

9 August 2018

Property | Real Estate

Real Estate

Overweight (maintained)

Contracted Sales Remain Upbeat

Stocks Covered: 13

Ratings (Buy/Neutral/Sell): 9 / 2 / 2

Reiterate **OVERWEIGHT** on the sector. Shimao, Country Garden and CIFI are our **Top Picks**. July contracted sales remained resilient on YoY growth amid low season, and we expect a gradual recovery on MoM basis starting from August. As the catalyst of positive profit alert has started to be factored in, we also suggest focusing on developers' reaffirming refinancing abilities and contracted sales momentum for 2H18 during the upcoming interim results. Overall, we believe sector valuation remains attractive, as the longer-term investment attractions remain undimmed.

Top Picks

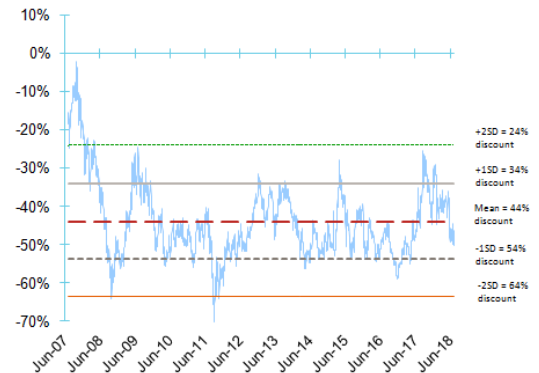
Shimao Property (813 HK) – BUY
Country Garden (2007 HK) – BUY
CIFI (884 HK) – BUY

Target Price

HKD 30.00
HKD 22.00
HKD 7.80

Contracted sales in July remained resilient. As at 8 Aug, 20 developers have reported their contracted sales performance in July. As at 7M18, 19 developers (excluding Country Garden) posted 36.7% YoY growth in contracted sales value and locked in 58.3% of their sales target (vs 52% in 7M17). On a monthly basis, the 19 developers' contracted sales value rose 42.2% YoY whilst sales volume and ASP both lifted 32.6% and 7.3% YoY. Similar to last year, developers faced seasonality in July, where their contracted sales value and volume both declined 34.2% and 34.7% MoM (vs -31.3% and -26.4% MoM in Jul 2017).

China Property - ENAV discount band



Source: Bloomberg, RHB

On a separate note, Country Garden switched to reporting attributable contracted sales from total contracted sales in July, where attributable contracted sales value surged 44.62% YoY to CNY347.51bn for 7M18.

Entering August, we see accelerating contracted sales growth. We anticipate contracted sales growth to accelerate over the next three months after a typical slow July. Whilst policy control on demand and pre-sale approval should continue, we see strong demand-supply imbalance and increase in new launches as the main driving force of strong contracted sales from August-October. On a monthly basis, we expect a gradual recovery in August amid low season in summer, and growth will accelerate going into the peak season of September and October.

Developers' contracted sales summary and forecasts

Developer	Ticker	1H17	1H18	1H18	2H17	2H18F	2H18F
		Contracted Sales (CNY bn)	Contracted Sales (CNY bn)	% YoY (%)	Contracted Sales (CNY bn)	Contracted Sales (CNY bn)	% YoY (%)
Country Garden	2007 HK	288.9	412.5	43%	261.9	401.3	53%
Evergrande	3333 HK	244.1	304.2	25%	256.9	335.0	30%
Sunac	1918 HK	108.9	191.5	76%	253.2	314.7	24%
COLI*	688 HK	127.3	150.8	18%	105.8	161.6	53%
Longfor	960 HK	92.6	97.1	5%	63.5	118.0	86%
CR Land	1109 HK	63.2	94.3	49%	88.9	122.7	38%
Greentown	3900 HK	59.5	75.4	27%	86.8	85.5	(1%)
Shimao	813 HK	45.1	72.3	60%	55.7	88.8	60%
CIFI	884 HK	47.2	66.0	40%	56.9	93.7	65%
Agile	3383 HK	40.4	46.6	15%	49.3	85.7	74%
KWG	1813 HK	14.6	32.4	122%	14.1	39.5	180%
COGO*	81 HK	18.5	28.5	54%	18.6	17.9	(4%)
Total		1,150.3	1,571.6	37%	1,311.3	1,864.5	42%

Note: * Reporting currency in HKD
Source: RHB

Reiterate our conviction on bullish 1H18 results. Apart from CIFI Holdings and Sunac, Country Garden and Evergrande also reported positive profit alerts, which have reinforced our conviction that developers under our coverage are set to report 35-40% YoY growth of core earnings in 1H18. While this positive catalyst has begun to be factored in, we also suggest focusing on developers' reiterating their refinancing abilities and reconfirming the contracted sales momentum for 2H18 during the upcoming interim results.

Maintain OVERWEIGHT. Following a recent rebound, the sector is trading at 47% discount to NAV, still at -0.5SD of its 10-year historical mean. We still think it is at a bargain level, as the sector is still on track of buoyant earnings growth. Prefer Shimao Property, Country Garden and CIFI for their secular growth in property sales and manageable gearing.

Company	Stock code	Rating	TP	Price	End-FY18F	ENAV
			(HKD)	(2018/08/08) (HKD)	(HKD)	disc:(prem) (%)
Agile Property	3383 HK	BUY	20.00	11.36	34.00	67%
COGO	81 HK	SELL	2.30	2.61	6.60	60%
COLI	688 HK	BUY	36.60	23.15	43.00	46%
China Resources Land	1109 HK	BUY	31.50	27.45	42.00	35%
China South City	1668 HK	BUY	2.40	1.44	6.90	79%
CIFI Holdings	884 HK	BUY	7.80	4.35	10.40	58%
Country Garden	2007 HK	BUY	22.00	11.42	25.80	56%
Evergrande	3333 HK	BUY	31.70	24.90	42.20	41%
Greentown China	3900 HK	SELL	7.10	8.45	20.30	58%
KWG Property	1813 HK	NEUTRAL	10.00	8.44	22.30	62%
Longfor	960 HK	BUY	26.30	20.90	35.10	40%
Shimao Property	813 HK	BUY	30.00	21.15	40.00	47%
Sunac	1918 HK	NEUTRAL	31.00	23.05	41.30	44%

Source: Company data, RHB

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Developers' Contracted Sales in July

Figure 1: Contracted sales summary for July

Developer	Ticker	Contracted sales revenue				Contracted sales volume				Contracted ASP			
		Jul 18	Jun 18	% mom	% yoy	Jul 18	Jun 18	% mom	% yoy	Jul 18	Jun 18	% mom	% yoy
		(CNY bn)	(%)	(%)	(%)	(sqm)	(%)	(%)	(%)	(CNY/sqm)	(%)	(%)	(%)
China Vanke	000002 CH	45.1	65.6	(31.2%)	26.9%	3,068,000	4,499,000	(31.8%)	23.2%	14,713	14,588	0.9%	3.1%
Evergrande	3333 HK	40.7	50.1	(18.8%)	(7.9%)	3,760,000	4,742,000	(20.7%)	(14.4%)	10,814	10,563	2.4%	7.6%
Sunac	1918 HK	36.2	46.0	(21.3%)	63.9%	2,459,320	2,805,680	(12.3%)	90.1%	14,699	16,381	(10.3%)	(13.7%)
Future Land	1030 HK	18.4	28.1	(34.7%)	202.0%	1,467,200	2,357,000	(37.8%)	220.8%	12,508	11,921	4.9%	(5.8%)
Longfor	960 HK	17.2	21.0	(17.8%)	65.8%	811,000	1,434,000	(43.4%)	20.7%	21,258	14,630	45.3%	37.4%
Gemdale	600383 CH	13.8	14.6	(5.6%)	74.1%	583,000	876,000	(33.4%)	35.9%	23,585	16,632	41.8%	28.1%
Shimao	813 HK	12.5	20.7	(39.7%)	101.0%	708,820	1,274,492	(44.4%)	93.2%	17,636	16,272	8.4%	4.0%
R&F	2777 HK	10.5	13.5	(22.4%)	76.1%	670,700	977,700	(31.4%)	51.5%	15,625	13,808	13.2%	16.2%
Greentown	3900 HK	8.0	16.7	(52.1%)	(27.3%)	450,000	770,000	(41.6%)	(16.7%)	17,778	21,688	(18.0%)	(12.7%)
Agile	3383 HK	7.6	8.4	(9.6%)	63.5%	661,000	695,000	(4.9%)	53.4%	11,528	12,129	(5.0%)	6.6%
China Jinmao	817 HK	7.1	15.0	(52.4%)	114.9%	306,425	526,148	(41.8%)	143.0%	23,271	28,446	(18.2%)	(11.6%)
China Aoyuan	3883 HK	6.0	12.0	(49.7%)	137.9%	480,000	1,277,000	(62.4%)	75.2%	12,542	9,374	33.8%	35.8%
KWG	1813 HK	5.2	6.8	(23.1%)	125.9%	280,000	418,000	(33.0%)	65.7%	18,689	16,287	14.7%	36.4%
China SCE	1966 HK	4.3	3.5	23.1%	100.5%	317,069	254,026	24.8%	128.7%	13,533	13,727	(1.4%)	(12.3%)
Powerlong	1238 HK	4.0	4.2	(5.5%)	153.6%	260,630	257,890	1.1%	128.8%	15,267	16,325	(6.5%)	10.8%
Central China	832 HK	2.3	12.2	(81.2%)	76.7%	279,088	1,635,803	(82.9%)	53.7%	8,205	7,435	10.4%	14.9%
Yuexiu	123 HK	2.2	9.1	(76.3%)	33.4%	101,900	432,300	(76.4%)	(4.9%)	21,168	21,029	0.7%	40.2%
Fantasia	1777 HK	1.5	3.0	(48.1%)	118.8%	108,020	279,440	(61.3%)	15.2%	14,220	10,585	34.3%	89.9%
BCL	2868 HK	1.5	20.3	(92.8%)	(29.1%)	221,000	503,000	(56.1%)	132.6%	6,606	40,318	(83.6%)	(69.5%)
Total / average		244.0	370.6	(34.2%)	42.2%	16,993,172	26,014,479	(34.7%)	32.6%	14,358	14,247	0.8%	7.3%

Source: RHB

Developers' 7M18 Contracted Sales

Figure 2: Contracted sales summary for 7M18

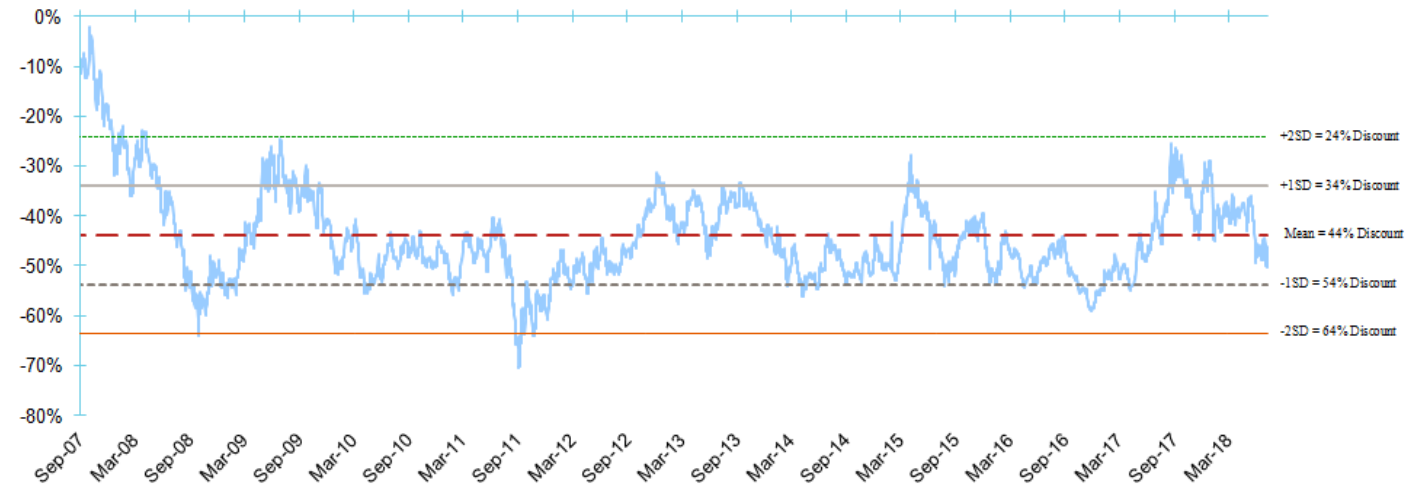
Developer	Ticker	7M18	7M17	7M18	FY18	7M18	FY17	7M17
		sales	sales	% yoy	target	lock-in	actual sales	lock-in
		(CNY bn)	(CNY bn)	(%)	(CNY bn)	(%)	(CNY bn)	(%)
China Vanke	000002 CH	349.8	312.7	11.9%	n.a.	n.a.	529.9	59.0%
Evergrande	3333 HK	344.8	288.3	19.6%	550.0	62.7%	501.0	57.5%
Sunac	1918 HK	227.7	130.9	73.9%	450.0	50.6%	362.0	36.2%
Longfor	960 HK	114.3	103.0	11.0%	200.0	57.2%	156.1	66.0%
Future Land	1030 HK	113.7	55.2	106.0%	180.0	63.1%	126.5	43.6%
Shimao	813 HK	84.8	51.3	65.2%	140.0	60.6%	100.8	50.9%
Greentown	3900 HK	83.4	70.5	18.3%	n.a.	n.a.	146.3	48.2%
China Jinmao	817 HK	78.9	27.4	187.6%	90.0	87.7%	69.3	39.6%
Gemdale	600383 CH	76.8	78.2	(1.8%)	n.a.	n.a.	140.8	55.6%
R&F	2777 HK	67.4	44.8	50.7%	130.0	51.9%	81.9	54.7%
Agile	3383 HK	54.2	45.1	20.2%	110.0	49.2%	89.7	50.2%
China Aoyuan	3883 HK	46.3	19.1	143.1%	73.0	63.4%	45.6	41.8%
KWG	1813 HK	37.7	16.9	122.4%	65.0	57.9%	28.7	59.0%
BCL	2868 HK	37.5	26.6	41.2%	75.0	50.0%	55.9	47.6%
Yuexiu	123 HK	30.1	21.7	39.1%	55.0	54.8%	40.9	53.0%
Central China	832 HK	27.6	15.2	81.9%	45.0	61.4%	30.4	49.9%
China SCE	1966 HK	25.1	17.7	42.1%	50.0	50.2%	33.2	53.1%
Powerlong	1238 HK	20.3	10.6	91.2%	35.0	58.1%	20.9	50.9%
Fantasia	1777 HK	12.8	5.8	123.2%	n.a.	n.a.	20.2	28.5%
Total / average		1,833.4	1,340.8	36.7%	2,248.0	58.3%	2,579.9	52.0%

Source: RHB

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Sector Valuation

Figure 3: China Property's 10-year ENAV discount bands



Source: Bloomberg, RHB

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Peer Comparison

Figure 4: Peer valuation comparison table I

Company	Stock code	*Price (HKD)	Mkt cap (USDm)	3-mth avg t/o (USDm)	RHB/Cons NAV (HKD)	Discount to NAV (%)	P/E		EPS YoY change		3-yr EPS CAGR (%)	P/BV		Div yield		
							FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)		FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)	
Large peer average							41.8	7.0	5.6	18.4	25.3	20.1	1.5	1.2	5.5	6.2
China Vanke	2202 HK	23.20	34,478	31.0	33.34	30.4	6.4	5.2	24.5	22.8	19.8	1.4	1.2	5.6	6.9	
**Country Garden	2007 HK	11.42	31,552	107.9	25.80	55.7	6.3	4.7	35.7	33.5	29.8	1.7	1.4	5.4	6.9	
**Evergrande	3333 HK	24.90	41,861	74.0	42.20	41.0	7.4	6.1	-3.5	20.2	9.8	2.0	1.7	8.4	7.4	
**China Overseas	688 HK	23.15	32,311	54.5	43.00	46.2	6.3	5.3	17.3	18.6	17.4	0.9	0.8	4.1	4.8	
**CR Land	1109 HK	27.45	24,237	41.6	42.00	34.6	7.8	6.6	28.0	17.8	20.8	1.2	1.0	4.4	5.2	
**Sunac	1918 HK	23.05	12,929	82.6	41.30	44.2	6.9	4.3	4.7	59.1	30.8	1.7	1.3	3.2	5.0	
**Longfor	960 HK	20.90	15,790	15.5	35.10	40.5	8.5	6.8	27.2	25.9	24.5	1.3	1.2	4.6	5.9	
Mid-and-small peer average							50.5	7.2	5.8	30.3	22.0	19.0	0.7	0.6	6.4	7.6
**Shimao	813 HK	21.15	9,126	22.0	40.00	47.1	6.8	5.4	32.1	25.5	27.2	1.0	0.8	5.7	7.2	
**Agile	3383 HK	11.36	5,669	15.6	34.00	66.6	5.3	4.3	21.2	24.0	22.2	0.9	0.8	8.7	10.8	
Guangzhou R&F	2777 HK	13.88	5,698	15.5	20.86	33.5	3.8	3.1	33.7	24.7	26.3	0.6	0.5	10.3	12.4	
China Jinmao	817 HK	3.37	4,959	16.3	5.23	35.6	6.7	5.2	19.7	29.7	28.9	0.9	0.8	6.2	7.7	
**CIFI	884 HK	4.35	4,303	16.3	10.40	58.2	5.2	4.0	26.8	28.7	26.9	1.1	0.9	6.8	8.8	
Sino-Ocean	3377 HK	4.23	4,104	5.4	6.80	37.8	5.6	4.7	23.1	19.9	22.5	0.5	0.5	7.7	9.3	
**KWG	1813 HK	8.44	3,411	15.6	22.30	62.2	5.1	3.9	48.0	32.5	35.5	0.7	0.6	7.0	9.1	
Shenzhen Inv	604 HK	2.72	2,792	5.8	8.50	68.0	7.2	6.2	-27.1	17.3	-6.1	0.5	0.4	6.7	7.5	
Kaisa	1638 HK	3.05	2,358	6.6	5.60	45.5	1.9	1.4	214.5	N/A	N/A	0.8	N/A	3.9	N/A	
**Greentown	3900 HK	8.45	2,333	7.6	20.30	58.4	7.5	6.7	27.7	11.5	15.2	0.6	0.5	2.6	2.8	
Yuexiu Property	123 HK	1.45	2,291	7.5	1.86	22.0	6.1	5.0	8.7	22.8	16.2	0.4	0.4	6.4	7.9	
SOHO China	410 HK	3.60	2,385	3.1	7.30	50.7	39.2	29.8	N/A	31.3	N/A	0.5	0.5	4.1	4.6	
Hopson	754 HK	6.45	1,829	1.2	13.08	50.7	10.2	10.1	N/A	1.6	N/A	N/A	N/A	2.9	2.9	
Shui On Land	272 HK	1.83	1,880	4.8	5.90	69.0	8.7	8.1	-23.4	7.7	0.2	0.3	0.3	4.0	4.2	
**CSC	1668 HK	1.44	1,469	4.1	6.90	79.1	5.9	4.8	N/A	22.4	N/A	0.3	0.3	3.5	5.1	
Poly HK	119 HK	3.07	1,432	3.1	7.00	56.1	4.1	4.1	104.5	0.5	N/A	0.4	0.4	6.9	6.8	
**COGO	81 HK	2.61	1,138	2.7	6.60	60.5	4.0	3.3	38.2	22.0	23.5	0.4	0.4	2.3	2.8	
Fantasia	1777 HK	1.16	852	1.2	2.60	55.4	4.2	3.3	20.0	29.2	24.9	0.5	0.3	6.0	7.2	
Sector average							43.8	7.0	5.6	21.1	24.6	19.8	1.3	1.1	5.7	6.6

Note: *Prices as at 08 Aug 2018

Note 2: **Under RHB coverage

Source: RHB, Bloomberg

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Figure 5: Peer valuation comparison table II

Company	Stock code	Mkt cap (USDm)	Revenue (USDm)		Net profit (USDm)		Gross margin (%)		Net margin (%)		Net gearing (%)		ROE (%)		Share price change (%)	
			FY17	FY18F	FY17	FY18F	FY17	FY18F	FY17	FY18F	FY17	FY18F	FY17	FY18F	1-mth	YTD
Large peer average							31.8	15.8	12.5	96.3	23.1	24.5	22.4	-1.1	-9.0	
China Vanke	2202 HK	34,478	34,728	45,635	4,105	5,120	32.3	11.8	11.2	14.1	N/A	22.8	23.3	-9.2	-25.6	
Country Garden	2007 HK	31,552	33,200	51,721	3,814	5,012	25.9	11.5	9.7	55.0	29.6	31.8	29.6	-11.6	-19.4	
Evergrande	3333 HK	41,861	45,509	66,257	3,566	5,744	36.1	7.8	8.7	237.8	N/A	30.7	32.5	20.6	-7.6	
China Overseas	688 HK	32,311	20,889	26,919	5,193	5,125	33.4	24.9	19.0	27.1	13.6	16.7	14.5	-6.3	-8.0	
CR Land	1109 HK	24,237	15,107	18,990	2,932	3,128	40.3	19.4	16.5	43.1	27.0	17.7	16.4	7.6	19.3	
Sunac	1918 HK	12,929	9,639	20,238	1,709	1,867	20.7	17.7	9.2	249.1	N/A	32.8	22.9	-11.5	-28.7	
Longfor	960 HK	15,790	10,546	14,170	1,843	1,850	33.9	17.5	13.1	47.8	22.2	19.0	17.3	2.7	6.8	
Mid-and-small peer average							33.2	31.8	12.6	88.0	46.7	14.2	12.5	-2.4	-13.3	
Shimao	813 HK	9,126	10,305	12,610	1,147	1,350	30.4	11.1	10.7	61.1	55.9	14.2	14.7	6.5	24.4	
Agile	3383 HK	5,669	7,551	9,267	951	1,069	40.1	12.6	11.5	93.8	13.2	16.8	17.3	-3.2	-4.2	
Guangzhou R&F	2777 HK	5,698	8,674	11,355	3,121	1,470	35.4	36.0	12.9	188.8	104.5	40.2	15.4	-7.0	-21.2	
China Jinmao	817 HK	4,959	4,547	6,148	582	719	32.3	12.8	11.7	69.1	53.6	12.9	13.0	-11.1	-2.0	
CIFI	884 HK	4,303	4,657	5,960	706	829	27.1	15.2	13.9	49.4	N/A	26.9	22.5	-3.8	-7.6	
Sino-Ocean	3377 HK	4,104	6,707	7,659	748	725	24.5	11.2	9.5	66.5	33.2	11.1	9.9	-2.1	-21.5	
KWG	1813 HK	3,411	1,689	2,390	530	643	34.8	31.4	26.9	72.4	46.8	14.0	15.2	-2.2	-7.6	
Shenzhen Inv	604 HK	2,792	1,306	2,383	631	381	34.6	48.3	16.0	22.0	N/A	13.3	7.1	-1.1	-16.0	
Kaisa	1638 HK	2,358	4,796	10,072	481	1,255	27.3	10.0	12.5	326.2	N/A	20.5	38.5	2.0	-30.8	
Greentown	3900 HK	2,333	6,139	6,447	320	300	19.2	5.2	4.7	59.1	51.8	6.5	6.8	-15.8	-16.0	
Yuexiu Property	123 HK	2,291	3,482	3,937	331	364	25.7	9.5	9.2	84.1	46.0	7.2	7.5	2.1	-0.7	
SOHO China	410 HK	2,385	287	283	693	70	74.0	241.2	24.6	51.4	N/A	14.1	1.4	0.8	-21.2	
Hopson	754 HK	1,829	1,761	N/A	738	N/A	36.8	41.9	N/A	71.9	N/A	9.8	N/A	-1.4	-15.8	
Shui On Land	272 HK	1,880	2,700	2,312	328	218	42.6	12.2	9.4	55.1	N/A	4.4	3.0	2.2	-15.3	
CSC	1668 HK	1,469	1,198	1,577	575	250	43.3	48.0	15.8	76.8	N/A	14.0	10.4	-2.7	-29.8	
Poly HK	119 HK	1,432	4,039	4,863	314	364	20.6	7.8	7.5	72.1	N/A	9.3	9.4	1.3	-24.6	
COGO	81 HK	1,138	2,583	3,460	162	252	20.1	6.3	7.3	77.6	15.4	10.6	13.7	-1.5	-37.4	
Fantasia	1777 HK	852	1,431	1,999	169	200	29.6	11.8	10.0	87.1	N/A	9.8	7.5	-5.7	8.4	
Average							32.8	27.3	12.6	90.3	39.5	17.1	15.4	-2.0	-12.1	

Source: RHB, Bloomberg

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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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