



China Property Sector

Monthly sales update: January sales dropped 8%YoY on COVID-19 outbreak

- Contracted sales of major listed developers declined by 8%YoY on average in Jan 2020 on closure of sales centers amid COVID 2019 outbreak
- Local governments in Wuxi, Tianjin, Xi'an, Nanchang and Nanjing have already launched various supportive policies to aid developers amid crisis
- However, major removal of HPR is unlikely, in order to guard against asset bubbles
- We believe GBA players such as Times (1233 HK) and Aoyuan (3883 HK) to be more defensive given their concentrated portfolio and limited exposure to Hubei

Developers' contracted sales declined by 8%YoY in Jan 2020. Contracted sales of major listed developer declined by 8%YoY in Jan 2020, driven by 4%YoY drop in GFA sold and 4%YoY fall in ASP. Sales decline was less than expected, given that developers have shut down their sales centers since the beginning of CNY (Jan 25). However, we believe the slower drop can be partially attributable to the new projects launched in Jan, of which many were deferred from Dec 2019. Major listed developers only registered a 1%YoY growth in contracted sales in Dec last year, much slower than the 25-34%YoY growth in Sep-Nov. Project deferral is not unusual for developers that have completed its annual target. We believe the impact of COVID-19 outbreak will be more salient in Feb 2020. Many developers have begun to sell properties through the online channels although such strategy entails potential pitfalls. The online sales campaign by Evergrande (3333 HK) recently has generated RMB58bn in committed contracted sales while receiving deposits for more than 47,540 homes in just three days. Such impressive sales, however, relied heavily on aggressive pricing strategy and lenient refund policy. Under Evergrande's campaign, potential buyers were only required to pay RMB 5,000 as deposit to enjoy a 25% discount; they can also request a refund at any time after signing a sales contract (but before the handover of the unit) under the firm's no-questions-asked policy.

Various supportive policies to ease cash flow pressure. Sales of developers have been greatly affected by the closure of sales offices amid the COVID-19 outbreak; the reduced cash inflow may affect their ability to repay debts. In fact, offshore bond issuance cost has already risen noticeably. E.g., coupon rate of Yuzhou's USD 400mn issuance in Feb at 7.7% was 0.325ppt higher its USD 645mn issuance in Jan 2020. To avoid an industry-wide bankruptcy, local governments in Wuxi, Tianjin, Xi'an, Nanchang and Nanjing have already launched different supportive policies such as delaying tax payments, postponing construction, and encouraging bank borrowings to support the developers.

A major removal of HPR is unlikely. Most of the supportive measures implemented by the government aim to reduce cash outflow instead of boosting sales by stimulating demand. In fact, different government officials have reiterated that "home is not for speculation (住房不炒)". We believe removal of home purchase restriction (HPR) is unlikely so as to guard against asset bubbles that might hinder recovery of the real economy later on. In fact, the overwhelming demand of Evergrande's online campaign indicate that significant investment demand accumulated in the property market after years of HPR in place.

Prefer Property management players; Greater Bay Area (GBA) players are likely to be more defensive. Significant decline in contracted sales will weigh on the sector's share price in the near future. We believe the GBA players such as Times (1233 HK) and Aoyuan (3883 HK) to be more defensive given they have a concentrated portfolio in GBA (representing 62.6% and 18.8% of total landbank for Times and Aoyuan respectively) and limited exposure to Hubei province (0% and 1.5% of total landbank for Times and Aoyuan respectively). We believe the property management sector will also be relatively defensive due to its recurring management fee income and cash-rich balance sheet. Share prices of the PM sector rose 13.1% on average over last 1 month, outperforming developers' 1.6% decline

Risk factors: 1) Price competition among developers to gain market share amid falling demand; 2) Rising finance cost as a result of slower contracted sales; 3) Prolonged COVID-19 outbreak and slower-than-expected post-epidemic recovery in the economy.

Sector Report

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Key Data

Avg. 20E P/E (x)	5.64
Avg. 20E P/B (x)	1.17
Avg. 20E Dividend Yield (%)	6.98

Source(s): Bloomberg, ABCI Securities estimates

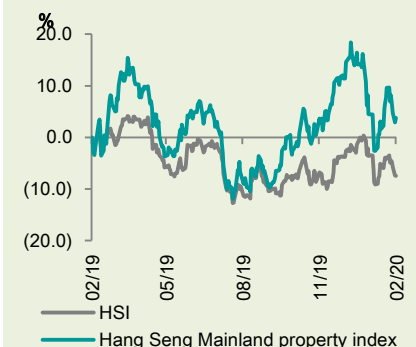
Sector Performance (%)

	Absolute	Relative*
1-mth	(1.6)	2.3
3-mth	2.5	1.1
6-mth	13.1	8.6

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (HK\$)



Source(s): Bloomberg, ABCI Securities



Sector Valuation Summary (data as of Feb 25, 2020)

Company	Ticker	Current Rating	TP (HK\$)	Share price (HK\$)	Upside (%)	FY19E P/E (x)	FY20E P/E (x)	FY19E P/B (x)	FY20E P/B (x)	FY19E Yield(%)	FY20E Yield(%)
Aoyuan	3883	BUY	14.10	11.06	27.5%	7.4	4.6	1.9	1.5	4.1	6.5
Times	1233	BUY	17.40	14.30	21.7%	5.4	3.8	1.1	0.9	5.5	7.9

Note: No revision on forecast and TP since previous company reports on 2 July 2019 and 7 Aug 2019.

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 1: Jan 2020 contracted sales of listed major PRC developers

		BGG Code	Amount RMBbn	YoY %	Jan 2020		ASP RMB/sqm	YoY %	2019 Actual RMBbn	YoY Change
					GFA 000 sqm	YoY %				
1	Times	1233 HK	6.7	60%	443	42%	15,061	12%	78	29%
2	Logan	3380 HK	6.1	40%	375	15%	16,240	21%	96	34%
3	Yuzhou	1628 HK	3.4	23%	212	18%	16,240	4%	75	34%
4	Greentown	3900 HK	5.0	14%	220	38%	22,727	-17%	135	34%
5	Vanke	2202 HK	54.9	12%	3,335	5%	16,465	7%	631	4%
6	Powerlong	1238 HK	3.5	10%	221	6%	15,911	5%	60	47%
7	CIFI	884 HK	9.8	9%	626	6%	15,645	3%	201	32%
8	Beijing Capital	2868 HK	4.3	4%	154	22%	28,052	-15%	81	14%
9	Jinmao	817 HK	10.5	2%	577	43%	18,227	-29%	161	29%
10	KWG	1813 HK	5.2	1%	279	-11%	18,513	13%	86	31%
11	Country garden [#]	2007 HK	32.9	0%	3,790	-1%	8,686	0%	552	14%
12	Evergrande	3333 HK	40.6	-6%	4,498	16%	9,015	-19%	601	9%
13	Aoyuan	3883 HK	5.1	-10%	433	-16%	11,678	8%	118	29%
14	R&F	2777 HK	6.2	-10%	535	-5%	11,562	-6%	138	5%
15	Shimao	813 HK	10.2	-11%	586	-15%	17,426	4%	260	48%
16	COLI*	688 HK	20.3	-18%	1,103	-12%	18,381	-7%	377	25%
17	Agile	3383 HK	5.0	-19%	300	-27%	16,733	12%	118	15%
18	Sunac	1918 HK	18.6	-22%	1,358	-15%	13,719	-9%	556	21%
19	Poly-A	600048 CH	23.6	-30%	1,576	-31%	14,970	2%	462	14%
20	Sino-Ocean	3377 HK	3.5	-30%	167	-29%	21,141	-2%	130	19%
21	Longfor	960 HK	10.1	-32%	606	-37%	16,683	7%	243	21%
22	CR Land	1109 HK	11.0	-33%	499	-49%	22,119	32%	243	15%
23	Yuexiu	123 HK	3.1	-35%	116	-37%	26,254	3%	72	25%
Total			297.6	-8%	22,008	-4%	13,521	-4%	5,642	19%

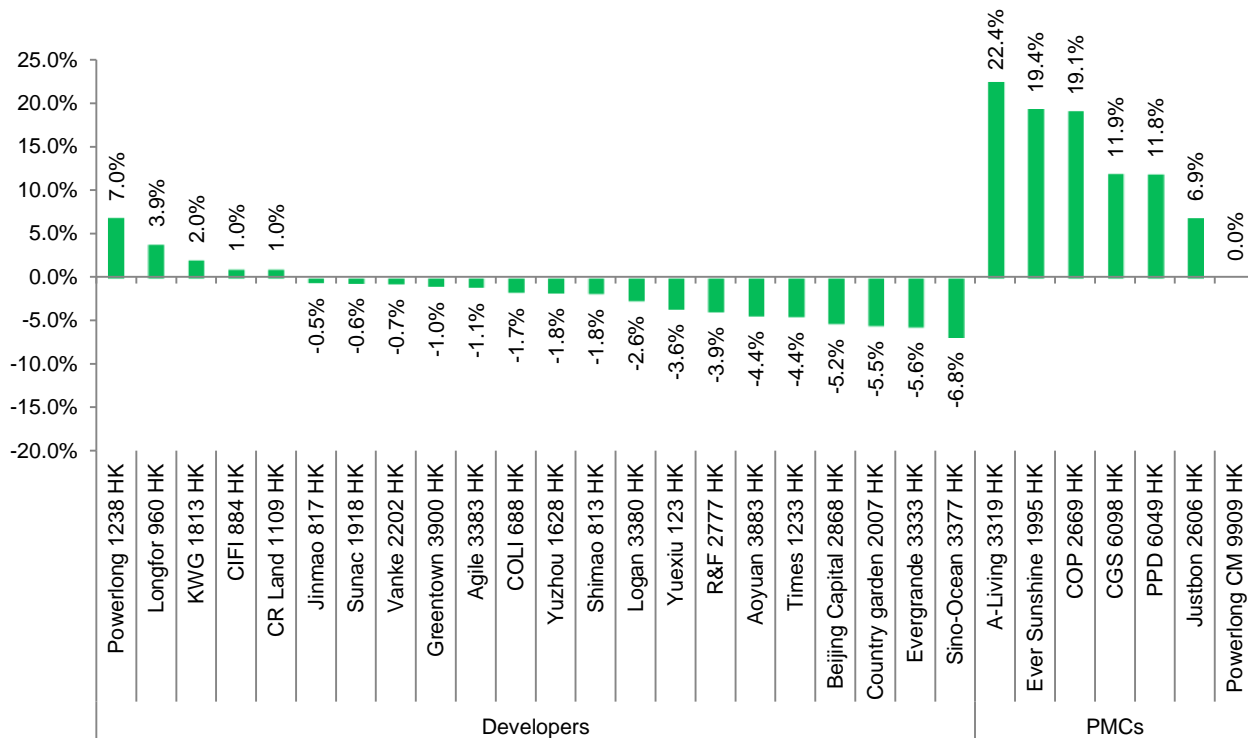
[#] Country Garden reported its attributable figures only

* in HK\$

Source(s): Companies, ABCI Securities

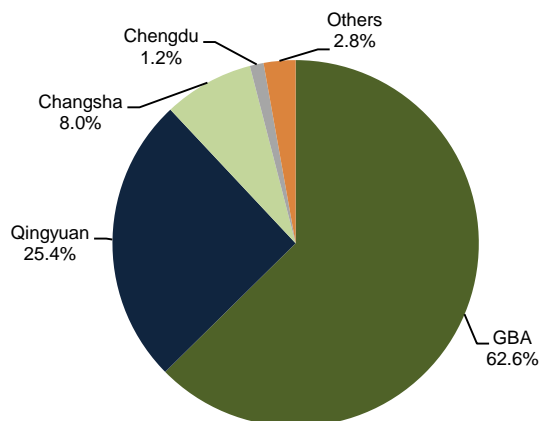


Exhibit 2: 1-month share price performance of developers and PMCs



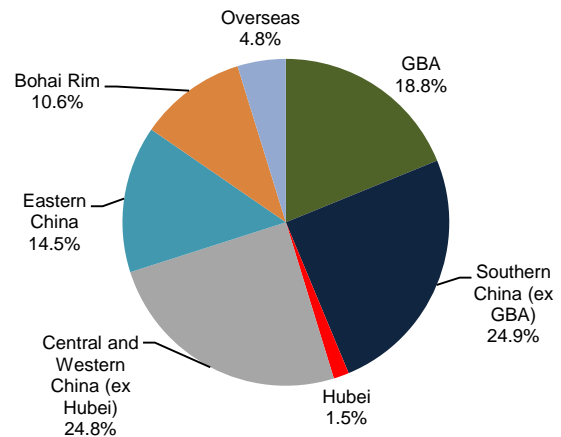
Source(s): Bloomberg, ABCI Securities

Exhibit 3: Landbank breakdown of Times (June 2019: 23.1mn sqm)



Source(s): Times, ABCI Securities

Exhibit 4: Landbank breakdown of Aoyuan (June 2019: 40.1mn sqm)



Source(s): Aoyuan, ABCI Securities



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return $<$ Market return rate (10%)
Sell	Stock return $<$ - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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