

China Property Sector

NBS Jun data: weak as expected, a tough 3Q ahead

NBS June data was as weak as expected with sluggish property investment at -10% YoY driven by widened decline in new starts and narrowed growth in completion. Property sales saw deep decline in Jun (-18% YoY vs. +7% YoY in May) given a very high base. Despite the continuous city level relaxation, **we expect a tough 3Q for both sales sentiment and share price**, given that 1) there is less hope of strong stimulus on property sector based on acceptable GDP data paired with worse property data in 1H, 2) narrowing price spread between 1st and 2nd hand houses will curb more demand, and 3) more developers are at risk of default/extension in 3Q which will hurt both home buyers' /stock investors' confidence. However, we do not expect ugly sales performance YoY in next few months considering the much lower bases and the suggestion from our leading indicator. Long term speaking, sector will recover in a slow base along with the general recovery of the whole economy and we continue to like Developers: CRL/Yuexiu/Binjiang. PM: Binjiang Service/Poly Services/COPH/CR MixC/. Property agency: BEKE.

■ NBS property data of 1H23 – sluggish REI with further weakened new starts and completion.

- **Property investment decline slightly narrowed to -10% YoY in Jun-23 from -11% in May** while 1H23 decline still widened to -7.9% YoY vs -7.2% in 5M23. The lacklustre data was driven by both new starts and completion. New starts dropped 30% YoY in Jun (vs. -27% YoY in May) and the completion growth further narrowed to 16% YoY from 24%/42% in May/Apr.
- **Property sales saw volume/value fall deeply to -19%/-18% YoY in Jun 23** vs. 7%/-3% YoY in May 23 despite a 33%/49% MoM growth, this was caused by the very high base in Jun last year that makes the YoY decline not surprising to the market. Looking into Jul, high frequency data showed an even weaker 1st half month with new home sales dropped to -27% /-33% MoM/YoY (vs. -5%/-32% in Jun), dragging the YTD growth to -1% YoY. Secondary home sales also declined to -32%/-23% MoM/YoY in MTD Jul and narrowed YTD growth to 43% YoY from 63% YoY in 1Q23. Despite the continuous city/province level (Zhejiang/Shandong, etc.), **we expect sales sentiment to stay low in 3Q as 1) acceptable GDP data paired with worse property data suggests even less hope of full stimulus on the property sector. 2) Home buyers' confidence will be hurt by more developers at risk of default /extension recently such as Sino-Ocean/Wanda, etc. 3) Narrowing price spread between 1st and 2nd hand houses especially in 1st tier cities will curb more demand. We saw only 7 cities booked a MoM growth in 2nd hand houses price in Jun and Shanghai was the biggest faller (Figure 5). However, the YoY decline might perform better than Jun** going forward due to lower base in months after Jun and our leading indicator also suggests a better YoY performance after Jun.
- **Completed but unsold inventory growth inched up:** The overall unsold residential inventory was 310 mn sqm, up 18% YoY vs +16% YoY in May 23 mainly due to a higher completion growth than sales growth which caused inventory accumulation.

OUTPERFORM
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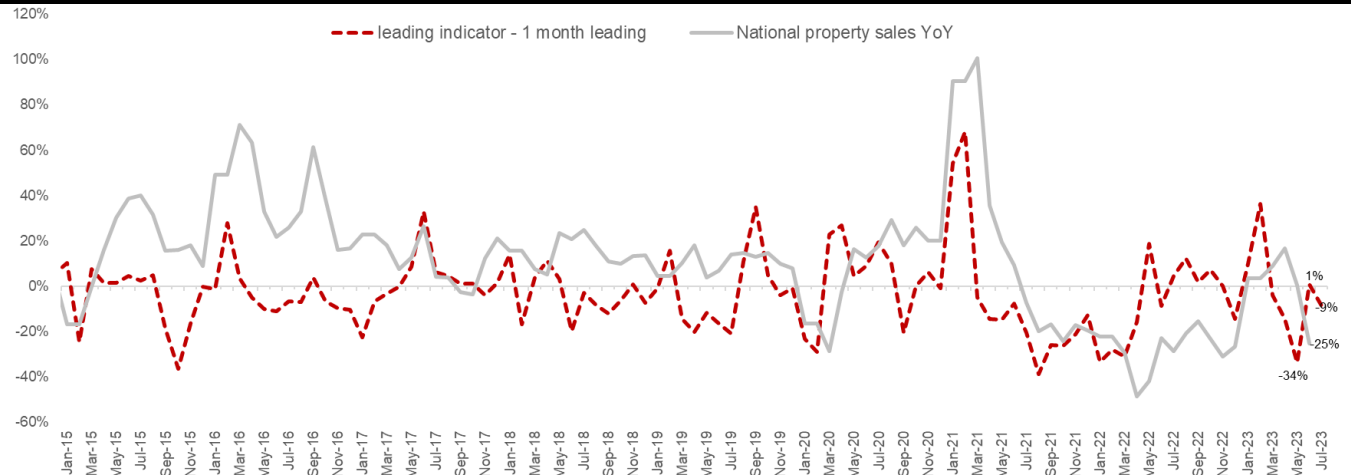
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Figure 1: Quick view of national property data in 1H23

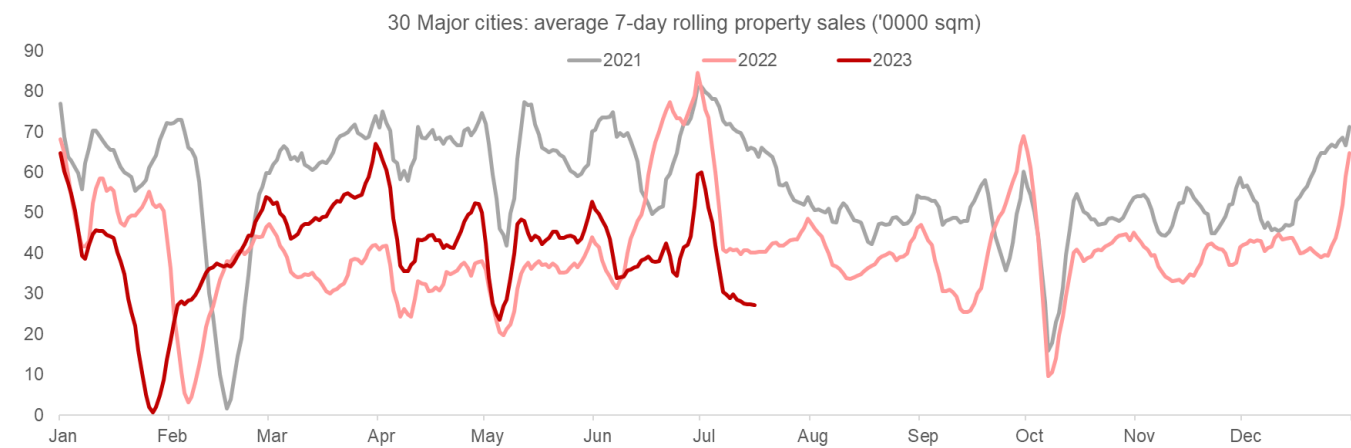
	Jun-23	YoY	MoM	May-23	YoY	1H23	YoY	2022	YoY
Property GFA sold (mn sqm)	131	-18%	49%	88	-3%	595	-5%	1,358	-24%
Property sales (RMB bn)	1,331	-19%	33%	1,004	7%	6,309	1%	13,331	-27%
New starts (mn sqm)	102	-30%	19%	85	-27%	499	-24%	1,206	-39%
GFA under construction (mn sqm)	7,915	-7%	2%	7,795	-6%	7,915	-7%	9,050	-7%
GFA completion (mn sqm)	61	16%	47%	41	24%	339	19%	862	-15%
Property investment (RMB bn)	1,285	-10%	26%	1,019	-11%	5,855	-7.9%	13,290	-10%
Domestic loans of developers (RMB bn)	152	-14%	47%	103	-13%	869	-11%	1,739	-25%

*Red/Green text denotes better/worse than the previous month

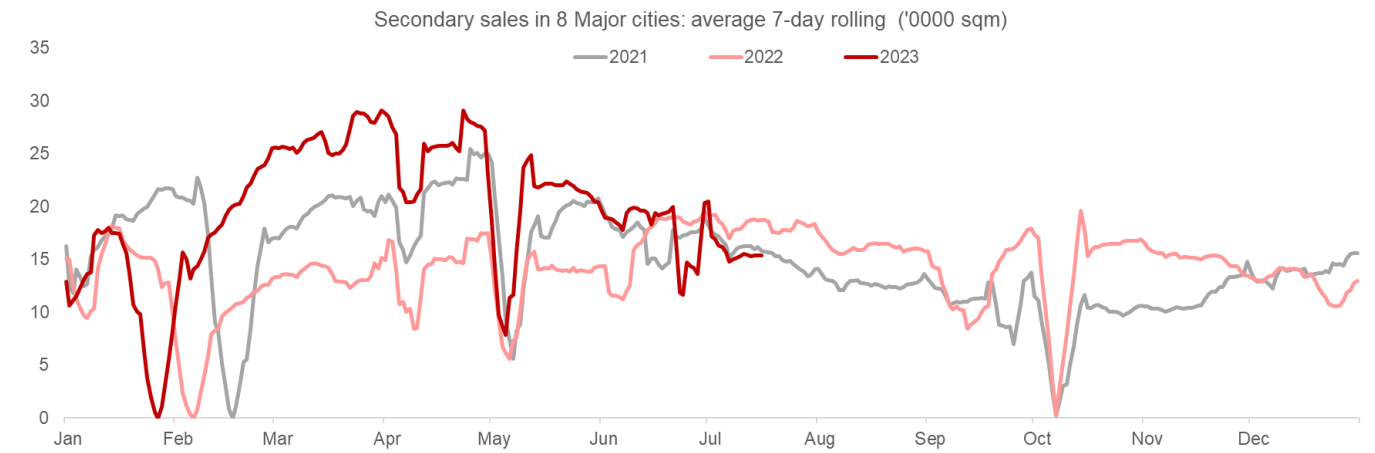
Source: NBS, CMBIGM

Figure 2: Leading indicator indicates better YoY sales performance in Jul and Aug

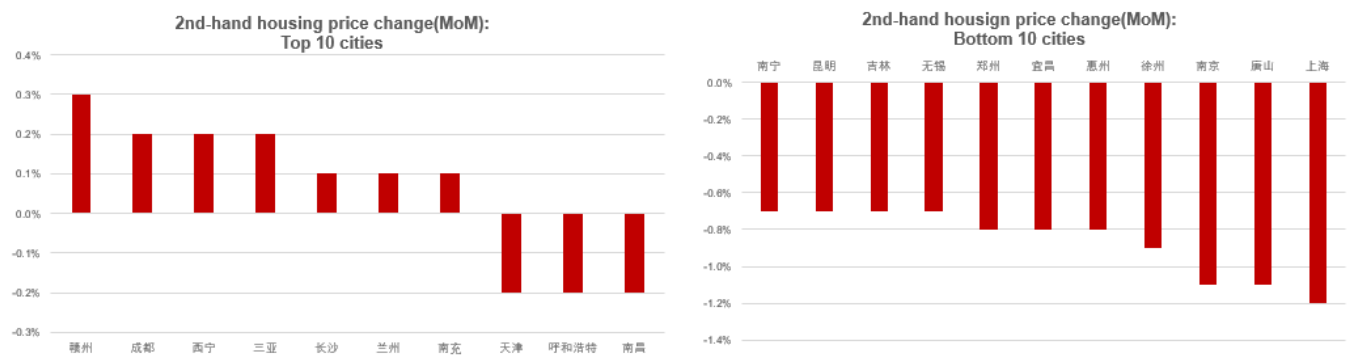
Source: Company, CRIC, CMBIGM

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: Second-hand house price change in Jun 23 (SH ranked declined the most)

Source: NBS, Wind, CMBIGM

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