

China Property Sector

C-REITs' scope extension to unlock mall operators' IP value

The inclusion of shopping mall into C-REITs would certainly give hope to unlock mall operators' investment property value. **Powerlong and Seazen** are the two major beneficiaries as their IP value/market cap is 14/3x which means huge upside after value unlocking. CR Land/Longfor could also benefit but they have less community malls as described in the requirement. Together with continuously improving weekly sales (+6%/+15% WoW for Primary/Secondary sales), we think the property sector may see strong support.

- **What is new?** After market close on 24 Mar, NDRC announced to extend C-REITs' scope to include community shopping mall, department store and rural wholesales market etc. Key requirements are **1)** NAV must be >RMB800mn; IRR >5% and dividend yield >3.8% for the next 3 years. **2)** The issuer cannot do other businesses such as residential development. **3)** The use of proceeds: <30% for further investment in the existing projects and <10% for stake acquisitions of existing projects.
- **Our read: mall operators are the key beneficiary, especially Powerlong/Seazen.** With NDRC's green lights, we think mall operators would start to prepare listing their mall assets into the rising C-REITs market (RMB80bn for now with IPO oversubscription of 100-200 times). Powerlong and Seazen may see more upside on its share price as their **investment property value/market cap ratio** are 14/3x while those for CR Land and Longfor are 1.5/1.0x. Also this time NDRC targets community malls that Powerlong and Seazen have more than the other names.
- **Property sales continue accelerating.** As of 25 Mar, new home sales went up 6% WoW and widened the Mar MTD to +38% YoY. YTD change turned to growth of 1% YoY from decline in the last week. This was mainly driven by good momentum in Tier 1&2 cities that grew +13% WoW and expanded MTD to +35% YoY. Tier 3 cities also performed solid with MTD in Mar up +47% YoY. Secondary home sales booked strong growth of +15% WoW and kept MTD in Mar and YTD high growth at 88%/58% YoY. This also proved our view that the slight WoW correction in previous week was normal as market was returning to a standard level after the strong peak in Feb ([report](#)). We believe sales data will stay positive in Mar-May as **1)** Our leading indicator suggests strong Mar and no crush in Apr. **2)** Mar/Apr are seasonal high months for project launching. **3)** Low base in Apr/May due to lockdown in 2022.
- **Material prices saw mixed move among unstable global macro and weather changes.** Cement/Aluminum prices were flat at RMB 473/18,352 per mt as of 24 Mar, float glass went up 1.2% WoW to RMB 1,733/mt, all supported by demands pick up in recovery-lagging regions like Henan, Wuhan but negatively affected by started rainy season in South area. Steel rebar price declined 2.5% WoW to RMB 4,260/mt, mainly influenced by fluctuation in global macro environment. We think the material prices will keep fluctuating in ST among demands recovery but unstable macro and the rainy season interruption on construction activities in south regions.

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Figure 1: Investment property as % of total assets

RMB bn	FV of Investment properties (1H22)	Total assets	Investment properties as % of total assets
Powerlong	80	239	33%
CR Land	222	1,011	22%
Seazen Holdings	112	515	22%
Longfor*	188	887	21%

Source: Wind, CMBIGM

Notes*: using FY22 data for Longfor

Figure 2: Investment property as % market cap

RMB mn	FV of Investment properties (1H22)	Market cap as of 24 Mar	Investment properties as % of total mkt cap
Powerlong	79,574	5,410	1471%
Seazen Holdings	112,255	39,158	287%
Longfor*	187,671	122,911	153%
CR Land	222,421	219,889	101%

Source: Wind, CMBIGM

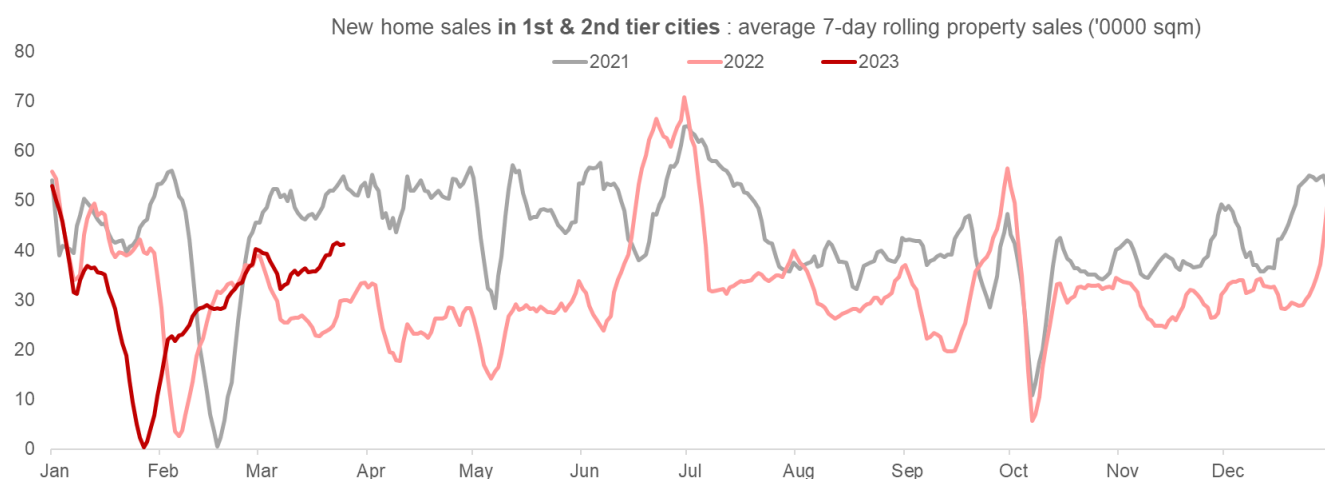
Notes*: using FY22 data for Longfor

Figure 3: March MTD New home sales grew 38% YoY vs. -14%/-21%/-25% in 2M23/Dec-22/Nov-22

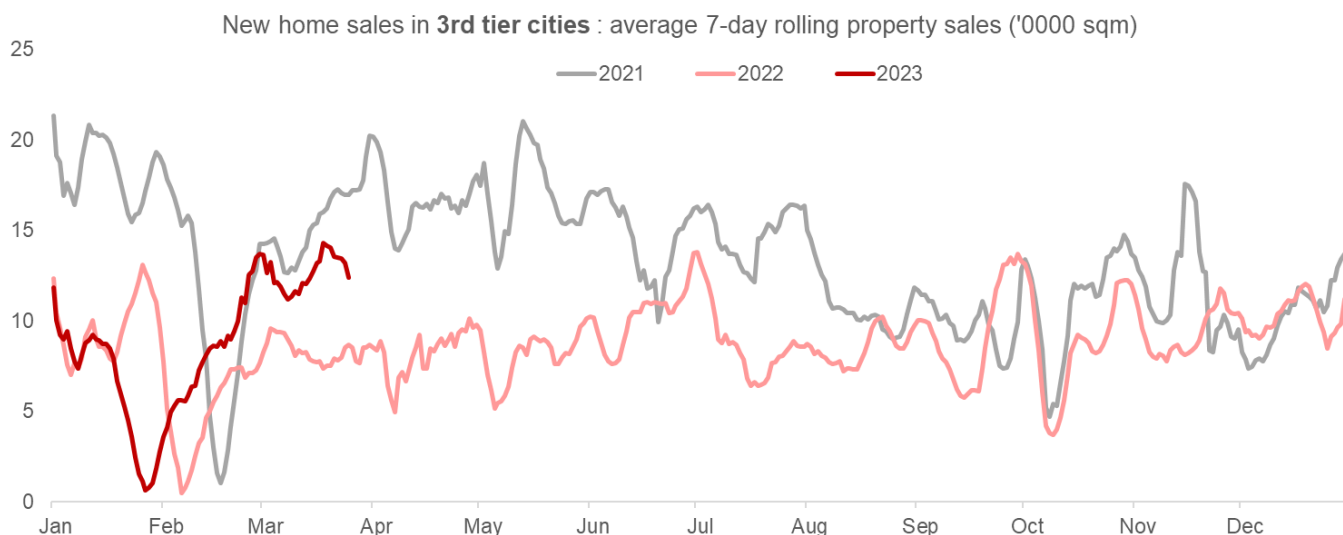
Source: Wind, CMBIGM

Figure 4: March MTD Secondary home sales grew 88% YoY vs. 42%/-12%/25% in 2M23/Dec-22/Nov-22

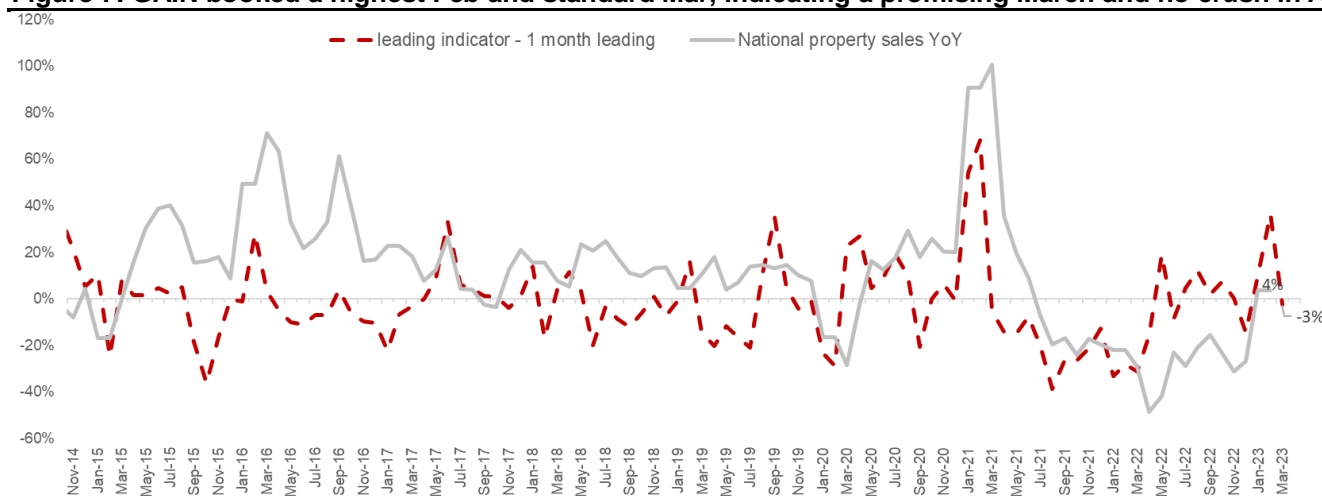
Source: Wind, CMBIGM

Figure 5: New home sales in Tier 1&2 cities saw +35% YoY in March MTD

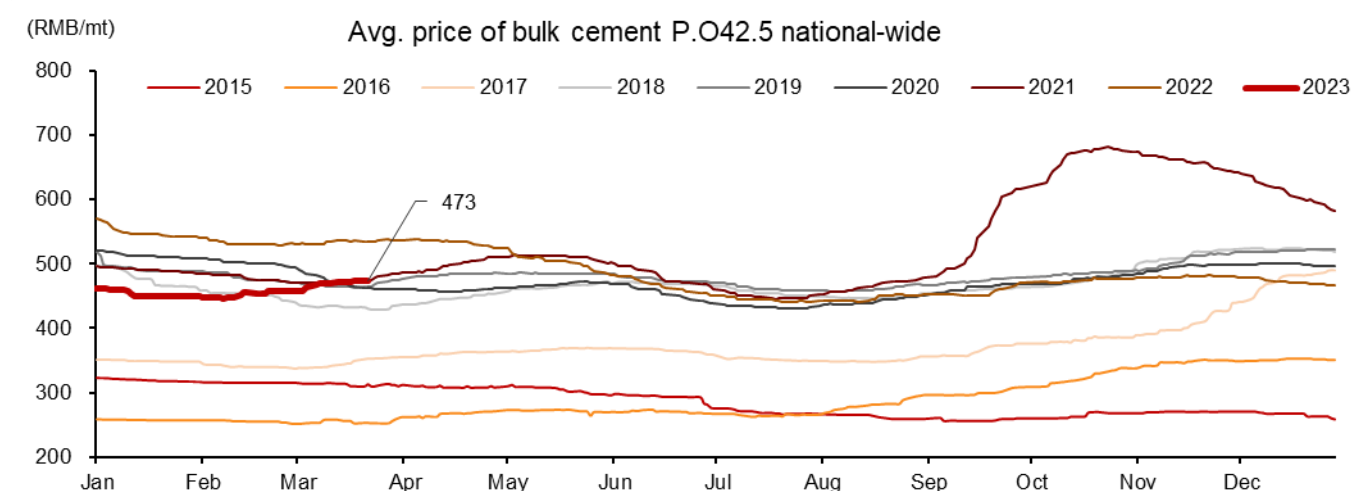
Source: Wind, CMBIGM

Figure 6: New home sales in Tier 3 cities saw +47% YoY in March MTD

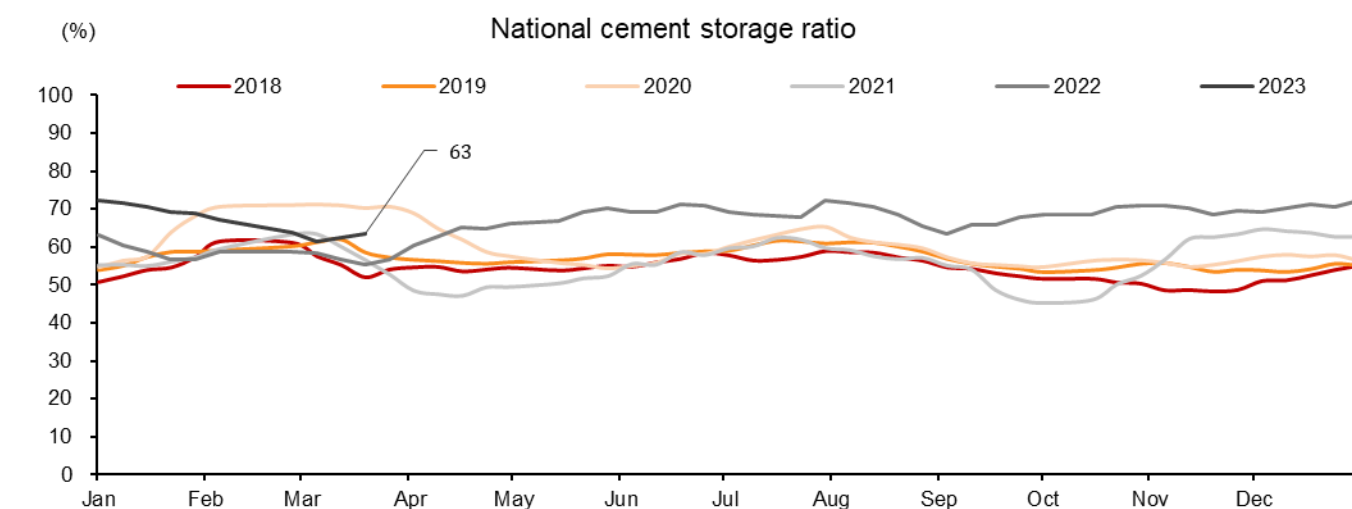
Source: Wind, CMBIGM

Figure 7: GAIN booked a highest Feb and standard Mar, indicating a promising March and no crush in Apr

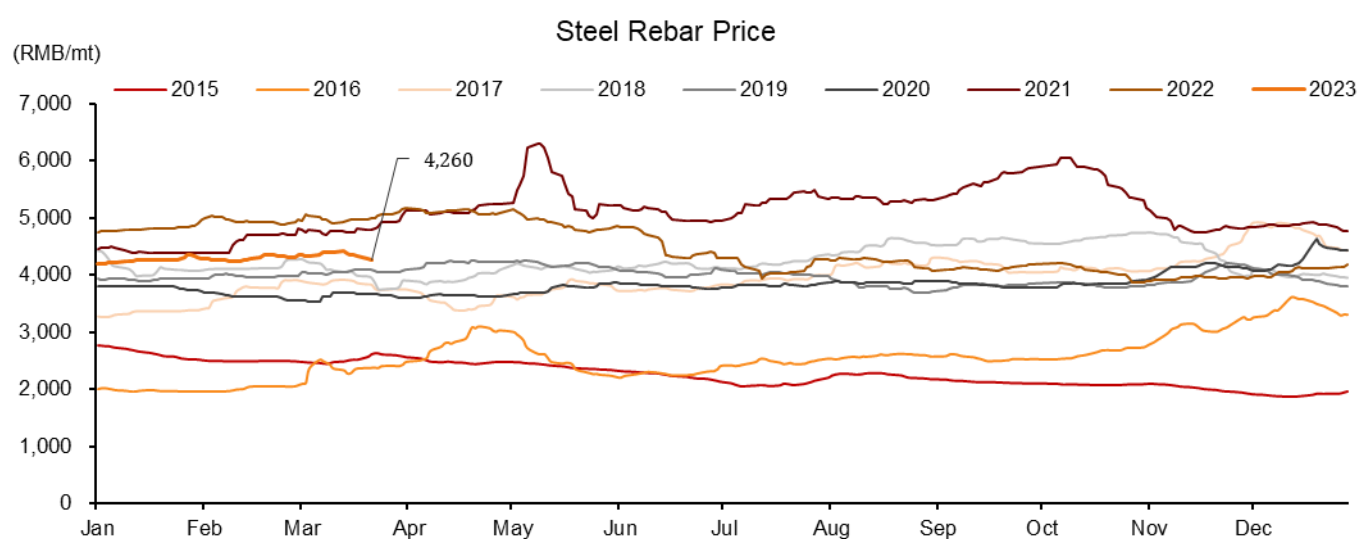
Source: NBS, CMBIGM

Figure 8: Avg. price of bulk cement P.O42.5 national-wide

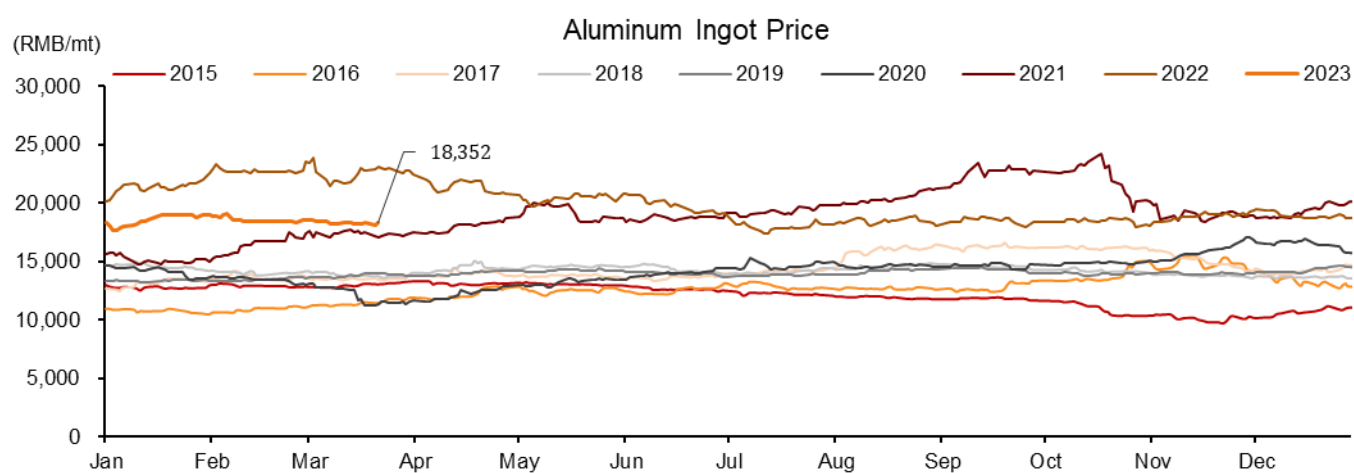
Source: My Steel, CMBIGM

Figure 9: National cement storage ratio

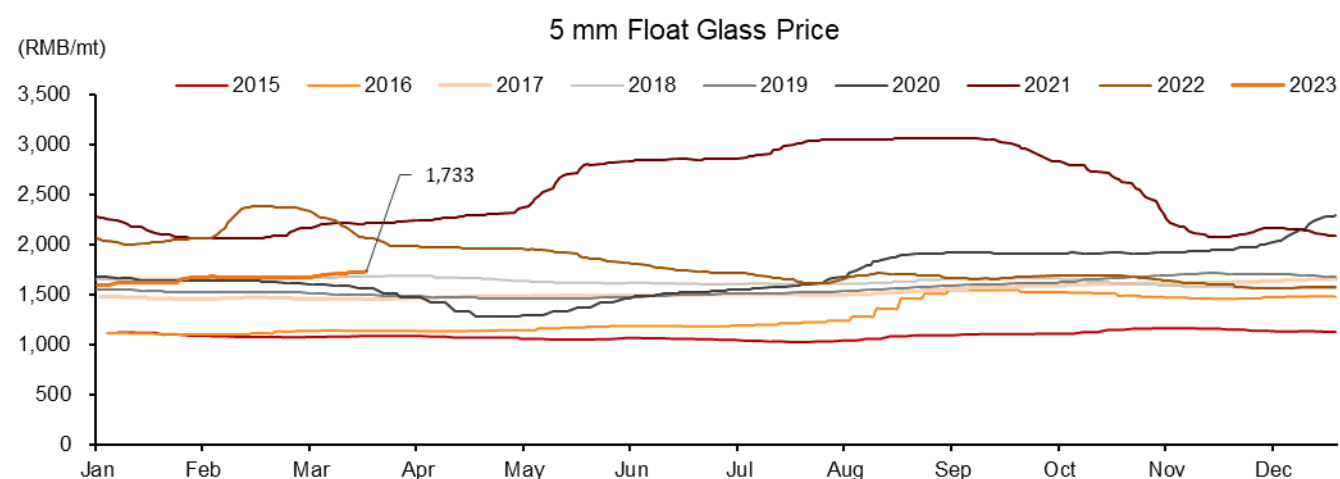
Source: Wind, CMBIGM

Figure 10: Steel rebar price

Source: My Steel, CMBIGM

Figure 11: Aluminum ingot price

Source: My Steel, CMBIGM

Figure 12: 5mm plain float glass price

Source: BBG, CMBIGM

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