



Economics Weekly May 28, 2014

Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

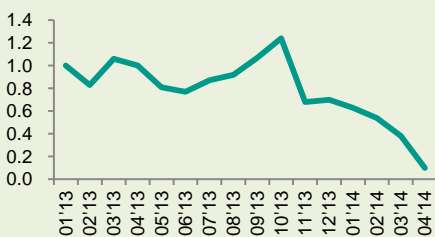
Analyst

Paul Pan

Tel: 852-21478829

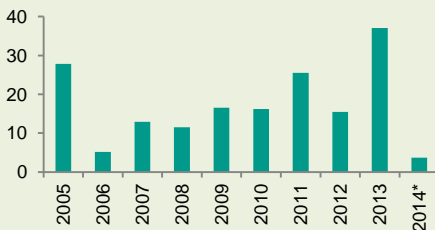
Email: paulpan@abci.com.hk

Exhibit 1: China's residential prices in 100 cities (MoM %)



Source(s): Wind, ABCI Securities

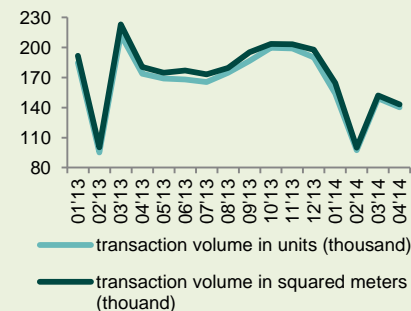
Exhibit 2: China's residential fixed asset investment (YoY %)



* January – April data

Source(s): Bloomberg, ABCI Securities

Exhibit 3: China's monthly residential house transaction volume in 30 cities



Source(s): Wind, ABCI Securities

Property market under rebalancing

China's property prices continue to moderate on tighter financial conditions and market concerns over slowing GDP growth. Growth deceleration in home prices largely reflects mismatch in demand and supply. Amid expectations of slower residential property sales, high inventory levels, and tighter onshore liquidity, the downside risks of the sector are surging with further price correction around the corner. We expect existing tightening measures in the sector are likely to stay but the government may roll out short-term, fine-tuning policies to ensure soft landing in the property sector.

Home prices would continue to moderate. Statistics from the National Bureau of Statistics of China indicated that April's residential prices in the 70 major cities posted a mild MoM and YoY rises of 0.06% and 6.42%, compared to March's figures of 0.22% and 7.32% y. China's housing market showed signs of a price differentiation in Jan-Apr with prices sliding in 2nd and 3rd tier cities, while those of the tier-1 cities, such as Beijing and Shanghai, still recorded a mild MoM increase. The downtrend in home prices was mainly driven by the reducing pent-up demand, tightened liquidity, and increased new home supply in 2014. Housing supply has been relatively ample in 2014 due to the risen land sales and improved liquidity among real estate developers in 2013.

Property destocking encourages price cut and transaction. Amid ongoing urbanization and housing upgrades, price cut observed in 5M14 is likely to stimulate transaction volume, thus digesting excessive market supply and restoring market health. In medium term, surging real income growth, relaxation of one-child policy, and rural land reforms will continue to boost housing demand, providing growth impetus for the sector.

Government's supportive measures with an end-user focus. Although the downside risks of China's housing market are increasing, we believe the existing tightening measures would remain in place but the fine-tuning policies would be implemented to foster a healthier sector growth. The focus would rest on encouraging banks to accelerate mortgage financing to first-time homebuyers, thus stimulating genuine market demand and curtailing speculative transactions. These will boost developers' sales and liquidity conditions.

Property developers with focus on top-tier cities and those with commercial or luxury property exposure would be winners. After the YTD correction in the property market, the sector's valuation has turned attractive at FY14E P/E of 4.1x and FY14E yield of 7.0%. We expect the sentiment to improve in 2H14 after the housing prices have corrected. Small developers focusing on top-tier cities, and the ones with commercial or luxury property exposure would stand to benefit from the expected rebound in transaction. Our top picks are **Aoyuan (3883 HK)**, a commercial loft apartment developer; **Sunac (1918 HK)**, a luxury home developer who has recently acquired shares in Greentown (3900 HK); and **Kaisa (1638 HK)**, a redevelopment specialist.



China Economic Indicators

	2013										2014			
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Real GDP (YoY%)	7.7	---	---	7.5	---	---	7.8	---	---	7.7	---	---	7.4	---
Export Growth (YoY%)	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9
Import Growth (YoY%)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8
Trade Balance (USD/bn)	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5
Retail Sales Growth (YoY%)	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9
Industrial Production (YoY%)	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7
PMI - Manufacturing (%)	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4
PMI - Non-manufacturing (%)	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8
FAI(YTD) (YoY%)	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3
CPI (YoY%)	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8
PPI (YoY%)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)
M2(YoY%)	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2
New Lending (RMB/bn)	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1320	644.5	1050	774.7

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Rates			
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)		Yield (%)	Chg. WTD	
U.S.				Energy				US Fed Fund Rate	0.25	0.00	
DJIA	16,675.50	0.42	15.60	NYMEX WTI	USD/bbl	104.24	(0.11)	162,915	US Prime Rate	3.25	0.00
S&P 500	1,911.91	0.60	17.57	ICE Brent Oil	USD/bbl	110.23	(0.28)	153,294	US Discount Window	0.75	0.00
NASDAQ	4,237.07	1.22	34.50	NYMEX Natural Gas	USD/MMBtu	4.49	1.93	79,033	US Treasury (1 Mth)	0.0304	0.00
MSCI US	1,828.45	0.59	17.96	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	73.10	N/A	N/A	US Treasury (5 Yr)	1.5092	(1.49)
Europe				Basic Metals				US Treasury (10 Yr)	2.4928	(3.93)	
FTSE 100	6,844.21	0.42	21.58	LME Aluminum Cash	USD/MT	1,788.25	0.69	19,741	Japan 10-Yr Gov. Bond	0.5840	(0.80)
DAX	9,946.79	1.83	18.46	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,828.50	0.77	38,819	China 10-Yr Gov. Bond	4.2000	(2.00)
CAC40	4,528.61	0.79	26.05	CMX Copper Active	USD/lb.	6,988.50	0.11	13,050	ECB Rate (Refinancing)	0.25	0.00
IBEX 35	10,713.60	1.47	22.72	LME Copper 3- mth Rolling Fwd.	USD/MT	6,934.00	0.09	39,530	1-Month LIBOR	0.1505	0.00
FTSE MIB	21,492.30	3.60	271.6	TSI CFR China Iron Ore Fines Index ³	USD	98.10	0.62	N/A	3 Month LIBOR	0.2299	0.05
Stoxx 600	343.96	0.64	21.76	Precious Metals				O/N SHIBOR	2.5100	(2.00)	
MSCI UK	2,019.23	0.38	21.37	CMX Gold	USD/T. oz	1,264.50	(2.12)	44,831	1-mth SHIBOR	3.9400	(12.9)
MSCI France	126.73	0.80	27.00	CMX Silver	USD/T. oz	19.09	(1.69)	37,731	3-mth HIBOR	0.3736	0.27
MSCI Germany	132.58	1.71	18.45	NYMEX Platinum	USD/T. oz	1,462.00	(0.73)	12,407	Corporate Bonds (Moody's)		
MSCI Italy	61.82	2.98	242.6	Agricultural Products				Aaa	4.19	10.00	
Asia				CBOT Corn	USD/bu	468.25	(2.04)	101,467	Baa	4.78	6.00
NIKKEI 225	14,670.95	1.44	19.16	CBOT Wheat	USD/bu	638.50	(2.15)	61,977			
S&P/ASX 200	5,527.18	0.63	19.70	NYB-ICE Sugar	USD/lb.	17.06	(1.78)	57,502			
HSI	23,080.03	0.50	10.81	CBOT Soybeans	USD/bu.	1,500.00	(1.02)	89,342			
HSCEI	10,198.02	0.76	7.38								
CSI300	2,169.35	0.99	9.72								
SSE Composite	2,050.23	0.77	10.01								
SZSE Composite	1,063.22	2.19	26.91								
MSCI China	60.33	(0.38)	9.21								
MSCI Hong Kong	12,392.23	(0.04)	12.27								
MSCI Japan	736.55	1.21	14.04								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3619	1.6766	0.9237	101.85	0.8979	6.2553	7.7528	6.2620
Chg. WTD (%)	(0.07)	(0.39)	0.07	0.12	(0.23)	(0.31)	0.00	(0.25)

Note:

- Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)
- Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
- TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price



Disclosures

Analyst Certification

We, Lam Chiu Kei, Banny, and PAN Hongxing, Paul, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company (ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company (ies) covered in this report.

Disclosure of interest

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2014 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183