

SECTOR UPDATE

Property – China

SOE Players Will Continue To Outperform In A Gradually Recovering Market

With more easing on the demand side and relatively cautious supply-side policies, we forecast a modest recovery in sales starting from Jun 22. SOE developers will continue to outperform in terms of sales, investment and finance. Ample saleable resources place SOEs in a better position for a sales recovery while strong IP brands and pipelines will further strengthen their market competitiveness. Initiate coverage on CR Land (Target: HK\$46.50) and COLI (Target: HK\$31.10) with BUY ratings.

INVESTMENT HIGHLIGHTS

- **Supply-side policies expected to remain relatively cautious in 2H22.** The government has started to ease policies on the property sector since 4Q21 but these revisions are focused mainly on the demand side. Top officials have maintained a relatively cautious tone on the supply-side policies during this round of policy easing, reflecting their commitment to deleverage the property sector. In our base-case scenario, top officials will maintain this policy mix in 2H22 (relaxed demand-side policies and cautious supply-side policies). Considering: a) a lower base in 3Q21/4Q21, b) continuous improvement in demand-side policies, and c) normalising market supply upon lifting of lockdown measures starting from June, we expect the decline in property sales to narrow from -23%/-27% in 1Q22/2Q22 to -15%/- 6% in 3Q22/4Q22. Property sales are expected to decline by 18% yoy in 2022.
- **SOE developers to continue outperforming in a challenging market.** SOEs have been gaining market shares since 2H21, as reflected by: a) rising share in developers' bond issuance market (3Q21/4Q21/1Q22/2Q22: 65%/75%/78%/84%); b) better sales performance among the top 100 developers in 5M22 (SOEs: -56% yoy vs POEs: -66% yoy on average); and c) rising share in land acquisitions of top 100 developers (12M21/5M22: about 62%/about 90%). We expect financial institutions and homebuyers to continue to favour SOEs in a relatively challenging market (estimated 18% decline in sales), due to: a) relatively low gearing (SOEs 53% vs POEs 83% on average for listed companies), b) much better financial discipline, and c) implicit support from the government.
- **Ample saleable resources position SOEs for sales recovery in 2H22-2023.** Based on data from China Real Estate Index System (CREIS), attributable land acquisition/attributable contracted sales for 5M22 was 29%/4% for SOEs/POEs, reflecting that SOEs' saleable resources remain resilient while POEs may face notable contraction in landbank. CR Land and COLI excel in land acquisition and sales recovery among both SOEs and POEs: a) CR Land and COLI are ranked no.1 and no.4 respectively in terms of attributable land acquisition in 5M22, and b) monthly property sales for COLI and CR Land grew 30%/35% mom respectively in May 22, outperforming all the leading SOE peers (+10% mom on average). The above statements also prove CR Land's and COLI's capability to gain market share during an industry downturn.

Click [here](#) for Blue Top dated 23 Jun 22

PEER COMPARISON

Company	Ticker	Rec	Price @ 23 Jun 22 (HK\$)	Target Price (HK\$)	Upside/ (Downside) to TP (%)	Market Cap (HK\$m)	PE		P/B		Yield		ROE
							2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)	
China Resources Land	1109 HK	BUY	35.10	46.50	32.5	250,296.0	7.3	6.3	0.8	0.7	5.1	5.9	12.0
Powerlong Real Estate	1238 HK	BUY	1.84	3.25	76.6	7,618.3	1.8	1.6	0.1	0.1	15.3	16.8	8.4
Sunac China	1918 HK	UNDER REVIEW	n.a.	UR	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Overseas Land & Investment	688 HK	BUY	23.35	31.10	33.2	255,563.0	5.8	5.4	0.6	0.5	5.6	5.7	10.5
CIFI Holdings	884 HK	BUY	3.64	5.23	43.5	33,283.7	2.8	2.6	0.5	0.4	12.4	13.5	18.4

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
China Resources Land	1109 HK	BUY	35.10	46.50
China Overseas Land & Investment	688 HK	BUY	23.35	31.10

Source: UOB Kay Hian

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- Diversified business model hedging against cyclical factors; growing IP portfolio optimising revenue mix.** Leading developers have started diversifying their operations into various non-property development segments, namely property management, investment properties (IP), rental housing, construction management etc. With an established brand and strong pipeline, we expect sector leaders will see strong growth in recurring income. CR Land and COLI are the respective segment leaders in shopping malls and single-title office space operations, with a forecasted 20% and 25% three-year CAGR in recurring income.
- Maintain MARKET WEIGHT on China's property sector.** With better execution of COVID-19-related restrictions and more project launches starting from June, we think the worst period of sales has passed. However, as supply-side policies remained relatively cautious, developers will still be facing great liquidity pressure. We also expect a gradual recovery of demand as economic outlook turned gloomier recently. We maintain MARKET WEIGHT on the property sector.

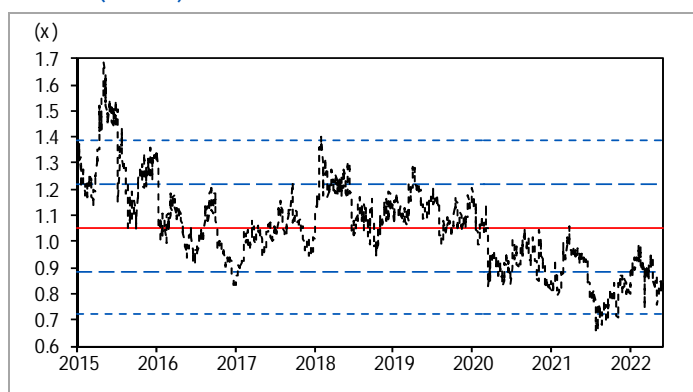
STOCK PICK

- Initiate coverage on CR Land with a BUY rating and target price of HK\$46.50.** This is derived from a 20% discount to its estimated NAV of HK\$58.10, implying 10.0x 2022F PE and 1.1x 2022F P/B. Core net profit is estimated to grow at a CAGR of 13.5% over the next three years. CR Land's abundant saleable resources and high exposure to Tier 1 and Tier 2 cities put it in a good position to capture the sales recovery. Its recurring income in 2021 was able to fully cover annual interest and dividend payments. Shopping malls will remain its investment properties' key growth driver, with its portfolio expected to double by 2025. It still has ample room for future debt-raising activities while keeping its BBB+ credit ratings.
- Initiate coverage on COLI with a BUY rating and target price of HK\$31.10,** derived from a 25% discount to its estimated NAV of HK\$41.48, implying 8.0x 2022F PE and 0.8x 2022F P/B. Core net profit is estimated to grow at a CAGR of 7.5% over the next three years. COLI has abundant saleable resources in 2022 to back its healthy pace of contracted sales growth. Its strong presence in Tier 1/core Tier 2 cities will help it better capture the expected sales recovery in 2H22 and 2023. COLI's investment property portfolio will expand from 5.77m sqm in 2021 to 10.98m sqm upon the completion of pipeline projects. At last, COLI has the highest credit ratings among peers, and the lowest average financing cost of 3.55%.

CATALYSTS AND RISKS

- Catalysts:** a) Stronger-than-expected property sales; b) easing of supply-side policies.
- Risks:** a) Resurgence of COVID-19 in China and tightening of COVID-19 restrictions, b) weaker-than-expected policy effectiveness in stimulating property sales, and c) Jun and Jul 22 seeing more developers' bonds maturing. Further defaults will dampen investors' confidence.

CR LAND (1109 HK) 12-MONTH FORWARD P/B



Source: Bloomberg, UOB Kay Hian

COLI (688 HK) 12-MONTH FORWARD P/B



Source: Bloomberg, UOB Kay Hian

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