



## Industry Insight

### Real Estate Development Industry

#### Hang Seng Property and Construction Index performance (%)

	Absolute	Relative*
1-mth	1.7	(0.7)
3-mth	11.9	5.3
6-mth	(6.9)	(0.6)

Source: Bloomberg

\*Relative to Hang Seng Index

#### 1 year price performance



Source: Bloomberg

#### Analyst

Report date: 20 Aug, 2012

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Previous report

Date: 16 July, 2012

#### Valuation supported by hopes on strong season sales

Contracted sales in Jul softened, this may continue in Aug until the strong season Sep-Oct. Although more cities saw home price rebound, increasing concern on policy risk, we see low possibility of an overheating residential market given short term oversupply situation. Another slowing sales month Aug should reduce needs of further tightening. Even if new curbing moves were launched, the impact should not be as dramatic as Home Purchase Restriction. The positive effect of credit easing will return to market focus after Aug.

**Softening sales on policy concern; full year target on track:** Among 16 major China property developers (13 listed in HK and 3 listed in China), 87.5% (vs 12.5% in Jun) of them posted MoM decline with avg. rate at -21.8% (vs +23.7% in Jun). New home sales weakened in China, reversing the improving trend since Mar.

In terms of YoY basis, however, Aug proved to be another strong month. Year to Jul, 81.3% of the developers achieved above 50% of full year target, this allows us to believe developers are tracking their full year target.

#### More cities seeing price edges up but with low possibility of overheating:

By NBSC survey on 70 cities, 49 or 70.0% posted MoM rebound on new home price in Jul. The number of cities registering recovery in selling price has been increasing since May.

But we are of view that the short term oversupply landscape (est. supply/demand ratio at 1.44x for 2012) will constrain the possibility of again overheated residential market. Developers were still in clearing inventory mode, but some of them continue to scale back the previous discount, which caused a MoM ASP rebound. Another point worthy to notice is that in July, the relative big drop in rigid demand was highlighting the proportion of high-end property, so that the average price maybe inflated.

#### Over-reacted to policy risk; an important month ahead for policy direction:

Market maybe over concerned on policy. Further tightening set to deter housing stats and raise chances of undersupply next year, which is also against government intention. On the other hand, few policies are seen more stringent than the already in placed Home Purchase Restriction. Hence, the negative impact of further tightening should not be drastic.

Meanwhile, the slow sales trend is expected to continue in Aug (est. -10% MoM), a cooling demand may reduce the needs of further tightening.

**Stocks preferred:** Trading at 5-yr mean PB level of 0.95x, the short term valuation is expected to hold up on the hopes of coming strong season sales. The positive effect of credit easing will return to center stage. Prefer to Evergrande(3333 HK) and Sunac(1918 HK) as their sales schedule skew to 2H12. Also favor the market leader, COLI(688 HK) on potential aggressive land acquisition.

## Sales softening on tightening concern but full year target on track

**July12 sales softening:** Compared to Jun, the Jul sales of China property developers weakened, reversing the improving trend since Mar. While part of developers blamed the lower achievement on slow launches in weak season, we believe the situation could be more due to the sudden drop in demand on potential tightening policy. The central government sent investigations teams in the month to inspect the execution progress of policy measures in 16 selected provinces, this demonstrated government's strong determination to curb price rebound, and therefore deter some purchases.

Among 16 major China property developers we followed, 87.5% (vs 12.5% in Jun) of them posted MoM decline with avg. rate at -21.8 % (vs +23.7% in Jun).

**YOY growth momentum sustains:** In terms of YoY basis, however, Aug proved to be another strong month. 78.6% (vs 81.3% in Jun) of them posted YoY sales growth with avg. rate at 42.4% (vs 34.3% in Jun). Volume growth continues to be a major growth driver. 81.3% of them achieved above 50% of full year target. The strong sales achievement, allows us to believe the sales of property developers are tracking their full year target. COLI and Shimao Property (813 HK) revised up full year budget sales by 25% and 14% respectively.

**Exhibit 1: Contracted sales summary by major listed China developers**

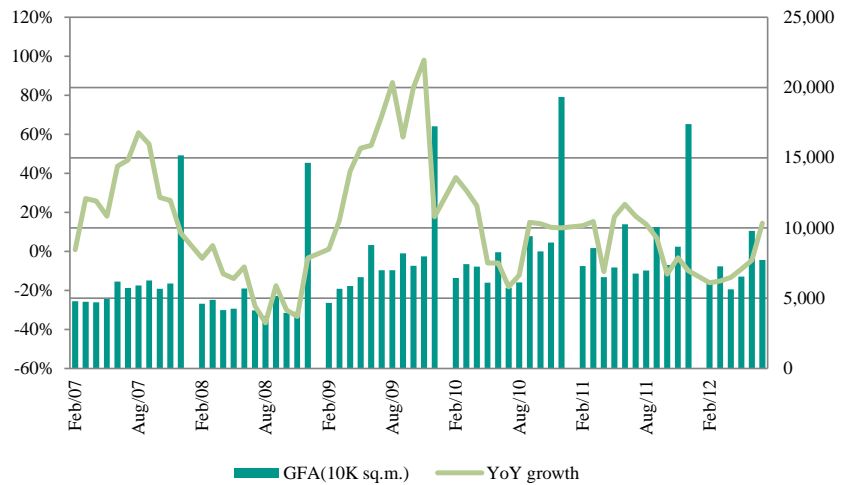
		7/2012			1-7/2012		2012	2012
		Rmbbn	YOY	MoM	Rmbbn	YoY	Target	%
688	China Overseas <sup>^</sup>	10.1	26%	-32%	75.2	25%	100.0	75.2%
3333	Evergrande	8.2	-5%	0%	43.3	-15%	80.0	54.1%
960	Longfor Properties	3.1	20%	-32%	20.5	-1%	39.0	52.6%
2007	Country Garden	0.0	98%	6%	22.1	-8%	43.0	51.4%
3383	Agile Property	2.1	1%	-33%	16.2	-9%	31.0	52.2%
813	Shimao Property	4.1	22%	-32%	26.5	51%	35.0	75.8%
2777	R&F Properties	2.4	-22%	-15%	17.0	3%	32.0	53.2%
119	Poly HK	0.0	76%	-47%	12.8	34%	16.0	80.0%
1813	KWG	1.1	6%	-13%	6.4	-15%	12.0	53.5%
1638	Kaisa Group	1.5	-20%	0%	7.9	26%	16.5	47.9%
1918	Sunac	2.4	6%	-27%	13.6	90%	22.0	62.0%
1777	Fantasia	0.7	21%	-20%	4.0	2%	7.2	55.9%
1224	C C Land	0.6	76%	-13%	3.4	-5%	6.8	75.2%
000002	Vanke A-share	10.4	23%	-22%	72.9	-2%	120	60.8%
600048	Poly A-share	9.1	80%	-41%	59.4	33%	900*	66.0%
600383	Gemdale A-share	2.6	4%	-28%	16.0	17%	400	40.1%
<b>Total</b>		<b>656.8</b>	<b>21.1%</b>	<b>-26.2%</b>	<b>4,173.4</b>	<b>10.3%</b>	<b>690.5</b>	<b>60.4%</b>
Average			25.8%	-21.8%		14.1%		58.1%
>0			81.3%	12.5%		56.3%		
<0			18.8%	87.5%		43.8%		

<sup>^</sup>contracted sales unit is HK\$bn ; \*ACBI estimation

Source: Companies' announcements and ABCI Securities



Exhibit 2: China property sector monthly new GFA sold



Source: NBSC and ABCI Securities

### More cities seeing price edges up in Jul, but the possibility of overheating is low

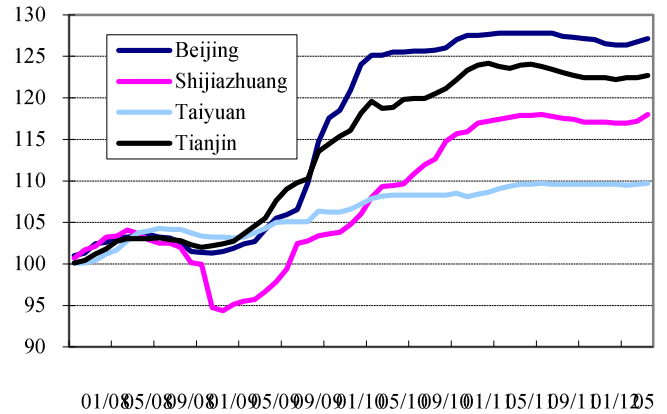
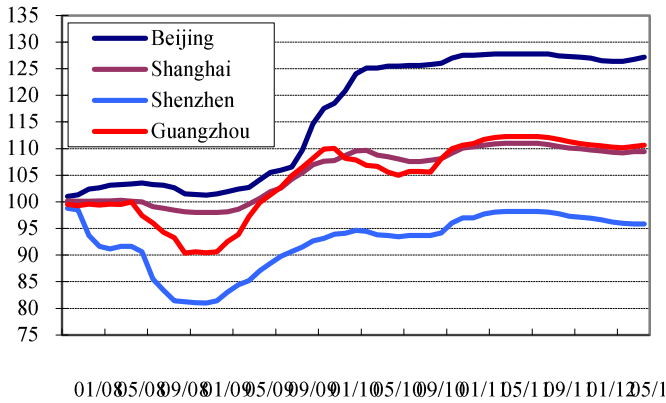
More cities registered recovery of new home prices in Jul, indicated by the NBSC survey on Aug 18. Among 70 cities in the pool, 49 or 70.0% posted MoM price rebound in Jul, in June the figure was 25 or 35.7% and in May was 6 or 8.6%. The high tier cities such as Beijing (+0.3%MoM), Shanghai (+0.4%MoM) and Tianjin (+0.7%MoM) led the rebound.

But still, 12 cities or 17.1% of the 70 cities saw stable ASP and 9 or 12.9% of them posted decline. We expect the possibility of again overheated property market is low. The short term oversupply landscape (est. supply/demand ratio at 1.44x for 2012) is the dominant factor of the sector, still constraining the pricing power of developers. Our channel chat indicated that developers were still going for speeding up asset turnover by de-stocking and fetching more cash, but some of them continue to scale back the previous discount, which caused a MoM ASP rebound.

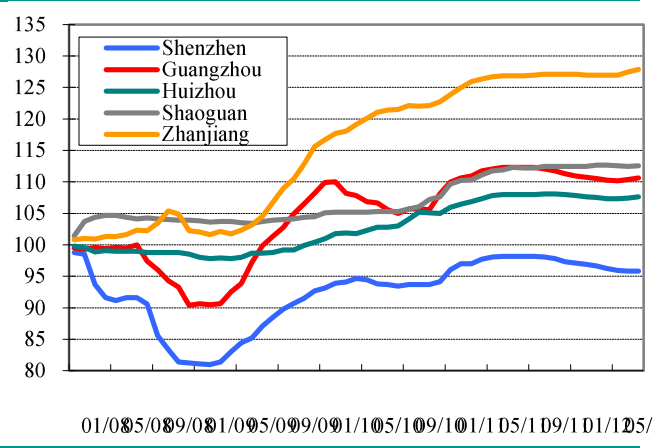
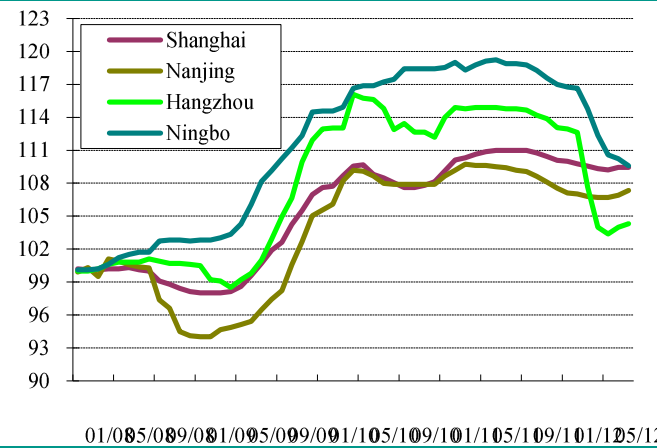
On the other hand, we expect the July price movement is likely to be distorted by product mix change. In July, the rigid demand saw more drops, which highlighted the proportion of high-end property, so that the average price maybe inflated.



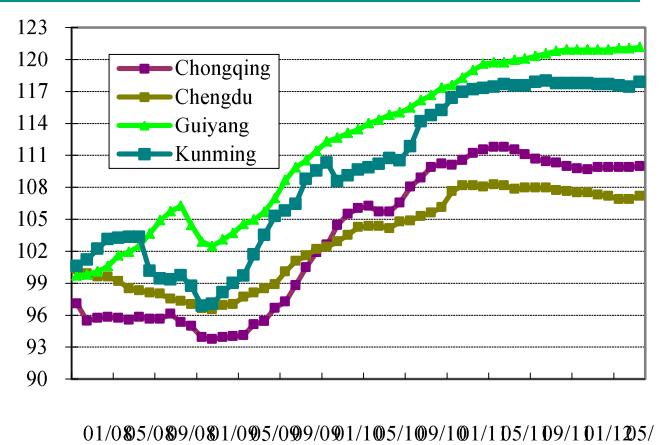
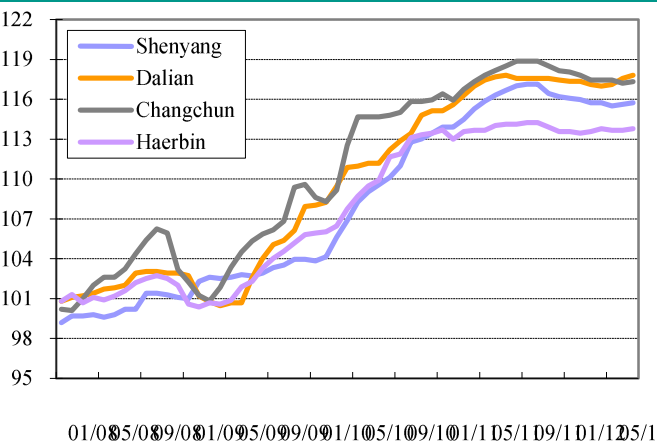
Exhibit 3: New home price index in major cities (12/2007 = 100)



Source: NBSC and ABCI Securities



Source: NBSC and ABCI Securities



Source: NBSC and ABCI Securities

### Over-reacted to policy risk; an important month ahead for policy direction

Market concern on policy risk increases, particularly for high tier cities along with the price rebound. But further tightening, in our view set to deter housing stats and reduce supply in upcoming 6-12 months, this causes

## Sunac China Holdings Ltd.

turbulence on economy, but more importantly it will raise chances of undersupply next year. The supply/demand ratio is estimated to drop to 1.06x in 2013. On the other hand, as the Home Purchase Restriction are generally seen as most effective way to curb investment demand, the negative impact of potential new curbing measures, such as real estate tax, tightening of Housing Provident Fund will not be as drastic.

In a case if government were to launch new curbing moves, Aug sales should be an important reference. Strong sales in Aug will raise upside risk of home price in the coming full year peak season (Sep-Oct). However, an already cooling down demand may reduce the needs of further tightening. We expect the slow sales trend will continue in Aug, est. 10% MoM drop in sales. Similar as Jul, apart from the seasonal factor, the major reason of the slowing sales could be fast changing ASP expectation amid the renewing concern on policy.

We expect that government may keep calling for stringent execution on existing policy, as a signal to the market that curbing price is still a high priority on the government's agenda. Compared to the policy risk, we expect that a more important factor worthy to watch is whether recent monthly sales have been elevated by some element of pend-up demand carried over from 2H11 and early 12 that could be taper off, this is soon to be tested in Sep-Oct.

### Valuation supported by hopes on strong season sales

The sector is trading at 5-yr mean PB level of 0.95x. We expect the short term valuation to hold up on the hopes of strong season sales. The positive effect of credit easing will return to center stage after Aug. Genuine demand given improved affordability on still rising household income and lower mortgage rate may provide resilient sales and cushion market downturn, this continues to be the major investment theme in 2H12. On this point we prefer to Evergrande and Sunac as their sales schedule skew to 2H12. We also favor the market leader, COLI on the potential aggressive land acquisition

**Exhibit 4: Valuation comparison for China property developers**

Company	Code	Price (HK\$)	MV (HK\$m)	1mth Chg.	YTD Chg.	2012 P/E	Forward P/B	5-yr Avg PB	Net D/Equity
China Overseas	688	18.08	147,759	3.0%	39.3%	8.30	1.80	1.83	33.2%
China Resources	1109	14.92	86,943	0.1%	19.6%	10.68	1.29	1.30	56.7%
Evergrande	3333	3.22	48,203	-15.7%	0.0%	3.63	0.98	1.30	67.5%
Longfor Properties	960	11.66	60,250	-5.5%	32.8%	7.42	1.81	1.77	39.2%
Country Garden	2007	2.74	49,949	-8.4%	-1.2%	5.70	1.14	1.24	61.4%
Agile Property	3383	9.20	31,735	-10.2%	32.2%	5.52	1.04	1.08	52.6%
Shimao Property	813	11.78	40,907	3.7%	77.7%	6.58	1.04	0.95	81.6%
R&F Properties	2777	9.35	30,129	-9.4%	52.3%	5.02	0.94	1.12	85.1%
Poly HK	119	4.16	15,011	-4.6%	23.4%	5.58	0.57	0.91	93.2%
KWG	1813	4.36	12,614	-3.8%	66.4%	4.50	0.68	0.81	61.8%
Kaisa Group	1638	1.42	6,966	-1.4%	6.0%	2.71	0.46	0.92	76.6%
Sunac	1918	3.27	9,827	5.5%	103.1%	2.47	0.85	0.61	104.1%
Fantasia	1777	0.72	3,749	-15.3%	5.9%	2.68	0.47	0.74	56.7%
Beijing Capital	2868	2.38	4,901	-3.6%	55.6%	3.31	0.62	0.61	-13.3%
C C Land	1224	1.67	4,322	-2.3%	21.1%	5.86	0.31	0.51	3.4%
Median						5.52	0.94	0.95	-
Average						5.33	0.93	1.05	57.3%
+1.0SD						7.63	1.38	1.44	-
-1.0SD						3.04	0.48	0.65	-

Source: Bloomberg; ABCI Securities



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