

11 December 2018

Property | Real Estate

Real Estate

Overweight (maintained)

Moderate Policy Stance Ahead; Still OVERWEIGHT

Stocks Covered: 13
Ratings (Buy/Neutral/Sell): 10 / 2 / 1

Reiterate OVERWEIGHT on sector; Shimao, Country Garden and CIFI are our Top Picks. Following a series of events over the last month including the CSRC giving the green light to COFCO Property buying back Joy City, increasing new offshore and onshore bond offerings from China developers and declining mortgage rates in major cities, the Central Government may soften its policy stance on the sector in the next 6-9 months. This should support the physical market and developers' outlook. Meanwhile, we expect contracted sales of developers to slow MoM in December, thanks to the high YTD run rate.

Sales retreating MoM as full-year targets are largely met. As at 10 Dec, 25 developers tracked by RHB have reported their contracted sales performance for November. The sales value dipped 1.4% MoM (+16.7% YoY). Monthly ASP also ticked down by 0.2% MoM (+7.0% YoY), and sales volume dropped 1.3% MoM (+9.1% YoY). In 11M18, the 25 developers' contracted sales value rose 41.1% YoY, and were at 96.5% of their annual sales targets (vs 88.2% in 11M17).

Developers on track to accomplish 40% YoY growth in FY18F. Against the strong run rate as at 11M18 (96.5%), developers in general are likely to cool down their sales and maintain stable ASP in December. We anticipate a more significant MoM decline in monthly sales value for the top 20 developers for this month, on their strong completion ratios. Meanwhile, smaller developers should still maintain faster sales growth MoM, given their lower completion ratios.

More relaxed credit environment entering December and beyond. Amidst slowing GDP growth for 2019F and escalating geopolitical tensions between the US and China, we see a more relaxed policy stance being taken. This will be to stimulate real estate investments as well as maintain stable home prices to avoid a deflationary expectation and negative wealth effect – which, if it happens, will result in deteriorating economic conditions.

Indeed, over the last month, several positive signals support our view. These include the China Securities Regulatory Commission's (CSRC)'s granting approval to COFCO Property (000031 CH, NR) to buy back Joy City (207 HK, NR), increasing new offshore and onshore bond offerings of China developers and declining mortgage rate in major cities. Whilst it is unlikely for the Central Government to sanction loosening liquidity publicly, we see a softening stance at the city level – which should provide support to developers' sales and financing.

Reiterate OVERWEIGHT. Whilst sales growth is likely to slow in 2019F, we see the sector capable of maintaining 15-20% YoY growth in sales, being more cautious on landbanking and reining in excessive leverage. Coupled with a gradually softening deleveraging campaign, this should catalyse a rebound in valuations in the next 3-6 months. Shimao Property, Country Garden and CIFI remain as our Top Picks for the sector. A downside risk is increasing deflationary expectations on home prices.

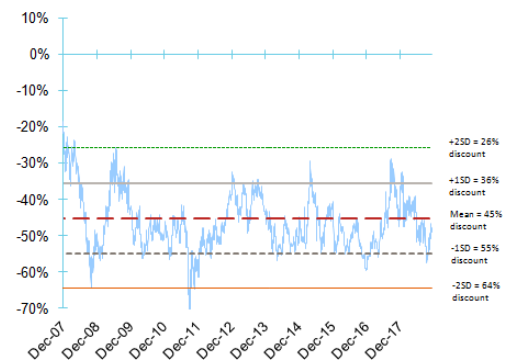
Top Picks

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

Target Price

HKD30.8
HKD20.0
HKD7.90

Sector valuation: 49% discount from NAV, -0.5SD from 10-year mean



Source: Bloomberg, RHB

Company	Stock code	Rating	TP (HKD)	Price (HKD)	End-FY18F ENAV (HKD)	ENAV disc(prem) (%)
Agile Property	3383 HK	BUY	17.40	9.81	34.70	72%
COGO	81 HK	NEUTRAL	2.60	2.58	7.50	66%
COLI	688 HK	BUY	32.40	26.00	43.20	40%
China Resources Land	1109 HK	BUY	33.00	28.10	44.00	36%
China South City	1668 HK	BUY	2.10	1.15	6.10	81%
CIFI Holdings	884 HK	BUY	7.90	3.64	10.50	65%
Country Garden	2007 HK	BUY	20.00	9.06	26.80	66%
Evergrande	3333 HK	BUY	33.20	25.00	44.20	43%
Greentown China	3900 HK	SELL	7.30	5.90	20.80	72%
KWG Property	1813 HK	NEUTRAL	9.80	6.70	21.80	69%
Longfor	960 HK	BUY	26.70	21.90	35.60	38%
Shimao Property	813 HK	BUY	30.80	18.58	41.10	55%
Sunac	1918 HK	BUY	32.10	25.15	42.90	41%

Source: Company data, RHB

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Developers' Contracted Sales In November

Figure 1: Summary of contracted sales for November

Developer	Ticker	Contracted sales revenue				Contracted sales volume				Contracted ASP			
		Nov 18	Oct 18	% mom	% yoy	Nov 18	Oct 18	% mom	% yoy	Nov 18	Oct 18	% mom	% yoy
		(CNY bn)	(%)	(%)			(%)	(%)			(%)	(%)	
		(sqm)					(CNY/sqm)					(%)	
China Vanke	000002 CH	58.3	54.1	7.9%	67.8%	3,556,000	3,413,000	4.2%	54.9%	16,403	15,842	3.5%	8.3%
Country Garden	2007 HK	53.0	59.5	(10.9%)	7.1%	5,639,000	6,331,000	(10.9%)	6.8%	9,399	9,398	0.0%	0.3%
Sunac	1918 HK	44.9	52.2	(14.0%)	(9.1%)	3,101,000	3,642,000	(14.9%)	(6.4%)	14,489	14,344	1.0%	(2.9%)
Evergrande	3333 HK	34.1	53.1	(35.8%)	(29.1%)	3,266,000	4,981,000	(34.4%)	(32.6%)	10,432	10,650	(2.1%)	5.2%
Poly Real Estate	600048 CH	33.5	31.1	7.7%	(7.8%)	2,335,100	2,109,500	10.7%	(19.5%)	14,356	14,751	(2.7%)	14.5%
COLI*	688 HK	21.9	24.5	(10.3%)	17.1%	1,081,900	1,299,000	(16.7%)	(8.4%)	20,279	18,837	7.7%	27.8%
Shimao	813 HK	19.1	15.2	25.7%	89.1%	1,109,561	923,594	20.1%	76.9%	17,216	16,455	4.6%	6.9%
R&F	2777 HK	18.2	8.7	109.1%	145.1%	1,598,200	723,500	120.9%	167.0%	11,382	12,025	(5.3%)	(8.2%)
Greentown	3900 HK	18.0	14.0	28.6%	12.5%	760,000	680,000	11.8%	(38.2%)	23,684	20,588	15.0%	82.1%
Future Land	1030 HK	17.2	21.8	(20.9%)	6.8%	1,450,600	1,739,200	(16.6%)	17.2%	11,875	12,514	(5.1%)	(8.9%)
Gemdale	600383 CH	14.4	13.2	8.9%	52.3%	756,000	574,000	31.7%	55.2%	19,034	23,014	(17.3%)	(1.9%)
CIFI	884 HK	13.0	10.8	20.4%	42.1%	765,200	671,200	14.0%	17.1%	16,989	16,091	5.6%	21.3%
Agile	3383 HK	10.8	8.1	32.5%	(39.2%)	857,000	670,000	27.9%	(41.4%)	12,567	12,134	3.6%	3.8%
Kaisa	1638 HK	10.6	7.8	35.4%	107.1%	451,350	545,736	(17.3%)	40.0%	23,419	14,300	63.8%	48.0%
BCL	2868 HK	8.8	5.8	51.9%	(7.3%)	447,000	242,000	84.7%	42.8%	19,709	23,967	(17.8%)	(35.1%)
China Jinmao	817 HK	8.1	7.8	3.6%	(3.2%)	270,158	360,994	(25.2%)	(28.4%)	29,982	21,659	38.4%	35.1%
China SCE	1966 HK	7.3	5.7	28.7%	139.5%	642,150	452,742	41.8%	257.0%	11,399	12,566	(9.3%)	(32.9%)
KWG	1813 HK	6.5	4.5	43.8%	199.4%	382,000	287,000	33.1%	238.1%	17,052	15,784	8.0%	(11.4%)
China Aoyuan	3883 HK	6.4	6.5	(2.0%)	72.4%	719,000	642,000	12.0%	69.6%	8,846	10,109	(12.5%)	1.6%
Central China	832 HK	4.5	3.6	24.7%	60.5%	681,602	501,730	35.9%	76.4%	6,587	7,175	(8.2%)	(9.0%)
Powerlong	1238 HK	4.4	4.3	0.9%	105.2%	337,395	288,341	17.0%	141.7%	12,958	15,024	(13.7%)	(15.1%)
Fantasia	1777 HK	4.0	3.6	10.8%	80.7%	325,240	244,224	33.2%	91.3%	12,428	14,941	(16.8%)	(5.5%)
COGO*	81 HK	2.8	3.5	(18.5%)	7.7%	225,200	277,900	(19.0%)	(3.9%)	12,496	12,418	0.6%	12.1%
Yuexiu	123 HK	2.6	8.1	(68.2%)	(35.1%)	846,400	329,900	156.6%	380.6%	3,052	24,617	(87.6%)	(86.5%)
Hopson	754 HK	0.9	1.9	(53.6%)	28.6%	80,773	160,930	(49.8%)	43.8%	10,684	11,552	(7.5%)	(10.6%)
Total / average		423.3	429.4	(1.4%)	16.7%	31,683,829	32,090,491	(1.3%)	9.1%	13,360	13,381	(0.2%)	7.0%

Note: In CNYbn, except for COLI and COGO, which report in HKDbn

Source: RHB

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Developers' 11M18 Contracted Sales

Figure 2: Summary of contracted sales for 11M18

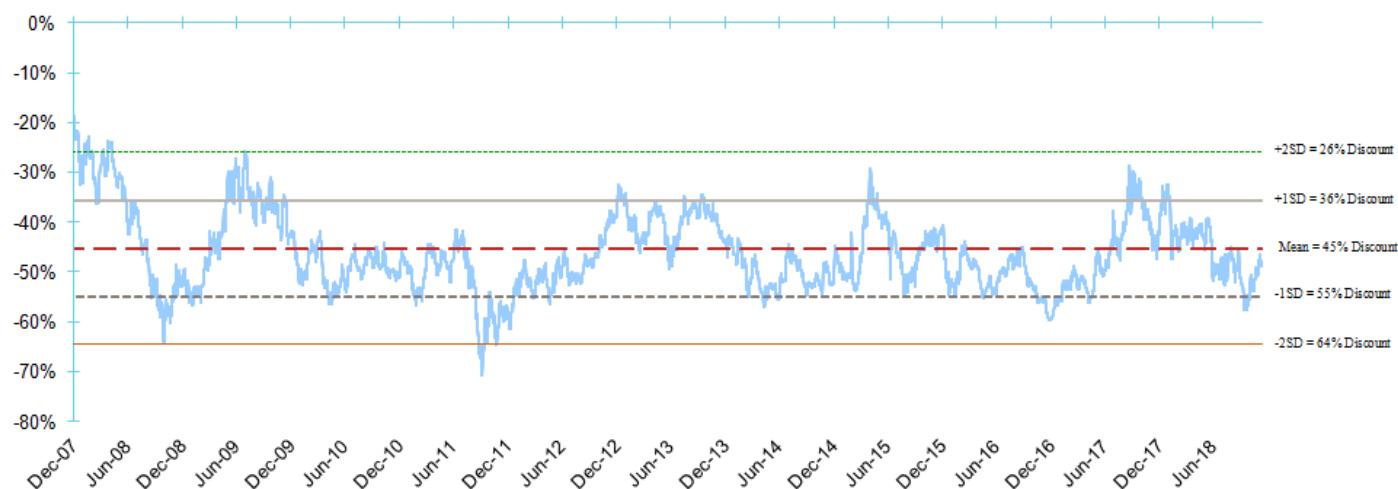
Developer	Ticker	11M18 sales (CNY bn)	11M17 sales (CNY bn)	11M18 % yoy (%)	FY18 target (CNY bn)	11M18 lock-in (%)	FY17 actual sales (CNY bn)	11M17 lock-in (%)
Country Garden	2007 HK	664.6	534.3	24.4%	n.a.	n.a.	550.8	97.0%
China Vanke	000002 CH	544.0	467.7	16.3%	n.a.	n.a.	529.9	88.3%
Evergrande	3333 HK	535.2	470.4	13.8%	550.0	97.3%	501.0	93.9%
Sunac	1918 HK	416.2	297.9	39.7%	450.0	92.5%	362.0	82.3%
Poly Real Estate	600048 CH	368.3	274.2	34.3%	n.a.	n.a.	309.2	88.7%
COLI*	688 HK	272.8	219.3	24.4%	290.0	94.1%	232.1	94.5%
Future Land	1030 HK	198.6	105.3	88.6%	180.0	110.3%	126.5	83.3%
Shimao	813 HK	155.1	88.7	74.9%	140.0	110.8%	100.8	88.0%
Gemdale	600383 CH	133.7	121.2	10.3%	n.a.	n.a.	140.8	86.1%
Greentown	3900 HK	133.4	123.0	8.5%	n.a.	n.a.	146.3	84.1%
CIFI	884 HK	130.9	88.0	48.7%	140.0	93.5%	104.0	84.6%
R&F	2777 HK	113.9	73.5	54.8%	130.0	87.6%	81.9	89.8%
China Jinmao	817 HK	113.8	54.1	110.5%	90.0	126.5%	69.3	78.0%
Agile	3383 HK	89.1	81.3	9.5%	110.0	81.0%	89.7	90.6%
China Aoyuan	3883 HK	73.9	34.4	114.9%	73.0	101.2%	45.6	75.4%
Kaisa	1638 HK	59.7	39.6	50.5%	n.a.	n.a.	44.7	88.7%
KWG	1813 HK	59.6	27.2	119.2%	65.0	91.6%	28.7	94.7%
BCL	2868 HK	56.9	47.4	20.1%	75.0	75.8%	55.9	84.8%
COGO*	81 HK	48.6	34.2	42.1%	n.a.	n.a.	37.1	92.3%
China SCE	1966 HK	46.5	28.5	63.1%	50.0	93.1%	33.2	85.9%
Yuexiu	123 HK	46.5	35.9	29.4%	55.0	84.5%	40.9	87.9%
Central China	832 HK	45.5	25.7	77.2%	45.0	101.0%	30.4	84.3%
Powerlong	1238 HK	37.5	18.2	106.6%	35.0	107.2%	20.9	87.0%
Fantasia	1777 HK	25.4	13.3	91.1%	n.a.	n.a.	20.2	65.9%
Hopson	754 HK	14.0	8.1	73.6%	n.a.	n.a.	9.2	87.5%
Total / average		2,391.9	1,695.7	41.1%	2,478.0	96.5%	1,922.7	88.2%

Note: In CNYbn, except for COLI and COGO, which report in HKDbn

Source: RHB

Sector Valuation

Figure 3: China property sector's ENAV discount bands for the past 10 years



Source: RHB, Bloomberg

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Peer Comparison

Figure 4: Peer comparison I

Company	Stock code	*Price (HKD)	Mkt cap (USDm)	3-mth avg t/o (USDm)	RHB/Cons	Discount	P/E		EPS YoY change		3-yr EPS	P/BV		Div yield	
					NAV (HKD)	to NAV (%)	FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)	CAGR (%)	FY18F (x)	FY19F (x)	FY18F (%)	FY19F (%)
Large peer average						39.8	7.0	5.7	22.8	23.1	19.7	1.5	1.3	5.8	6.4
China Vanke	2202 HK	26.10	39,556	28.5	33.34	21.7	7.3	6.1	24.1	19.9	18.3	1.6	1.4	4.9	6.0
**China Overseas	688 HK	26.00	36,456	55.1	43.20	39.8	7.0	5.9	19.3	17.6	17.3	1.0	0.8	3.7	4.4
**Evergrande	3333 HK	25.00	41,952	68.6	44.20	43.4	6.6	5.5	10.3	19.2	11.4	2.0	1.7	10.1	8.9
**CR Land	1109 HK	28.10	24,925	42.1	44.00	36.1	7.8	6.7	32.6	16.8	20.9	1.3	1.1	4.3	5.1
**Country Garden	2007 HK	9.06	25,097	58.1	26.80	66.2	5.0	3.9	38.7	28.2	27.0	1.4	1.1	6.9	8.8
**Longfor	960 HK	21.90	16,632	15.4	35.60	38.5	8.9	7.1	29.8	25.8	25.5	1.4	1.3	4.6	5.7
**Sunac	1918 HK	25.15	14,179	69.2	42.90	41.4	7.1	4.5	11.7	57.2	31.5	1.8	1.4	3.3	4.8
Mid-and-small peer average						56.8	6.2	5.2	25.4	18.1	18.9	0.6	0.5	7.5	8.7
**Shimao	813 HK	18.58	7,855	14.7	41.10	54.8	6.0	4.7	33.9	26.3	27.5	0.8	0.7	6.4	8.2
China Jinmao	817 HK	3.42	5,057	11.1	5.23	34.6	6.6	5.2	24.6	28.5	25.8	0.9	0.8	6.0	7.7
Guangzhou R&F	2777 HK	11.60	4,784	10.2	20.86	44.4	3.2	2.7	34.8	20.5	23.2	0.5	0.4	12.4	14.8
**Agile	3383 HK	9.81	4,918	9.3	34.70	71.7	4.5	3.8	25.4	18.5	20.1	0.7	0.7	10.7	12.5
**CIFI	884 HK	3.64	3,620	9.5	10.50	65.3	4.4	3.6	26.1	23.2	25.8	0.9	0.8	8.1	10.3
Sino-Ocean	3377 HK	3.44	3,353	4.2	6.80	49.4	4.5	3.8	25.3	18.4	23.0	0.4	0.4	9.1	10.9
Shenzhen Inv	604 HK	2.51	2,699	2.2	8.50	70.5	7.7	6.6	-37.1	17.3	-8.9	0.5	0.4	6.4	7.2
**KWG	1813 HK	6.70	2,720	8.0	21.80	69.3	4.0	3.2	52.3	26.4	32.4	0.6	0.5	9.0	11.4
Yuexiu Property	123 HK	1.39	2,206	2.8	1.86	25.3	5.9	5.2	10.8	11.9	10.0	0.4	0.4	6.5	7.7
SOHO China	410 HK	2.88	1,916	1.4	7.30	60.5	34.9	30.0	N/A	16.4	N/A	0.4	0.4	4.0	3.3
Hopson	754 HK	6.20	1,766	0.8	13.08	52.6	6.9	6.7	N/A	3.3	12.7	N/A	N/A	4.4	4.5
Shui On Land	272 HK	1.77	1,826	1.7	5.90	70.0	5.3	7.0	23.5	-23.7	3.8	0.3	0.3	6.8	5.7
Kaisa	1638 HK	2.26	1,756	3.1	5.60	59.6	2.9	2.6	53.9	N/A	N/A	0.6	0.3	6.5	N/A
**Greentown	3900 HK	5.90	1,637	5.8	20.80	71.6	4.5	4.2	49.4	7.7	16.8	0.4	0.4	4.3	4.6
**CSC	1668 HK	1.15	1,195	1.3	6.10	81.1	2.8	2.3	N/A	22.9	45.2	0.3	0.2	4.3	6.3
**COGO	81 HK	2.58	1,130	1.5	7.50	65.6	4.5	3.5	20.9	27.6	23.6	0.4	0.4	2.7	3.4
Poly HK	119 HK	2.50	1,171	1.7	7.00	64.3	3.6	3.2	92.1	11.0	N/A	0.3	0.3	8.3	8.6
Fantasia	1777 HK	0.91	671	0.6	2.60	65.0	4.0	N/A	0.0	N/A	N/A	0.4	N/A	7.7	7.6
Sector average						43.3	6.8	5.6	23.3	22.1	19.5	1.3	1.1	6.1	6.9

Note: *Prices as at 10 Dec 2018. **Under RHB's coverage

Source: RHB, Bloomberg

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Figure 5: Peer comparison II

Company	Stock	Mkt cap	Revenue		Net profit		Gross margin	Net margin			Net gearing		ROE		Share price change	
	code		FY17	FY18F	FY17	FY18F	FY17	FY17	FY18F	FY17	FY18F	FY17	FY18F	1-mth	YTD	
		(USDm)	(USDm)	(USDm)	(USDm)	(USDm)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
Large peer average							31.8	15.8	12.6	94.9	44.8	27.0	23.1	10.3	-6.3	
China Vanke	2202 HK	39,556	34,331	46,458	4,058	5,055	32.3	11.8	10.9	14.1	N/A	24.1	23.4	3.4	-16.3	
China Overseas	688 HK	36,456	20,985	26,278	5,217	5,143	33.4	24.9	19.6	27.1	18.4	16.3	14.6	3.2	3.4	
Evergrande	3333 HK	41,952	44,988	70,220	3,525	6,294	36.1	7.8	9.0	237.8	123.0	29.4	33.5	33.8	-7.2	
CR Land	1109 HK	24,925	14,864	18,401	2,885	3,153	40.3	19.4	17.1	43.1	14.7	19.8	16.9	3.5	22.2	
Country Garden	2007 HK	25,097	32,820	51,828	3,770	5,081	25.9	11.5	9.8	45.3	12.5	34.4	31.3	4.3	-36.1	
Longfor	960 HK	16,632	10,425	14,430	1,822	1,869	33.9	17.5	13.0	47.8	29.9	20.0	18.0	7.6	11.9	
Sunac	1918 HK	14,179	9,528	20,775	1,690	1,900	20.7	17.7	9.1	249.1	70.1	45.2	24.0	16.2	-22.3	
Mid-and-small peer average							33.2	31.8	12.5	88.4	58.4	14.0	10.9	4.4	-24.9	
Shimao	813 HK	7,855	10,187	12,548	1,134	1,346	30.4	11.1	10.7	61.1	N/A	14.6	14.7	8.9	9.3	
China Jinmao	817 HK	5,057	4,495	6,277	575	750	32.3	12.8	11.9	69.1	57.8	14.0	13.4	0.6	-0.6	
Guangzhou R&F	2777 HK	4,784	8,574	11,471	3,085	1,463	35.4	36.0	12.8	188.8	132.4	41.9	15.6	-0.3	-34.2	
Agile	3383 HK	4,918	7,465	8,957	940	1,105	40.1	12.6	12.3	93.8	33.6	21.1	17.9	7.7	-17.3	
CIFI	884 HK	3,620	4,603	6,042	698	810	27.1	15.2	13.4	49.4	35.0	30.5	22.7	9.6	-22.7	
Sino-Ocean	3377 HK	3,353	6,630	7,511	740	701	24.5	11.2	9.3	66.5	N/A	10.1	9.8	5.8	-36.2	
Shenzhen Inv	604 HK	2,699	1,312	2,418	634	337	34.6	48.3	13.9	22.0	N/A	4.0	6.1	3.7	-22.5	
KWG	1813 HK	2,720	1,670	2,348	524	650	34.8	31.4	27.7	72.4	46.0	15.9	15.1	10.2	-21.3	
Yuxiu Property	123 HK	2,206	3,442	3,932	327	352	25.7	9.5	8.9	84.1	N/A	7.7	7.2	5.3	-4.8	
SOHO China	410 HK	1,916	284	259	685	60	74.0	241.2	23.0	51.4	N/A	5.2	1.2	3.6	-37.0	
Hopson	754 HK	1,766	1,769	N/A	742	N/A	36.8	41.9	N/A	71.9	N/A	11.4	N/A	0.5	-19.1	
Shui On Land	272 HK	1,826	2,669	3,179	324	339	42.6	12.2	10.7	55.1	N/A	4.8	3.2	4.1	-18.1	
Kaisa	1638 HK	1,756	4,741	6,094	475	603	27.3	10.0	9.9	326.2	N/A	17.5	12.7	13.4	-46.6	
Greentown	3900 HK	1,637	6,068	7,229	317	345	19.2	5.2	4.8	59.1	51.4	9.9	7.4	2.6	-41.4	
CSC	1668 HK	1,195	1,204	1,642	577	232	43.3	48.0	14.1	83.6	52.5	13.9	7.2	-4.2	-43.9	
COGO	81 HK	1,130	2,595	3,317	163	251	20.1	6.3	7.6	77.6	N/A	10.0	11.0	-1.9	-38.1	
Poly HK	119 HK	1,171	4,057	4,126	315	342	20.6	7.8	8.3	72.1	N/A	9.0	8.9	4.2	-38.6	
Fantasia	1777 HK	671	1,415	N/A	167	N/A	29.6	11.8	N/A	87.1	N/A	10.2	N/A	5.8	-15.0	
Average							32.8	27.3	12.5	90.2	52.1	17.6	14.6	6.1	-19.7	

Note: **Under RHB's coverage

Source: RHB, Bloomberg

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