

### SECTOR UPDATE

## Property – China

New Homes Sales Rebound In Key Cities; Assessing Impact Of Evergrande Event

China's easing of the mortgage policy has effectively boosted new home transactions in Tier 1 cities and core Tier 2 cities. We expect further improvement of markets empowered by continuous policy easing. Investigation into Evergrande came as a negative surprise. Very likely to fail on debt restructuring, Evergrande has a good chance of undergoing bankruptcy reorganisation. Binjiang and Longfor will remain resilient under short-term impact from Evergrande. Maintain MARKET WEIGHT.

### WHAT'S NEW

- China Real Estate Index System (CREIS) released sales data for the week of 18-24 Sep 23.
- Evergrande's offshore debt restructuring halted due to investigation by local authorities.

### ESSENTIALS

- Easing of mortgage policy continues to boost secondary home transactions in Tier 1 cities. In the week of 18-24 September, the number of second-hand home units transacted in Beijing/Shanghai/Guangzhou/Shenzhen recorded wow growth of 6%/4%/9%/0% respectively, and mom growths of 46%/30%/25%/14% respectively. New home transactions continuously increased; the number of new home units transacted in Beijing/Shanghai /Guangzhou/Shenzhen recorded wow growth of 136%/139%/0%/8% and mom growth of 96%/40%/17%/ -37% respectively. Beijing and Shanghai showed a resilient rebound in new home transactions.

### FIRST-TIER CITIES MARKET SENTIMENT FOR SEP (18-24 SEPTEMBER)

|           | No. of new home sold |       |      |      | No. of 2 <sup>nd</sup> hand home sold |       |       |      |
|-----------|----------------------|-------|------|------|---------------------------------------|-------|-------|------|
|           | BJ                   | SH    | GZ   | SZ   | BJ                                    | SH    | GZ    | SZ   |
| 18-24 Sep | 2457                 | 3,955 | 1108 | 661  | 3,713                                 | 4,381 | 2,325 | 888  |
| - wow     | 136%                 | 139%  | 0%   | 8%   | 6%                                    | 4%    | 9%    | 0%   |
| - mom     | 96%                  | 40%   | 17%  | -37% | 46%                                   | 30%   | 25%   | 14%  |
| - yoy     | 41%                  | 1%    | -42% | -32% | 6%                                    | 5%    | 17%   | 105% |
| 11-17 Sep | 1042                 | 1,652 | 1109 | 613  | 3,490                                 | 4,209 | 2,129 | 892  |
| - wow     | 24%                  | 10%   | 31%  | 22%  | 26%                                   | 1%    | 13%   | 10%  |
| - mom     | -7%                  | -39%  | 19%  | -10% | 40%                                   | 25%   | 7%    | 15%  |
| - yoy     | -44%                 | -52%  | -19% | -22% | 28%                                   | 1%    | 27%   | 106% |
| 4-10 Sep  | 843                  | 1,507 | 845  | 502  | 2,780                                 | 4,163 | 1,877 | 591  |
| - wow     | 18%                  | -49%  | -8%  | 6%   | 3%                                    | 35%   | 4%    | 23%  |
| - mom     | 1%                   | -11%  | -7%  | -23% | 23%                                   | 44%   | 1%    | 8%   |
| - yoy     | -52%                 | -49%  | -12% | -47% | 22%                                   | -8%   | 21%   | 62%  |

Source: Local government housing bureau, UOB Kay Hian

- New home sales rebound in Sep 23. According to CREIS, sales in Tier 1 cities increased 79.2% wow and decreased 4.6% yoy. Sales in Tier 2 cities jumped 10.3% wow and dropped 46.2% yoy. Sales in Tier 3 and 4 cities grew 28.8% wow and fell 37.5% yoy. The average weekly sales of new homes in 50 cities in Sep 23 rose 10.9% mom and declined 29.6% yoy. The top 10 cities with mom increases were: Kunshan (116%), Xuzhou (102%), Yantai (87%), Changsha (76%), Dongguan (66%), Shenyang (+65%), Xi'an (36%), Beijing (33%), Lanzhou (32%), Shanghai (28%).

### PEER COMPARISON

| Company              | Ticker  | Rec | Price @   | Target | Upside/(Downside) | Market    | PE    |       | P/B   |       | Yield |       |
|----------------------|---------|-----|-----------|--------|-------------------|-----------|-------|-------|-------|-------|-------|-------|
|                      |         |     | 26 Sep 23 | Price  | to TP             | Cap       | 2022F | 2023F | 2022F | 2023F | 2022F | 2023F |
|                      |         |     | (HK\$)    | (HK\$) | (%)               | (HK\$m)   | (x)   | (x)   | (x)   | (x)   | (%)   | (%)   |
| China Resources Land | 1109 HK | BUY | 30.70     | 47.48  | 54.7              | 218,919.8 | 7.6   | 7.5   | 0.8   | 0.7   | 4.9   | 5.0   |
| China Overseas Land  | 688 HK  | BUY | 15.62     | 25.86  | 65.6              | 170,959.1 | 6.5   | 5.9   | 0.5   | 0.4   | 4.9   | 5.0   |

Source: Bloomberg, UOB Kay Hian.

## MARKET WEIGHT

(Maintained)

### SECTOR PICKS

| Company | Ticker  | Rec | Share Price (HK\$) | Target Price (HK\$) |
|---------|---------|-----|--------------------|---------------------|
| CR LAND | 1109 HK | BUY | 30.70              | 47.48               |
| COLI    | 688 HK  | BUY | 15.62              | 25.86               |

Source: UOB Kay Hian

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- Investigation into Evergrande came as a negative surprise.** On 18 September, senior management of Evergrande's wealth management unit was detained by police in Shenzhen. As announced by Evergrande on 22 and 24 September: a) Evergrande cancelled the meetings on debt restructuring on 25 and 26 September respectively; and b) in view of Hengda Real Estate Group being investigated, Evergrande is unable to meet the qualifications for the issuance of new notes under the rules of CSRC and NDRC. On 25 September, as reported by Caixin, Evergrande's CEO and CFO were detained by the authorities. The investigation and suspension of debt restructuring came as an unexpected negative event to the China property sector.
- What's next for Evergrande?** Very likely to fail on debt restructuring and with negative equity, Evergrande may go into bankruptcy, which includes bankruptcy reorganisation and bankruptcy liquidation. Bankruptcy liquidation is the worst-case scenario: as a) Evergrande will no longer exist, and b) all the debts, which amounts to Rmb2.4t will be immediately marked to zero, leading to huge P/L losses at financial institutions. As the company's sold but uncompleted units will pose a risk to social stability, there is a good chance that Evergrande will likely seek bankruptcy reorganisation, ie following the path of Hainan Airlines. However, Evergrande will need government assistance and a new strategic shareholder. Recent investigation into Evergrande may help clear the way for government intervention.
- Hit sentiment on POE developers in the short term.** The Evergrande crisis again clouded the future of POEs. We think the sentiment of home buyers as well as investors on POE developers will be weakened in the short term. To assess developers' resilience in a tightened financing and sales environment, we looked at the following indicators: a) adjusted cash to short-term debt ratio with puttable bonds included in debt maturity, b) net debt to attributable equity ratio, c) account payable to cash ratio, and d) estimated monthly construction cost to sales ratio. Among the major POEs, Binjiang has the highest score, followed by Longfor, while CGH, SEAZEN and Agile are in a much weaker financial condition. After all, we do not expect more developers to be investigated as this will damage confidence in the property industry that the government is trying hard to build.

### BANKRUPTCY REORGANISATION OF HNA GROUP

|        |   |
|--------|---|
| Jun 17 | CBRC asked major banks to check their exposure to Wanda/Hainan Airlines Group/Fosun   |
| Mar 18 | Hainan Airlines found it difficult to pay its bill with China Aviation Oil Corporation  |
| 2018   | Hainan Airlines sold Rmb300b of assets  |
| Jul 18 | Chairman Wangjian passed away   |
| Jul 19 | Hainan Airlines default on 16HA02 Bond  |
| Sep 19 | Meilan Airport defaulted on US\$200m US\$ bond  |
| Feb 20 | The Hainan Provincial Government took the lead in establishing the Hainan Joint Working Group to promote the group's risk management work     |
| 2020   | After the working group was established, all loans were extended or interest rates were suspended.  |
| 2020   | After the working group moved in, it comprehensively investigated the assets and liabilities and determined that HNA's assets were insolvent. |
| Jun 20 | Working group made preliminary plan of reorganization   |
| Oct 20 | Hainan Airlines published reorganisation plan and debt repayment arrangement  |
| Jan 21 | HNA Group announced that the bondholders applied to the court for bankruptcy reorganisation of the group                                      |
| Feb 21 | CSRC and the Supreme People's Court approved HNA's bankruptcy and reorganisation plan   |
| Sep 21 | HNA and Meilan Airport respectively introduced Fangda Group and Haifa Holdings as strategic investors   |

Source: Caixin, UOB Kay Hian

### KEY FINANCIAL METRICS OF DEVELOPERS

| 1H23         | Cash to Short Term Debt Ratio | Adjusted Cash to Short Term Debt Ratio | Net Gearing Ratio | Net Debt Ratio (attributable equity) | Ratio of Account Payable to Cash | Estimated Monthly Construction Cost to Sales Ratio | Total Score (the higher the better) |
|--------------|-------------------------------|--|-------------------|--------------------------------------|----------------------------------|--|-------------------------------------|
| COLI         | 2.38                          | 2.38                                   | 39.0%             | 0.38                                 | 0.49                             | 0.05   | 70                                  |
| BINJIANG     | 2.07                          | 1.95                                   | 85.9%             | 0.52                                 | 0.17                             | 0.09   | 65                                  |
| YUEXIU       | 2.54                          | 2.54                                   | 77.0%             | 1.26                                 | 0.05                             | 0.15   | 57                                  |
| CR LAND      | 2.16                          | 2.16                                   | 31.9%             | 0.39                                 | 0.62                             | 0.15   | 57                                  |
| GEMDALE      | 1.13                          | 0.95                                   | 56.6%             | 0.97                                 | 0.54                             | 0.11   | 45                                  |
| CMSK         | 1.72                          | 1.72                                   | 53.6%             | 1.30                                 | 0.52                             | 0.10   | 48                                  |
| LONGFOR      | 1.85                          | 1.68                                   | 56.2%             | 0.94                                 | 0.97                             | 0.18   | 40                                  |
| CHINA VANKE  | 2.44                          | 2.37                                   | 37.3%             | 0.82                                 | 2.16                             | 0.22   | 42                                  |
| POLY         | 2.38                          | 2.20                                   | 64.7%             | 1.05                                 | 0.96                             | 0.20   | 42                                  |
| GREENTOWN    | 2.16                          | 1.69                                   | 74.5%             | 2.11                                 | 0.66                             | 0.17   | 36                                  |
| CHINA JINMAO | 1.29                          | 1.29                                   | 81.6%             | 2.27                                 | 1.20                             | 0.11   | 30                                  |
| CGH          | 0.93                          | 0.85                                   | 56.2%             | 1.01                                 | 2.00                             | 0.73   | 25                                  |
| SEAZEN       | 0.77                          | 0.77                                   | 52.3%             | 0.82                                 | 1.98                             | 0.73   | 29                                  |
| AGILE        | 0.32                          | 0.31                                   | 62.7%             | 1.39                                 | 3.24                             | 0.22   | 15                                  |

Source: Respective companies, UOB Kay Hian

### ACTIONS

- Maintain MARKET WEIGHT on China's property sector.** On 26 September, Chengdu announced the lifting of purchase curbs on properties 144sqm and above by no longer conducting qualification reviews of home buyers, which is a surprise. We expect more core Tier 2 cities like Hangzhou to follow suit. The relaxation of purchase restrictions in Chengdu reflects the government's strong willingness to support the market. China's real estate industry is in a period characterised by policy easing and deteriorating fundamentals, thus we expect range trading of the sector. Evergrande's recent crisis offers a good buying opportunity for other quality names. Our top picks remain COLI and CR Land.

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