

STRATEGY

Strategy – China And Hong Kong Property

Sharper Property Price Decline In 1H24 Weighing On Margins Of Chinese Developers; Upcoming Interest Rate Cut To Support Value Of Hong Kong Retail Landlords

For the mainland market, despite the marginal recovery of key indicators in June, the accelerated decline in property prices in 1H24 is weighing on developers' margins. Top pick is CR Land for its defensiveness of margins thanks to strong recurring income. For Hong Kong, the daily average number of mainland tourists to Hong Kong and Hong Kong residents going northwards rose 22% and fell 7.8% mom in July. The upcoming rate cut will support the valuations of Hong Kong retail landlords. Top pick: LINK REIT.

WHAT'S NEW

- The National Bureau of Statistics (NBS) released economic data for Jun 24 on 15 Jul 24.
- ICE index released listing price data for the recent week.

ESSENTIALS

For the mainland property market:

a) Jun 24 saw marginal recovery of key industry indicators. According to data released by NBS for the month of Jun 24: Property sales and investment declined by 13.8% and 7.4% yoy respectively, experiencing a marginal recovery as compared with -27.9% and -10.1% in 5M24. Consequently, we noticed an improvement in new start of property construction (-21.9% yoy in Jun 24) and funding sources for developers (-14.6% yoy in Jun 24). However, the completion of property construction (-29.7% yoy) was further deteriorating. Overall, we believe the recovery in June reflects the effectiveness of policy easing in May 24. As Jul-Aug 24 has a lower base in 2023, we will not be surprised to see further narrowing of yoy decline in the following two months.

NBS PROPERTY INDUSTRY DATA

| yoy | 6M24 | 6M23 | Jun-24 | 5M24 | yoy Growth of May 24 vs yoy Growth of 4M24 |
|-------------------------------------|--------|--------|--------|--------|--|
| Property investment | -10.1% | -7.9% | -7.4% | -10.1% | Marginal recovering |
| New start of property construction | -23.7% | -24.3% | -21.9% | -24.2% | Marginal recovering |
| Completion of property construction | -21.8% | 19.0% | -29.7% | -20.1% | Deteriorating |
| GFA of new home sold | -19.0% | -5.3% | -13.8% | -20.3% | Marginal recovering |
| Value of new home sold | -25.0% | 1.1% | -13.8% | -27.9% | Marginal recovering |
| Fund source | -22.6% | -9.8% | -14.6% | -24.3% | Marginal recovering |

Source: NBS, UOB Kay Hian

b) Accelerated decline in property prices in 1H24 weighing on margins of developers. According to NBS, China's home prices fell at a slower pace in Jun 24; new-home prices in Tier 1/2/3 cities decreased 0.5%/0.7%/0.6% mom respectively (vs -0.7%/-0.7%/-0.8% mom in May). Secondary home prices in Tier 1/2/3 cities dropped 0.4%/0.9%/0.9% respectively (vs -1.2%/-1%/-0.9% in May). The recent policy combos to support the property market revived potential demand, especially in Tier 1 cities. However, in 1H24, the mom decline in property prices actually accelerated as compared with in 2023, as showed in the chart on the right. As a result, developers will have to offer deeper discounts to promote sales. We expect greater downward pressure on gross profit margins in the coming interim results.

PEER COMPARISON

| Company | Ticker | Rec | Price @ 15 Jul 24 (HK\$) | Target Price (HK\$) | Upside/ (Downside) (%) | Market Cap (HK\$m) | PE | | P/B | | Yield | |
|-------------------------------------|---------|------|--------------------------|---------------------|------------------------|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | | | | | | 2024F (x) | 2025F (x) | 2024F (x) | 2025F (x) | 2024F (%) | 2025F (%) |
| China Resources Land Ltd | 1109 HK | BUY | 27.05 | 42.39 | 56.7 | 192,891.9 | 6.2 | 5.6 | 0.6 | 0.5 | 6.0 | 6.2 |
| Hysan Development | 14 HK | BUY | 11.42 | 17.99 | 57.5 | 11,728.4 | 5.7 | 5.4 | 0.2 | 0.2 | 10.7 | 11.4 |
| Sun Hung Kai Properties | 16 HK | BUY | 72.05 | 105.05 | 45.8 | 208,785.1 | 8.5 | 7.5 | 0.3 | 0.3 | 5.9 | 6.7 |
| New World Development | 17 HK | HOLD | 7.73 | 9.08 | 17.5 | 19,453.6 | 6.2 | 7.4 | 0.1 | 0.1 | 6.1 | 3.6 |
| Sunac China Holdings Limited | 1918 HK | SELL | 1.12 | 1.06 | -5.5 | 9,654.9 | (0.3) | (0.5) | 0.2 | 0.5 | 0.0 | 0.0 |
| Wharf Real Estate Investment Co Ltd | 1997 HK | BUY | 20.90 | 31.20 | 49.3 | 63,457.2 | 9.2 | 8.2 | 0.3 | 0.3 | 6.7 | 7.5 |
| China Overseas Land | 688 HK | BUY | 13.48 | 19.42 | 44.0 | 147,537.0 | 6.1 | 5.9 | 0.4 | 0.3 | 5.8 | 5.7 |
| Link REIT | 823 HK | BUY | 33.00 | 42.76 | 29.6 | 84,276.9 | 11.7 | 11.6 | 0.5 | 0.5 | 8.0 | 8.0 |
| Longfor Properties | 960 HK | BUY | 11.02 | 17.86 | 62.1 | 74,577.7 | 5.6 | 5.5 | 0.4 | 0.4 | 5.0 | 5.2 |

Source: UOB Kay Hian

SECTOR RATING

| Sector | Sector Rating |
|--------------------|---------------|
| China Property | MARKET WEIGHT |
| Hong Kong Property | MARKET WEIGHT |
| Hong Kong Landlord | MARKET WEIGHT |

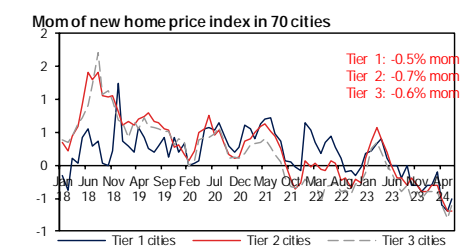
Source: UOB Kay Hian

SECTOR PICKS

| Company | Ticker | Rec | Share Price (HK\$) | Target Price (HK\$) |
|-----------|---------|-----|--------------------|---------------------|
| CR Land | 1109 HK | BUY | 27.05 | 42.39 |
| LINK REIT | 823 HK | BUY | 33.00 | 42.76 |

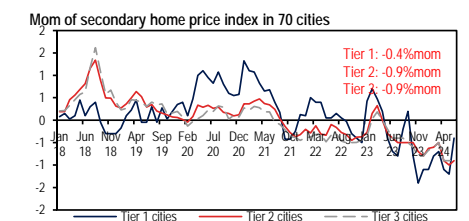
Source: UOB Kay Hian

MOM OF NEW HOME PRICE IN 70 CITIES



Source: WIND, UOB Kay Hian

MOM OF SECONDARY HOME PRICE IN 70 CITIES



Source: WIND, UOB Kay Hian

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c) Listing prices in major cities continued to see wow decline in Jul 24. According to the ICE data released on 7 Jul 24, the average listing price of second-hand homes in 16 major cities decreased 0.2% in the first week of July, with eight weeks of continuous decline. Only Hangzhou saw a wow rise, while the remaining 15 sample cities saw a wow drop, with Xi'an/Qingdao/Beijing seeing listing prices falling 0.6%/0.4%/0.4% wow respectively.

Update on Hong Kong tourism (thus retail sales):

- a) Monitoring the trend of northbound shopping.** The average number of Hong Kong residents going to China through various inland borders reached 255,000 per day in the second week of Jul 24 (8-14 Jul 24), increasing 7% wow. The average number of Hong Kong people going northwards in Jul 24 decreased 7.8% mom and increased 32.7% yoy.
- b) Daily mainland tourist arrivals saw mom rise in Jul 24.** The recent summer vacation supports mainland visitor arrivals. The average daily number of mainland tourists reached 103,000 per day, jumping 18.8% wow during the second week of Jul 24 (8-14 Jul 24). The average daily mainland arrivals in Jul 24 rose 22.1% mom and decreased 0.9% yoy. (vs +34% mom in Jul 23)

ACTION

- **Maintain MARKET WEIGHT on China's property sector with CR Land as the top pick for its defensiveness amid margin pressure.** The sharp decline of property prices in 1H24 will weigh on the margins of Chinese developers, raising a key risk for the property industry. However, we believe developers' resilience of profit margin will significantly diverge. Among the major Chinese developers under our coverage, our ranking of gross profit margin and margin resilience is: CR Land (2023 gross profit margin: 25.2%, -1pp yoy) > COLI (2023 gross profit margin: 20.3%, -1pp yoy) > Longfor (2023 gross profit margin: 16.9%, -4.3pp yoy). SOEs' advantage in pricing is obvious, while CR land's defensiveness amid margin pressure comes from its strong recurring income, which has a gross profit margin of approximately 50% and contributes to 16% of revenue. As a comparison, COLI's recurring income only contributed to 5% of total revenue in 2023. CR Land remains our top pick.

CR LAND – RENTAL INCOME

| CR Land-key operating data | | | | | | |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| (Rmbb) | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 |
| Rental income - YTD | 2.43 | 4.85 | 7.14 | 9.39 | 11.77 | |
| Rental income - YTD - yoy | 11.0% | 17.7% | 17.6% | 16.8% | 16.5% | |
| Rental income - monthly | 2430 | 2.42 | 2.29 | 2.25 | 2.38 | |
| Rental income-yoy-monthly-yoy | 11% | 25% | 17% | 14% | 16% | |

Source: Company data, UOB Kay Hian

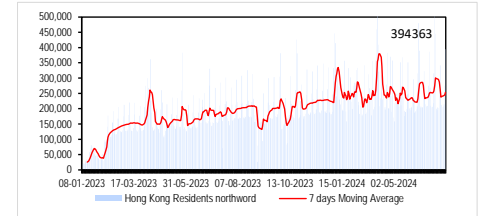
LONGFOR – RECURRING INCOME

| Longfor-key operating data | | | | | | |
|--|--------|--------|--------|--------|--------|--------|
| (Rmbb) | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 |
| Recurring income (after tax) YTD | 2.12 | 4.19 | 6.42 | 8.59 | 10.75 | 13.1 |
| Recurring income (after tax) YTD - yoy | 7.6% | 8.0% | 9.6% | 10.3% | 9.6% | 7.6% |
| Recurring income (after tax) -monthly | 2.12 | 2.07 | 2.23 | 2.17 | 2.16 | 2.35 |
| Recurring income (after tax) - monthly-yoy | 7.6% | 8.4% | 12.6% | 12.4% | 6.9% | -0.8% |

Source: Company data, UOB Kay Hian

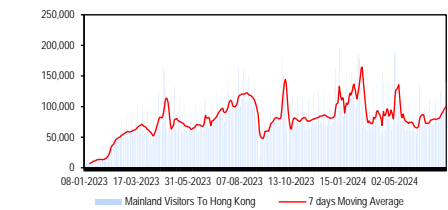
- **Maintain MARKET WEIGHT on Hong Kong property and landlord sectors with a preference for retail landlords.** Rising hope of interest rate cut in Sep 24 is raising investors' interest towards high-yield assets. However, we believe the appetite for Hong Kong properties will stay sour for a while, as the rate of new mortgages will stay at approximately 3.9% after one interest rate cut, which is still higher than the average rental yield of 3.3%. On the other side, Hong Kong retail landlords are facing challenges of deterioration of Hong Kong retail sales. However, an improvement in tourism data in July could marginally ease market concern, while the attractive dividend yield can partly compensate the gloomier outlook. Thus, we believe the upcoming rate cut will offer a downside protection to the valuation of retail landlords. Considering yields, we change our top pick of Hong Kong landlords to LINK REIT.

DAILY NUMBERS OF HONG KONG RESIDENTS GOING NORTHWARDS



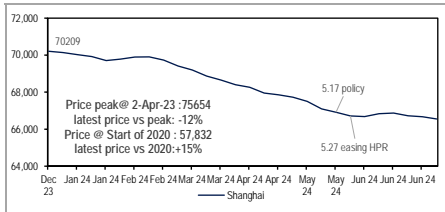
Source: HKSAR, UOB Kay Hian

DAILY MAINLAND VISITOR ARRIVALS IN HONG KONG



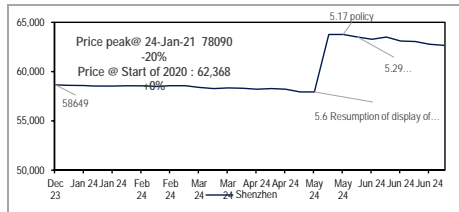
Source: HKSAR, UOB Kay Hian

HOME PRICES IN SHANGHAI (RMB/SQM)



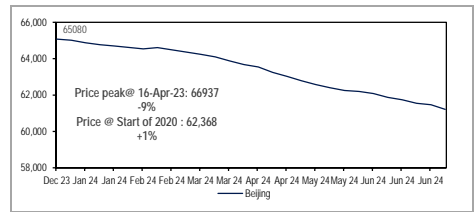
Source: Ice Data

HOME PRICES IN SHENZHEN (RMB/SQM)



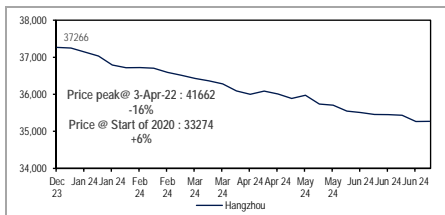
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HOME PRICES IN BEIJING (RMB/SQM)



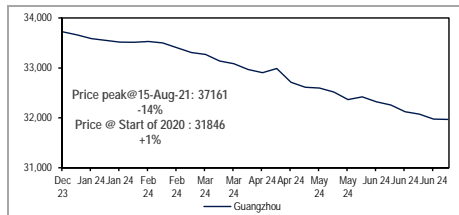
Source: Ice Data

HOME PRICES IN HANGZHOU (RMB/SQM)



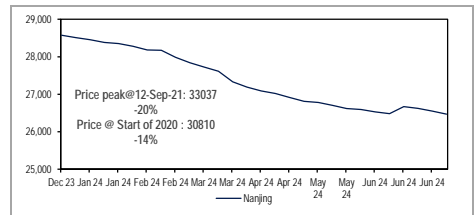
Source: Ice Data

HOME PRICES IN GUANGZHOU (RMB/SQM)



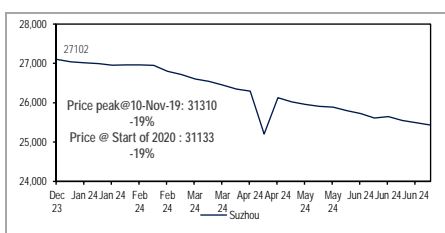
Source: Ice Data

HOME PRICES IN NANJING (RMB/SQM)



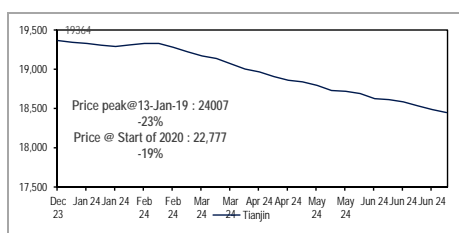
Source: Ice Data

HOME PRICES IN SUZHOU (RMB/SQM)



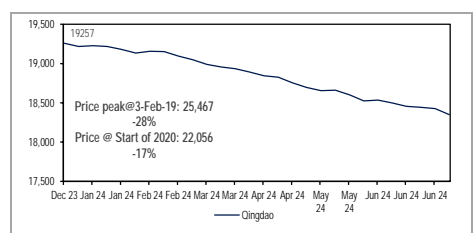
Source: Ice Data

HOME PRICES IN TIANJIN (RMB/SQM)



Source: Ice Data

HOME PRICES IN QINGDAO (RMB/SQM)



Source: Ice Data

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