

China

**Neutral** (no change)

**Highlighted Companies**

**China Overseas Land & Investment Ltd**

**ADD, TP HK\$19.40, HK\$11.94 close**

As China Overseas Land & Investment (COLI) is a major state-owned developer with a strong balance sheet due to recent robust sales momentum, we believe it is likely to be a key beneficiary of the rapid consolidation in China's property market.

**China Resources Land**

**ADD, TP HK\$41.70, HK\$24.90 close**

China Resources Land (CR Land) is one of the major beneficiaries of the rapid consolidation in the property market due to its SOE status and strong balance sheet, in our view. We also like its high rental income growth outlook (excluding Covid-related rent relief) over the next 3-5 years.

**Longfor Group**

**ADD, TP HK\$16.00, HK\$9.38 close**

We believe Longfor Group's solid balance sheet, rapid growth in recurring income, and regulatory support should lead to better valuations. We estimate it to offer 8% dividend yield for FY23F.

**Summary Valuation Metrics**

P/E (x)	Dec-23F	Dec-24F	Dec-25F
China Overseas Land & Investment Ltd	5.79	5.60	5.34
China Resources Land	5.89	5.52	5.28
Longfor Group	4.02	3.65	3.55
P/BV (x)	Dec-23F	Dec-24F	Dec-25F
China Overseas Land & Investment Ltd	0.33	0.31	0.30
China Resources Land	0.63	0.62	0.62
Longfor Group	0.36	0.36	0.36
Dividend Yield	Dec-23F	Dec-24F	Dec-25F
China Overseas Land & Investment Ltd	5.51%	5.69%	5.98%
China Resources Land	6.28%	6.70%	7.01%
Longfor Group	7.45%	8.19%	8.41%

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# Property - Overall

## China developers' FY23F results preview

- We forecast developers under our coverage to register an aggregate net loss in 2023F — the first time since their listing — in line with our expectations.
- Yet, SOE and quality private developers should stay profitable. We expect CR Land and COLI to stand out, with flat to stable profit growth for FY23F.
- We assess that whitelist projects policy should help developers obtain more project financing and improve market sentiment, if implemented properly.
- We retain our cautious view on the sector until sales improve. We suggest staying defensive, with CR Land, COLI and Longfor as our preferred names.

### We expect China developers to register aggregate net loss in FY23F

We expect China developers to announce their FY23 results in the second half of Mar 2024. We expect overall results to remain weak, dragged by: 1) weaker-than-expected sales since 2022, 2) lower-than-expected ASP, and 3) recognition of high land cost projects. For the 10 developers we cover, we estimate a collective net loss of Rmb4.4bn in FY23F — the first aggregate net loss since our coverage of China property space, due to huge losses from private developers (e.g. Country Garden) facing liquidity issues.

### SOE/quality private developers should remain profitable in FY23F

However, we expect state-owned developers (SOE) and some quality private developers to report profits in FY23F due to their stable sales and solid balance sheets. Specifically, we estimate SOE developers CR Land and COLI to report flat to low single-digit net profit growth in 2023F. For quality private developers, such as Longfor, Vanke and Greentown, we estimate their net profit to drop 10-40% yoy in FY23F. Meanwhile, we expect these developers to continue paying dividends in FY23F based on 30-50% of their core net profit.

### Record-low GPM of 11.6% in FY23F

We estimate developers' GPM to narrow by 1.1% pts to 11.6% in FY23F on average, dragged by lower ASP and higher land costs. We expect average GPM of SOE/quality private developers at 18.6% and troubled private developers at 4.7% in FY23F.

### Whitelist policy helps developers obtain more project financing

The progress of the whitelist projects policy supported by banks and regulators looks faster than we expected. We expect more projects to be included soon as policymakers seem keen to stabilise the property market. In our view, this policy would help developers obtain more project financing and boost homebuyers' confidence, if implemented properly.

### CR Land, COLI and Longfor are our preferred names

To solve China property issues holistically, we believe policy banks should step in directly to help the sector. Overall, we remain cautious on the sector until developers' sales improve. We reiterate our Neutral sector rating and recommend investors to stay defensive; we prefer state-owned CR Land and COLI. Among non-SOE players, we like Longfor for its low liquidity risk. Key sector downside risks include further declines in property sales and more developers defaulting in 2024F. Strong policy support and unexpected sales recovery are key potential upside risks for the sector.

**Figure 1: China developers' FY23F results preview**

Rmb m	Chinese developers' FY23F results preview						
Developers	Revenue	yoy chg	GPM	yoy pts chg	Core profit	yoy chg	Dividend?
Agile	35,182	-35%	10.0%	8.2%	(762)	NA	No
COLI	198,354	10%	20.3%	-1.0%	25,153	3%	Based on payout ratio
CR Land	217,414	5%	25.2%	-1.0%	27,728	0%	Based on payout ratio
China Vanke - A	432,214	-14%	12.7%	-2.0%	17,275	-25%	Based on payout ratio
China Vanke - H	432,214	-14%	17.6%	-2.0%	17,275	-25%	Based on payout ratio
CIFI	49,338	4%	12.4%	-1.5%	(7,956)	NA	No
Country Garden	241,467	-44%	-10.4%	-18.0%	(73,373)	NA	No
Greentown	127,153	0%	15.3%	-2.0%	3,633	-10%	Based on payout ratio
KWG	11,569	-14%	5.4%	20.9%	(7,347)	NA	No
Longfor	180,683	-28%	14.6%	-6.6%	13,489	-40%	Based on payout ratio
Times China	15,611	-36%	5.9%	-7.9%	(2,227)	NA	No
<b>Average/total</b>		<b>-18%</b>	<b>11.6%</b>	<b>-1.1%</b>	<b>(4,386)</b>		
<b>SOE/quality POD</b>		<b>-9%</b>	<b>18.6%</b>	<b>-2.5%</b>	<b>87,278</b>	<b>-14%</b>	
<b>POD with liquidity pressure</b>		<b>-38%</b>	<b>4.7%</b>	<b>0.3%</b>	<b>(91,664)</b>	<b>222%</b>	

SOURCES: CGSI RESEARCH, COMPANY

Figure 2: Our estimate of China developers' FY23F results preview [Add Table/Chart Title]

Rmb m Developers	Chinese developers' FY23F results preview							
	Revenue	yoy chg	GPM	yoy pts chg	Core profit	yoy chg	Dividend?	Payout ratio
Agile	35,182	-35%	10.0%	8.2%	(762)	NA	No	
COLI	198,354	10%	20.3%	-1.0%	25,153	3%	Based on payout ratio	About 30%
CR Land	217,414	5%	25.2%	-1.0%	27,728	0%	Based on payout ratio	About 30%
China Vanke - A	432,214	-14%	12.7%	-2.0%	17,275	-25%	Based on payout ratio	About 30%
China Vanke - H	432,214	-14%	17.6%	-2.0%	17,275	-25%	Based on payout ratio	About 30%
CIFI	49,338	4%	12.4%	-1.5%	(7,956)	NA	No	
Country Garden	241,467	-44%	-10.4%	-18.0%	(73,373)	NA	No	
Greentown	127,153	0%	15.3%	-2.0%	3,633	-10%	Based on payout ratio	30-50%
KWG	11,569	-14%	5.4%	20.9%	(7,347)	NA	No	
Longfor	180,683	-28%	14.6%	-6.6%	13,489	-40%	Based on payout ratio	About 30%
Times China	15,611	-36%	5.9%	-7.9%	(2,227)	NA	No	
<b>Average/total</b>		<b>-18%</b>	<b>11.6%</b>	<b>-1.1%</b>	<b>(4,386)</b>			
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<b>POD with liquidity pressure</b>		<b>-38%</b>	<b>4.7%</b>	<b>0.3%</b>	<b>(91,664)</b>	<b>222%</b>		

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 3: China property valuation summary

Company	Bloomberg Ticker	CP* (HK\$)	TP* (HK\$)	Rating	Mkt cap (US\$ m)	NAV/sh* (HK\$)	Disc. to NAV (%)	Upside (%)	P/E (x)			P/BV(x)			Yield (%)			Net Gearing (%)		
									2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
COLI	688 HK	11.940	19.40	ADD	15,732	21.60	45	62	4.9	5.8	5.6	0.3	0.3	0.3	7.3	6.2	6.4	43	40	38
CR Land	1109 HK	24.900	41.70	ADD	21,430	45.30	45	67	6.0	5.9	5.5	0.7	0.6	0.6	6.1	6.3	6.7	34	32	30
China Vanke - H	2202 HK	6.370	10.90	ADD	15,269	19.90	68	71	3.0	3.2	3.1	0.3	0.3	0.3	11.6	10.9	11.4	44	49	43
China Vanke - A	000002 CH	10.060	15.10	ADD	15,371	18.50	46	50	5.1	5.5	5.3	0.5	0.5	0.4	6.8	6.4	6.7	44	49	43
CIFI	884 HK	0.270	0.23	REDUCE	320	0.91	70	(15)	NA	NA	NA	0.1	0.1	0.1	0.0	0.0	0.0	102	104	98
Country Garden	2007 HK	0.720	0.69	REDUCE	2,362	2.30	69	(4)	6.0	NA	NA	0.1	0.1	0.2	0.0	0.0	0.0	40	51	52
Greentown China	3900 HK	6.300	9.80	ADD	1,852	23.70	73	56	3.6	3.4	3.2	0.4	0.4	0.3	8.6	8.8	9.5	63	73	66
Longfor	960 HK	9.380	16.00	ADD	7,364	32.00	71	71	2.3	4.0	3.7	0.4	0.4	0.4	13.1	7.4	8.2	58	56	53
Agile	3383 HK	0.760	0.70	REDUCE	426	2.90	74	(8)	NA	NA	NA	0.1	0.1	0.1	0.0	0.0	0.0	57	52	43
KWG Group	1813 HK	0.480	0.50	REDUCE	181	2.50	81	4	NA	NA	NA	0.0	0.1	0.1	0.0	0.0	0.0	162	191	181
Times China	1233 HK	0.260	0.27	REDUCE	64	1.36	81	4	NA	NA	NA	0.1	0.1	0.2	0.0	0.0	0.0	206	230	258
<b>Developers with liquidity issues</b>							75	(4)	6.0	NA	NA	0.1	0.1	0.1	0.0	0.0	0.0	113	126	126
<b>SOE and quality developers</b>							60	65	4.0	4.5	4.2	0.4	0.4	0.4	9.3	7.9	8.4	48	50	46
<b>Overall average</b>							68	31	4.3	4.5	4.2	0.2	0.2	0.3	4.7	4.0	4.2	81	88	86

Share price data as of 16 Feb 2024; \*A-share data stated in Rmb

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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<b>Description:</b>	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

**Recommendation Framework****Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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