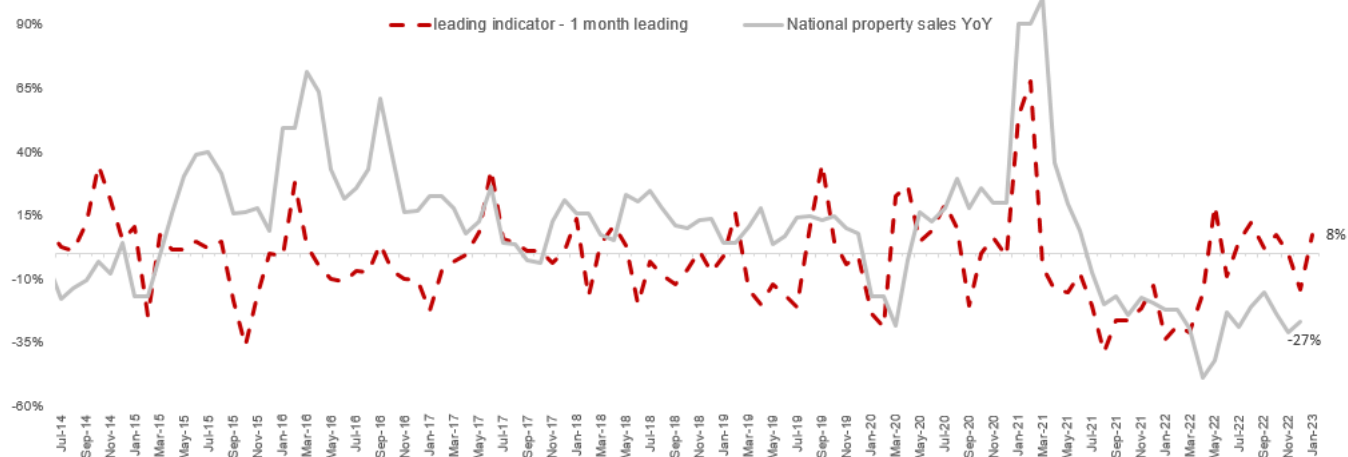
Figure 2: EV brands are indeed expanding into shopping malls



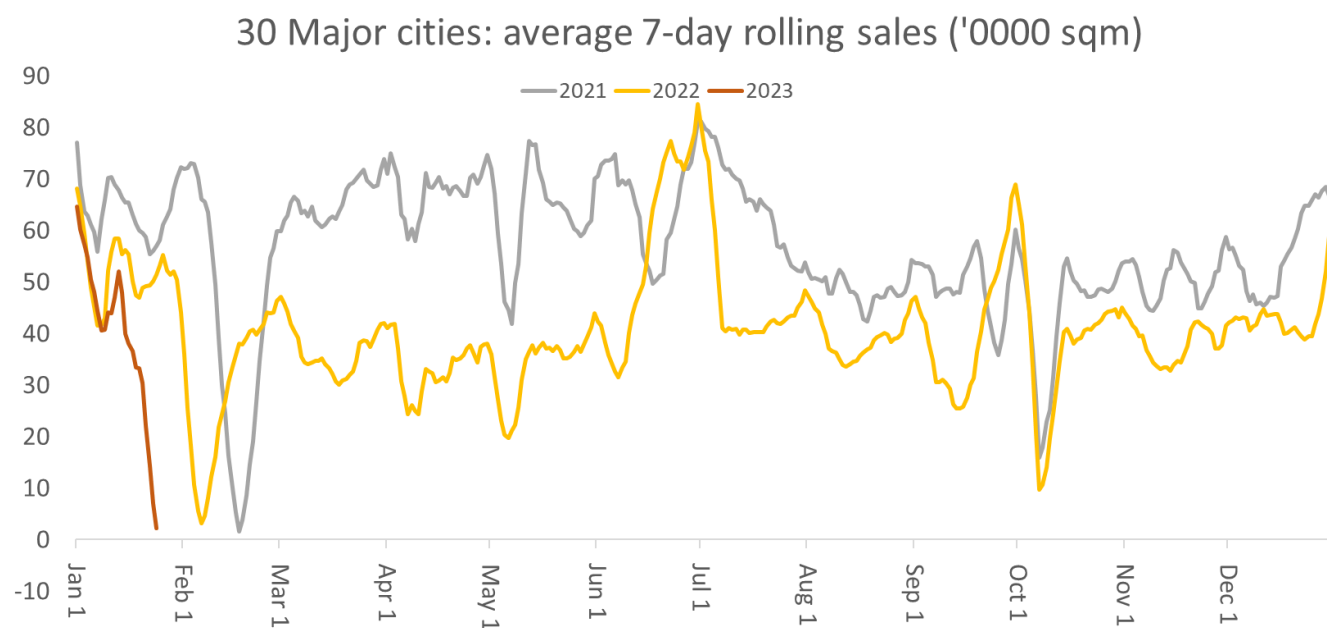
Source: CMBIGM

Figure 3: Pent-up demand after pandemic may boost sales in the short term


Source: CMBIGM

Figure 4: Leading indicator suggests better sales in Feb


Source: NBS, CMBIGM

Figure 5: Jan sales went down 33% YoY in major 30 cities partly due to CNY distortion


Source: NBS, CMBIGM

Figure 6: Large amount of unsold units in Jingzhou


Source: CMBIGM

Figure 7: National inventory month piled to the highest since 2017

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