

## STRATEGY – CHINA

### Property And Property Management

Expecting Policy Action After PBOC Meeting; Downgrade CGS To HOLD

According to CREIS data, the top 100 developers' aggregate contracted sales have dropped 4.6% yoy ytd, with continued divergence among POEs and SOEs. For 50 cities, average weekly new home sales decreased by 28.1% yoy. For the 10 core cities, average weekly sales of second-hand homes decreased by 24.9% yoy. PBOC is echoing Xi's call to relax demand-side policy – we can expect real action to be taken soon. CR Land and COPH are our top picks. Downgrade CGS to HOLD due to lower visibility.

#### WHAT'S NEW

- China Real Estate Index System (CREIS) released sales data for the week of 24-30 Jul 23.
- CREIS released contracted sales of top 200 developers in Jul 23.
- PBOC echoed Xi's call to relax demand-side policies on 1 Aug 23.

#### ESSENTIALS

- Top developers' sales weakened in Jul 23**, with divergence between SOEs and POEs. According to CREIS' data, top 100 developers' aggregate contracted sales dropped 4.6% yoy ytd. Of the developers we monitored, state-owned enterprises (SOE) and private-owned enterprises (POE) developers registered an average growth in contracted sales of -31.1%/-55.7% yoy in Jul 23, and -37.6%/-20.2% mom respectively. The lower mom growth in contracted sales of SOEs is mainly due to the high base in Jun 23.
- New home sales in 50 cities fell 28.4% yoy in Jul 23 despite low base.** According to CREIS, new home sales volume in 50 major cities increased 9.2% wow and decreased 28.1% yoy during the fourth week of July (24-30 Jul 23). Sales volume in Tier 1 cities rose 10.5% wow and fell 4.4% yoy. Sales in Tier 2 cities went up 5.7% wow and decreased 34.8% yoy. Sales in Tier 3 and 4 cities expanded 13.2% wow and dropped 28.4% yoy. The average weekly sales of new homes in Jul 23 decreased 33.4% mom and 28.4% yoy.
- Second-hand home sales remained weak.** According to financial software services company WIND, weekly sales volume of second-hand homes in the 10 core cities during the fourth week of July (24-30 Jul 23) decreased 3.8% wow and 24.9% yoy. For the 10 core cities, average weekly sales of second-hand home in Jul 23 decreased 13.4% mom and 18.8% yoy.
- Sentiment of land markets cooled down in Jul 23.** The land premium rate of the fourth round of land auctions in Ningbo decreased to 4.7% from 10.5% in the first auction, and four of seven land plots were sold at reserve prices. For Beijing, the investment sentiment diverged, with two land plots totalling Rmb7.7b in transaction value. However, one land plot's premium rate reached 10.3% while the other's was only 0.5%.

#### PEER COMPARISON

Company	Ticker	Rec	Price @ 1 Aug 23 (lcy)	Target Price (lcy)	Upside/ (Downside) To TP	Market Cap (lcy bn)	PE		P/B		Yield	
							2024F	2025F	2024F	2025F	2024F	2025F
China Overseas Land	688 HK	BUY	18.38	27.14	47.7	201,167.0	6.9	5.8	0.5	0.5	4.4	5.2
China Resources Land	1109 HK	BUY	35.45	47.48	33.9	252,791.8	7.9	6.7	0.8	0.7	4.7	5.5
CR Mixc Lifestyle	1209 HK	BUY	38.05	48.20	26.7	86,849.1	29.3	23.4	5.0	4.4	1.4	1.7
China Overseas Property	2669 HK	BUY	9.03	11.69	29.4	29,680.3	18.8	14.4	6.3	4.8	1.6	2.1
Poly Property Development	6049 HK	BUY	41.25	54.26	31.6	22,825.0	15.7	13.0	2.4	2.1	1.3	1.5
Country Garden Services	6098 HK	HOLD	8.40	9.16	9.1	28,334.9	6.9	7.3	0.7	0.6	4.9	(4.7)

Source: UOB Kay Hian

#### SECTOR RATING

Sector	Sector Rating
China Property	MARKET WEIGHT
China Property Management	OVERWEIGHT

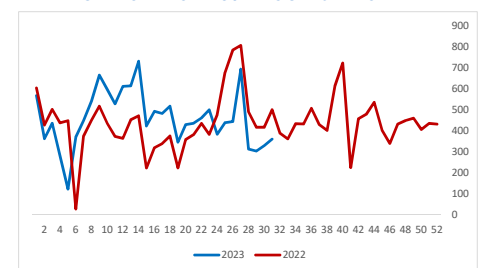
Source: UOB Kay Hian

#### SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
CR Land	1109 HK	BUY	35.45	47.48
COPH	2669 HK	BUY	9.03	11.69

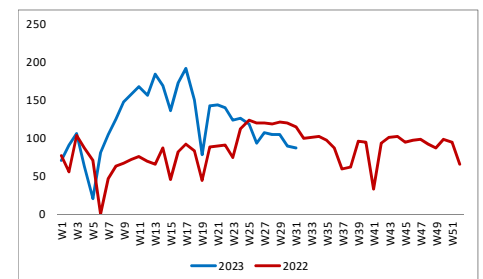
Source: UOB Kay Hian

#### NEW HOME SALES IN 50 MAJOR CITIES



Source: CREIS, UOB Kay Hian

#### SECONDARY HOME SALES IN 10 MAJOR CITIES



Source: WIND, UOB Kay Hian

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- **PBOC echoing Xi's call to relax demand-side policy; we can expect real action to be taken soon.** People's Bank of China (PBOC) Governor Pan Gongsheng hosted the 2H23 work conference on 1 Aug 23. Key takeaways: a) Pan vowed to further lower mortgage rates and downpayment requirements but reiterated the "one city one policy" framework, and b) Pan vowed to guide banks to lower the interest rates of existing mortgage loans in an orderly manner. Following the conference of PBOC, we expect Tier 1 cities to relax mortgage loan policies, ie change from "recognise mortgage record" to "recognise home ownership". In 2022/1H23, property sales in Tier 1 cities contributed to 10.3%/16.5% of national sales. Thus, potential relaxation of mortgage policies in Tier 1 cities will be helpful in stabilising national property sales.

#### TIMELINE OF RECENT POLIES

Date	Events
14 Jul	PBOC official Zou Lan encouraged commercial banks to "negotiate with borrowers to reprice mortgage rate or issue new loans to replace the existing loans".
14 Jul	National Association of Financial Market Institutional Investors (NAFMII) announced continued support for POE developers and industrial companies' bond financing.
21 Jul	State Council approved guidance of urban village redevelopment plan, encouraging private capital participation.
24 Jul	China Politburo for the first time announced there have been some the major changes in supply-demand relations in the property market and vowed to optimise/adjust property policies.
25 Jul	Some banks are reported to offer discounts for existing mortgage rates in Guangzhou.
27 Jul	Chinese Minister of Housing and Urban-Rural Development calls for further implementation of policies such as reducing downpayment and mortgage rate for first-home purchasers
31 Jul	NDRC announced 20 measures to promote consumption and reiterated property easing policies.
30-31 Jul	All Tier 1 cities echoed Xi's vow to support rigid/upgrading housing purchase demand.
1 Aug	PBOC hosted 2H23 work conference, vowing to further lower mortgage rates and downpayment requirements, and adjust down mortgage rates of existing loans.

Source: Media reports, UOB Kay Hian

#### ACTIONS

- **Maintain MARKET WEIGHT on China's property sector and OVERWEIGHT on China's property management sector.** As we expected, the party eased policy tones on the property sector. We expect more core cities to roll out detailed property easing policies especially for the demand side in the near term. Developers and property management companies with strong presence in Tier 1 and 2 cities will be key beneficiaries.
- **CR Land is our top pick for the property sector.** We maintain BUY on China Resources Land (CR Land) with a target price of HK\$47.48. In Jul 23/7M23, CR Land's contracted sales dropped 38.7% and increased 25.8% yoy to Rmb17.2b/Rmb 187.4b respectively. In July, land markets in core cities marginally cooled down, while CR Land continued its pace of land acquisition, winning two land plots in Guangzhou/Ningbo respectively, for a total land consideration of Rmb6.2b. CR Land on aggregate bought 26 land plots ytd with total land cost of Rmb69.0b. With a strong balance sheet, we expect CR Land to maintain strong competitiveness in 2H23. Besides, CR Land is expected to have relatively resilient interim results. With softer tones on the property sector, we expect more core cities to roll out property easing policies, especially for the demand side in the near term. With abundant salable resources in Tier 1 and core Tier 2 cities, CR Land will be a key beneficiary of demand-side policies. Currently, CR Land is trading at 0.826x P/B, nearly 0.5SD below mean (since 2017). It has a 4.7x dividend yield, close to 1.0SD below mean.
- **COPH is our top pick for the property management sector.** We maintain BUY on COPH with a target price of HK\$11.69. We expect COPH to report resilient 1H23 results as: a) expansion of GFA under management and contracted GFA is expected to be on track, b) community VAS is expected to deliver decent revenue growth, thanks to the company's strong brand, and c) we remain confident in COPH's cost control ability and expect marginal improvement in GP margin, as compared to 15.9% last year. Besides, on 31 Jul 23, NDRC reiterated support for the use of housing maintenance fund (HMF) and housing provident fund to steadily promote the renovation of old residential communities, which may be potentially new growth drivers to PM companies. Currently, COPH is trading at 14.4x 2024F P/E (close to 1.0SD below mean), and 2.1% 2024F dividend yield.

#### CENTRALISED LAND AUCTION RESULTS

	Ningbo			
	1st	2nd	3rd	4th
Transacted Plot	10	8	9	7
Transacted Value (Rmb100m)	47	52	65	84
Land Premium (%)	10.5	8.8	4.9	4.7
Failed Auction Ratio (%)	0.0	0.0	25.0	0.0

Source: Media reports, UOB Kay Hian

• **We downgrade Country Garden Services to HOLD with a lower target price of HK\$9.16.** Country Garden Services has three recent positive developments: a) they announced a profit warning on 1 August, expecting core net profit to drop by 10% to 0% to Rmb2.6b-2.9b in 1H23, which is equivalent to 54-60% of our 2023 estimates, implying decent progress in its business operations; b) they also announced on 1 August that they intend to repurchase no more than 337.3m shares, representing 10% of the total number of issued shares. Based on the company's last closing price of HK\$8.40/share, the share buyback may cost approximately Rmb2.8b, which is equivalent to 22.5% of the company's estimated cash of Rmb12.6b as of 30 Jun 23, and c) Ms Yang Huiyan announced that she would be gifting a 20% stake in CGS to Guo Qiang Public Welfare Foundation for charity purposes. We expect the latter action to further improve the independence and corporate governance of CGS. However, as we expect property sales in lower tier cities to remain weak in 2H23 and we see little clues of further relaxation of supply-side policies in the near term, Country Garden may continue to see weakened sales in Aug 23. With Rmb2.2b of bond maturity in Aug 23 and 9.7b of bond maturity/redemption in Sep 23, Country Garden is seeing rising liquidity risks, which will also lower the visibility of Country Garden Services' development. Thus, we applied higher beta to factor in higher volatility and lower our target price to HK\$9.16.

#### PRELIMINARY RESULTS OF COUNTRY GARDEN SERVICES

	1H22 [a]	1H23 [b]	yoy	UOBKH Estimate for FY23 [c]	[b/c]
Revenue	20,055	20,650-20,850	3.0-4.0%	45,161	45.7%-46.2%
Profit Before Tax	3,571	3,214-3,571	-10.0%-0.0%	5,259	61.1%-67.9%
Attributable net profit	2,576	2,318-2,576	-10.0%-0.0%	3,512	66.0%-73.4%
Core attributable net profit	2,891	2,602-2,891	-10.0%-0.0%	4,827	53.9%-59.9%

Source: Country Garden Services, UOB Kay Hian

#### DEVELOPERS CONTRACTED SALES (7M23)

Contracted Sales of Developers	Stock Code	Jul-23 Rmbm	Jun-23 Rmbm	Jul-23 mom	Jul-22 Rmbm	Jul-23 yoy
Poly	600048 CH	31,220	40,157	-22.3%	33,001	-5.4%
Vanke	2202 HK	22,600	36,140	-37.5%	33,690	-32.9%
CR Land	1109 HK	17,200	26,900	-36.1%	28,050	-38.7%
CGH	2007 HK	15,150	16,000	-5.3%	30,110	-49.7%
COLI	688 HK	13,520	33,199	-59.3%	17,468	-22.6%
Longfor	960 HK	12,110	16,800	-27.9%	17,330	-30.1%
Gemdale	600383 HK	10,520	13,470	-21.9%	18,550	-43.3%
Greentown	3900 HK	9,650	13,700	-29.6%	23,000	-58.0%
Yuexiu	123 HK	9,300	14,108	-34.1%	5,950	56.3%
Jinmao	817 HK	6,370	13,140	-51.5%	10,497	-39.3%
Seazen	1030 HK	6,070	6,701	-9.4%	10,890	-44.3%
Sunac	1918 HK	5,300	7,020	-24.5%	11,030	-51.9%
CIFI	884 HK	4,700	5,510	-14.7%	16,100	-70.8%
Midea	3990 HK	4,100	5,100	-19.6%	7,480	-45.2%
Shimao	813 HK	3,100	4,210	-26.4%	6,820	-54.5%
Sino Ocean	3377 HK	3,030	7,040	-57.0%	8,990	-66.3%
SCE	1966 HK	2,300	3,009	-23.6%	5,049	-54.4%
Agile	3383 HK	2,270	3,540	-35.9%	5,010	-54.7%
Powerlong	1238 HK	2,030	2,596	-21.8%	3,209	-36.7%
Yuzhou	1628 HK	1,300	1,952	-33.4%	2,952	-56.0%
Guangzhou R&F	2777 HK	980	2,970	-67.0%	1,900	-48.4%
Ronshone	3301 HK	950	1,809	-47.5%	7,570	-87.4%
Times	1233 HK	850	1,080	-21.3%	2,763	-69.2%
Average SOEs				-37.6%		-31.1%
Average POEs				-20.2%		-55.7%

Note: Country Garden's Sales Figure is on attributable basis, while other developers' sales figure is on gross basis

Source: CREIS, UOB Kay Hian. \*\*\* Sales figure of Country Garden is on attributable basis

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