

12 June 2018

Property | Real Estate

Real Estate

Overweight (maintained)

Sales Likely To Stay Resilient

Stocks Covered: 13

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

Reiterate **OVERWEIGHT**, with Country Garden, CR Land, Longfor and CIFI as our **Top Picks**. In May, developers reported encouraging contracted sales growth of 48.7% YoY. The better-than-expected increase (+34.1% YoY for 5M18 vs our estimate of 25-30%) was underpinned by accelerating volume growth (+43.8% YoY). Without any new significant tightening policies, contracted sales growth should remain resilient in the near term. Over the next three months, better-than-expected 1H18 contracted sales, 1H18 interim results and potential upward revisions of FY18F contracted sales are the key catalysts to boost valuations.

Top Picks

Country Garden (2007 HK) – BUY
 CR Land (1109 HK) – BUY
 Longfor (960 HK) – BUY
 CIFI (884 HK) – BUY

Target Price

HKD22.00
 HKD31.50
 HKD26.30
 HKD7.80

Solid growth to drive share price appreciation over the next 6-12 months

Name	Stock Code	FY17-20F CAGR (%)		
		Contracted Sales	Revenue	Net Profit
Country Garden	2007 HK	29.5%	34.2%	28.5%
Evergrande	3333 HK	24.5%	21.7%	26.7%
Sunac	1918 HK	32.7%	53.9%	40.8%
COLI	688 HK	27.6%	27.9%	24.4%
Longfor	960 HK	24.4%	23.0%	19.1%
CR Land	1109 HK	24.5%	33.2%	18.5%
Greentown	3900 HK	16.6%	17.0%	4.1%
CIFI	884 HK	39.1%	38.7%	36.3%
Shimao	813 HK	35.5%	29.8%	39.8%
Agile	3383 HK	36.2%	22.1%	25.9%
KWG	1813 HK	44.3%	33.1%	33.7%
CSC	1668 HK	17.2%	20.7%	15.0%
COGO	81 HK	21.0%	15.7%	27.8%

Source: Bloomberg

An outperformance. 28 out of 31 developers tracked by RHB reported that their contracted sales revenue grew 48.7% YoY (+10.8% MoM) in May. This comes significantly better than expected, as 5M18's contracted sales revenue grew 34.1% YoY (vs our 25-30% YoY estimate). The outperformance mainly stemmed from sales volumes surging by 43.8% YoY (+11.7% MoM), even as contracted ASP declined 0.8% MoM (+3.4% YoY). We believe that developers, in general, benefited from the surge in new launches that are still well-received by buyers – which led to improved sales over the last month.

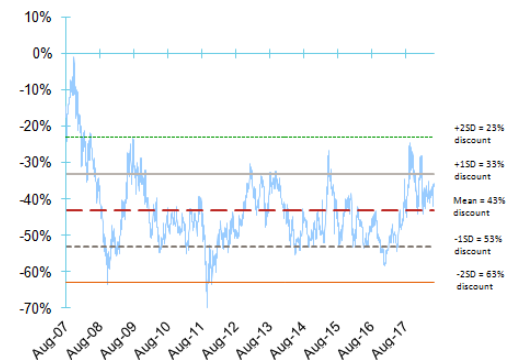
Accelerating new supply in 2H. With no new significant tightening policies, we believe property sales should remain resilient in the near term, driven by volume growth with steady ASPs. Overall, we still expect the 31 developers to achieve a 25-30% YoY growth in contracted sales revenue this year. Key drivers are still more progressive new launches, whilst a further reduction in the reserve requirement ratio (RRR) by the People's Bank of China (PBoC) would add liquidity to the property market and support stable sales growth.

Concerns on refinancing risks probably overdone. Against the deleveraging backdrop, tighter liquidity and rising funding costs (particularly on new offshore debt issues) continue to be investors' main concerns. However, given the active re-financing over the last two months and, in particular, in the offshore debt market, the liquidity of listed developers remains resilient.

At the same time, we note that the increase in funding cost may pressure developers' margins – although this may only be reflected in their FY20 results (at the earliest) and beyond. As we see it, the 13 developers in our coverage universe should continue to report 30.8%/28.5% YoY earnings growth in FY18-19, whilst net margins are expected to be stay at 11.4% and 11.6% respectively.

Maintain OVERWEIGHT. As concerns on liquidity continue to prevail in the near term, the sector may trade between discounts of 38-43% to the mean (ie trading between the mean to +0.5SD). That said, better-than-expected 1H contracted sales, financial results and guidance should be the catalysts to drive the sector's valuation towards 1SD from the mean or above – ie 33% or lower, in the longer term.

However, the sector should still trade sideways in the short term



Source: Bloomberg

Company	Stock code	Rating	TP (HKD)	Price (2018/06/11) (HKD)	End-FY18F ENAV (HKD)	ENAV disc/(prem) (%)
Agile Property	3383 HK	BUY	20.00	16.24	34.00	52%
COGO	81 HK	SELL	2.30	3.52	6.60	47%
COLI	688 HK	BUY	36.60	28.70	43.00	33%
China Resources Land	1109 HK	BUY	31.50	31.15	42.00	26%
China South City	1668 HK	BUY	2.20	1.70	6.30	73%
CIFI Holdings	884 HK	BUY	7.80	6.22	10.40	40%
Country Garden	2007 HK	BUY	22.00	16.68	25.80	35%
Evergrande	3333 HK	BUY	31.70	24.00	42.20	43%
Greentown China	3900 HK	SELL	7.10	12.30	20.30	39%
KWG Property	1813 HK	NEUTRAL	10.00	12.68	22.30	43%
Longfor	960 HK	BUY	26.30	24.80	35.10	29%
Shimao Property	813 HK	BUY	30.00	25.25	40.00	37%
Sunac	1918 HK	NEUTRAL	31.00	32.45	41.30	21%

Source: Company data, RHB

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Figure 1: Contracted sales summary for May

Developer	Ticker	Contracted sales revenue				Contracted sales volume				Contracted ASP			
		May 18 (CNY bn)	Apr 18	% mom (%)	% yoy (%)	May 18 (sqm)	Apr 18	% mom (%)	% yoy (%)	May 18 (CNY/sqm)	Apr 18	% mom (%)	% yoy (%)
Country Garden	2007 HK	77.2	69.6	10.9%	92.6%	7,900,000	7,000,000	12.9%	67.7%	9,767	9,936	(1.7%)	14.8%
China Vanke	000002 CH	42.9	41.9	2.4%	19.5%	2,797,000	2,576,000	8.6%	15.6%	15,331	16,262	(5.7%)	3.4%
Evergrande	3333 HK	41.8	50.4	(17.0%)	9.5%	3,852,000	4,648,000	(17.1%)	3.6%	10,859	10,841	0.2%	5.7%
Sunac	1918 HK	38.3	35.2	8.8%	85.7%	2,519,000	2,066,000	21.9%	152.9%	15,193	17,028	(10.8%)	(26.6%)
Poly Real Estate	600048 CH	35.7	32.5	10.0%	43.5%	2,228,100	2,104,100	5.9%	24.8%	16,032	15,429	3.9%	15.0%
COLI*	688 HK	26.7	20.2	32.6%	30.2%	1,454,900	1,096,700	32.7%	8.9%	18,373	18,378	(0.0%)	19.6%
Longfor	960 HK	17.5	14.6	20.3%	11.4%	1,120,000	915,000	22.4%	28.1%	15,652	15,923	(1.7%)	(13.0%)
Greentown	3900 HK	17.4	13.4	29.9%	56.8%	950,000	710,000	33.8%	43.9%	18,316	18,873	(3.0%)	8.9%
Future Land	1030 HK	16.6	12.7	31.0%	86.4%	1,356,100	983,000	38.0%	95.9%	12,271	12,924	(5.0%)	(4.9%)
CIFI	884 HK	12.7	11.0	14.8%	69.6%	736,500	746,600	(1.4%)	83.2%	17,203	14,787	16.3%	(7.4%)
Gemdale	600383 CH	11.9	10.5	13.0%	22.3%	723,000	632,000	14.4%	16.2%	16,432	16,630	(1.2%)	5.3%
Shimao	813 HK	10.6	8.1	30.4%	50.2%	675,603	515,352	31.1%	63.8%	15,636	15,723	(0.6%)	(8.3%)
R&F	2777 HK	10.5	8.9	18.0%	44.2%	824,600	672,400	22.6%	35.8%	12,697	13,192	(3.7%)	6.2%
Agile	3383 HK	8.7	8.3	4.3%	67.3%	704,000	630,000	11.7%	55.4%	12,287	13,159	(6.6%)	7.7%
China Jinmao	817 HK	8.1	10.0	(19.1%)	137.1%	326,057	391,592	(16.7%)	123.8%	24,868	25,589	(2.8%)	5.9%
China Aoyuan	3883 HK	7.5	7.2	4.0%	185.2%	686,000	757,000	(9.4%)	143.3%	10,933	9,524	14.8%	17.2%
Sino-Ocean	3377 HK	7.2	7.5	(3.9%)	63.5%	355,300	396,000	(10.3%)	36.5%	20,293	18,939	7.1%	19.8%
COGO*	81 HK	7.2	4.1	76.5%	20.0%	569,400	330,000	72.5%	4.4%	12,652	12,370	2.3%	14.9%
KWG	1813 HK	5.6	5.3	6.5%	79.2%	354,000	302,000	17.2%	124.1%	15,822	17,417	(9.2%)	(20.0%)
BCL	2868 HK	4.8	2.5	90.8%	13.3%	201,000	146,000	37.7%	8.6%	23,731	17,123	38.6%	4.3%
Central China	832 HK	4.7	2.8	70.3%	56.8%	645,144	333,078	93.7%	52.0%	7,333	8,340	(12.1%)	3.1%
Yuxiu	123 HK	4.7	4.2	9.6%	103.1%	234,100	183,000	27.9%	26.7%	19,863	23,186	(14.3%)	60.3%
Yuzhou	1628 HK	4.1	4.0	2.4%	2.9%	298,474	270,472	10.4%	40.4%	13,767	14,837	(7.2%)	(26.8%)
Powerlong	1238 HK	3.5	2.0	79.1%	174.6%	242,296	141,346	71.4%	103.5%	14,540	13,916	4.5%	35.0%
China SCE	1966 HK	3.2	2.5	25.5%	2.3%	259,750	189,453	37.1%	47.2%	12,216	13,344	(8.5%)	(30.5%)
Shui On Land	272 HK	2.3	0.4	463.7%	129.7%	68,600	10,800	535.2%	243.0%	34,184	38,519	(11.3%)	(33.0%)
Fantasia	1777 HK	2.0	1.8	11.6%	188.6%	221,239	197,563	12.0%	153.8%	9,067	9,101	(0.4%)	13.7%
Hopson	754 HK	1.5	0.9	66.6%	161.9%	104,206	71,379	46.0%	136.3%	14,500	12,707	14.1%	10.8%
Total / average		434.8	392.3	10.8%	48.7%	32,406,369	29,014,835	11.7%	43.8%	13,418	13,522	(0.8%)	3.4%

Note: Data is as at 11 Jun 2018

Source: RHB

* COLI & COGO Contracted Sales Revenue and ASP are denominated in HKD

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Developers' 5M18 Contracted Sales

Figure 2: Contracted sales summary for 5M18

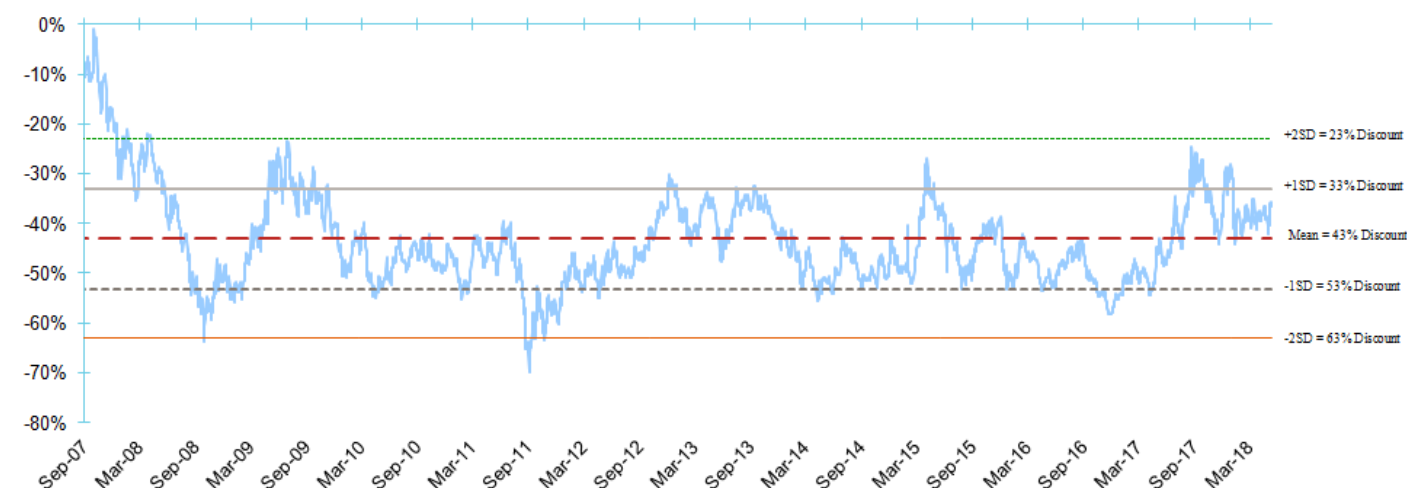
Developer	Ticker	5M18	5M17	5M18	FY18	5M18	FY17	5M17
		sales (CNY bn)	sales (CNY bn)	% yoy (%)	target (CNY bn)	lock-in (%)	actual sales (CNY bn)	lock-in (%)
Country Garden	2007 HK	334.7	244.2	37.0%	n.a.	n.a.	550.8	44.3%
Evergrande	3333 HK	254.1	183.0	38.9%	550.0	46.2%	501.0	36.5%
China Vanke	000002 CH	239.0	228.1	4.8%	n.a.	n.a.	529.9	43.0%
Poly Real Estate	600048 CH	155.1	108.5	43.0%	n.a.	n.a.	309.2	35.1%
Sunac	1918 HK	145.6	80.3	81.3%	450.0	32.3%	362.0	22.2%
COLI*	688 HK	112.7	96.8	16.5%	290.0	38.9%	232.1	41.7%
Longfor	960 HK	76.1	75.8	0.5%	200.0	38.1%	156.1	48.5%
Future Land	1030 HK	67.2	41.2	63.2%	180.0	37.3%	126.5	32.6%
Greentown	3900 HK	58.7	45.8	28.2%	n.a.	n.a.	146.3	31.3%
China Jinmao	817 HK	56.8	14.9	281.9%	90.0	63.1%	69.3	21.5%
Shimao	813 HK	51.6	33.8	52.6%	140.0	36.8%	100.8	33.6%
CIFI	884 HK	50.8	38.1	33.3%	140.0	36.3%	104.0	36.7%
Gemdale	600383 CH	48.5	51.8	(6.3%)	n.a.	n.a.	140.8	36.8%
R&F	2777 HK	43.5	30.5	42.3%	130.0	33.4%	81.9	37.3%
Agile	3383 HK	38.1	32.5	17.4%	110.0	34.7%	89.7	36.2%
Sino-Ocean	3377 HK	30.8	22.0	39.7%	100.0	30.8%	70.6	31.2%
China Aoyuan	3883 HK	28.3	11.2	152.9%	73.0	38.8%	45.6	24.6%
KWG	1813 HK	25.6	11.8	116.6%	n.a.	n.a.	28.7	41.2%
COGO*	81 HK	20.4	13.4	52.4%	n.a.	n.a.	37.1	36.1%
Yuexiu	123 HK	18.9	15.1	24.7%	55.0	34.3%	40.9	37.1%
Yuzhou	1628 HK	18.5	18.0	2.4%	60.0	30.8%	40.3	44.8%
China SCE	1966 HK	17.3	11.6	49.4%	50.0	34.6%	33.2	34.9%
BCL	2868 HK	15.8	18.9	(16.5%)	75.0	21.1%	55.9	33.9%
Central China	832 HK	13.2	8.9	48.2%	45.0	29.3%	30.4	29.2%
Powerlong	1238 HK	12.1	6.8	78.0%	35.0	34.7%	20.9	32.6%
Fantasia	1777 HK	8.3	4.3	93.2%	n.a.	n.a.	20.2	21.4%
Shui On Land	272 HK	4.4	3.0	48.6%	n.a.	n.a.	10.4	28.4%
Hopson	754 HK	4.1	3.6	12.7%	n.a.	n.a.	9.2	39.5%
Total / average		1,950.3	1,453.9	34.1%	2,773.0	37.9%	3,943.5	36.9%

Source: RHB

* COLI & COGO Contracted Sales Revenue and ASP are denominated in HKD

Sector Valuation

Figure 3: China property sector – past 10-year EVAV discount bands



Source: RHB

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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 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							28.0	8.1	6.4	20.6	26.6	21.7	1.8	1.5	4.7	5.4
China Vanke	2202 HK	31.15	46,704	35.0	33.34	6.6	8.0	6.6	24.5	22.2	19.4	1.8	1.5	4.5	5.6	
**Country Garden	2007 HK	16.68	46,217	109.7	25.80	35.3	8.6	6.4	35.4	34.9	30.4	2.4	1.9	3.9	5.1	
**Evergrande	3333 HK	24.00	40,309	61.2	42.20	43.1	6.5	5.3	-0.5	21.2	12.6	1.9	1.6	9.0	8.3	
**China Overseas	688 HK	28.70	40,074	53.6	43.00	33.3	7.8	6.6	18.3	18.0	17.4	1.1	0.9	3.3	3.9	
**CR Land	1109 HK	31.15	27,515	43.2	42.00	25.8	8.9	7.5	27.3	17.8	20.4	1.3	1.2	3.9	4.5	
**Sunac	1918 HK	32.45	18,207	72.8	41.30	21.4	8.9	5.5	7.2	61.5	33.1	2.3	1.7	2.4	3.6	
**Longfor	960 HK	24.80	18,732	14.2	35.10	29.3	9.4	7.5	27.3	26.0	25.4	1.5	1.3	4.2	5.3	
Mid-and-small peer average							35.5	8.3	6.8	31.0	21.4	20.2	0.9	0.7	5.0	6.1
**Shimao	813 HK	25.25	10,899	19.3	40.00	36.9	7.5	6.1	33.3	23.4	27.1	1.1	0.9	5.2	6.4	
**Agile	3383 HK	16.24	8,107	18.7	34.00	52.2	7.1	5.7	21.3	24.0	22.6	1.2	1.0	6.6	8.1	
Guangzhou R&F	2777 HK	18.78	7,712	16.5	20.86	10.0	4.8	3.9	34.6	24.9	27.4	0.7	0.6	8.3	10.0	
China Jinmao	817 HK	4.42	6,521	16.7	5.23	15.5	8.2	6.4	19.7	29.5	29.7	1.1	1.0	4.9	6.2	
**CIFI	884 HK	6.22	6,114	18.5	10.40	40.2	7.0	5.4	26.3	29.5	27.0	1.5	1.2	5.1	6.6	
Sino-Ocean	3377 HK	5.43	5,268	7.5	6.80	20.1	6.8	5.7	22.3	19.7	23.0	0.6	0.6	6.4	7.7	
**KWG	1813 HK	12.68	5,099	16.2	22.30	43.1	6.9	5.3	54.0	30.1	35.8	1.0	0.9	5.0	6.5	
Shenzhen Inv	604 HK	3.14	3,225	6.5	8.50	63.1	8.4	7.1	-27.1	17.3	-6.1	0.5	0.5	5.8	6.5	
Kaisa	1638 HK	4.35	3,363	8.0	5.60	22.3	2.5	1.9	214.5	N/A	N/A	1.1	N/A	N/A	N/A	
**Greentown	3900 HK	12.30	3,398	9.0	20.30	39.4	10.2	9.2	27.3	11.4	15.8	0.8	0.7	2.0	2.1	
Yuexiu Property	123 HK	1.69	2,671	10.1	1.86	9.1	6.8	5.5	7.1	22.7	16.2	0.5	0.5	5.8	7.2	
SOHO China	410 HK	4.04	2,677	4.8	7.30	44.7	38.3	30.8	N/A	24.4	N/A	0.5	0.5	3.9	4.6	
Hopson	754 HK	8.01	2,272	1.8	13.08	38.8	12.7	12.5	N/A	1.6	N/A	N/A	N/A	2.4	2.4	
Shui On Land	272 HK	2.18	2,240	5.2	5.90	63.1	9.7	9.0	-23.4	7.7	0.2	0.3	0.3	2.7	2.6	
**CSC	1668 HK	1.70	1,735	4.0	6.30	73.0	8.9	7.4	N/A	21.1	17.0	0.5	0.4	2.9	4.1	
Poly HK	119 HK	3.78	1,764	4.4	7.00	46.0	7.0	7.2	49.5	-2.8	N/A	0.5	0.4	4.2	4.1	
**COGO	81 HK	3.52	1,536	4.1	6.60	46.7	5.4	4.2	36.5	29.5	26.6	0.6	0.5	1.6	2.1	
Fantasia	1777 HK	1.49	1,094	2.1	2.60	42.7	5.1	3.9	20.0	29.2	24.9	0.6	0.4	4.7	6.0	
Sector average							29.8	8.2	6.5	23.1	25.3	21.3	1.5	1.3	4.8	5.6

Note: *Prices are as at 11 Jun 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	FY18F	FY17	FY18F	FY17	FY18F	FY17	FY18F	1-mth	YTD	
		(USDm)	(USDm)	(USDm)	(USDm)	(USDm)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
Large peer average							31.8	15.8	12.5	96.3	14.6	24.5	22.5	1.4	11.1		
China Vanke	2202 HK	46,704	37,075	49,266	4,382	5,464	32.3	11.8	11.1	14.1	N/A	22.8	22.9	0.0	-0.2		
Country Garden	2007 HK	46,217	35,444	54,798	4,071	5,306	25.9	11.5	9.7	55.0	0.0	31.8	29.3	1.7	11.9		
Evergrande	3333 HK	40,309	48,584	69,167	3,807	6,199	36.1	7.8	9.0	237.8	N/A	30.7	33.7	-4.0	-10.9		
China Overseas	688 HK	40,074	20,897	27,262	5,196	5,173	33.4	24.9	19.0	27.1	12.8	16.7	14.5	6.1	14.1		
CR Land	1109 HK	27,515	15,113	19,010	2,933	3,104	40.3	19.4	16.3	43.1	23.7	17.7	16.3	7.2	35.4		
Sunac	1918 HK	18,207	10,290	21,747	1,825	2,029	20.7	17.7	9.3	249.1	N/A	32.8	23.4	-7.0	0.3		
Longfor	960 HK	18,732	11,259	15,025	1,968	1,975	33.9	17.5	13.1	47.8	21.9	19.0	17.4	5.5	26.7		
Mid-and-small peer average							33.3	32.2	12.5	88.1	42.2	14.3	12.4	1.5	12.2		
Shimao	813 HK	10,899	11,001	13,318	1,225	1,447	30.4	11.1	10.9	61.1	53.7	14.2	14.7	17.4	48.5		
Agile	3383 HK	8,107	8,061	9,946	1,015	1,142	40.1	12.6	11.5	93.8	10.6	16.8	17.5	3.0	36.9		
Guangzhou R&F	2777 HK	7,712	9,260	12,300	3,332	1,596	35.4	36.0	13.0	188.8	84.0	40.2	15.7	-0.8	6.6		
China Jinmao	817 HK	6,521	4,854	6,528	621	752	32.3	12.8	11.5	69.1	53.9	12.9	13.1	-3.5	28.5		
CIFI	884 HK	6,114	4,971	6,347	754	865	27.1	15.2	13.6	49.4	N/A	26.9	22.3	-3.0	32.1		
Sino-Ocean	3377 HK	5,268	7,160	8,094	799	770	24.5	11.2	9.5	66.5	33.0	11.1	9.9	-3.9	0.7		
KWGW	1813 HK	5,099	1,803	2,541	565	708	34.8	31.4	27.9	72.4	38.5	14.0	15.5	14.2	38.9		
Shenzhen Inv	604 HK	3,225	1,307	2,384	631	381	34.6	48.3	16.0	22.0	N/A	13.3	7.1	-2.2	-3.1		
Kaisa	1638 HK	3,363	5,120	10,753	513	1,339	27.3	10.0	12.5	326.2	N/A	20.5	38.5	0.2	-1.4		
Greentown	3900 HK	3,398	6,553	6,880	342	317	19.2	5.2	4.6	59.1	48.4	6.5	6.6	7.0	22.3		
Yuexiu Property	123 HK	2,671	3,717	4,215	353	386	25.7	9.5	9.2	84.1	45.0	7.2	7.4	-4.5	15.8		
SOHO China	410 HK	2,677	307	307	739	77	74.0	241.2	25.2	51.4	N/A	14.1	1.5	2.5	-11.6		
Hopson	754 HK	2,272	1,762	N/A	739	N/A	36.8	41.9	N/A	71.9	N/A	9.8	N/A	-1.0	4.6		
Shui On Land	272 HK	2,240	2,882	2,619	350	233	42.6	12.2	8.9	55.1	N/A	4.4	4.1	2.8	0.9		
CSC	1668 HK	1,735	999	1,262	551	196	44.8	55.1	15.5	78.2	N/A	16.0	10.5	-0.6	-17.1		
Poly HK	119 HK	1,764	4,040	4,865	314	285	20.6	7.8	5.9	72.1	N/A	9.3	6.4	2.2	-7.1		
COGO	81 HK	1,536	2,584	3,305	162	242	20.1	6.3	7.3	77.6	12.3	10.6	12.8	-2.2	-15.5		
Fantasia	1777 HK	1,094	1,528	2,134	180	214	29.6	11.8	10.0	87.1	N/A	9.8	7.5	-1.3	39.3		
Average							32.9	27.6	12.5	90.4	33.7	17.2	15.4	1.4	11.9		

Note: *Prices are as at 11 Jun 2018, **Under RHB's coverage

Source: RHB, Bloomberg

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