

# China Property Sector

## A good entry point after market over-reaction on property loan cap

We think the share price correction provides a good entry point as **market is over-concerned on 1) Further tightening?** The announced property loan cap is actually better than market expectation of 30% and is in line with "Three red line" so the impact is limited. Moreover, property policy has turned neutral with more cities relaxing citizenship policy to provide support. **2) Property demand decline?** We think 2021 property sales remains resilient (2% and 8% YoY in GFA and value) due to wealth effect and high saving ratio in 2020. We expect major developers to deliver 11% YoY sales growth in 2021 with higher sales gross margin. Currently the valuation is at historically low (4.8x 21E P/E, 6.5% dividend yield) **Top picks:** CR Land (1109 HK), Shimao (813 HK) and KWG (1813 HK). **Catalyst:** Better-than-expected sales and stable policy in 1Q.

- **Loan cap has limited impact on property financing:** We think the property share price over corrected on the new rule of property loan concentration for China banks (details below) as it has limited impact. This is because **1)** the announced threshold for all property-related loan is actually 30.3% of total existing (blended), higher than the market-expected 30% back in 2018. **2)** Currently the total share of property and mortgage loan were 28.7% and 19.6% as of 1H20 and it implies there is still room for growth compared to the cap of 30.3% and 23%. **3)** Under "Three red lines" policy, the overall property loan growth would be limited to <10% YoY growth on average, lower than our forecasted RMB loan growth of 11% in 2021. This implies the ratio is unlikely to go up. **4)** Offshore channel would give some buffer together with RMB appreciation and relatively attractive funding rate (eg. Shimao just issued 10Y bond at 3.45% on 4 Jan).
- **While property policy has turned neutral from tightening:** Following a neutral tone of Political bureau meeting in Dec (to ensure a healthy property market), number of regions have relaxed its citizenship policy to attract more people inflow in 4Q20 such as Shandong province, Wuxi, Suzhou, Fuzhou, Chongqing, and Guangzhou.
- **Major developers can achieve 10% sales YoY growth in 2021 together with sales margin recovery:** We expect 2021 property sales to grow 2% and 8% in GFA and value with the help of wealth effect and high saving ratio in 2020. Sales growth of major developers may slow down to 10% in 2021 from 15% in 2020 due to "Three red lines" policy (sales growth is usually in line with loan growth). However according to our model, the sales margin would recover this year on improving sales price and cooling land market. So it implies sales profits would grow double digits in 2021 which could be better than 2020. Among our coverage, KWG/Shimao would probably stand out and deliver 20%/15% sales growth in 2021E.
- **Rental income to pick up on consumption recovery:** With 2021 being the consumption year after the epidemic and high-saving ratio in 2020, we think it would benefit shopping malls to accelerate rental income growth. CR Land and Longfor (960 HK) are the two major shopping mall runners. Based on the monthly data, the rental income of both companies has seen sharp recovery. With record number of 10 new malls by both developers in 2021E, we expect the rental income to make a higher contribution of total gross profit level at 15-20% by 2022E and thus support the valuation upcycle.

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### China Property Sector

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## Property loan cap

On 31 Dec 2020, PBOC and CBIRC jointly announced the property loan cap for China banks as below. The grace period would be 2 and 4 years for banks that have exceeded the ratio within 2% and over 2%. We think the announced ratio is actually at 30.3% (blended), better than the market-expected 30% starting from 2018. Also, we think this gives limited impact on the liquidity after "Three red lines" as the loan growth would be limited to 10% YoY in 2020, even slower than our forecasted RMB loan growth of 11%.

**Figure 1: Details of property loan cap**

Cap	All property-related loan as % of existing loan	Mortgage as % of existing loan
SOE banks	40.0%	32.5%
joint-stock banks	27.5%	20.0%
city commercial banks	22.5%	17.5%
County-level banks	17.5%	12.5%
Rural-area banks	12.5%	7.5%
Blended average:	30.3%	23.0%
<b>Level as of 1H20</b>	<b>28.7%</b>	<b>19.6%</b>

Source: PBOC, CMBIS

## Overall property policy has turned neutral

While liquidity is on the tightening trend, the property policy has actually turned stable as 1) on 11 Dec 2020, Political Bureau meeting stated to ensure healthy development of property market. 2) Shandong province, Wuxi, Suzhou, Fuzhou, Guangzhou, Shanghai, Chongqing, and Guangzhou relaxed the Hukou policy to encourage more population inflow. Under the environment, we expect no major property policy shock in 1Q and this would support the share price, in line with seasonality study.

**Figure 2: Policy has turned neutral in 4Q from tightening**

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	Expecting no policy

Source: CMBIS

**Figure 3: Property sector often outperformed in 1Q**



Source: Bloomberg

## Major developers to deliver 11% sales growth in 2021

Major developers under our coverage have delivered 16% sales growth in 2020, beating their sales target by 3% on average. With the impact of "Three red lines" policy, we expect the sales growth to slow down to 11%, in line with the loan growth limit. However we think the sales gross margin would improve further after touching the bottom in 2Q20 (price cut) as property prices start to recover and land prices cooled down as a positive impact of "Three red lines" (Figure 5 for the

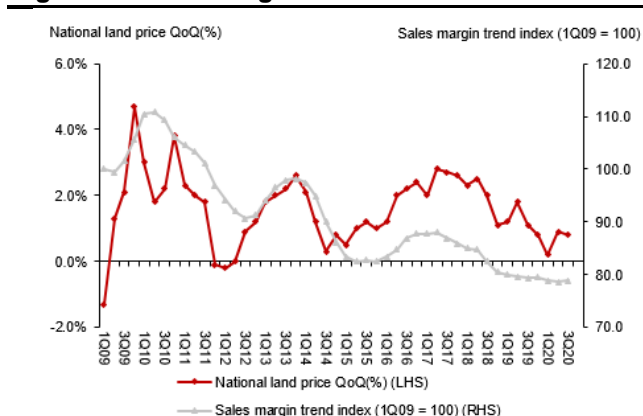
sales margin trend). Therefore, the sales gross profits growth would reach double digits which could be higher than 2020.

**Figure 4: 2021 sales forecast for major developers**

Total sales (RMB bn)	2019	2020	Target	YOY	Completion rate	2021E	YoY
KWG	86.1	103.6	103.0	20%	101%	124.3	20%
China SCE	81.0	101.5	93.0	25%	109%	116.7	15%
Longfor	242.5	270.6	260.0	12%	104%	311.2	15%
Shimao	260.1	300.3	300.0	15%	100%	345.3	15%
China Aoyuan	118.0	133.0	132.0	13%	101%	146.3	10%
COLI	320.6	363.4	360.0	13%	101%	399.7	10%
CR Land	242.5	285.0	262.0	18%	109%	313.5	10%
Times China	78.4	100.4	82.0	28%	122%	110.4	10%
Vanke - H	630.8	701.1	662.0	11%	106%	771.2	10%
Agile	118.0	138.2	120.0	17%	115%	145.0	5%
Country Garden (attr)	552.2	570.2	600.0	3%	95%	598.7	5%
Average				16%	103%		11%

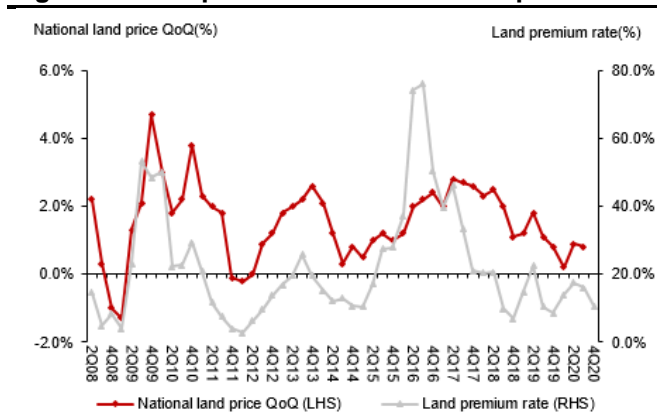
Source: Company data, CMBIS

**Figure 5: Sales margin to recover from 3Q20**



Source: Department of land resources, CMBIS estimates

**Figure 6: Land premium rate leads land prices**



Source: Department of land resources, Wind

## Rental income to ride on the consumption recovery

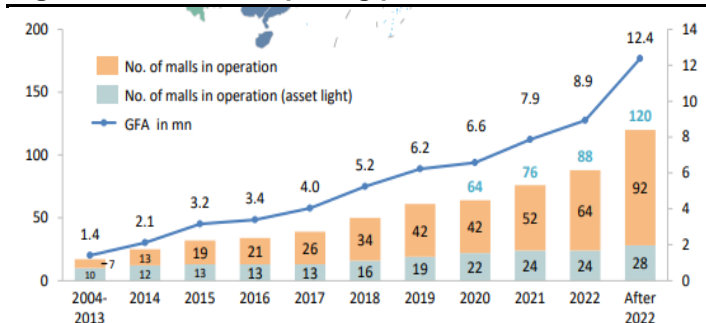
As mentioned above, the high saving rate and wealth effect of 2020 would help drive consumption recovery. We think this would also benefit shopping malls to accelerate rental income growth. Among the property space, CR Land and Longfor are the two major shopping mall runners. Based on the monthly data, the rental income of both companies has seen sharp recovery. With record number of new malls by both in 2021E (Longfor and CR Land expected to open 10 by 2021E), we expect the rental income to make a higher contribution of total revenue in 2021E and thus support the valuation upcycle.

**Figure 7: Rental income in CR Land and Longfor**

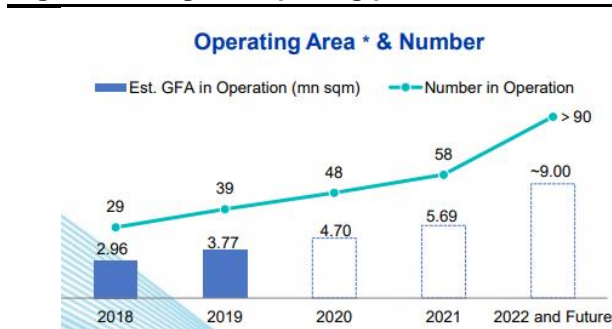
Rental YoY	2016	2017	2018	2019	1H20	7-10M 20
CR Land	8.0%	22.6%	24.5%	26.3%	-12.5%	15.0%
Longfor	35.2%	35.6%	57.7%	41.5%	30.0%	32.0%
China Retail	8.3%	8.2%	5.7%	3.7%	-9.0%	1.8%

Rental/Total Revenue	2016	2017	2018	2019	2020E
CR Land	6.6%	7.5%	7.9%	8.1%	8.1%
Longfor	3.5%	3.6%	3.5%	3.8%	4.0%

Source: Company, CMBIS estimates

**Figure 8: CR Land's opening plan**

Source: Company data

**Figure 9: Longfor's opening plan**

Source: Company data

**Figure 10: Valuation table**

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	Rating	TP (LC)	P/E			NAV/share (LC)	Discount to NAV	TP Discount
						20E	21E	22E			
Vanke - H	2202 HK	25.95	373,097	BUY	33.92	5.8	5.2	4.9	48.46	46.5%	30%
COLI	688 HK	16.50	180,523	BUY	30.49	3.6	3.4	3.0	43.55	62.1%	30%
Country Garden	2007 HK	10.18	224,320	BUY	13.36	4.9	4.1	3.6	26.72	61.9%	50%
CR Land	1109 HK	31.00	221,059	BUY	44.79	7.4	6.1	5.6	63.98	51.5%	30%
Longfor	960 HK	44.25	269,292	HOLD	34.27	12.2	9.7	7.6	48.95	9.6%	30%
Shimao	813 HK	23.25	82,251	BUY	44.94	5.5	4.7	4.0	59.92	61.2%	25%
Agile	3383 HK	10.02	39,249	BUY	13.89	4.4	3.7	3.4	27.78	63.9%	50%
KWG	1813 HK	9.88	31,423	BUY	17.87	4.0	3.5	2.8	25.52	61.3%	30%
China Aoyuan	3883 HK	7.16	19,353	BUY	15.48	2.6	2.3	1.9	30.95	76.9%	50%
Times China	1233 HK	10.20	19,807	BUY	16.20	2.7	2.5	2.1	32.40	68.5%	50%
China SCE	1966 HK	3.10	13,089	BUY	5.60	3.0	2.6	2.1	9.34	66.8%	40%
Redsun	1996 HK	2.74	9,103	BUY	3.52	5.0	3.8	3.3	5.87	53.3%	40%
Sinic	2103 HK	4.02	14,352	BUY	5.06	4.6	3.8	3.3	10.11	60.2%	50%
Radianse	9993 HK	4.38	17,718	BUY	5.55	4.6	3.8	3.1	13.87	68.4%	60%
<b>Average</b>						<b>4.9</b>	<b>4.2</b>	<b>3.6</b>		<b>58.9%</b>	<b>39.4%</b>

Source: Bloomberg, CMBIS estimates

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