

# Auto and China Property Sector

## NEV swiping right for hip malls

The era of NEV is bringing new hopes for shopping mall's high vacancy rate. Therefore, Auto team and we compiled data of >1000 NEV stores with 6 dimensions (up to which floor is NEV located) and channel check to analyze where their chemistry is heading to. In conclusion, the trend will **benefit most for** Longfor (960 HK, Buy) /CR Land (1109 HK, Buy)/Seazen (1030 HK, NR) and their PMs CR Mixc/Longfor PM (Private), but **least for** SCE, KWG and Power long CM.

- **Shopping malls – craving for new prince charming amid industry headwinds:** Partly due to unsettled pandemic, shopping malls are still facing heavy headwinds. This can be seen from 3Q21's high vacancy rate of 10.4% in 8 major Tier 1-2 cities (vs. 7.6% in 4Q19) and falling 3Q21 rents (7%/1% below 4Q19 and 2Q21). Looking into 2022E, we are more positive to see an upward rental reversion at 2-5% YoY on falling new supply (-6% YoY in 2022E), pandemic under control and more important, aggressive NEV store openings.
- **Why malls and NEV fall in love? Quid Pro Quo.** From malls' eyes, NEV is rich to pay big rents (usually 2 times higher than the average), less sensitive to rents reversion (>30% after 3 years) for now due to their low rent-to-sales ratio (<1% channel check) and is crushing for space (>300 sqm per store). That would translate into a much higher rental payments than the average tenants. From NEV's eyes, Auto team thinks branded malls can bring the elegant traffic to meet the change of consumer habits (treating NEV purchase like fast goods) and the standard of their direct retail store.
- **Which type is the apple of NEV's eyes?** Among >1000 NEV stores, key observations are 1) 65% are located in Tier 1-2 cities; 2) Top 5 mall players (Wanda, CRL, Longfor, Seazen and Vanke's SCP) took 30% market share. 3) mid-to-high end players tend to get multiple NEV tenants (CRL, Longfor, Raffles, Hopson). So NEV stores mainly go to leading mall operators in high-tier cities and doing mid-to-high-end market because of their heavy foot traffic.
- **How much NEV can help malls in 2022E:** According to CADA, nationally there were total 1200 NEV stores located in malls as of Aug 2021. Auto team forecasts another 800-1000 NEV stores to open in malls in 2022E (+67%-83% YoY) mainly in high tier cities. If we assume 300 sqm per store, this will imply 240-300k sqm net absorption and help lower the vacancy rate by 0.2ppt in high tier cities. Also NEV is generally paying rents at 3x of mall average, the rental income boost would be 3-6% per mall.
- **Limitations of their Vegas wedding:** based on our channel check and data, shopping malls are unwilling to take more than 3 NEV tenants on the same site. This is mainly because 1) 99% of NEV stores are on the ground floor so limited area supply. 2) NEV stores are not contributing much traffic so shopping mall has to keep the right mix for traffic boost. This would imply NEV would only take 1-2% of mall's portfolio mix. Another observation is that established brand Tesla starts to see declining needs for mall stores as 46% of its stores are not. So a LT marriage is not yet confirmed but Happy Valentine's day for now.
- **Stock picks:** based on NEV store expansion trend, we expect **Longfor/CR Land/Seazen** and their PMs **CR Mixc/Longfor PM** to be the key beneficiaries to gain market share of NEV tenants. Hence, we revise up Longfor's earnings by 2-10% in 2021-23E on higher rental income and raise TP to HKD52.7/share. We **least favor** KWG, SCE and Powerlong CM due to their un-matching criteria.



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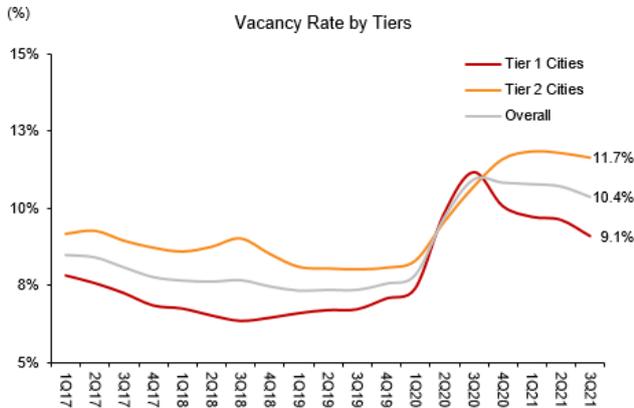
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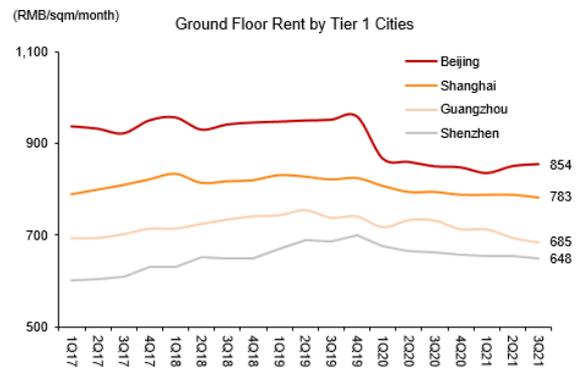
## Focus Charts

**Figure 1: Vacancy rate remains high**



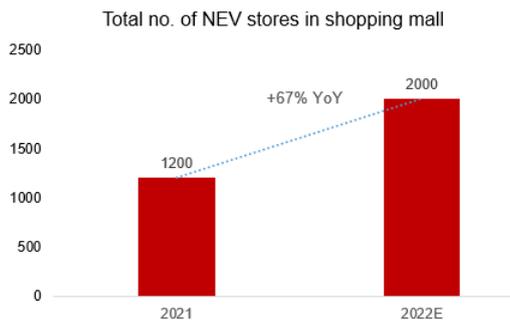
Source: Savills. Note: Tier 1 cities are SH, BJ, GZ, and SZ. Tier 2 cities are: Xi'an, Tianjin, Wuhan and Chongqing

**Figure 2: Ground floor rents still face downward trends**



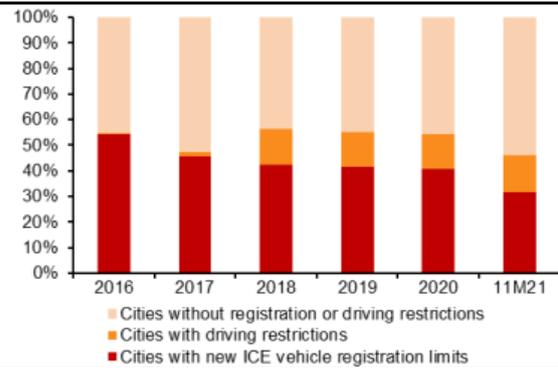
Source: Savills

**Figure 3: Silver lining will come from NEV stores expansion**



Source: CADA, CMBIS

**Figure 4: Most of NEV stores will go to Tier 2 and high Tier 3 cities benefiting from driving restrictions**



Source: CATARC, CMBIS; Note: 24 cities with driving restrictions

**Figure 5: Market leaders dictates**

Mall operators	No. of malls	No. of malls with NEV tenant	% of stores with NEV tenants
Wanda	380	156	41%
CR Land	70	47	67%
Seazen	100	44	44%
Longfor	61	27	44%
SCP Group (Vanke)	69	19	28%
Powerlong	48	10	21%
Capitaland	45	8	18%
Joy City	21	7	33%
Raffles	7	5	71%
Hopson	6	5	83%
Shimao	6	5	83%
Hanglung	10	5	50%
KWG	16	3	19%
SCE	6	2	33%
Sino-Ocean	2	2	100%
<b>Total</b>	<b>847</b>	<b>345</b>	<b>41%</b>

Source: Company data, CMBIS

**Figure 6: Mid-to-high end malls are attracting multiple NEV tenants**

Mall operators	No. of malls	No. of malls with >1 NEV stores	% of stores with >1 NEV tenants
CR Land	70	31	44%
Hopson	6	2	33%
Raffles	7	2	29%
Longfor	61	16	26%
Shimao	6	1	17%
SCE	6	1	17%
Joy City	21	3	14%
Wanda	380	46	12%
SCP Group (Vanke)	69	7	10%
Hanglung	10	1	10%
Capitaland	45	4	9%
KWG	16	1	6%
Powerlong	48	3	6%
Seazen	100	6	6%
Sino-Ocean	2	0	0%
<b>Total</b>	<b>847</b>	<b>124</b>	<b>15%</b>

Source: Company data, CMBIS

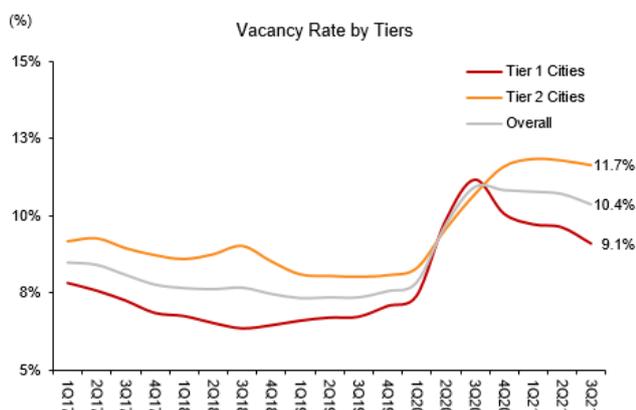
## Shopping mall: a recap and forward looking

### A recap of 2021: still a challenging year

With overall consumption disrupted by unsettled pandemic, **shopping malls in generally are still facing weak demand compared to 2019**. This is evidenced both by 1) vacancy rate of 8 major Tier 1-2 cities was 10.4% in 3Q21 vs. 7.6% in 4Q19. 2) 3Q21 rents (RMB/sqm/month) were also 7% below 2019 at RMB539/sqm/month. And the trend is still weakening QoQ (-1% in 3Q21).

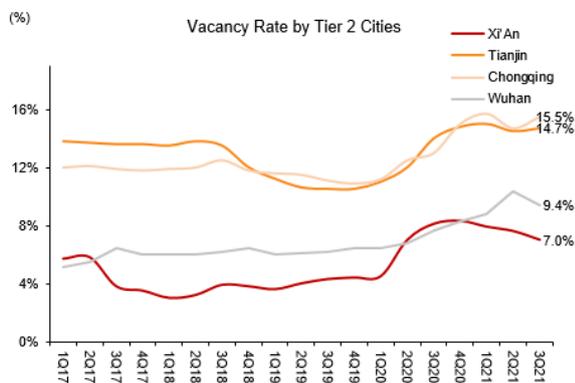
In particular, Tier 1 cities are affected more than Tier 2 cities in terms of rents in 3Q21 (Tier 1 at -8% vs. 2019 compared to Tier 2 at -3%). It is partly because the rents in Tier 1-2 cities are much more expensive (more than double) than those in Tier 2 cities, which could face more downward pressure in the economy downward cycle. Also there are more supplies in the past few years in Tier 1 cities than Tier 2 which has partly put some further pressure on the rents. While the vacancy rate in Tier 2 cities are slightly higher than that in Tier 1 at 11.1% vs. 9.1% in 3Q21.

**Figure 7: Vacancy rate remains high across different tier of cities**



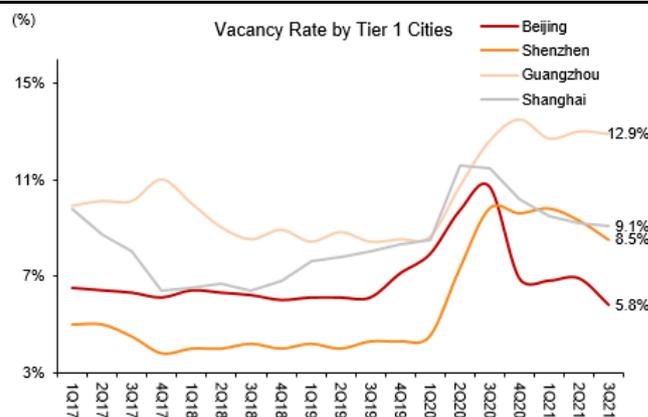
Source: Savills  
Note: Tier 1 cities are SH,BJ,GZ,SZ. Tier 2 cities are: Xi'an, Tianjin, Wuhan and Chongqing

**Figure 9: Shopping malls in Chongqing and Tianjin still face challenges**



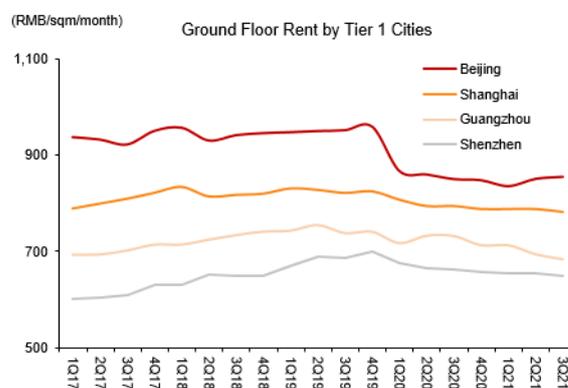
Source: Savills

**Figure 8: Guangzhou is underperforming other cities while Beijing are recovering fast from pandemic**



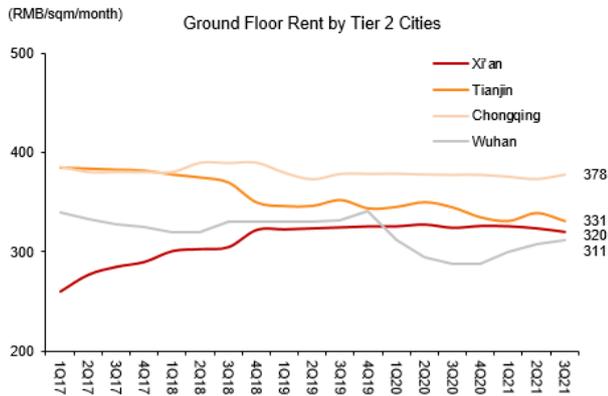
Source: Savills

**Figure 10: Grand floor rents comparison among Tier 1 cities**



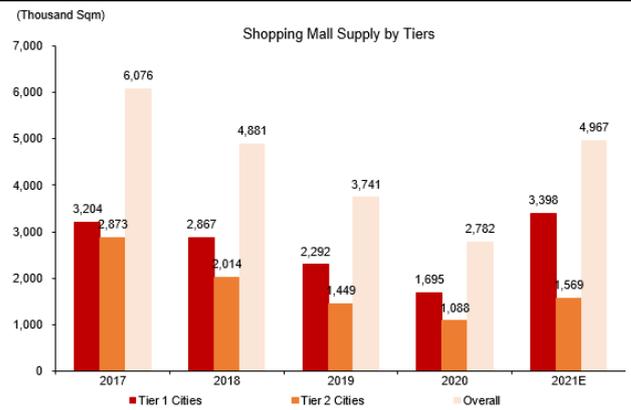
Source: Savills

**Figure 11: Grand floor rents are relative stable among Tier 2 cities due to low rent-to-sale ratio**



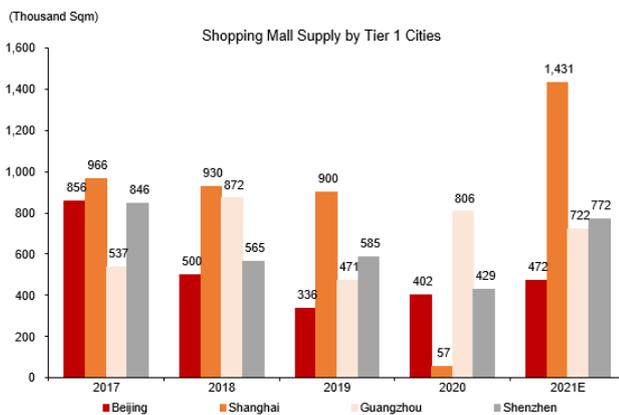
Source: Savills

**Figure 12: Overall shopping mall supply by areas**



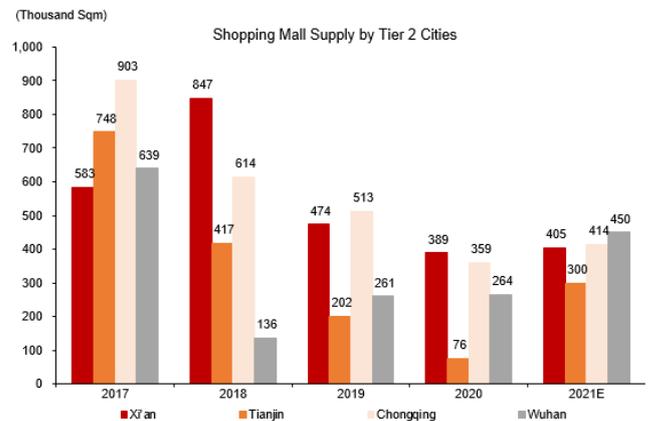
Source: Savills

**Figure 13: Shopping mall supply by different Tier 1 cities**



Source: Savills

**Figure 14: Shopping mall supply by different Tier 2 cities: Chongqing saw most supplies.**



Source: Savills

## Expect a positive rental reversion in 2022E

We expect rents in Tier 1-2 cities to rebound at 2-5% YoY in 2022E mainly because of the following reasons:

- **Pandemic is getting more under control.** With covid cases keep falling in China, we expect affected cities like Xi'an, Tianjin and others to recover gradually and this would gradually increase the mobility not just within the city but also across the cities/provinces. This would be positive to the foot traffic in general and thus it benefits the shopping malls especially in Tier 1 and 2 cities.
- **Likely falling new supply in 2022E.** Based on the historical study, new starts in commercial areas are leading its completion by 3 years (based on the chart below). Therefore, a decline in 2019 new starts (-6% YoY) would imply 2022E commercial completion is likely to fall from 2021 (+1% YoY). This could help alleviate the overall supply issue and help on the rents reversion.
- **More demands from NEV brands** to fill in spaces due to their fast growing. Auto team expects number of NEV stores in shopping mall to double in 2022. Details will be discussed below.

## NEV, the silver lining for malls

### Shopping mall's angle:

- **High rents:** based on our channel check, NEV stores can almost pay double the unit rental price than the floor average. Also 99% of NEV stores are located in grand floor of the shopping mall due to entrance requirements; the rental price is almost 3x of the overall average. Take CIFI's LCM mall in Shanghai for example, the average rent of grand floor is RMB8/sqm/day vs. BYD/XPeng's rental at RMB15/sqm/day.
- **Less sensitive to rent spikes:** Despite the high rents paid by NEV stores, the room for further rent spike is still larger than the rest of portfolio. This is mainly because the rent-to-sales ratio for NEV store is much lower than the average ratio of 12-15% in Tier 1-2 cities and <10% in Tier 3-4 cities as their top line is relatively dominate, similar to Apple. Take CIFI's LCM mall as an example, the retail sales of BYD and XPeng together is RMB400mn but their annual rental is RMB2.7mn so the rent-to-sales is only 0.7%. Their rental reversion is expected to be >30% vs. others at 20% according to the mall.
- **Big rent areas:** Besides the rental and location elements, NEV stores' big rental area is also another key reason. The size for NEV store can vary from 200 to 1100 sqm for the display of at least 3 cars. This is larger than the average store size for apparel categories (150-200sqm).
- **More demands:** NEV industry is growing at a rapid pace with wholesale volume surging 126% YoY in 2021 and 45% in 2022E (Auto team's forecast). There are more and more branding competing for the shopping mall space. For example, our national data shows 40% of shopping malls with NEV stores have more than 1 NEV brands which could help bid up the rents or have more spaces.

Therefore combing all four factors above, NEV's total rental contribution to the shopping mall is quite higher than the average and that is why it has been so welcomed.

### NEV's angle: foot traffic and Experience/advertisement effect

- **Change of operating channels: Auto team** According to our Auto team, Auto companies are currently transforming its channels from distributor model towards direct-retail-sales model for more consumer data. Therefore, they are more willing to choose shopping mall for its foot traffic.
- **Change of habits to treat NEV like fast goods:** According to our Auto team, they believe buyers are treating NEV more like fast goods. A good display and experience in shopping mall would help convert traffic to sales than traditional channel (such as 4S stores).
- **Foot traffic/advertisement:** most of NEVs need shopping mall's foot traffic for its sales conversion. Therefore, they prefer to open stores in the branded shopping malls like CR Mixc City, Longfor's paradise walk, Wanda Plaza, Seazen's Wuyue Plaza, Raffels' City for its good traffic and advertisement effects.

Hence, the chemistry between shopping mall and NEV seems firm and win-win for now.

Figure 1: Typical NEV store in CR Mixc City



理想汽车北京清河万象汇零售中心

Source: Li Auto

Figure 2: Tesla built more and more its own centre in China



Source: Tesla

### What NEV replaced?

Based on our channel check, it mainly replaces the recently underperforming fashions (such as HM, Zara) and restaurants (pandemic impacts) on the grand floor. For example, BYD took over a restaurant's space in the Shanghai LCM mall and paid up the rents by 30%. However, generally it is hard to have more than 3 NEV stores in one shopping mall as they mainly have to be on the first store. The overall portfolio mix change is limited to 1-2% of rentable areas but rents contribution could be 3-6% due to its high unit rents.

Figure 15: Xpeng in LCM



Source: CMBIS

Figure 16: Xpeng experience and sales store in LCM



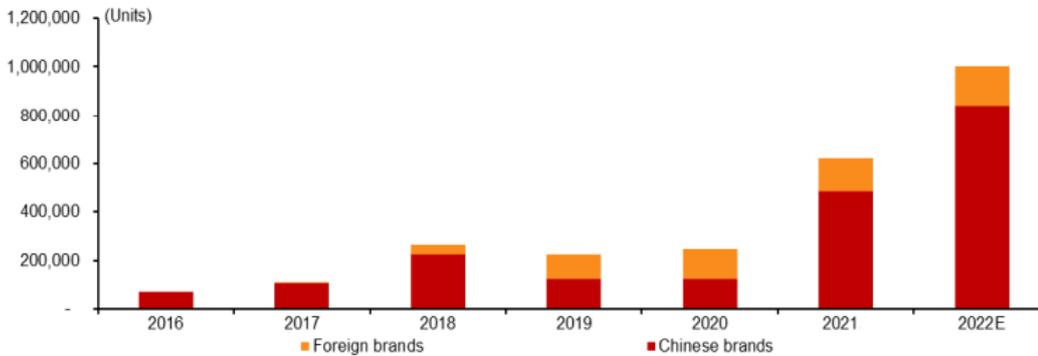
Source: CMBIS

## NEV stores' net absorption forecast in 2022E

Our auto team expects total number of auto stores within shopping mall to increase at least 67% YoY in 2022E partly due to 1) still fast-growing store openings by major NEVs, say Li Auto planning to double its service center in 2022E. 2) Many ICE brands are also starting to open stores in shopping malls for their NEV-type cars. Therefore, we think this would bring a significant shopping mall area absorption.

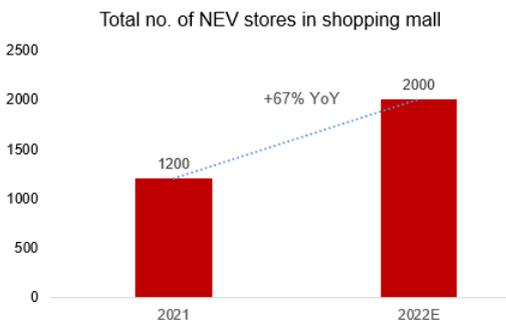
According to China Automobile Dealers Association (CADA), there are total 1200 NEV stores within shopping mall based on 15 NEV brands as of Aug 2021. CMBI auto team forecasts an additional 800-1000 new NEV stores in 2022E, which implies 67%-83% YoY increase. If we assume 300 sqm per store, this will imply 240-300k sqm net absorption in the shopping mall space or 2-3% of 2022E mall area supply in Tier 1-2 cities. This would help lower the vacancy rate by 0.2ppt for Tier 1-2 cities.

Figure 17: PHEV wholesale volume by brand origin in China



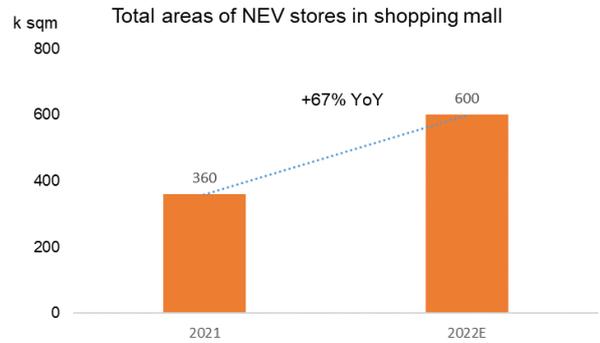
Source: CAAM, CMBIS estimates

Figure 18: Fast NEV store expansion in 2022E



Source: CADA, CMBIS

Figure 19: It will bring >240k sqm of net absorption



Source: CADA, CMBIS

## What does channel check say?

We visited LCM Zhihui CIFI Plaza, a shopping center invested by HK land and CIFI that in Shanghai Pudong area our key takeaways are:

### 1. High foot traffic: Xpeng & BYD entered, NIO closed.

LCM Zhihui CIFI Plaza, located in SH Pudong Yangjing, has total GFA of 100,000 sqm and lettable GFA of 60,000 sqm. With its basement floor leads to the Metro Station, the mall attracted over 20mn annual customer flow, an average of 50,000 – 60,000 per day, supermarket and cinema are also major foot traffic contributors. The Mall currently has two NEV show rooms on the ground floor - Xpeng and BYD. According to the LCM, NIO show room was closed last year under the consideration of store density and regional store efficiency. EV tenants are mainly replacing tenants closed by the impact of COVID, such as restaurant, clothing. etc.

### 2. NEV tenants pay twice of rents than others, contribute c,25% total sales.

Average rents of total LCM is at 8.4/sqm/day, around 8/sqm/day on ground floor, 17/sqm/day on basement floor, while the NEV tenants (Xpeng rented 300 sqm and BYD rented 200 sqm) paid for 15/sqm/day on ground floor, almost doubled the price than other on the same floor. LCM received around RMB 180mn rental income in 2020 and NEV tenants contributed RMB2.7mn, 1.5% of total. According to LCM, NEV tenants is not price sensitive and usually don't spend much time on bargaining of rent. Due to the high product price, NEV show rooms usually contribute more to total sales of shopping mall. LCM delivered RMB1.6bn total sales in 2020 where 400mn of them, about 25%, were coming from EV tenants. For EV companies, achieve RMB400mn sales by spending RMB2.7mn on selling expenses and part of marketing expenses is quite cost-effective.

### 3. Still room to raise the rents

Leasing contract period for main foot traffic contributors is generally 3-5 years, for NEV tenants are 2-3 years. Xpeng in LCM signed a 3-year contract with a rent of 15/sqm/day that will increase 8-10% every year during the contract period, meanings price will up to 17.5-18.2/sqm/day. Other than that, a 20-30% price jump is likely to happen when they renew the contract, suggesting the rents will up to 21-23.6/sqm/day, LCM states rent hike at contract renew is possible to be higher than 30% due to the NEV competition.

### 4. However, shopping mall has limited absorptive capacity.

LCM believes that under the pressure of market share competition, opening showrooms in shopping malls is the most cost-effective way for NEV. Even some NEV companies start closing stores after achieve certain brand power and market share, demand will continue to come from other brands with lower market shares. However, Shopping malls has limited capacity to absorb the demand as: 1) reasonable distribution of business types is a concern. Currently, a shopping mall with GFA of 50,000 to 200,000 sqm with 2-4 NEV showrooms is acceptable. 2) if the brand image match is a consideration. Some emerging brands may find it hard to embraced by shopping malls as they don't meet the mall's positioning. While this may give some support for rent spike.

**Figure 20: BYD experience and sales store in LCM**



Source: CMBIS

**Figure 21: BYD experience and sales store in LCM**



Source: CMBIS

## Who will benefit?

### 1. It benefits mall market leaders with their own heavy traffic

We have collected the detailed data of 1412 NEV stores. Among all 1412 stores, 87% of them (1234 stores) are inside shopping malls with Li Auto the highest (99%) vs. Tesla (54%). This shows their general preference towards shopping mall benefiting from the traffic. If we look further, branded mall operators are attracting more NEV tenants. This is evidenced by the chart below that Wanda, CR Land, Seazen and Longfor are taking up 22% market share of NEV stores. Also 50% of their malls already have NEV tenants already. This proves the advantage of market leaders to attract these NEV tenants.

**Figure 22: Wanda, CRL, Seazen, Longfor have most NEV tenants**

Mall operators	No. of malls	No. of malls with NEV tenant	% of stores with NEV tenants
Wanda	380	156	41%
CR Land	70	47	67%
Seazen	100	44	44%
Longfor	61	27	44%
SCP Group (Vanke)	69	19	28%
Powerlong	48	10	21%
Capitaland	45	8	18%
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Raffles	7	5	71%
Hopson	6	5	83%
Shimao	6	5	83%
Hanglung	10	5	50%
KWG	16	3	19%
SCE	6	2	33%
Sino-Ocean	2	2	100%
<b>Total</b>	<b>847</b>	<b>345</b>	<b>41%</b>

Source: Company data, CMBIS

### 2. It also benefits mid-to-high-end mall operators

Also we collected the data of malls with >1 NEV stores (chart below). Mid-to-high end malls stand out such as CRL, Hopson, Raffles and Longfor as they have higher % of malls with more than 1 NEV stores. In our view, the logic behind is because of the better positioning match and higher traffic.

**Figure 23: CRL, Hopson, Raffles and Longfor have most % of malls with >1 NEV stores**

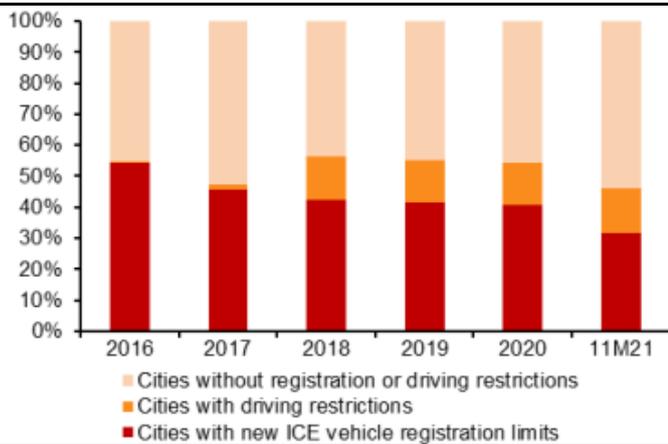
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Source: Company data, CMBIS

### 3. Looking forward, NEV would penetrate more into Tier 2 and high Tier 3 cities.

According to our Auto team, they believe the key battle field for NEV would be at Tier 2 and high Tier 3 cities mainly because 1) Tier 1 cities are relatively more competitive with NEV sales penetration rate already at 30%. So it implies the room for fast growth is limited. 2) Many Tier 2 and high Tier 3 cities (24 of them) are imposing driving restrictions for ICE Vehicles and thus benefiting NEV brands more. Therefore, mall operators with focus on high-tier cities will benefit most.

**Figure 24: NEV market share by city type – future will be more towards cities with driving restrictions**



Source: CATARC, CMBIS; Note: The 24 cities with driving restrictions mainly include Guiyang, Shijiazhuang, Wuhan, Zhengzhou, Xi'an, Chongqing, etc.

**Figure 25: Major NEV stores by city tiers**

Tesla	No. of stores	% of total
Tier 1 cities	72	32%
Tier 2 cities	110	49%
Tier 3 or below	44	19%

Nio	No. of stores	% of total
Tier 1 cities	68	18%
Tier 2 cities	158	43%
Tier 3 or below	142	39%

XPeng	No. of stores	% of total
Tier 1 cities	75	22%
Tier 2 cities	146	43%
Tier 3 or below	119	35%

Li Auto	No. of stores (incl. Display)	% of total
Tier 1 cities	51	11%
Tier 2 cities	233	49%
Tier 3 or below	194	41%

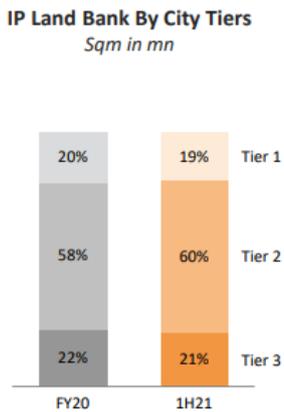
Source: Company data, CMBIS

## Top picks

Above has shown the key criteria for a future mall winner in terms of NEV store attraction – mid-to-high-end market leaders located in high Tier cities. From these 3 perspectives, we think Longfor and CR Land would benefit the most due to their mall positioning in high tier cities and robust expansion plan. These are already putting them in front of others to absorb NEV stores and we believe it will further widen the gap going forward.

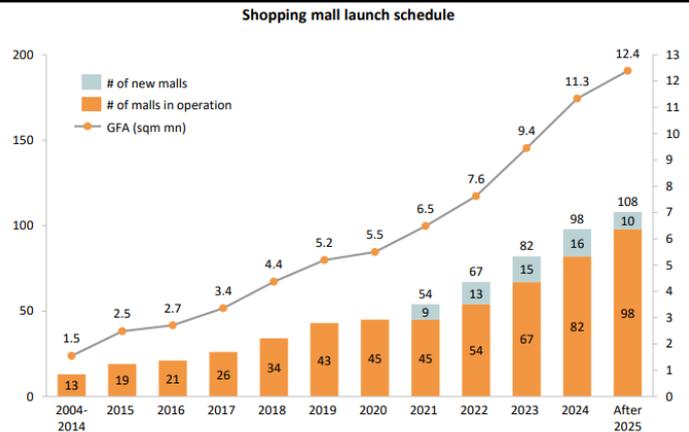
Least favor **SCE, KWG** and **Powerlong** as their malls are hard to catch the demand of NEV brands due to their mass-market positioning and relatively small market share.

**Figure 26: CR Land's mall location by city tiers**



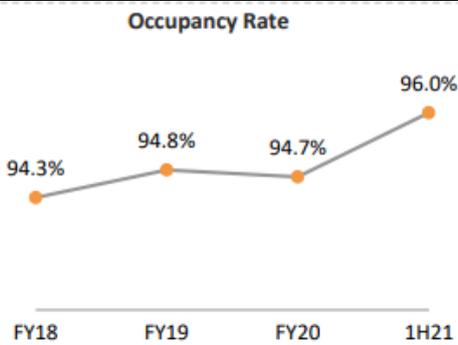
Source: Company

**Figure 27: CRL to accelerate mall openings**



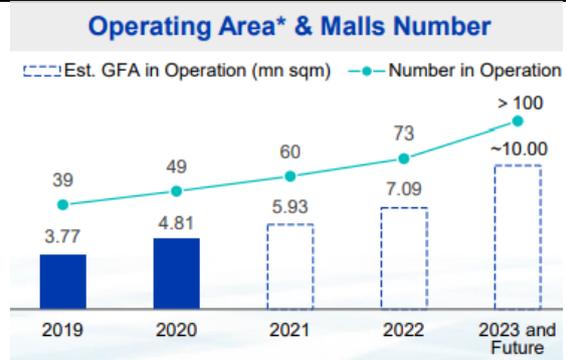
Source: Company

**Figure 28: Occupancy rate of CRL's shopping malls**



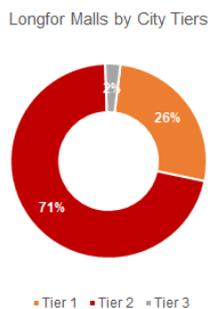
Source: Company

**Figure 29: Longfor to accelerate mall openings**



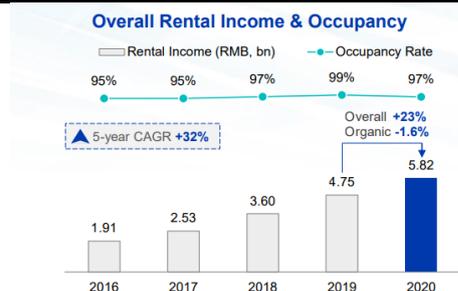
Source: Company

**Figure 30: Longfor's mall location by city tiers**



Source: Company

**Figure 31: Occupancy rate of Longfor's shopping malls**



Source: Company

We revised up Longfor's FY21-23E core earnings by 2%, 10% and 6%, mainly driven by a stronger-than-expected rental income growth outlook. As we discussed above, Longfor will be a key beneficiary of fast NEV stores expansion and thus we expect 40% rental income in 2021-23E, higher than its previous track record of 30%. We upgrade Longfor to Buy and adjust up the TP to HKD52.6/share (previous HKD34.3/share) by rolling forward to 2022E.

**Figure 32: Longfor's earnings change**

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	260,789	311,642	407,485	225,992	253,366	311,665	15.4%	23.0%	30.7%
Gross Profit	71,901	81,401	101,367	66,702	73,917	90,405	7.8%	10.1%	12.1%
Core profit	23,432	27,493	32,061	22,883	25,039	30,273	2.4%	9.8%	5.9%
EPS (RMB)	3.9	4.6	5.1	3.8	4.2	5.1	2.3%	9.7%	0.0%
Gross Margin	27.6%	26.1%	24.9%	29.5%	29.2%	29.0%	-1.90 ppts	-3.10 ppts	-4.10 ppts
Net Margin	9.0%	8.8%	7.9%	10.1%	9.9%	9.7%	-1.10 ppts	-1.10 ppts	-1.80 ppts

Source: Company data, CMBIS

**Figure 33: Longfor's latest TP**

			NAV/share		Remark
	(Rmb m)	(HK\$ m)	(HK\$)	% of NAV	
Development	259,407	312,538	52.22	65%	WACC of 9.8%
Investment property	170,000	204,819	34.22	42%	
Leasing apartments	59,397	71,562	11.96	15%	4x 22 P/S
Gross Amount	488,804	588,920	98.40	122%	
Net debt	(86,900)	(104,699)	(17.49)	-22%	Dec 2021
NAV	401,904	484,221	80.90	100%	
No. of shares	5,985				
Exchange Rate (HKD/RMB)	0.830				
NAV discount	35%				
T.P. (HKD)	52.59				
Upside	16.6%				

Source: Company data, CMBIS

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