

SECTOR UPDATE

Property – China

Tier 1 Cities Seeing The Largest mom Decline In Property Prices Since Sep 14

Second-hand property prices in Tier 1 cities fell by 0.8% mom, marking the second largest mom decline since 2011. The sharp property price decline in 3Q14 started a round of strong policy easing in 2014-16. With growing downward pressure on price, we expect that Tier 1 cities will have to take concrete action, which is positive for the sector. Bond prices of some POEs and quasi-SOEs may rebound stronger. Maintain MARKET WEIGHT. CR Land and COLI remain our top picks.

WHAT'S NEW

- NBS published the property price index for 70 cities in Jul 23.

ESSENTIALS

- Second-hand property prices in Tier 1 cities dropped by 0.8% mom. According to NBS' data, second-hand property prices in Tier 1 cities fell by 0.8% mom, which was the largest mom decline since Oct 14. The biggest mom drop was -1%, recorded in Sep 14. In Jul 23, second-hand property prices in Tier 2 and Tier 3 cities dropped by 0.5% and 0.4% mom respectively. We believe that property price is one of the most critical indicators for China's top leaders, as it has a high correlation with social stability and the financial status of local governments. Looking back at history, the sharp mom property price decline in 3Q14 triggered a round of strong policy easing. Although history is unlikely to be 100% repeated, we think we are closer to the tipping point. It is noteworthy that new home prices are relatively stable, thanks to governments' price caps introduced since 2017.

RECAP: SUPPORTIVE POLICIES INTRODUCED SINCE JUN 2014

Demand-side policies	
Jun 14	Cities started to ease purchase restrictions. Most cities except for Tier 1 cities and Sanya had removed home purchase restrictions by end-14.
Sep 14	Eased mortgage policy for certain homebuyers for their second home. (央行 银监会关于进一步做好住房金融服务工作通知).
Mar 15	Lowered minimum downpayment requirement for second home to 40%. (央行、住建部、银监会关于个人住房贷款政策有关问题的通知).
Sep 15	Lowered minimum downpayment requirement for first home to 25%. (央行、银监会关于进一步完善差别化住房贷款政策有关问题的通知).
Feb 16	Lowered minimum downpayment requirement for first home to 20%. (央行、银监会关于调整个人住房贷款政策有关问题的通知).
Supply-side policies	
Sep 14	Support financing needs of developers, eg support bond issuance of developers in the interbank market. (央行 银监会关于进一步做好住房金融服务工作通知).
Jan 15	CIRC eased rules on corporate bond issuance ("公司债券发行与交易管理办法").
Sep 15	NDRC eased approval of US\$ bond issuance by Chinese companies. ("关于推进企业发行外债备案登记制管理改革的通知").

Source: Government website, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 17 Aug 23 (HK\$)	Target Price (HK\$)	Upside/(Downside) to TP (%)	Market Cap (HK\$ m)	PE		P/B		Yield	
							2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (%)	2024F (%)
China Overseas Land	688 HK	BUY	16.30	27.14	66.5	178,401.6	6.2	5.2	0.4	0.4	4.9	5.7
China Resources Land Ltd	1109 HK	BUY	32.60	47.48	45.6	232,468.6	7.4	6.2	0.8	0.7	5.0	6.0
CIFI Holdings *	884 HK	HOLD	0.760	0.77	1.4	7,913.9	2.2	2.1	0.1	0.1	16.3	17.1

Source: Bloomberg, UOB Kay Hian. *FY already expired; data reflects actual reported number

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
CR land	1109 HK	BUY	32.60	47.48
COLI	688 HK	BUY	16.30	27.14

Source: UOB Kay Hian

SECOND HAND HOME PRICE INDEX MOM CGE



Source: NBS, UOB Kay Hian

NEW HOME PRICE INDEX MOM CHANGE



Source: NBS, UOB Kay Hian

ANALYST(S)

Jieqi Liu
+852 2826 1392
jieqi.liu@uobkayhian.com.hk

Damon Shen
+86 21 54047225 ext.820
damon.shen@uobkayhian.com

- PBOC and Tier 1 cities may have to take action.** Over three weeks ago, Xi set an encouraging tone at the politburo meeting. However, the fact that no concrete action has been taken is disappointing to the market. Going forward, with growing downward pressure on property prices in Tier 1 cities (which are indicative for rest of the country), we expect PBOC and municipal governments of Tier 1 cities will have to take action to prevent clashes in property prices. It is most likely that: a) a buyer with mortgage record but without holding any property or outstanding mortgage will be deemed as a first home buyer, with 30-40% minimum downpayment required (from 40-70%); and b) downpayment requirement of second home buyers in Tier 1 cities will be lowered from 80% to 50-60%. Such moves, if announced, will become positive catalysts for the market.
- Concrete policy action will help repair the funding capacity of some POEs and quasi-SOEs.** Since Jun 23, the financing capacity of some leading POEs and quasi-SOEs (eg Longfor, Vanke, Gemdale) have deteriorated notably, as evidenced by the sharp correction of US\$ bond price. Cooling down of the property market and multiple default events are major drivers. Note that those victims had a relatively smaller debt maturity in 2023-24 and higher land bank exposure to Tier 1 and 2 cities. We expect concrete policy action by Tier 1 cities will help repair their funding capacity and trigger bond price rebound.

KEY FINANCIALS OF SELECTIVE POES AND QUASI-SOES

	Key Debt Servicing Indicator			----- Bond Maturity/Early Redemption profile (Rmb b) -----							Contracted Sales	
	Net gearing	Cash to ST debt	Cash to bond due in 23&24	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	2024	7M23 Rmb b	7M23 %	
Longfor	58%	3.52	4.81	1.7			0.1		13.2	110.1	7.3%	
Seazen	51%	1.00	2.27		1.5				8.4	48.4	-36.4%	
Agile	57%	0.70	0.35		3.2	1.2		4.8	15.0	28.2	-31.4%	
Vanke	45%	2.00	6.35				0.4		21.3	224.4	-9.3%	
Gemdale	52%	1.32	1.98			3.0	2.0		20.3	96.3	-19.1%	
Sino Ocean	183%	0.25	0.14	2.0	8.8	2.1			19.7	38.7	-25.6%	

Source: Bloomberg, UOB Kay Hian

ACTIONS

- Maintain MARKET WEIGHT on China's property sector.** According to history, the steeper mom decline of property prices in Tier 1 cities might point to a tipping point and trigger concrete policy actions by PBOC and governments of Tier 1 cities. This will be a positive catalyst for the sector. Developers with strong exposure to Tier 1 and Tier 2 cities will be key beneficiaries. Our top picks remain CR Land and COLI. On the other side, we expect leading POE and quasi-SOE developers to see stronger recovery in their financing capacity (in bond price).

RISKS

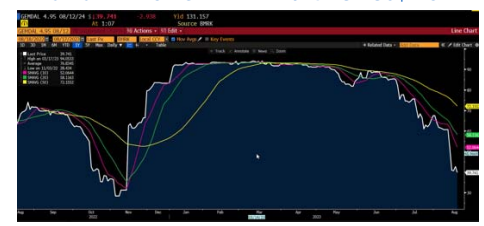
- Upside risks:** Better-than-expected economic recovery in 2023 and further policy easing.
- Downside risks:** Worse-than-expected policy making and execution.

PRICE CHART OF VANKE 2024 DUE US\$ BOND



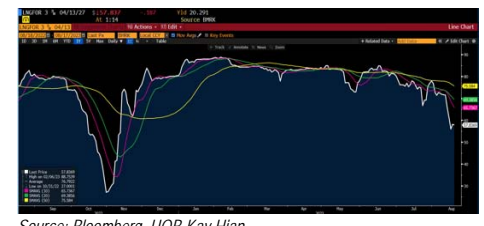
Source: Bloomberg, UOB Kay Hian

PRICE CHART OF GEMDALE 2024 DUE US\$ BOND



Source: Bloomberg, UOB Kay Hian

PRICE CHART OF LONGFOR 2027 DUE US\$ BOND



Source: Bloomberg, UOB Kay Hian

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