

# China / Hong Kong Industry Focus

## China Property Sector

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DBS Group Research . Equity

31 May 2022

### Are landlords in harm's way from COVID-19 lockdowns?

- Landlords may provide rent relief reminiscent of 2020 upon continued disruption from lockdowns
- Rent reliefs will likely be more impactful to sentiments rather than fundamentals
- Corrections from rent relief would create decent entry window to accumulate quality names – [Longfor \(960 HK\)](#) and [CR Land \(1109 HK\)](#)

**Landlords likely to offer rent relief.** With the government's intention to support medium, small, and micro-enterprises along with the likely continuance of lockdowns and/or restrictions to contain the COVID-19 resurgence, we believe landlords will soon offer rent relief for their tenants like in 2020. Thus, we conducted an earnings sensitivity analysis to gauge the earnings impact on landlord developers under the offering of a 2 to 6 month rent relief on affected malls.

**Focusing on Longfor and CR Land for our sensitivity analysis.** We have focused on Longfor (960 HK) and CR Land (1109 HK) – the two leading landlords in the sector – in our analysis. Having mapped their current mall locations and respective lockdown statuses under COVID-19 restrictions (refer to charts on pg 3-4), we identified that Longfor and CR Land have 30% and 37% of the malls in GFA that are fully unaffected, 49% and 24% currently under different levels of lockdowns, and 20% and 40% that were affected by lockdowns but have resumed normal operations, respectively.

**Likely more impactful to sentiment than on fundamentals.** Our analysis indicates that Longfor and CR Land's earnings will only be impacted by c.0.1%-0.3% and c.0.2%-0.6% respectively, assuming shopping malls that are in currently affected cities will not contribute 2-6 months of turnover rents. The impact would be higher, but remains manageable at 1.1%-3.3% for Longfor and 0.8-2.4% for CR Land if we assume rent relief will be provided for currently affected malls, or 1.5%-4.6% and 2.2%-6.6% even if they provide rent relief to all of the currently and previously affected malls. Impacts will likely be even less if we factor in "revenge spending" once cities reopen and potential subsidies from governments.

**Share price correction in reaction to rent relief announcement, if any, would offer decent entry point.** We believe the earnings impact from the offering of rent-relief should create a manageable earnings impact as per our sensitivity analysis. We therefore believe share price corrections, if any, in the event that Longfor and CR Land announce rent relief would create decent entry points for investors to accumulate.

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#### Recommendation & valuation

	Price HK\$	Target Price HK\$	Rec	Mkt Cap US\$bn	FY22F PE x
<a href="#">CR Land (1109 HK)</a>	35.00	50.93	BUY	31.8	7.3
<a href="#">Longfor (960 HK)</a>	39.15	55.56	BUY	30.3	8.1

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")

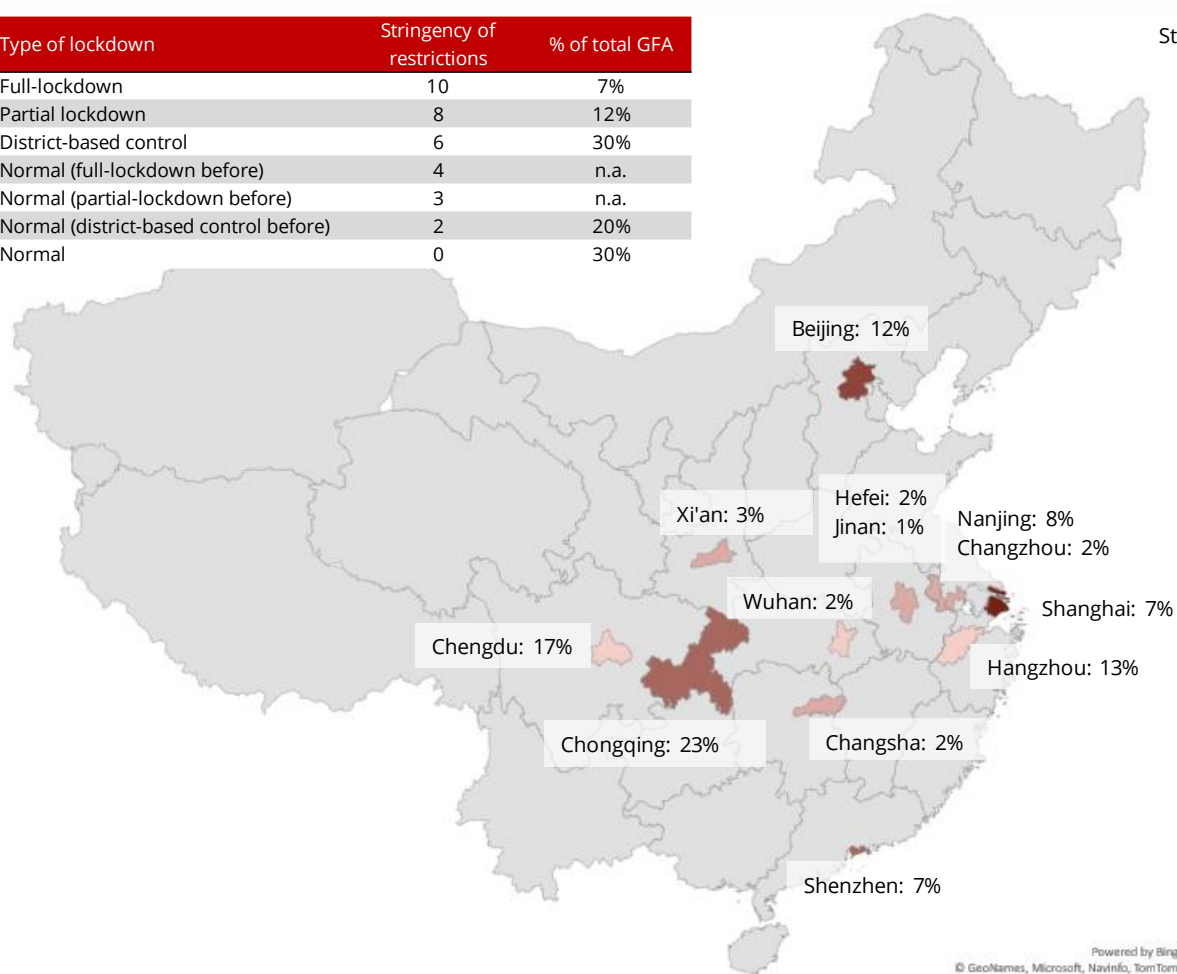
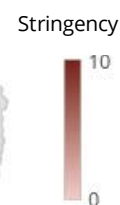


Live more, Bank less

China Property Sector

Current status of Longfor's shopping malls

Type of lockdown	Stringency of restrictions	% of total GFA
Full-lockdown	10	7%
Partial lockdown	8	12%
District-based control	6	30%
Normal (full-lockdown before)	4	n.a.
Normal (partial-lockdown before)	3	n.a.
Normal (district-based control before)	2	20%
Normal	0	30%

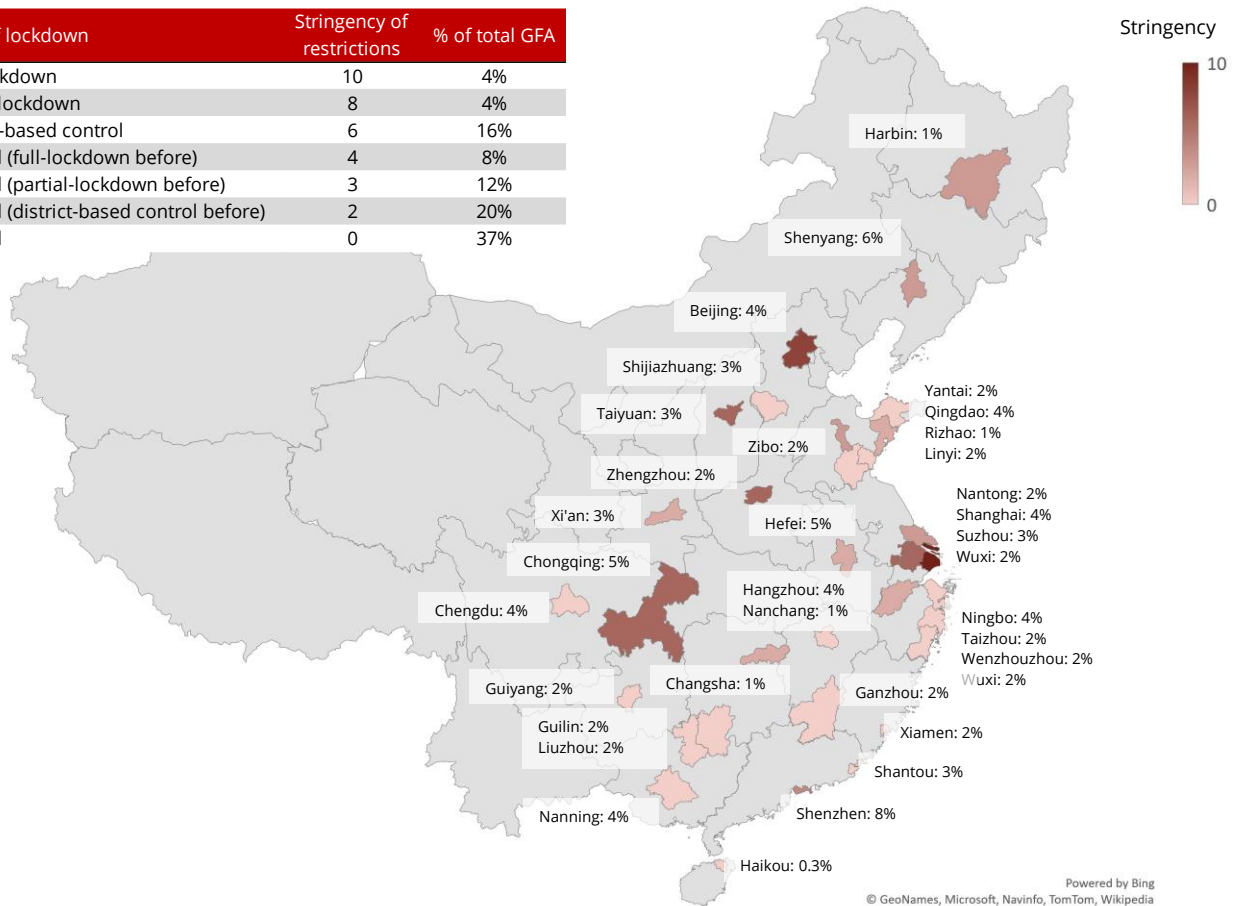


Note: % of affected/unaffected malls are based on lockdown status as at 30 May 2022

Source: Company, Local news, DBS HK

Current status of CR Land's shopping malls

Type of lockdown	Stringency of restrictions	% of total GFA
Full-lockdown	10	4%
Partial lockdown	8	4%
District-based control	6	16%
Normal (full-lockdown before)	4	8%
Normal (partial-lockdown before)	3	12%
Normal (district-based control before)	2	20%
Normal	0	37%



Note: % of affected/unaffected malls are based on lockdown status as at 30 May 2022

Source: Company, Local news, DBS HK

### Longfor and CR Land's current status

	Longfor	CR Land
<b>Shopping mall status</b>		
Retail sales in Apr	-30%	-27%
Retail sales YTD April	-10%	-5%
% of malls currently affected by lockdown (GFA)	49%	24%
% of malls previously affected by lockdown (GFA)	20%	40%
% of completely unaffected malls (GFA)	30%	37%
<b>P&amp;L Status</b>		
FY21A revenue from shopping mall and office	4%	7%
Turnover rent to total rental income	10%	26%
Estimated FY22F CNP from shopping mall and office	13%	21%

Note: % of affected/unaffected malls are based on lockdown status as at 30 May 2022

Source: Companies, DBS HK

### Earnings sensitivity analysis from shopping mall rental impacts on city lockdowns and rent relief

City/district lockdown period	Longfor (960 HK)			CR Land (1109 HK)		
	2-mth	4-mth	6-mth	2-mth	4-mth	6-mth
<b>Before rent relief</b>						
Malls currently subject to lockdown restrictions	-0.1%	-0.2%	-0.3%	-0.2%	-0.4%	-0.6%
Malls currently and previously subject to lockdown restrictions	-0.2%	-0.3%	-0.5%	-0.5%	-1.0%	-1.5%
<b>With rent relief</b>						
Malls currently subject to lockdown restrictions	-1.1%	-2.2%	-3.3%	-0.8%	-1.6%	-2.4%
Malls currently and previously subject to lockdown restrictions	-1.5%	-3.1%	-4.6%	-2.2%	-4.4%	-6.6%

Note 1: Under the case of "Before rent relief", impact derives from the absence of turnover rent, as we assume none of the tenants in the affected malls will be able to secure sufficient retail sales in the month to meet the bar and pay turnover rents

Note 2: Under the case of "with rent relief", impact comes from complete absence of both turnover and base rent.

Note 3: Impact from potential delays in new mall openings was excluded, as earnings contribution will typically be minimal in the first year.

Source: DBS HK

## Peers valuation

Company Name	Code	30-May Price HK\$	Mkt Cap US\$bn	3-mth daily trading value		12-m target HK\$	EPS gth		PE		Yield		ROE		Net Gearing Dec-21	P/BK 22F	NAV HK\$	Disc/ to NAV %
				US\$m	Recom		22F	23F	22F	23F	22F	23F	22F	23F				
<b>Large cap</b>																		
China Overseas*	688 HK	22.80	31.8	89.5	BUY	31.89	(4)	(0)	6.1	6.1	4.9	4.9	9.5	8.9	24.5	0.6	50.7	55.0
CR Land*	1109 HK	35.00	31.8	56.3	BUY	50.93	10	9	7.3	6.7	5.1	5.5	11.8	11.8	24.4	0.9	66.9	47.7
China Vanke 'H'	2202 HK	17.36	30.1	25.5	BUY	34.45	23	6	6.2	5.9	5.9	9.6	10.6	10.2	30.1	0.7	41.1	57.7
Country Garden*	2007 HK	4.92	14.5	58.4	BUY	8.62	(5)	(5)	3.6	3.8	7.3	6.9	12.3	10.7	45.4	0.4	17.1	71.2
Longfor*	960 HK	39.15	30.3	40.4	BUY	55.56	11	10	8.1	7.4	5.5	6.1	18.9	18.7	46.7	1.5	81.4	51.9
<b>Average</b>							<b>6.9</b>	<b>3.8</b>	<b>6.3</b>	<b>6.0</b>	<b>5.8</b>	<b>6.6</b>	<b>12.6</b>	<b>12.1</b>	<b>34.2</b>	<b>0.8</b>		<b>56.7</b>
<b>Mid cap</b>																		
China Jinmao Hldgs*	817 HK	2.12	3.4	9.2	HOLD	3.00	19	10	4.1	3.7	9.3	10.1	9.4	8.9	63.0	0.4	9.0	76.4
CIFI Holdings*	884 HK	3.41	3.8	30.9	BUY	5.09	(13)	3	3.8	3.7	4.8	5.0	15.5	14.2	67.2	0.6	6.2	45.0
Seazen	1030 HK	3.33	2.8	12.2	NR	n.a.	(15)	0	2.4	2.4	9.8	9.9	15.0	12.0	49.8	0.4	n.a.	n.a.
Guangzhou R&F	2777 HK	2.79	1.3	5.5	NR	n.a.	n.a.	12	3.0	2.7	3.8	0.6	3.4	1.7	123.3	0.1	n.a.	n.a.
Shenzhen Inv	604 HK	1.69	1.9	1.2	NR	n.a.	n.a.	9	3.6	3.3	8.8	9.7	8.5	8.4	28.2	0.3	n.a.	n.a.
Yuexiu Property*	123 HK	8.53	3.4	4.1	BUY	10.12	5	6	5.2	4.9	7.8	8.2	8.8	8.8	47.1	0.5	32.9	74.0
<b>Average</b>							<b>-0.8</b>	<b>6.0</b>	<b>3.6</b>	<b>3.4</b>	<b>7.8</b>	<b>7.7</b>	<b>9.3</b>	<b>8.3</b>	<b>66.3</b>	<b>0.3</b>		<b>65.2</b>
<b>Small cap</b>																		
China Merchants Land	978 HK	0.68	0.4	0.2	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.8	n.a.	65.3	n.a.	n.a.	n.a.
China SCE	1966 HK	1.16	0.6	1.4	NR	n.a.	2	1	1.3	1.3	17.4	17.1	11.8	11.1	70.7	0.2	n.a.	n.a.
COGO*	81 HK	4.00	1.7	3.4	BUY	7.03	7	3	2.2	2.2	9.0	9.3	17.1	15.3	35.6	0.4	16.8	76.2
Gemdale Props	535 HK	0.76	1.6	2.3	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	54.2	n.a.	n.a.	n.a.
Greenland	337 HK	1.51	0.5	0.9	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	59.6	0.5	n.a.	n.a.
Greentown	3900 HK	13.60	4.3	15.6	NR	n.a.	44	18	6.2	5.2	4.9	6.0	12.6	12.7	52.0	0.7	n.a.	n.a.
Hopson Dev	754 HK	12.78	3.9	4.7	NR	n.a.	(48)	(3)	6.6	6.8	6.2	6.4	4.8	4.6	69.8	0.5	n.a.	n.a.
Joy City	207 HK	0.30	0.5	0.2	NR	n.a.	53	31	4.2	3.2	5.1	n.a.	n.a.	n.a.	89.3	n.a.	n.a.	n.a.
LVGEM*	95 HK	0.86	0.6	2.3	BUY	2.74	n.a.	n.a.	n.a.	12.4	0.0	0.0	n.a.	1.2	72.8	0.2	10.3	91.6
Minmetals Land	230 HK	0.72	0.3	0.0	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	68.6	n.a.	n.a.	n.a.
Poly (Hong Kong)	119 HK	1.88	0.9	1.5	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	102.7	n.a.	n.a.	n.a.
Powerlong	1238 HK	2.11	1.1	4.9	NR	n.a.	(29)	4	1.8	1.7	18.0	16.9	8.5	7.2	88.1	0.3	n.a.	n.a.
Road King	1098 HK	6.05	0.6	0.2	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	149.3	n.a.	n.a.	n.a.
Ronshine China	3301 HK	2.09	0.4	0.8	NR	n.a.	(43)	2	4.0	3.9	8.3	8.5	4.1	n.a.	66.4	n.a.	n.a.	n.a.
Shui On Land	272 HK	1.11	1.1	1.1	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	45.3	n.a.	n.a.	n.a.
Yanlord Land*^	YLLG SP	1.10	1.6	1.4	BUY	1.43	6	5	4.0	3.8	6.2	6.2	7.4	7.3	48.4	0.3	3.3	66.8
Zhenro Properties	6158 HK	0.57	0.3	6.7	NR	n.a.	201	(60)	0.8	2.1	18.5	n.a.	4.4	3.6	159.4	0.1	n.a.	n.a.
Zhong An	672 HK	0.280	0.2	0.0	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	77.5	n.a.	n.a.	n.a.
<b>Average#</b>							<b>20.2</b>	<b>0.8</b>	<b>3.2</b>	<b>4.0</b>	<b>11.1</b>	<b>11.2</b>	<b>8.6</b>	<b>7.7</b>	<b>74.2</b>	<b>0.4</b>		<b>81.5</b>
<b>Average (Overall)#</b>							<b>11.8</b>	<b>3.0</b>	<b>4.2</b>	<b>4.4</b>	<b>8.0</b>	<b>7.9</b>	<b>9.9</b>	<b>9.1</b>	<b>67.0</b>	<b>0.5</b>		<b>64.9~</b>

^ Denominated in SGD for price

~ Simple average discount to NAV; Market cap weighted average NAV = 59%

# Exclude outliers ~~Gross Gearing

^^ FY22: FY23; FY23: FY24

Source: Thomson Reuters, \*DBS HK

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