

SECTOR UPDATE

Property – China

Fundamentals Of Property Sector Further Weaken, Greater Downward Pressure On Property Prices

According to the latest NBS data, most major indicators of the property industry remained weak in Jul 23, with property sales turning negative in 7M23 (-1.5% yoy). For high frequency data: a) average weekly new home sales of 50 cities in Aug 23 fell 29.5% yoy, and b) average weekly sales of second-hand homes of 10 cities increased 0.6% yoy. The land market sentiment weakened in Wuxi. More defaults may lead to broader price cuts. Detailed supportive policy easing has yet to come. Maintain MARKET WEIGHT.

WHAT'S NEW

- National Bureau of Statistics (NBS) released economic data of Jul 23 on 15 Aug 23.
- China Real Estate Index System (CREIS) released sales data for the week of 7-13 Aug 23.

ESSENTIALS

- National property sales remained weak in Jul 23.** With property sales declining by 24.1% yoy in Jul 23, funding sources for developers remained tightened (-21.0% yoy), affecting all major industry indicators: property investment (-12.2% yoy), new starts (-25.9% yoy), GFA (-15.5% yoy). Note that the above yoy growth figures are based on NBS' adjusted 2022 monthly figure. On an unadjusted base, the decline of property investment and property sales is deeper.

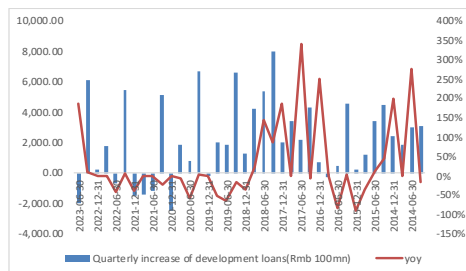
NBS PROPERTY INDUSTRY DATA (↑ MEANS IMPROVEMENT MOM/↓ MEANS DETERIORATION MOM)

Yoy growth (%)		Property Investment	GFA of New start	GFA of completion	GFA sold	Property sales	Developers' funding
On <u>unadjusted</u> base	Jun-23	-20.6	-31.4	15.2	-28.1	-25.0	-21.9
	Jul-23	-17.8 ↑	-26.5 ↑	32.7 ↑	-23.8 ↑	-24.1 ↑	-21.0 ↑
	7M23	-14.8	-25.1	19.9	-14.9	-7.0	-11.9
On <u>adjusted</u> base	Jun-23	-10.3	-30.3	16.3	-18.2	-19.2	-21.5
	Jul-23	-12.2 ↓	-25.9 ↑	33.1 ↑	-15.5 ↑	-19.3 ↓	-20.2 ↑
	7M23	-8.5	-24.5	20.5	-6.5	-1.5	-11.2

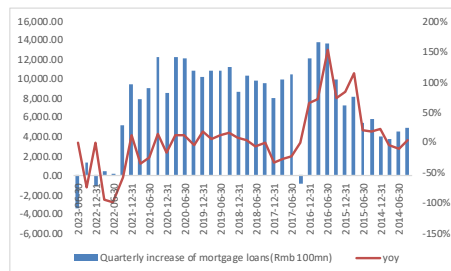
Source: NBS, UOB Kay Hian

- Record-high quarterly decrease in development loan and mortgage loans.** Amid the deterioration in sentiment of the property market, banks are contracting their loan book to developers and households. Development loans decreased by Rmb200b in 2Q23, which is the biggest quarterly decline since 2020 (during which concentration management guidance was introduced to banks). Mortgage loans decreased by Rmb340b in 2Q23, the largest quarterly decline since data started being available in 2012.

QUARTERLY INCREASE OF DEVELOPMENT LOANS, QUARTERLY INCREASE OF MORTGAGE LOANS



Source: NBS, UOB Kay Hian



Source: NBS, UOB Kay Hian

- New-home sales in 50 cities remained weak in August.** According to CREIS, new-home sales volume in 50 major cities increased 2.0% woy and decreased 19.9% yoy during the second week of August (7-13 Aug 23). Sales volume in Tier 1 cities decreased 11.7% woy and 29.2% yoy. Sales in Tier 2 cities increased 11.4% woy and decreased 28.2% yoy. Sales in Tier 3 and 4 cities decreased 2.1% woy and 1.2% yoy. The average weekly sales of new homes in Aug 23 decreased 12.0% mom and 29.5% yoy.

MARKET WEIGHT

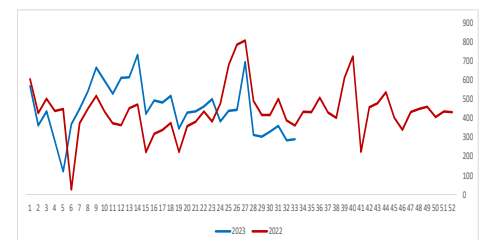
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
CR land	1109 HK	BUY	32.40	47.48
COLI	688 HK	BUY	16.78	27.14

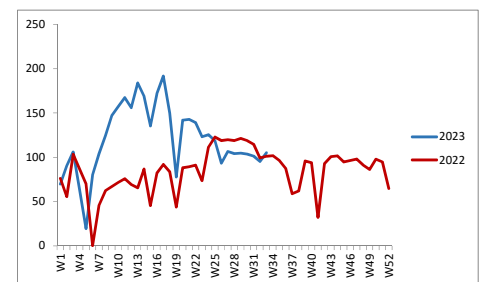
Source: UOB Kay Hian

WEEKLY NEW HOME SALES IN 50 MAJOR CITIES



Source: CREIS, UOB Kay Hian

WEEKLY SECONDARY HOME SALES IN 10 MAJOR CITIES



Source: WIND, UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price @ 15 Aug 23 (HK\$)	Target Price (HK\$)	Upside/(Downside) to TP (%)	Market Cap (HK\$ m)	----- PE ----- 2023F 2024F	----- P/B ----- 2023F 2024F	----- Yield ----- 2023F 2024F
China Resources Land Ltd	1109 HK	BUY	32.40	47.48	46.5	237,460.3	7.5 6.3	0.8 0.7	4.9 5.9
China Overseas Land	688 HK	BUY	16.78	27.14	61.7	188,033.1	6.5 5.5	0.5 0.4	4.6 5.5
CIFI Holdings *	884 HK	HOLD	0.76	0.77	1.3	7,913.9	2.1 2.0	0.1 0.1	16.4 17.2

Source: Bloomberg, UOB Kay Hian.

- **Second-hand home sales in 10 cities turned positive in August.** According to Wind, weekly sales volume of second-hand homes in the 10 core cities during the second week of August (7-13 Aug 23) increased 10.4% wow and 4.0% yoy. This is the first time since Jun 23 that weekly second-hand home sales have exceeded last year's level. For the 10 core cities, average weekly sales of second-hand homes in Aug 23 decreased 3.1% mom and increased 0.6% yoy.
- **Sentiment of land markets diverged in Aug 23.** The land premium rate of the fourth round of land auctions in Wuxi dropped to 0% (all nine land plots were sold at reserve price) compared with 7.5-9.0% land premium rate in the first two rounds of land auctions this year. For Beijing, there was a divergence in investment sentiment of two lands plots, with one reaching top prices and captured by Vanke, and the other sold at reserve price to a local government financial vehicle (LGFV). For Chengdu, investment sentiment remained relatively high, with total land transaction value reaching Rmb15.6b, a 7% land premium rate and seven of the 15 land plots hitting the top price.

CENTRALISED LAND AUCTION RESULTS

	Wuxi				Chengdu			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Total Plot	11	9	12	9	34	8	11	15
Transacted Value (Rmb100m)	140	98	118	76	311	94	76	156
Land Premium	7.5%	9.0%	2.5%	0.0%	9.9%	9.6%	5.0%	7.0%
Failed Auction Ratio	0.0%	0.0%	0.0%	0.0%	2.8%	0.0%	0.0%	0.0%

Source: Media reports, UOB Kay Hian

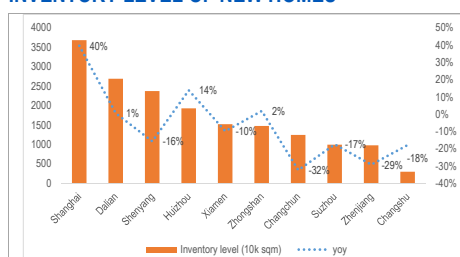
ACTIONS

- **Maintain MARKET WEIGHT on China's property sector.** Country Garden started onshore bond extension dialogues this week. We expect more quasi-SOEs may follow. More defaults by developers will inevitably result in broader price cuts in more projects. This will further put downward pressure on profitability of developers, including SOEs. On the positive side, China has cut one year mid-term lending facility (MLF) by 15bp, indicating that LPR might be cut for the second time in 2023 (Jun 23: -10bps to 4.2%). We think it is too early to lose hope for plans of policy easing by executive arms and local governments. Maintain MARKET WEIGHT. COLI and CR Land remain our top picks.

RISKS

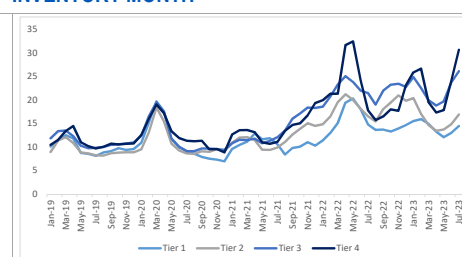
- **Upside risks:** Better-than-expected economic recovery in 2023 and further policy easing.
- **Downside risks:** Third wave of COVID-19 infections.

INVENTORY LEVEL OF NEW HOMES



Source: CREIS, UOB Kay Hian

INVENTORY MONTH



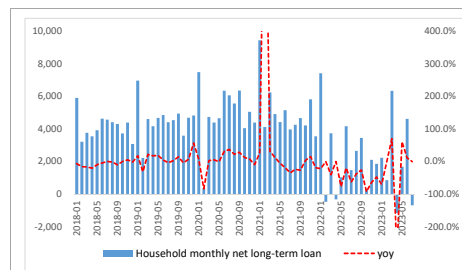
Source: CEIC, UOB Kay Hian

WEEKLY CORPORATE BOND FINANCING

Developers	Amounts (Rmb 100mn)	Coupon Rate (%)
Huafa	10	3.37%
Yuexiu	5	3.33%
Binjiang	7	4.20%
Beijing Capital	12.5	3.9-4.25%
Jianfa	10	3.87%

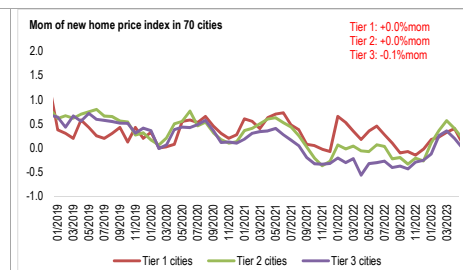
Source: Media reports, UOB Kay Hian

HOUSEHOLD MONTHLY NEWLY ADDED LONG-TERM LOAN



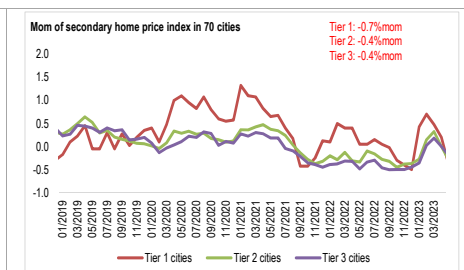
Source: NBS

NEW HOME PRICE INDEX-MOM-70 CITIES



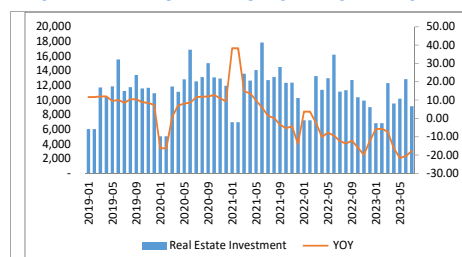
Source: NBS

SECONDARY HOME PRICE INDEX-MOM-70 CITIES



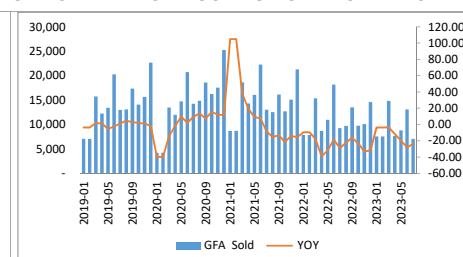
Source: NBS

PROPERTY INVESTMENT SINGLE MONTH YOY



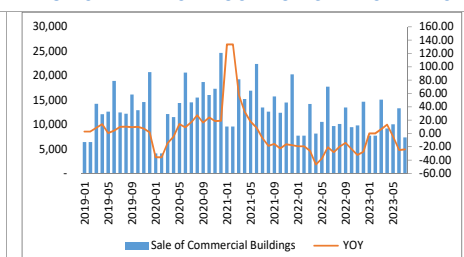
Source: NBS

GFA OF NEW HOME SOLD SINGLE MONTH YOY



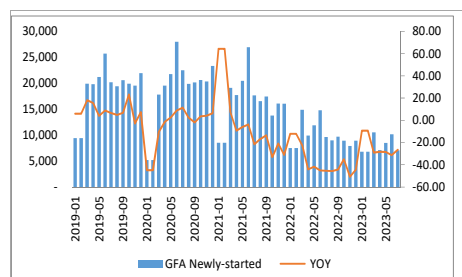
Source: NBS

VALUE OF NEW HOME SOLD SINGLE MONTH YOY



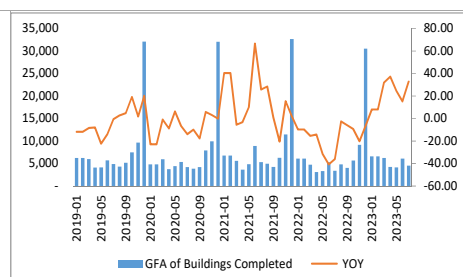
Source: NBS

GFA OF NEW STARTS OF PROPERTY CONSTRUCTION SINGLE MONTH YOY



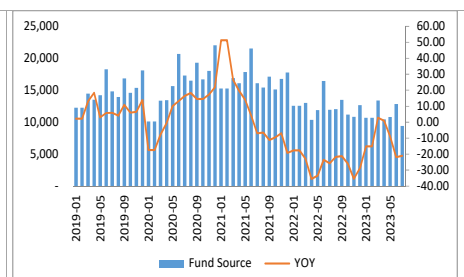
Source: NBS

GFA OF PROPERTY COMPLETION SINGLE MONTH YOY



Source: NBS

FUNDING SOURCE OF DEVELOPERS SINGLE MONTH YOY



Source: NBS

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