

SECTOR UPDATE

Property – China

Divergence Between Cities Widening; Recovery Deferred By Lockdowns.

3M22 property FAI slowed to +0.7% yoy, new construction starts slumped to -17.5% yoy while land transacted area declined 41.8% yoy. The gloomy market outlook coupled with tight liquidity conditions are hurting appetite for land acquisitions. 3M22 home sales value slumped 25.6% yoy and home inventory shrank 2.64% mom, partly attributable to the slower pace of new project launches. Sporadic lockdowns may defer the housing market's recovery in core cities to 2H22. Maintain OVERWEIGHT.

WHAT'S NEW

- **3M22 property FAI slowed to +0.7% yoy; new construction starts tumbled to -17.5% yoy.** 3M22 property FAI slowed to +0.7% yoy, the second lowest in history after 1Q20. New construction starts/completions further slumped to -17.5%/-11.5% yoy. Developers' tight liquidity condition has yet to ease, and total funds raised by developers in 3M22 declined by 19.6% yoy (2M22: -17.7% yoy). Contribution from sales deposits/mortgage loans slumped by 31.0%/18.8% yoy while contribution from domestic loans also further declined to -23.5% yoy. Recent credit easing measures aimed at injecting liquidity to the sector seemed to be insufficient and benefitting only selected developers.
- **Land transaction area declined 41.8% yoy.** 3M22 land transaction value/area declined by 16.9%/41.8% yoy. Recent centralised land auctions continued to be dominated by SOEs, but we are seeing more private developers like CIFI and Longfor returning to participate and successfully acquiring a few plots of land. Local governments are gradually easing some of the terms and also allowed a higher project margin, mainly by relaxing selling price restrictions and some removed the requirements to compete on affordable housing construction and self-holding ratio. Land premiums have also edged up to about 5% compared with about 3% in the previous two rounds of land auctions.

SUMMARY OF 2022 FIRST CENTRALISED LAND AUCTIONS

	Beijing	Fuzhou	Xiamen	Qingdao	Hefei	Chongqing	Wuhan	Chengdu	Changsha
Transacted Plot	17	12	9	15	24	13	6	44	22
Transacted Area (10th sqm)	160.91	61	61	76.6	220.68	147	71.7	356.9	323.1
Transacted Value (Rmb100m)	480.23	77	154	29.5	189.62	99	84	393.1	173.9
Land Premium	4.5%	4.2%	7%	2%	11.2%	5%	1%	5%	3%
Failed Auction Ratio	6%	33%	10%	6%	25%	0%	14%	12%	0%

Source: CRIC, UOB Kay Hian

- **3M22 home sales fell 25.6% yoy; unsold new homes surged 14.2% yoy.** 3M22 home sales value/volume were -25.6%/-18.6% yoy. According to China Real Estate Information Corporation (CRIC), Top100 developers' 3M22 property sales have further slumped to -47% yoy. Though home sales have yet to bottom out, the slowdown in developers' pace of new project launches has caused home inventory to shrink by 2.64% in Mar 22. According to CRIC, inventory months for Tier 1/2/3 cities as of Mar 22 continued piling up, last reported at 13.73/19.61/22.95 months, +65.0/+84.4%/+126.4 yoy.

OVERWEIGHT (Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
CIFI	884 HK	BUY	4.60	6.27

Source: UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Upside/	Market	PE		P/B		Yield		ROE
			14 Apr 22	Price	(Downside)	Cap	2022F	2023F	2022F	2023F	2022F	2023F	2022F
			(HK\$)	(HK\$)	to TP (%)	(HK\$m)	(x)	(x)	(x)	(x)	(%)	(%)	(%)
Powerlong Real Estate	1238 HK	BUY	2.79	6.20	122.2	11,551.7	1.9	1.6	0.2	0.2	17.4	19.5	12.3
Sunac China	1918 HK	BUY	-	9.60	-	24,955.9	0.8	0.8	0.1	0.1	22.7	18.0	16.3
Shimao Group	813 HK	HOLD	-	5.12	-	16,786.4	1.1	1.1	0.1	0.1	28.3	30.9	11.4
CIFI Holdings	884 HK	BUY	4.60	6.27	36.3	40,437.0	4.1	3.8	0.7	0.6	7.2	7.9	16.4

Source: Bloomberg, UOB Kay Hian

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- Decline in new home prices moderated to -0.07% mom.** New home prices continued searching for the bottom in Mar 22 and have fell for the seventh consecutive month. 70-city new home prices was down 0.07% mom (Feb 22: -0.13% mom) with 38 cities reporting mom decline (Feb 22: 40). Tier 1/2/3 cities reported +0.35%/+0.04%/-0.22% mom changes and were +4.33%/+1.64%/-0.63% yoy as of Mar 22. Note that the secondary home prices for 47 out of 70 cities being monitored by National Bureau of Statistics (NBS) are currently lower than the price level a year ago, as these cities are under pressure to come up with more measures to stabilise their local housing market. In our view, the downtrend in Tier 3 cities is unlikely to reverse in the near term even with the rising frequency of policy easing and weak rigid demand. The longer duration needed to digest existing unsold inventory will remain the major constraint to local home prices.

ESSENTIALS

- Policy easing extended to relaxation of home purchase/sales restrictions among Tier 2 cities.** Marching into Apr 22, we are seeing a growing number of Tier 2 cities stepping up policy easing by relaxing their home purchase/sales restrictions which was kick-started in Zhengzhou in Mar 22. More Tier 2/3 cities are expected to follow up with the easing of: a) home purchase restrictions, b) home sales restrictions, c) mortgage loan restrictions (eg lowering downpayment ratio), and d) home ceiling prices. We opine that not all of these cities relaxing restrictions will lead to a meaningful recovery of property sales. Though the intensity of policy easing does make a difference, what's important is the core fundamentals of the local housing market eg population growth, local economic condition and unsold inventory level. Majority of the cities that came out with aggressive easing measures were those with high inventory levels.

- Divergence between cities widens.** The divergence in the local housing market has further widened. According to CRIC, Top32 cities reported an average sell-through rate of 35% in Mar 22. Only five cities (Shanghai, Hefei, Taizhou, Hangzhou and Suzhou) reported above 60% sell-through rate with the highest being Shanghai at above 90%, while Nanjing, Wuhan, Foshan and Wuxi all reported average sell-through rate of below 15%. Homebuyers especially in lower tier cities are turning more selective; developer's reputation, project location and project selling prices are playing important roles since it is now the buyer's market.

- Effectiveness of recent easing of measures.** To gauge the effectiveness of the recent easing of measures on stimulating the local housing market, we focus on the mom change of their home sales volume and new home prices in Mar 22. It is worth noting that February has always been the low season for property sales, and the rebound of property sales in March was partly contributed by seasonal factors; the easing of measures may also need a longer duration to show its full impacts. Policy easing measures may not necessarily lead to immediate market recovery; the market may respond differently based on their respective market conditions and demographic profile.

SUMMARY OF MOM CHANGE FOR PROPERTY SALES AND NEW HOME PRICES

City (New Policy Effective Date)	----- New Home Sales (Units) -----		----- New Home Price -----	
	Mar 22 (mom %)	Mar 22 (yoy %)	Mar 22 (mom %)	Mar 22 (yoy %)
Zhengzhou (1 Mar)	+46%	-45%	-0.7%	-0.6%
Nanning (1 Mar)	+72%	-42%	-0.1%	+0.2%
Fuzhou (-18 Mar)	+67%	-55%	-0.6%	+1.6%

Source: Wind, UOB Kay Hian

- Zhengzhou.** Zhengzhou's new home transaction (units) spiked 46% mom in Mar 22, but new home prices have slid 0.7% mom. Some developers were seen exploiting the sentiment recovery in the city to clear inventory on hand by offering steep discounts, also not to forget the city's unsold home inventory was rather high at 32.35 months.

- Nanning.** We are seeing a gradual recovery in Nanning's local housing market; the city's Mar 22 property sales rebounded 72% mom while the decline in new home prices has also moderated to -0.1% mom (Feb 22: -0.4% mom).

- Fuzhou.** Fuzhou's April month-to-date average daily home sales (units) were still 10% lower than 1Q22's average; new home prices as of Mar 22 have slumped 0.6% mom. We also saw lacklustre demand from developers in Fuzhou's first centralised land auction last month.

SECTOR F12M PE



Source: Bloomberg, UOB Kay Hian

CITIES WITH STEEPEST HOME PRICES DECLINE

City	New Home Prices yoy%	City	Secondary Home Prices yoy%
Dali	-5.60	Mudanjiang	-9.70
Qinhuangdao	-5.20	Anqing	-5.20
Harbin	-4.80	Taiyuan	-4.90
Nanchong	-4.50	Dali	-4.70
Luzhou	-4.40	Shijiazhuang	-4.50
Changde	-4.20	Harbin	-4.50
Yueyang	-3.70	Nanchong	-4.40
Beihai	-3.70	Qinhuangdao	-3.80
Taiyuan	-2.90	Changde	-3.80
Zhanjiang	-2.90	Zunyi	-3.70

Source: NBS, UOB Kay Hian

ACTION

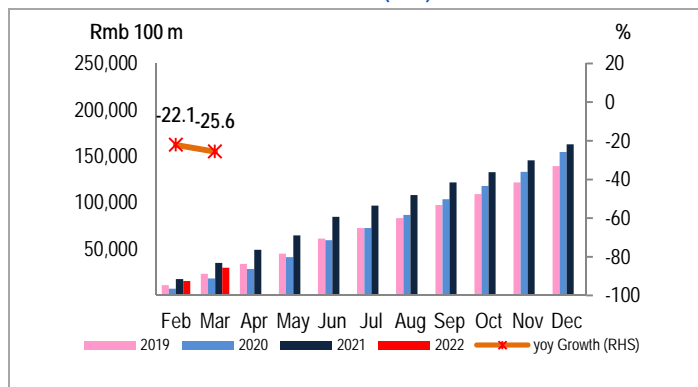
- Maintain OVERWEIGHT on the property sector.** We have yet to see the introduction of major easing policy from the central government since the Financial Stability and Development Committee called for an effective plan to resolve and prevent risks in the property sector on 16 March. Momentum of the recent rally in the sector has started fading but we think the valuation recovery of SOEs and selected private developers will be sustainable, though they could be moving sideways before we see more catalysts in the sector (eg announcement of new measures to stabilise the housing market, lifting existing lockdown measures and recovery of property sales).
- Given the widening gap between higher tier and lower tier cities, we think that it is unlikely to see "one size fit all" easing measures from the central government. "One City One Policy" could be the norm going forward; lower tier cities will continue stepping up the intensity of easing measures to stabilise the local housing market. We do not expect any major policy changes (except monetary easing) in higher tier cities which are backed by strong rigid demand since the relaxation of existing restrictions could again spur speculation activities. Impacts of the recent COVID-19 lockdown were temporary, home demand in Tier 1/2 cities are only being deferred. More efforts are needed to stabilise market expectations and stimulate market demand in order for us to move out from this vicious cycle (lack of confidence in homebuyers, unwilling to enter the market, inventory continuing to pile up, developers continuing to slice selling prices given their tight liquidity condition). Monetary easing (eg lowering mortgage rate and easing loan restrictions) itself may not be sufficient.
- We maintain BUY on CIFI with a target price of HK\$6.27,** derived from a 40% discount to its estimated NAV of HK\$10.45. We like CIFI for its: a) high exposure to Tier 1 and 2 cities (81% of Rmb360b 2022 saleable resources), b) relatively low refinancing risk with access to capital market, and c) aggressive expansion of recurring income base which could compensate the declining profitability of the property development segment. The recent issuance of convertible bonds weighed on investors' sentiment but note that this implied relatively low refinancing risk for the company, not to mention the additional HK\$588m convertible bonds were also issued at premium and oversubscribed by two times. Management was being conservative and utilised the opportunity to raise additional liquidity under the current challenging and uncertain environment.

CREDIT RATINGS (AS OF 18 APR 2022)

Company	Credit Ratings		
	S&P	Moody's	Fitch
Powerlong	NR	B2 *	-
Sunac China	NR	Caa1	CC
CIFI	BB	Ba2	BB
Shimao	NR	-	CCC

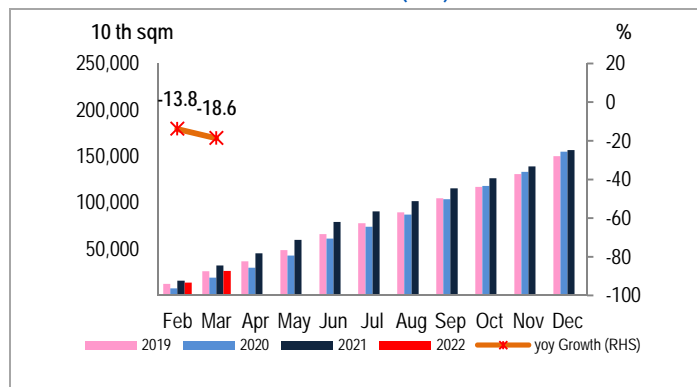
Source: Bloomberg, UOB Kay Hian

RESIDENTIAL PROPERTY SALES VALUE (YTD)



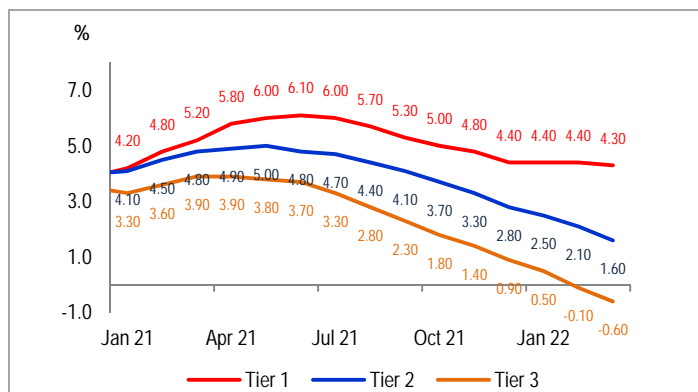
Source: Wind, UOB Kay Hian

RESIDENTIAL PROPERTY SALES VOLUME (YTD)



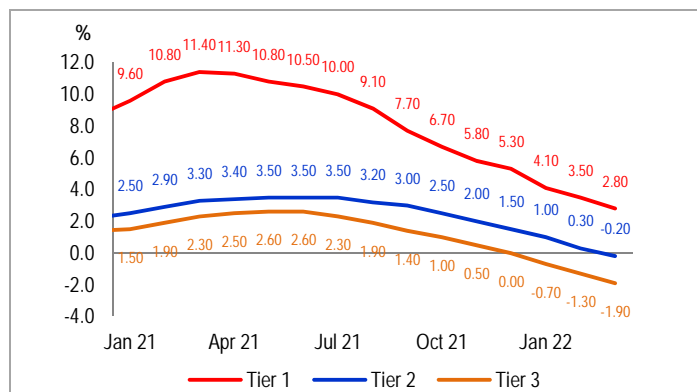
Source: Wind, UOB Kay Hian

70-CITY NEW RESIDENTIAL PROPERTY PRICES YOY



Source: Wind, UOB Kay Hian

70-CITY SECONDARY RESIDENTIAL PROPERTY PRICES YOY



Source: Wind, UOB Kay Hian

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