China / Hong Kong Industry Focus

China Property Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity 10 Jan 2024

Will regulator dial up policy support?

- **While large scale stimulus seems unlikely in the near-term, we believe regulators will intervene if systemic risks arise; policy shift possible in 2H24**
- **A further c.20% drop in secondary ASP could cause underwater mortgages, potentially impacting Chinese banks' CET1 ratio if fully provisioned**
- **Physical market may contract further due to low homebuyer confidence; liquidity risk may persist and investor sentiment to be weak until policy shift occurs**
- **KE Holdings poised to benefit from developers' rising reliance on external customer acquisition channels and surging secondary market transactions; trading opportunities may arise on quality names**

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Recommendation & valuation

	Price Local$	Target Price Local$	Rec	Mkt Cap US$bn	FY24F PE x
KE Holdings (2423 HK)	38.60	57.04	BUY	18.4	12.1
KE Holdings (BEKE US)	14.86	21.91	BUY	18.4	12.1
CR Land (1109 HK)	25.85	40.60	BUY	23.6	6.0
China Overseas (688 HK)	12.66	18.20	BUY	17.7	5.6
Yuexiu (123 HK)	5.45	7.52	BUY	2.8	5.0

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

Closing price as of 9 Jan 2024

Will regulators step up policy support? Recent policy tone suggests that large scale stimulus measures are less likely to materialise in the near-term, but we believe regulators will not hesitate to step in if systemic risks arise. Drawing parallels with Japan and the US, we believe a widespread systemic risk to the financial system would prompt immediate action. For China banks, mortgage loans is their largest exposure to the property sector. Our analysis shows that c.20% decline in secondary ASP from current levels may cause a significant number of existing mortgages to become underwater, potentially pushing Chinese banks' CET1 ratio below the 7.5% threshold if they are fully provisioned. We anticipate more concrete macro-targeted fiscal stimulus may come about as secondary ASPs approach a critical level, but before reaching that point. Based on recent price trends, a policy shift is possible in 2H24.

Physical market may see another year of contraction. In the near-term, we expect policy efforts to remain city-specific and supply-side centric. While there may be some fiscal support for the "Three Major Projects", these measures are likely to be implemented in a controlled and measured manner. Income uncertainty and weak home price expectations may continue to affect homebuyer sentiments. A more attractively priced and vibrant secondary market may also divert some genuine demand. We project residential GFA to fall 5-10% and ASP to drop 0-5% in 2024.

Market to trade sideways until meaningful stimulus are introduced. Investor sentiment may remain subdued with trades primarily short-term oriented until meaningful policy changes occur. Share price volatility likely to persist due to relatively thin trading volume and policy-related noise. KE Holding (2423 HK/BEKE US) is our top pick as it is poised to capitalise on developers' rising reliance on external customer acquisition channels and surging secondary market transactions. Value-hunting opportunities may also emerge on quality SOE names amid share price volatility. In the event of an eventual shift in policy tone, heavily sold quality POE names like Longfor (960 HK) and Vanke (2202 HK) could see some valuation recovery.

Stability remains the key focus of policy agenda…

Stability at the heart of policy agenda, with fiscal policies to be reserved, measured and controlled. While acknowledging the challenges and difficulties in the economy, the overall policy tone from recent high-level meetings and speeches by senior regulatory officials have emphasised stability as their overarching policy objective. In the context of the property sector, the development of the "three major projects" (i.e. urban village redevelopment, affordable housing and public infrastructure for normal & emergency use) and proactive risk control are the key areas of focus for 2024.

While their latest pledge to "build the new before abolish the old" might initially suggest a softer approach towards traditional economic drivers like the property sector to stabilise the economy and additional measures may be forthcoming, latest descriptions on upcoming monetary and fiscal policies suggest such supports will likely be introduced in a controlled and measured manner. A bazooka-style stimulus measure as anticipated by some in the market remains as an unlikely option for regulators.

With these in mind, we believe upcoming property policy efforts will prioritise on "building the new", such as the "three major projects", and focus on implementation (see Shenzhen's latest consultation paper on urban village redevelopment for reference) and finalisation of relevant fundings. The recent net increase in pledged supplementary lending (PSL) could potentially signal the implementation of such measures in the near-term. The policy environment for the "old" – referring to the traditional residential commodity housing market – will likely remain supportive but upcoming measures are likely to primarily focus on supply-side easing. In addition, we anticipate some support (in a measured and controlled manner) on POE developer's funding, potentially in the form of onshore bank financing (such as the implementation of the 50 developer whitelist, support to distressed names, among others).

Policy stance in recent high-level meetings

Time	Authority	Highlights
Nov-23	MOHURD minister	- Transitioning from rapid to high-quality development - Housing is for living in but not speculation - Push forward the "three major projects" - Equally treat all sort of developers and meet reasonable financing need
Dec-23	PBOC governor	- Actively adapt to the major changes and construct new development model of property market - Reiterated housing is for living but not for speculation - Equally treat SOE and POE developers and meet reasonable funding need - Provide long-term low-cost funding for "three major projects"
Dec-23	MOHURD	- Scientifically allocate financial resources to land supply based on demographic change - Push forward supply-side reform of housing market - Fulfill multi aspects of housing demand and promote"three major projects"
Dec-23	Politburo Meeting	- Building the new before abolishing the old - Monetary policy to be flexible, appropriate, targeted and effective
Dec-23	NAFR	- Ensure the control of systematic risk - Equally treat SOE and POE financing need - Fully support "three major projects"

Source: Local news, government website, DBS HK

Areas of focus for the property sector (2024 vs 2023)

Key focus	
2023	2024
- Fulfill reasonable financing need - Resolve quality market-leading developer's risk, promote M&A and improve balance sheet situation - Support genuine and replacement demand - Housing is for living in but not for speculation - Construction new development model of property market	- Contain property risk and ensure not to trigger systemic risk - Equally treat POE and SOE and meet their reasonable financing need - Promote the development of "Three major projects" - Construct new development model of property market

Source: Local news, government websites, DBS HK

Key Tier 1-3 cities with further room for policy easing

City	No. of units that can be purchased		No. of years for social security proof	Down payment ratio	
	Local resident	Non-local resident	Non-local resident	First home	Second home
Tier 1					
Beijing	2	1	5 (3y within Tongzhou)	30%	Urban:50% Rural:40%
Shanghai	2	1	5 (3y within Jinshan)	35%	50-70%
Shenzhen	2	1	5	30%	40%
Guangzhou	Lifted except 6 districts		2	30%	40%
Tier 2-3					
Hangzhou	2/1 for local/non-local in 4 core districts		1-mth	25%	35%
Xiamen	Lifted		Lifted	25%	35%
Fuzhou	Lifted		Lifted	25%	35%
Chengdu	Lifted for >144 sm flat in 5 restricted area		0.5	30%	30-40%
Tianjin	2/1 for local/non-local in 6 core districts		0.5	20%	30%
Suzhou	Lifted for >120 sm flat		Lifted for >120 sm flat	20%	30%
Xi'an	Lifted outside second ring		0.5	20%	30%

Source: Local news as of 10th Jan 2024, DBS HK

...but fiscal stimulus is still on the table if deemed necessary by regulators

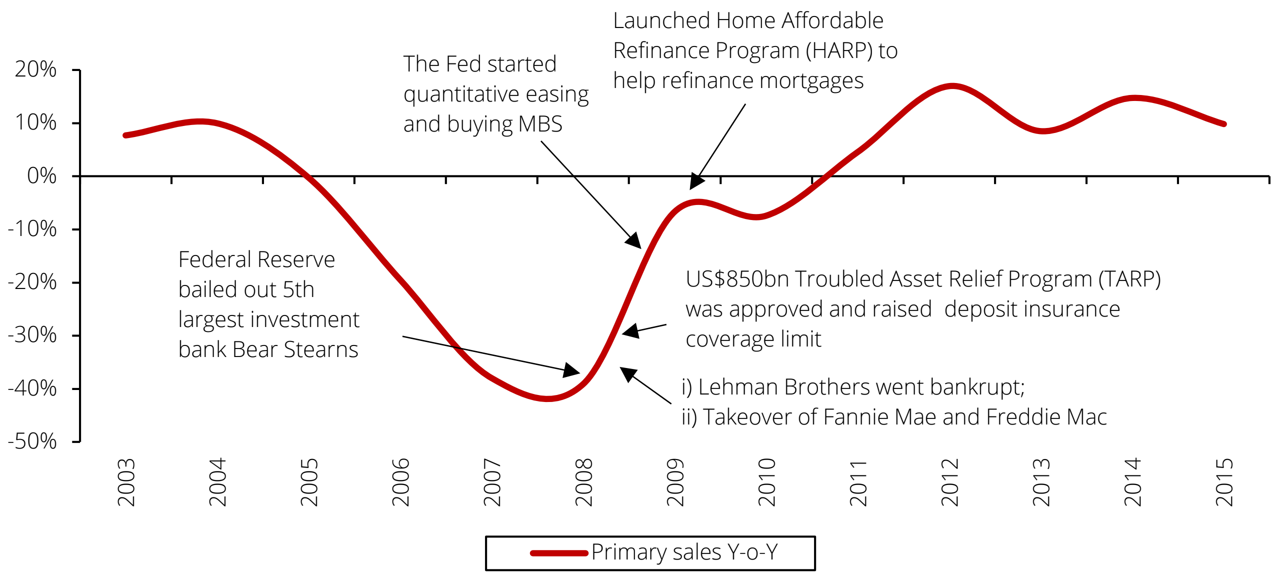
What could constitute a trigger to force the hand of the regulators? A look at the U.S. and Japan. While a large-scale fiscal stimulus is unlikely for now, we take the view that this is more of a choice by regulators rather than their inability do so. Drawing comparisons from the property downcycle of the US (2008-09 subprime mortgage crisis) and Japan (1990-2010 the lost decades), we noted that a widespread systemic risk to financial institutions served as a common trigger for regulatory action in both economies. Given China's emphasis on stability and risk control, we believe the logic will likely follow a similar trajectory.

US – 2008-2009 subprime mortgage crisis

Initially, US regulators adopted a "wait-and-see" approach when the property bubble started to burst in 2007, triggering the subprime mortgage crisis. However, the rapidly deteriorating property market soon posed a systemic risk to the financial sector as existing mortgages began to default at a large scale, affecting derivative instruments with these mortgages as underlying assets. The escalating systemic risk to the banking sector and negative wealth effect (as a result of tumbling property prices and defaulted subprime mortgage bonds) prompted regulatory intervention.

The government responded with stimulus measures including i) fiscal package - bail-out of several financial institutions, implementation of the US$850bn Troubled Asset Relief Program (TARP) equivalent to c.5% of 2008 GDP; ii) monetary stimulus - rate cuts of 525bps to 0%, introduction of US$1.7tn in quantitative easing etc; and iii) property-related measures – implementation of the Home Affordable Refinancing Program. The timely and decisive fiscal and monetary policy response from the government effectively contained the inherent financial risks and stabilized market confidence. The non-performing loan ratio peaked in 2009 and took just 1-2 years (vs. >30 years in Japan) for both property sales and home prices to recover and return to positive territory.

Timeline of the subprime mortgage crisis in the US



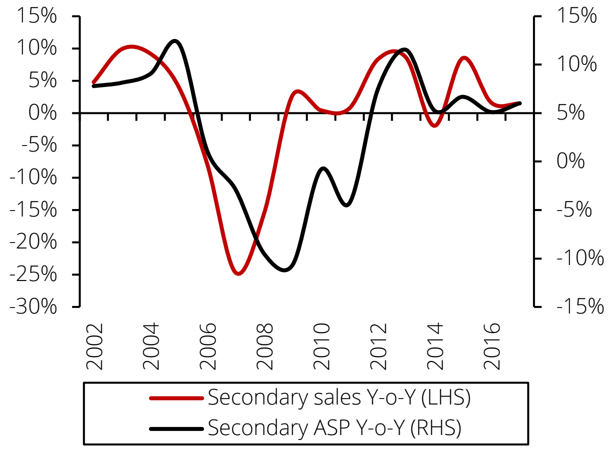
Note: Primary sales refer to US new one-family houses sold
Source: Bloomberg Finance L.P., local news, DBS HK

Details of key stimulus package

US stimulus package		
Type	Entity	Policy
Monetary	Federal Reserve	Cut rate by 525bps to 0%
	Federal Reserve	Quantitative easing via purchase of US Treasury, MBS
	Federal Reserve	Package of liquidity support (incl Commercial Paper Funding Facility, Term Auction Facility, Primary Dealer Credit Facility, Term Securities Lending Facility, Currency swap to provide liquidity)
Fiscal	US Treasury	US$850bn Troubled Asset Relief Program (TARP)
	US Treasury	Bail out of key financial institutions (e.g AIG, Citi, Fannie Mae, Freddie Mac)
	Federal Deposit Insurance Corporation	Raised deposit insurance coverage from US$100k to US$250k
	Federal Housing Finance Agency	Home Affordable Refinance Program (HARP) to help underwater homeowners refinance mortgages
Economic	US Treasury	Provided tax relief and stimulus checks to low-income groups
	US Treasury	Increased government spending on healthcare, infrastructure, education

Source: Local news, DBS HK

Property sales and price performance in 2007-2009

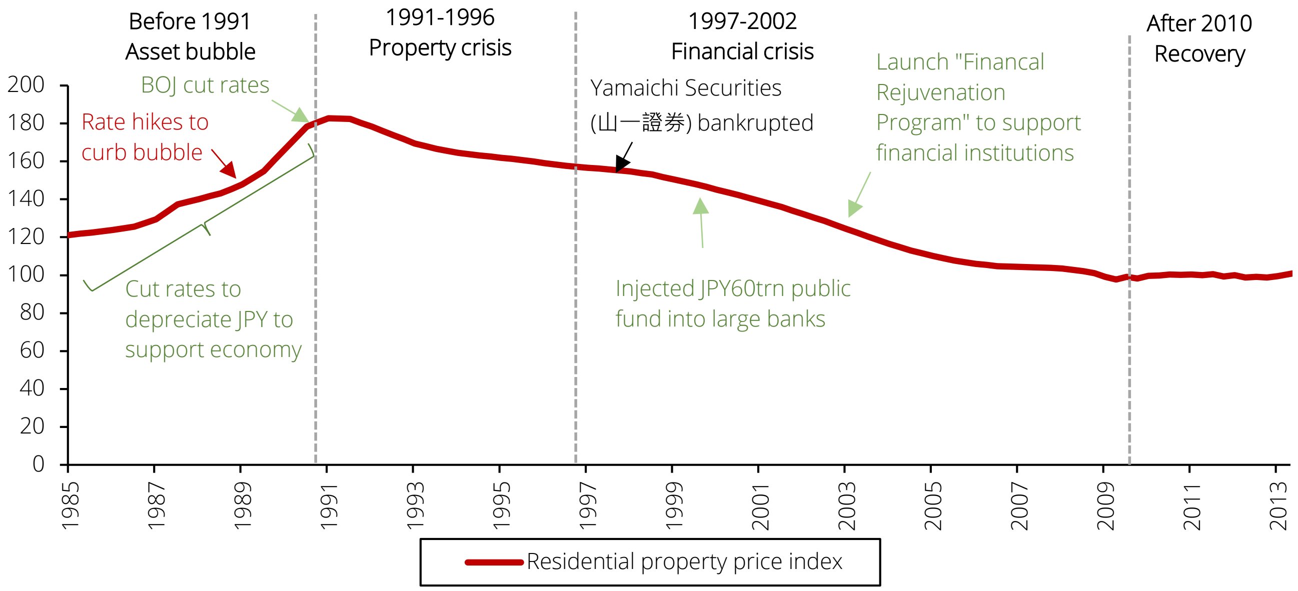


Note: Secondary sales & ASP refer to NAR existing home sales & ASP
Source: Bloomberg Finance L.P., US NAR, DBS HK

Japan – 1990-2010 "The Lost Decades"

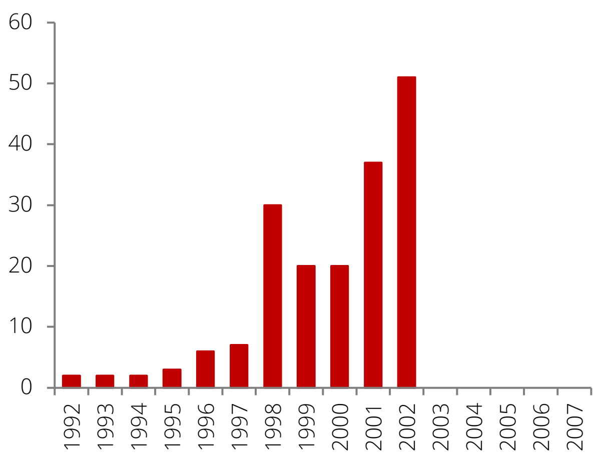
Contrary to the US, Japan took much longer (c.30 years) to recover from the asset bubble burst in 1990-2010, primarily led by the Japanese government's delayed and insufficient policy response. Public rhetoric and regulators initially held the view that their property sector crisis was merely cyclical and temporary, and refrained from introducing large scale stimulus until things got out of hand. As the crisis continued to unfold and the property market weakened further, risks had spread to the financial sector with rising defaults in property developer loans. In 1995, non-performing loans in housing-specialised lending companies (i.e. shadow banking specialised in lending to the property sector) reached 75%. Of this amount, c.60% turned out to be non-recoverable. More than 50 banks went bankrupt and one of the largest brokerage houses in Japan - Yamaichi Securities (山一證券) - defaulted in 1998. Dampened sentiment drove the economy into a balance sheet recession. In 1998, escalated systemic risks had forced regulators to step in, injecting public funds (c. JPY60tn or c.12% of 1998 GDP) into the system and "Program of Financial Revival" was launched to contain such risks.

Timeline of the "Lost Decade" in Japan



Note: rebased index 2010=100
Source: Federal Reserve Bank of St. Louis, Local news, DBS HK

No of bankruptcies in Japanese banks



Source: Deposit Insurance Corporation of Japan (DICJ), DBS HK

Details of Program of Financial Revival

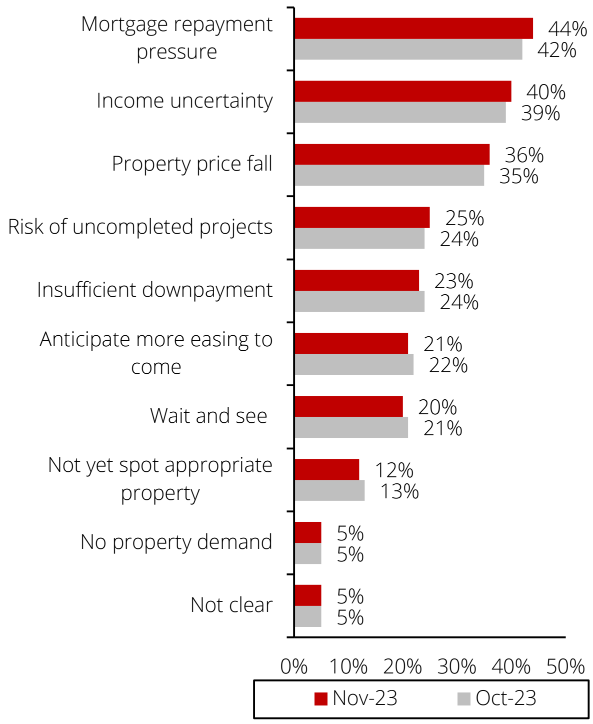
Area	Policy
Strengthening balance sheet	- Disclosure of the gap between major banks' self-assessments and the results of FSA's inspections - Strengthening administrative measures against inadequate correction of self-assessments
Enhancing capital adequacy	- Evaluate the treatment of deferred tax assets under the regulation on capital adequacy and examine the upper limit of deferred tax assets to be included in regulatory capital
Strengthening governance	- Issuance of business improvement administrative order to a bank which has not achieved its plan for sound management - Enhance its supervisory framework to monitor profitability and liquidity indicators, which are not reflected in capital adequacy ratio but warn any deterioration of the management of banks

Source: Japan government website, DBS HK

What about China? Likely to act before systematic risk becomes a big threat

Regulators are currently maintaining a reserved and calculated stance on fiscal stimulus, but nevertheless we believe like in the U.S. and Japan, they will be forced to step in when the property sector downturn starts to bring about systemic risk to the banking system. In fact, we expect regulators to step in before such systemic risk occurs. Considering the potential severity and administrative power of the respective governments, we believe China's urgency and thus the pace and magnitude of policy intervention/ stimulus package will likely be less than the U.S. back in 2008-09. Meanwhile, being mindful of the events in Japan, we believe Chinese regulators – though currently seen by the market as overly quiet and reserved – will react timely when necessary and thus the overall outcome should come in better than that seen in Japan. With homebuyer confidence weighed mainly by macroeconomic and income uncertainty, we believe such fiscal measures will likely target more towards the economy as compared to the U.S. and Japan, where policies were more concentrated on containing the banking crisis.

Homebuyer survey on key factors affecting home purchase decisions (Nov-23)



Source: CREIS, DBS HK

Mortgage could be a potential trigger for fiscal policy support. Currently, mortgage loans is the largest direct exposure that Chinese banks still hold towards the property sector, amounting to c.Rmb38tn or c.16% of China banks' total outstanding loans as at 3Q23. A potential large-scale default on mortgages led by significant property price correction could therefore bring about systemic risk to the China banking system. We have accordingly estimated the current LTV on existing mortgages to gauge the ASP decline buffer before such an event occurs. Key assumptions of our estimates are as below:

1) All outstanding mortgages are based on 30% downpayment ratio (i.e. initial LTV ratio at 70%) on a 30-year tenure; such loans would be deemed risky if mortgages become underwater;

2) Quarterly net mortgage balance increments are treated as mortgage additions to property values equivalent to the national primary home ASP at the time;

3) Property values would subsequently move in line with the secondary home price index published by NBS (from 2015-18) and a simple average of the 25-city index from Beike (2019-23)

Regulators may have to intervene as soon as in 2H24. Based on Basel III requirements, the minimum CET1/CAR including additional capital buffers should be >7.5%/10.5% for banks, and one must build the capital ratio back to the required level or risk being taken over or shut down by regulators. As such, we benchmark CET1 at 7.5% as the threshold to trigger systematic risk.

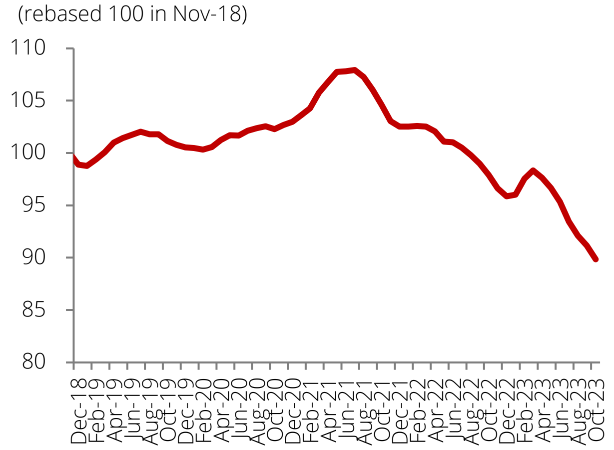
With reference to 3Q23 data from Chinese banks, we estimate their CET1 ratio may start to fall below the 7.5% threshold if >Rmb5trn of mortgage loans (or c.13% of outstanding amount as at 3Q23) enter into default, under the assumption of 1) 150% minimum coverage ratio; and 2) average mortgage rate of 4.2% (current 5yr LPR). This would translate to c.20% decline in secondary market prices based on our analysis, or to put it into perspective all mortgages entailed with properties sold after 4Q2020 goes underwater and are provisioned. Assuming a declining magnitude similar to that witnessed in Oct-23 (-1.4% m-o-m per 25 city average price index from Beike), secondary home prices may potentially reach a point for regulator intervention as soon as 2H24.

Maximum tolerable amount of mortgage default before China banks' CET1 ratio falls below the 7.5% threshold

Scenario analysis on outstanding mortgage		
Current banking situation (3Q23)		
Risk-weighted assets	Rmb bn	210,754
CET 1 capital	Rmb bn	21,670
CET 1 ratio	%	10.28%
Non-performing loan (NPL)	Rmb bn	3,225
NPL impairment	Rmb bn	6,703
Total outstanding mortgage	Rmb bn	38,600
For CET 1 ratio to drop below 7.5%		
Required non-performing loan	Rmb bn	8,238
Amount of mortgage required to become non-performing	Rmb bn	5,013
% of existing mortgage	%	13%
% of secondary ASP decline required from current level for 13% mortgage to become underwater	%	20%

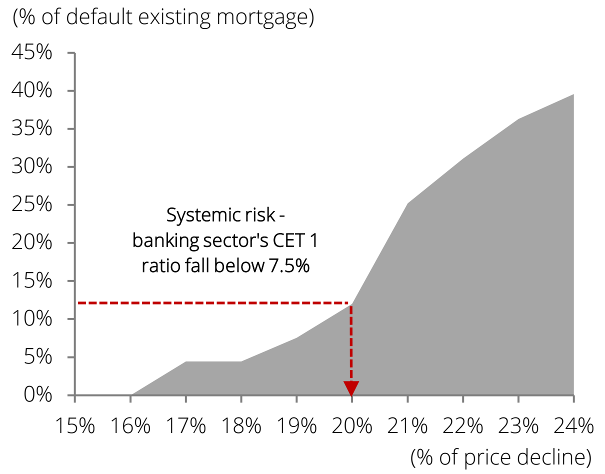
Source: PBOC, DBS HK

25-city average secondary home price index by Beike



Source: Beike Research, DBS HK

% of mortgages to go underwater upon further decline in secondary market prices

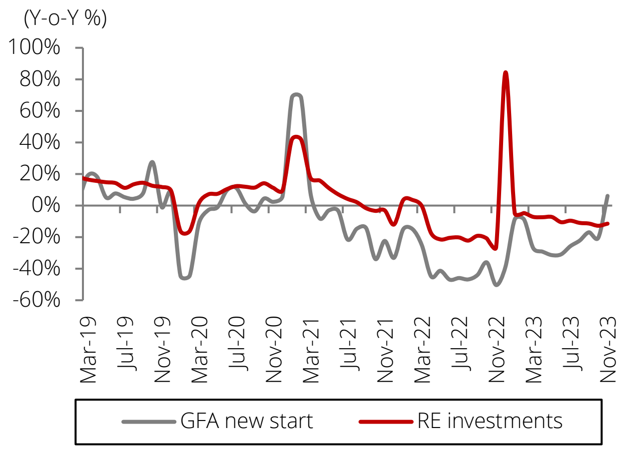


Source: PBOC, DBS HK

Likely to see another year of contraction in the physical market

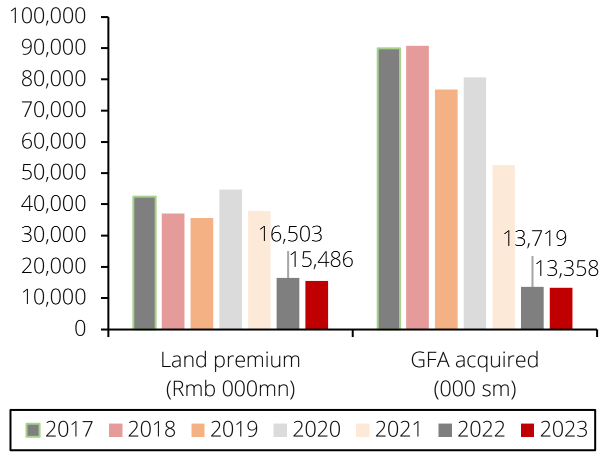
Sizeable inventory build-up to offset supply shortfall from subdued new starts and muted land market. The land market and GFA new starts had continued to extend their weakness in 2023 as the physical market fell further and developers faced escalated liquidity pressure. Land acquisition for the top 100 developers fell by another 6.2% y-o-y in land premium and 2.6% in GFA, while national residential GFA new starts also tumbled 21.5% in 11M23. With this in mind, new project launches will likely witness yet another year of decline in 2024.

Y-o-y growth in residential GFA new starts and real estate investment



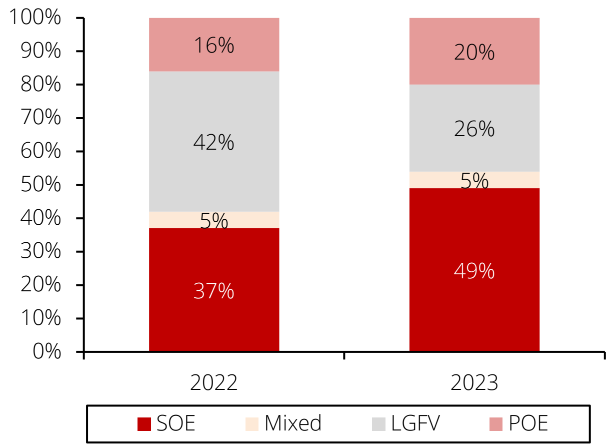
Source: NBS, DBS HK

Land premium spent and GFA acquired by top 100 developers



Source: CREIS, DBS HK

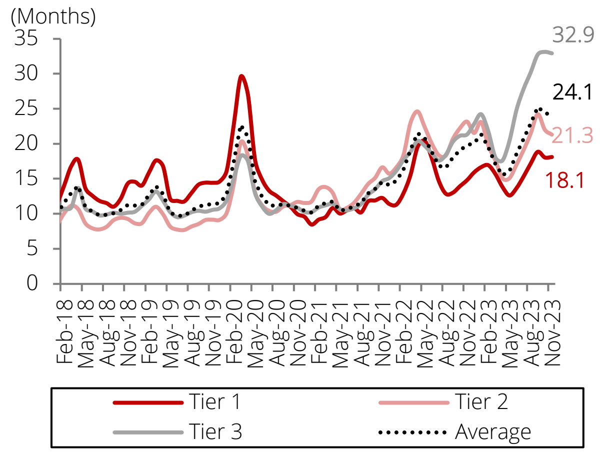
Land market participation by developer type



Source: CREIS, DBS HK

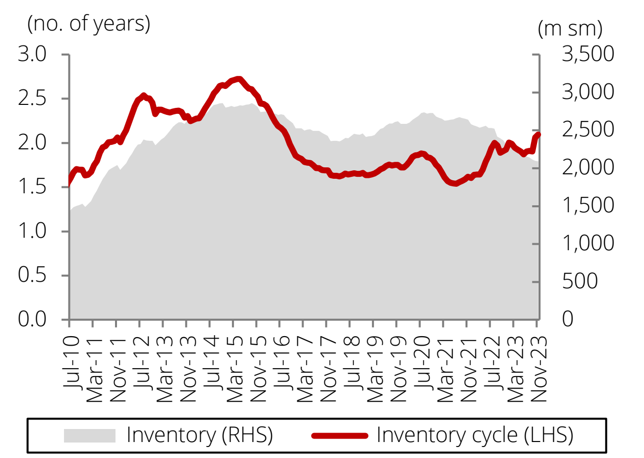
Having said that, we do not foresee risks of undersupply in 2024 as the shortfall from new project launches will likely be offset by existing inventories in the market. According to the CRIC database, average inventory level in 80 Tier 1-3 cities stood at a historical high of c.24 months in Nov-23. The national inventory level (accumulated new starts – GFA sold) stood at 2.1bn sm as at Nov-23 or c.2.1 years of property sales.

Average inventory levels in 80 Tier 1-3 cities



Source: CREIS, DBS HK

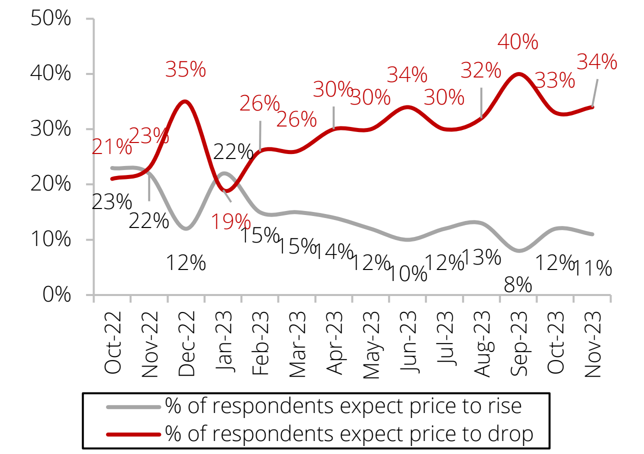
National inventory level (10-yr accumulated residential GFA new start – GFA sold)



Source: NBS, DBS HK

Subdued sentiment and significance of inventory on saleable resources are putting pressure on sell-through rates. On one hand, sentiment will likely skew on the conservative side before home price expectations recover and concrete signs of stabilisation are seen on the macroeconomic front. More supply-side easing should be en-route, but we believe these will mostly be piecemeal and insufficient to improve homebuyer expectations (see link for our observation of policy easing impact in Xiamen).

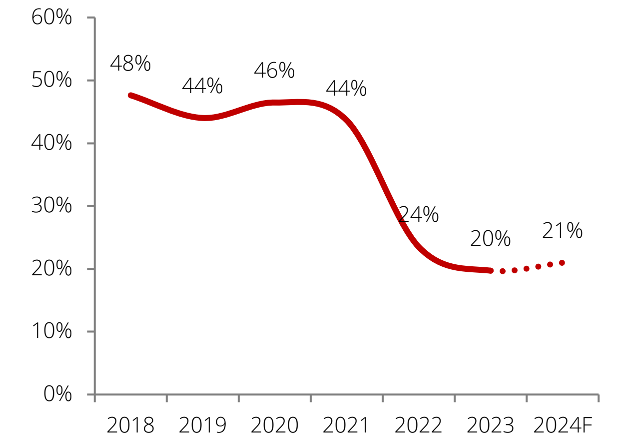
Homebuyer survey on home price expectations (Nov-23)



Source: CREIS, DBS HK

On another, the level of existing inventory resources will likely remain high in 2024. Extrapolated from residential sales and land acquisition data in 58 cities from the CRIC database, we estimate that developers had reduced launches of new projects in 2023, and the trend may continue in 2024 with developers likely to retain their cautious view over project new starts and launches before the physical market show signs of a rebound.

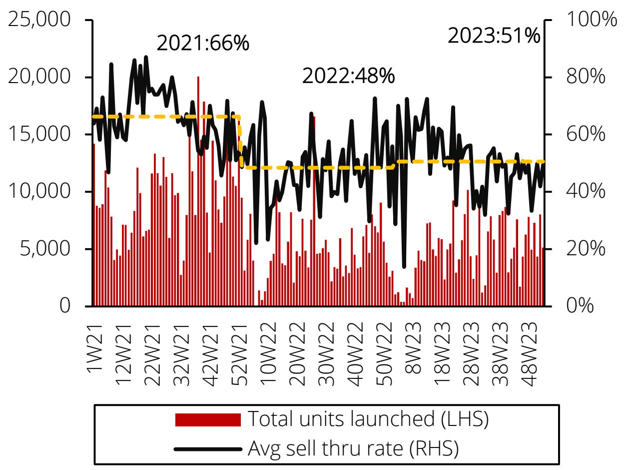
Estimated legacy landbank utilised and launched in FY18-24F



Source: CRIC, DBS HK

With these in play, we expect sell-through rates to remain pressured at close to or slightly below that in 2023, whereas contribution of new project launches will likely hold largely steady in 2024.

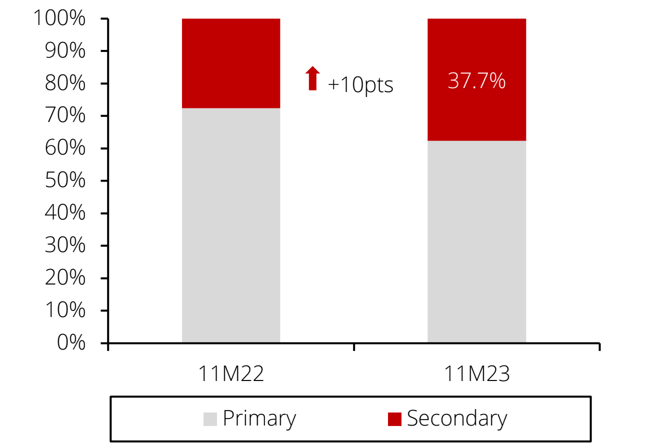
Average weekly new launch sell-through rate for 11 key Tier 1 and 2 cities



Source: CREIS, DBS HK

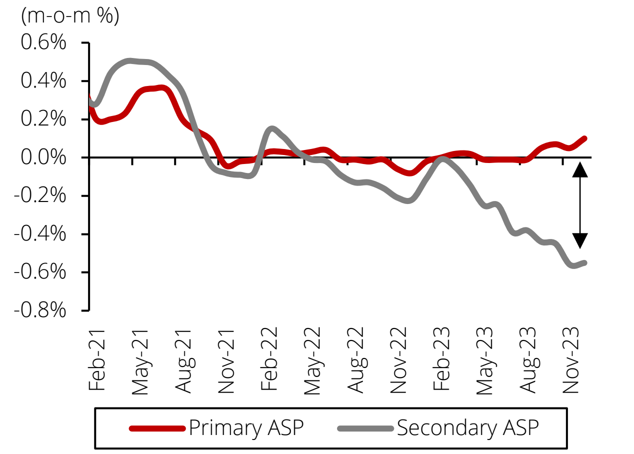
Surging listings and increasingly attractive pricing in the secondary market may also divert some homebuyer interest. The secondary market has been more vibrant in 2023, led by a combination of 1) larger secondary listings; 2) more attractive secondary prices; and 3) unresolved concerns over project delivery in the primary market. According to data from MOHURD, national property transaction volume from the secondary market was at a record high at 37.7% in 11M23, with over seven provinces and municipalities recording higher secondary market volumes versus the new home market. Looking into 2024, we believe the trend is here to stay, and some home purchase demand may be diverted from the new home market towards the existing home market.

National primary and secondary transaction volume proportion



Source: MOHURD, DBS HK

Changes in primary and secondary home price index



Source: CREIS, DBS HK

Residential GFA sales growth to range between -5% to-10%. All things considered, our sensitivity analysis – premised on a plausible range of sell-through rates and new saleable resources expectations – suggests that residential GFA sales growth in 2024 may range between -5% to -10%. Faster-than-expected recovery in China's macroeconomic outlook, landing of meaningful fiscal policy stimulus (both towards the macroeconomy or that directed to the property sector in form of urban village redevelopment and/or affordable housing) may move the needle towards the bottom right section of the table.

Scenario analysis on 2024 residential GFA sales growth

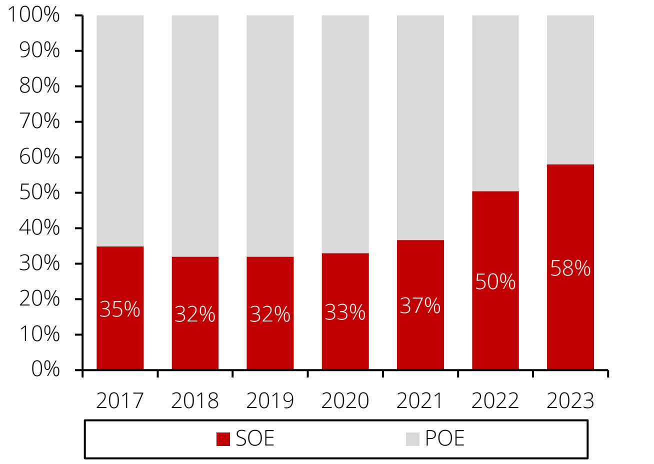
		New launch as % of existing landbank								
		19%	20%	*21%*	22%	23%	24%	25%	26%	27%
Sale through rate	43%	-23%	-22%	-20%	-18%	-16%	-14%	-12%	-10%	-9%
	44%	-22%	-20%	-18%	-16%	-14%	-12%	-10%	-8%	-6%
	45%	-20%	-18%	-16%	-14%	-12%	-10%	-8%	-6%	-4%
	46%	-18%	-16%	-14%	-12%	-10%	-8%	-6%	-4%	-2%
	47%	-16%	-14%	-12%	-10%	-8%	-6%	-4%	-2%	0%
	48%	-15%	-12%	-10%	-8%	-6%	-4%	-2%	0%	2%
	49%	-13%	-11%	-9%	-6%	-4%	-2%	0%	2%	4%
	50%	-11%	-9%	-7%	-4%	-2%	0%	2%	4%	6%
	51%	-9%	-7%	-5%	-3%	0%	2%	4%	6%	8%
	52%	-7%	-5%	-3%	-1%	2%	4%	6%	8%	11%
	53%	-6%	-3%	-1%	1%	4%	6%	8%	10%	13%
	54%	-4%	-2%	1%	3%	5%	8%	10%	12%	15%
	55%	-2%	0%	3%	5%	7%	10%	12%	15%	17%
	56%	0%	2%	5%	7%	9%	12%	14%	17%	19%
	57%	2%	4%	6%	9%	11%	14%	16%	19%	21%
	58%	3%	6%	8%	11%	13%	16%	18%	21%	23%

Source: DBS HK

Three key development trends in the sector for 2024

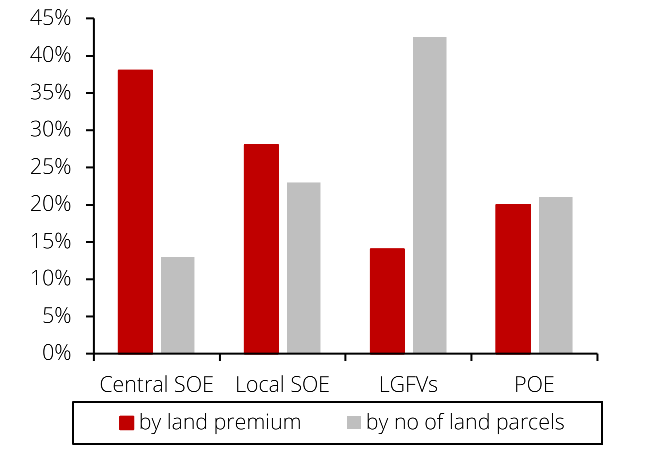
1) Ongoing market share consolidation – the trend for SOE developers to further consolidate market share will likely stay given 1) higher flexibility in project launch with their superior liquidity profiles and abundant saleable resources; and 2) increasingly evident reputation advantage as project delivery risks linger. Value hunting opportunities may emerge amid share price volatility and current weak market sentiment. Our preferred names to watch include CR Land (1109 HK), COLI (688 HK) and Yuexiu (123 HK).

SOE and POEs' market share among Top 100 developers' presales



Source: CRIC, DBS HK

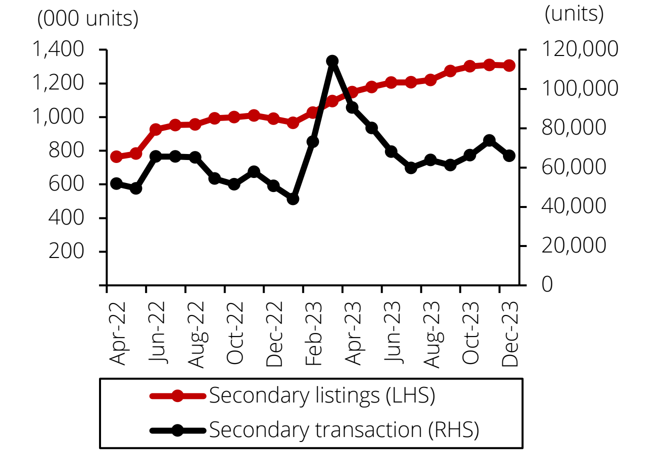
Land acquisition by developer type in 2023



Source: CRIC, DBS HK

2) External property agents to assume an increasingly important role in the property market. On one hand, developers are placing greater reliance on property agents for customer acquisition and sales conversion amid weak market sentiment. On another, the existing home market has become increasingly vibrant with existing homeowners looking to unload excess property holdings and/or opt to upgrade their homes. We believe both trends will likely stay in 2024, with property agents likely to assume a more important role in property transactions. Our preferred name to ride on this trend would be KE Holdings (2423 HK/BEKE US).

No. of secondary listing and transaction in 12 cities



Source: Sanliudata, WIND, DBS HK
Note: 12 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Wuxi, Chengdu, Xiamen, Nanning, Qingdao, Suzhou, Dongguan, Foshan

3) Acceleration of urban village redevelopment & affordable housing. The "Three Major Projects" – inclusive of urban village redevelopment, affordable housing and public facilities for normal & emergency use – has become a frequently mentioned concept in high-level meetings since their introduction last year. While the initiative remains in preliminary stage thus far with limited details, we believe there will likely be more clarity as actions on this front progress in 2024. The advancement of the initiative will likely benefit project management companies as local governments may not have the expertise to manage the development stage of these projects. A stock to watch would be Greentown Management (9979 HK).

Investment and stock recommendations

In our base case, we expect near-term policies to remain supply-side centric such as further easing in specific Tier 1 and 2 cities. Some form of fiscal support, likely in the direction of the "Three Major Projects", will also gradually come along but likely to be at a reserved and controlled manner. Homebuyer confidence and thus the physical market may remain challenged with both income uncertainty and price expectations unlikely to recover in the short term. Developers' (especially POEs) operating cashflows may stay suppressed and the sector's overall liquidity situation may continue to face headwinds. Some support could be offered by the regulators, but the magnitude will likely be piecemeal with only a handful few (such as Vanke (2202 HK), Longfor (960 HK)) to slightly benefit.

With the above in mind, we expect the sector's share prices to trade sideways in the near-term. Investor sentiment on the sector may remain weak with trades mostly short-term oriented. Share price volatility is expected to stay high along with relatively thin trading volume and policy noise. Our sector pick for now is KE Holdings (2423 HK/BEKE US). The company is well positioned to capture any potential pick up in property transaction volume (both primary and secondary markets) aided by further city-specific policy easing. Value-hunting opportunities may also emerge on quality SOE names – who are currently trading at close to their respective Oct-22 lows at 4.4-6.0x FY24F PE even after factoring in our recent 15-16% earnings cut in reflection of our latest physical market outlook. Our preferred names are CR Land (1109 HK), COLI (688 HK) and Yuexiu (123 HK).

At the time when systemic risk draws nearer and regulators are forced to step in with more proactive and meaningful fiscal stimulus (potentially in 2H24, be it via the "Three Major Project" or other non-property related channels) we believe the market will react positively. This should ignite some valuation recovery on heavily sold quality POE names like Longfor (960 HK) and Vanke (2202 HK), as well as some speculative trades on better-shaped distressed names like Sunac China (1918 HK) and Country Garden (2007 HK). Having said that, KE Holdings will likely remain the ultimate beneficiary as it is able to ride on a potentially more vibrant primary and secondary home market led by an improving economy and income outlook. Greentown management (9979 HK) may also stand as a potential beneficiary if there are fiscal measures targeted towards the "Three Major Projects".

Recent earnings revisions on developers covered by DBS

Ticker	Name	2023F earnings			2024F earnings			2025F earnings			2023-25F earnings revision		
		DBSe	Mkt cons	diff	DBSe	Mkt cons	diff	DBSe	Mkt cons	diff	2023F	2024F	2025F
1109 HK	CR Land	27,368	29,014	-6%	28,133	31,548	-11%	29,536	34,737	-15%	-2%	-4%	-8%
960 HK	Longfor	13,109	20,561	-36%	14,053	20,670	-32%	15,259	22,836	-33%	-39%	-35%	-32%
688 HK	COLI	21,611	24,459	-12%	22,584	26,519	-15%	23,760	29,505	-19%	-14%	-14%	-15%
123 HK	Yuexiu	4,064	4,359	-7%	4,061	4,923	-18%	4,179	5,620	-26%	-6%	-8%	-10%
Average				-15%			-19%			-23%	-15%	-15%	-16%

Source: Bloomberg Finance L.P., DBS HK

In our bear case scenario (a Japan-like case, with regulators failing to timely respond with appropriate fiscal measures when needed, thus allowing systemic risk to emerge in the economy), de-risking of the property sector may continue and more developers may head into bond extensions/ defaults, with economic and income outlook to remain weak. The primary market may contract at a larger than expected magnitude with the sector downturn to linger, while the secondary market – though ASPs could record sizeable declines – may remain active as homeowners look to liquidate their assets for cash.

As such, we believe property and the sector's related counters may remain unfavourable to investors. KE Holdings is our conservative pick, as the counter should still be able to outperform developers and other property-related peers given its ability to capture the likely vibrant secondary market with a relatively lower risk profile.

Valuation comparison

Company Name	Code	9-Jan Price HK$	Mkt Cap US$bn	3-mth daily trading value US$m	Recom	12-m target HK$	EPS gth 23F %	EPS gth 24F %	PE 23F x	PE 24F x	Yield 23F %	Yield 24F %	ROE 23F %	ROE 24F %	Net Gearing FY22 %	P/Bk 23F x	P/Bk 24F x	NAV HK$	Disc/ (Prem) to NAV %
Large cap																			
China Overseas*	688 HK	12.66	17.7	26.6	BUY	18.20	(12)	5	5.9	5.6	5.1	5.3	5.9	5.9	42.9	0.3	0.3	51.5	75.4
CR Land*	1109 HK	25.85	23.6	33.0	BUY	40.60	1	3	6.2	6.0	6.0	6.2	10.4	10.0	39.5	0.6	0.6	58.9	56.1
China Vanke 'H'*	2202 HK	6.56	15.3	22.4	BUY	12.60	(9)	(5)	3.9	4.1	9.1	8.6	7.3	6.6	44.1	0.3	0.3	22.1	70.3
Country Garden*	2007 HK	0.73	2.6	29.2	SELL	0.55	(400)	n.a.	n.a.	n.a.	0.0	0.0	(31.9)	(4.8)	53.3	0.1	0.1	13.2	94.5
Longfor*	960 HK	11.04	9.3	25.9	BUY	18.00	(42)	7	4.7	4.4	6.4	6.9	8.9	9.0	65.9	0.4	0.4	57.5	80.8
Average							(16.4)	1.8	4.9	4.8	7.2	7.2	8.9	8.5	49.8	0.4	0.4	46.2	69.1
Mid cap																			
China Jinmao Hldgs*	817 HK	0.72	1.2	4.4	HOLD	3.00	12	(6)	3.8	4.1	11.1	11.5	3.4	3.7	69.2	0.2	0.2	9.0	92.0
Seazen	1030 HK	1.09	1.0	4.4	NR	n.a.	532	19	3.7	3.1	0.0	0.0	4.9	4.8	59.1	0.1	0.1	n.a.	n.a.
Shenzhen Inv	604 HK	1.14	1.3	0.3	NR	n.a.	39	14	3.5	3.1	11.4	12.3	6.9	7.9	77.8	0.2	0.2	n.a.	n.a.
Yuexiu Property*	123 HK	5.45	2.8	7.5	BUY	7.52	(26)	(0)	5.0	5.0	8.0	8.0	7.0	6.7	62.7	0.3	0.3	32.9	83.4
Average							110.4	5.8	3.3	3.1	6.1	6.4	6.3	6.4	70.1	0.2	0.2		89.7
Small cap																			
China Merchants Land	978 HK	0.31	0.2	0.0	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.0	n.a.	70.0	n.a.	n.a.	n.a.	n.a.
COGO*	81 HK	2.32	1.1	1.4	BUY	3.70	(11)	(8)	2.8	3.0	8.0	7.4	8.5	7.3	72.0	0.2	0.2	16.8	86.2
Greenland	337 HK	0.29	0.1	0.0	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	55.4	0.1	n.a.	n.a.	n.a.
Greentown	3900 HK	7.23	2.3	7.7	NR	n.a.	78	16	3.6	3.1	8.5	9.6	12.0	11.8	83.5	0.4	0.4	n.a.	n.a.
Hopson Dev	754 HK	3.90	1.9	0.5	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	79.4	0.2	n.a.	n.a.	n.a.
Joy City	207 HK	0.21	0.4	0.1	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	82.6	n.a.	n.a.	n.a.	n.a.
Minmetals Land	230 HK	0.29	0.1	0.0	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	94.5	n.a.	n.a.	n.a.	n.a.
Poly (Hong Kong)	119 HK	1.51	0.7	0.5	NR	n.a.	71	(4)	3.5	3.7	7.0	6.6	3.8	4.5	135.0	0.2	0.1	n.a.	n.a.
Road King	1098 HK	1.44	0.1	0.0	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	163.1	n.a.	n.a.	n.a.	n.a.
Shui On Land	272 HK	0.73	0.7	0.6	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	61.7	n.a.	n.a.	n.a.	n.a.
Yanlord Land*^	YLLG SP	0.51	0.7	0.7	BUY	0.89	10	(20)	2.3	2.9	0.0	n.a.	6.4	4.9	73.2	0.1	0.1	3.3	84.6
Average#							36.9	(4.1)	3.1	3.2	4.7	5.9	7.6	4.4	89.1	0.2	0.2		88.2
Average (Overall)#							17.1	1.7	3.8	3.7	5.4	5.9	4.6	5.4	75.7	0.2	0.2		82.8

^ Denominated in SGD for price

~ Simple average discount to NAV; Market cap weighted average NAV = 71%

 # Exclude outliners ~~Gross Gearing

^^ FY23: FY24; FY24: FY25

*Source: Thomson Reuters, *DBS HK*

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
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**Share price appreciation + dividends*

Completed Date: 10 Jan 2024 17:22:45 (HKT)
Dissemination Date: 10 Jan 2024 18:23:17 (HKT)

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