

### SECTOR UPDATE

## Property – China

COVID-19 Restrictions Are Key Short-term Risk; Rising Possibility Of Easing Of Financing Rules

The Politburo sent a clearer message of support for the housing market. However, the industry is still under great pressure, with property sales negatively impacted by COVID-19 restrictions in April and financing for developers turning even tighter. Apr 22's Top 100 contracted sales declined 16.2% mom and 58.6% yoy, indicating that homebuyers are shunning debt-laden private developers. We think the possibility of easing of financing regulations may be rising. Maintain OVERWEIGHT.

### WHAT'S NEW

- Clearer message of policy easing from Politburo.** The Politburo hosted a meeting on 29 April to analyse the current economic situation and economic work. On real estate policy, the Politburo: a) changed its policy tone from "one city one policy" to "municipals can fine-tune local rules to accommodate with market conditions", and b) for the first time agreed to optimise the supervision of pre-sale funds. Compared with the financial stability and development committee (FSDC) meeting on 16 Mar 22 and the year-end Politburo meeting on 6 Dec 21, the 29 April meeting sent out much clearer messages on real estate easing. Thus, we expect more local governments to ease purchase restrictions and restrictions on pre-sale funds. Particularly, liquidity relief will benefit developers with high turnover business models and larger contracted liabilities on their balance sheets.
- Property sales negatively impacted by COVID-19 restrictions.** Among the eight cities that China Real Estate Index System (CREIS) has consecutive daily data: a) Beijing/Shenzhen reported relatively stable new home sales, with total GFA sold in April dropping by 15%/0% respectively, b) Shanghai saw sharp sales deterioration, with total GFA sold dropping by 93%, c) Chongqing/Wuhan/Suzhou/Qingdao's total sales in April dropped by 69%/51%/51%/-41% yoy. Looking forward, we remain cautious on the recovery pace of property sales despite more policy easing, as: a) the Politburo meeting on 5 May declared the continuation of the "dynamic zero-Covid" policy with no mention of the balancing of COVID-19 prevention and the economy. thus restrictions may stay longer than expected, b) the impact of COVID-19 restrictions may not only be about slowing sales activities but also about impacting buyers' confidence and demand.
- Financing turned tighter in April.** According to CREIS, total onshore fund raised by developers in April was only Rmb84.3b, down by 52.14% yoy and dropped by 19.74% mom. Of which, onshore bond issuance/offshore bond issuance/trust fund raised/asset backed securities issuance amounted to 36.9b/2.88b/12.88b /31.7b, contracting by 49.6%/80.5%/75.9%/8.9% yoy respectively, reflecting investors' sentiment which remains very cautious.
- Rising possibility of easing of financing rules.** Since Mar 22, ie after Liu He's talk at the FSDC meeting, PBOC and the China Banking and Insurance Regulatory Commission made some efforts to activate financing of the real estate sector, eg allowing local banks to lower the minimum down payment requirement, pledging to support M&A finance. But these measures seem far from effective. Former PBOC senior official Sheng Songcheng recently talked about the easing of major financing regulations (eg The Three Red Line regulations, real estate loan concentration guidance). Considering the key role played by the real estate sector in financial stability, we believe the possibility of further easing of financing regulations is rising.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 10 May 22 (HK\$)	Target Price (HK\$)	Upside/(Downside) to TP (%)	Market Cap (HK\$ m)	PE 2022F (x)	PE 2023F (x)	P/B 2022F (x)	P/B 2023F (x)	Yield 2022F (%)	Yield 2023F (%)	ROE 2022F (%)
Powerlong Real Estate	1238 HK	BUY	2.41	4.67	93.9	9,978.4	2.4	2.1	0.2	0.2	11.7	12.8	8.4
Sunac China	1918 HK	BUY	-	9.60	-	24,955.9	0.6	0.6	0.1	0.1	29.8	23.6	16.3
Shimao Group	813 HK	HOLD	-	5.12	-	16,786.4	1.1	1.0	0.1	0.1	30.0	32.9	11.4
CIFI Holdings	884 HK	BUY	3.26	6.27	92.3	28,662.5	2.6	2.3	0.4	0.4	13.8	15.0	18.4

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

(Maintained)

### SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
CIFI	884 HK	BUY	3.26	6.27

Source: UOB Kay Hian

### ANALYST(S)

Ziv Ang Sze Champ

+603 2147 1826

zivang@uobkayhian.com

- Apr 22 Top 100 contracted sales declined 16.2% mom and 58.6% yoy.** Top 100 developers' contracted sales continued searching for the bottom in Apr 22, with monthly contracted sales tumbling 16.2% mom/58.6% yoy. The steeper decline in Apr 22 has dragged cumulative yoy decline for 4M22 further to -51.5% yoy (3M22: -50.5% yoy). Based on developers' individual sales performance, SOEs have generally outperformed peers while debt-laden private developers were among the worst performing ones, an indication that homebuyers are shunning these struggling developers, concerned that they cannot complete the projects on time. Property sales, being the key source of liquidity especially for developers facing liquidity crunch, have failed to contribute the much needed liquidity during this critical period.

### LEADING DEVELOPERS CRIC PRELIMINARY CONTRACTED SALES (4M22)

Company	Ticker	CRIC Preliminary 4M22 Rmb m	Actual 4M21 Rmb m	yoy chg %	
中国恒大	CHINA EVERGRANDE GROUP	3333 HK	13,330	221,300	-94%
奥园集团	CHINA AOYUAN GROUP LTD	3883 HK	9,760	41,060	-76%
正荣集团	ZHENRO PROPERTIES GROUP LTD	6158 HK	15,570	54,707	-72%
世茂房地产	SHIMAO GROUP HOLDINGS LTD	813 HK	28,150	92,742	-70%
富力地产	GUANGZHOU R&F PROPERTIES - H	2777 HK	14,110	40,250	-65%
建业地产	CENTRAL CHINA REAL ESTATE	832 HK	8,020	21,915	-63%
*龙光集团*	*LOGAN GROUP CO LTD	3380 HK	19,880	52,000	-62%
禹洲集团	YUZHOU GROUP HOLDINGS CO LTD	1628 HK	12,780	31,321	-59%
中梁控股	ZHONGLIANG HOLDINGS GROUP CO	2772 HK	25,680	62,100	-59%
融信集团	RONSHINE CHINA HOLDINGS LTD	3301 HK	24,570	54,178	-55%
雅居乐	AGILE GROUP HOLDINGS LTD	3383 HK	23,250	50,840	-54%
宝龙地产	POWERLONG REAL ESTATE HOLDING	1238 HK	15,210	33,119	-54%
美的置业	MIDEA REAL ESTATE HOLDING LT	3990 HK	24,530	53,060	-54%
旭辉集团	CIFI HOLDINGS GROUP CO LTD	884 HK	38,840	83,160	-53%
合景泰富	KWG GROUP HOLDINGS LTD	1813 HK	16,390	34,571	-53%
中国金茂	CHINA JINMAO HOLDINGS GROUP	817 HK	41,900	86,830	-52%
融创中国	SUNAC CHINA HOLDINGS LTD	1918 HK	85,900	171,010	-50%
新城控股	SEAZEN GROUP LTD	1030 HK	40,210	70,418	-43%
力高地产	REDCO PROPERTIES GROUP LTD	1622 HK	7,410	12,878	-42%
金地集团	GEMDALE CORP-A	600383 CH	58,000	100,320	-42%
龙湖集团	LONGFOR GROUP HOLDINGS LTD	960 HK	48,610	82,330	-41%
时代中国	TIMES CHINA HOLDINGS LTD	1233 HK	16,800	28,285	-41%
中海地产	CHINA OVERSEAS LAND & INVEST	688 HK	72,000	121,137	-41%
万科地产	CHINA VANKE CO LTD-H	2202 HK	138,000	229,240	-40%
华润置地	CHINA RESOURCES LAND LTD	1109 HK	61,000	100,996	-40%
绿城中国	GREENTOWN CHINA HOLDINGS	3900 HK	48,070	78,800	-39%
*碧桂园*	*COUNTRY GARDEN HOLDINGS CO	2007 HK	121,940	192,380	-37%
保利地产	POLY DEVELOPMENTS AND HOLD-A	600048 CH	121,200	175,484	-31%
合生创展	HOPSON DEVELOPMENT HOLDINGS	754 HK	10,340	14,926	-31%
远洋集团	SINO-OCEAN GROUP HOLDING LTD	3377 HK	22,000	30,540	-28%
越秀地产	YUEXIU PROPERTY CO LTD	123 HK	24,700	32,752	-25%

\* Attributable Sales

Source: CRIC, Bloomberg, UOB Kay Hian

### ACTION

- Maintain OVERWEIGHT on the property sector.** Although the economic environment remains harsh, high-quality developers have led the way to recovery, which in our view, is the key investment thesis in this round of sector restructuring. Besides, we think there are possibilities of further easing of financing regulation, which will particularly benefit high-quality privately-owned enterprise developers.
- 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 the 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 have weighed on investors' sentiment but 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. They are the only few private developers which have resumed land acquisition activities and controlling shareholders have been actively raising stake in the company; these should help in stabilising investors' sentiment.

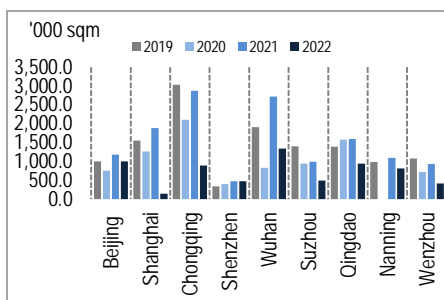
### SECTOR CATALYSTS

- Removal or fine-tuning of key restrictions on financing of developers.
- Better-than-expected recovery in property sales.

### RISKS

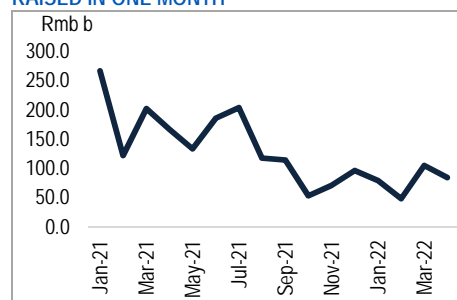
- Longer and broader-than-expected COVID-19 restrictions.

### MAJOR CITIES' PROPERTY SALES IN APRIL



Source: CIH, UOB Kay Hian

### FINANCING ACTIVITIES OF DEVELOPERS – FUNDS RAISED IN ONE MONTH



Source: CREIS, UOB Kay Hian.

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W