



# China Property Sector

## Monthly sales: Mar sales rebounded 128% MoM

- Contracted sales of 23 major listed developers declined by 9%YoY in Mar 2020, much less than the 33%YoY decline in Feb 2020
- Contracted ASP of listed developers was down 11%YoY, boost GFA sold by 2%YoY
- We estimate that for every 5% drop in ASP, gross margin would decline by 3.2ppt
- Uncertain sales outlook induced by COVID-19 pandemic and possible margin erosion prompt us to prefer PMCs over developers for their rich-cash nature and visible project pipelines. **A-Living (3319 HK)** remains as our Top pick.

**Developers' contracted sales rebounded by 128% MoM in Mar 2020.** Contracted sales of 23 major listed developers recovered in Mar 2020 as COVID-19 outbreak recedes in China. Contracted sales of major listed developers rebounded by 128% MoM in Mar 2020; contracted sales only dropped -9% YoY in Mar (vs -15%/-12%YoY decline for national commodity housing/new homes sales), compared to the -33% YoY drop in Feb and -7% YoY decline in Jan. As most developers said sales centers have resumed normal operation in Apr, positive YoY sales growth may ensue in Apr.

**Concerns on margin erosion surfaces.** However, such dramatic improvement in contracted sales was attained by price incentives. In particular, contracted ASP of 23 listed developers was down 11%YoY to boost GFA sold (+2% YoY), meaning gross margin could be reduced. Due to surging land prices, the sector's average gross margin dropped by 2.0ppt YoY to 30.4% and net margin declined 0.8ppt YoY to 13.3% in 2019. We estimate a 5% drop in ASP would result in a 3.2ppt decline in gross margin. The thinning margin would be reflected in 2021 P&L upon project delivery.

**Falling LPR would encourage more mortgage buyers.** In Apr, the one-year loan prime rate (LPR) was lowered by 20bps to 3.85% from 4.05% while the five-year LPR was cut by 10bps to 4.65% from 4.75%, marking the second reduction in the lending benchmark rate in 2020. Our economist expects the five-year LPR, which affects the pricing of mortgage, should decline further by 20bps to 4.45% by end-2020. According to Rong360, average first-home mortgage rate declined by 6bps to 5.48% in Mar 2020 compared to Dec 2019.

**Parent and related developers help to secure future new projects for listed PMC.** In 1Q2020 alone, parent or related developers GFA sold should boost the listed PMCs' future GFA under management by 3.4% on average (exhibit 6), assuming 100% of these GFA sold will translate in to GFA under management in the future.

**Major PMC stocks rose 28.5% over the past month; A-living (3319 HK) remains as the top pick.** As a result of uncertain sales outlook induced by the pandemic and possible margin erosion, we prefer PMCs over developers based on their rich-cash nature and visible project pipelines. Share prices of the PM sector rose 28.5% over the past 1 month (up to 23 April 2020), outperforming developers' 15.8% increase. A-Living remains as our top pick in PM sector. On the other hand, **Aoyuan (3883 HK)** and **Times China (1233 HK)** are our developer picks given their exposure to Greater Bay area, where economic recovery and home demand would outpace the national average, in our view.

**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.

### Our Top Picks (data as of Apr 23, 2020)

Company	Ticker	Current Rating	TP (HK\$)	Share price (HK\$)	Upside (%)	FY20E P/E (x)	FY21E P/E (x)	FY20E P/B (x)	FY21E P/B (x)	FY20E Yield(%)	FY21E Yield(%)
A-Living	3319	BUY	51.40	38.90	32.1%	27.5	19.9	6.72	5.75	1.82	2.51
Aoyuan	3883	BUY	11.10	8.88	25.0%	3.61	2.58	1.13	0.87	8.31	11.61
Times	1233	BUY	15.70	12.24	28.3%	3.58	3.16	0.93	0.77	8.37	9.48

Note: No revision on forecast and TP since previous company reports on Mar 10, 18 & 25, 2020

Source(s): Bloomberg, ABCI Securities estimates

## Sector Report

### Apr 24, 2020

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#### Key Data

Avg. 20E P/E (x)	5.44
Avg. 20E P/B (x)	1.03
Avg. 20E Dividend Yield (%)	7.16

Source(s): Bloomberg, ABCI Securities estimates

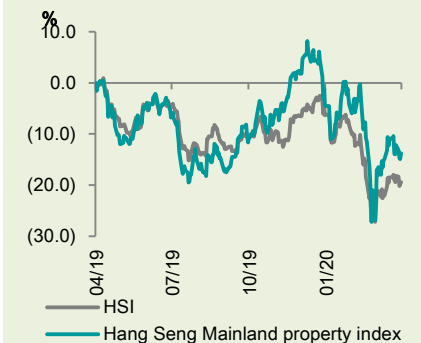
#### Sector Performance (%)

	Absolute	Relative*
1-mth	11.1	5.1
3-mth	(9.7)	4.2
6-mth	(3.3)	7.1

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

#### 1-Year sector performance (HK\$)



Source(s): Bloomberg, ABCI Securities



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

Developer	BGG	Mar 2020							3M2020						2020	
		Amount	YoY chg	GFA	YoY chg	ASP	YoY chg	Amount	YoY chg	GFA	YoY chg	ASP	YoY chg	target	YoY chg	
		Code	RMBbn	%	000 sqm	%	RMB/sqm	%	RMBbn	%	000 sqm	%	RMB/sqm	%	RMBbn	
1	Evergrande	3333 HK	62.1	13%	6,945	35%	8,939	-17%	147.4	23%	16,581	50%	8,887	-18%	650	22.7%
2	Greentown	3900 HK	14.2	17%	590	13%	24,068	3%	24.3	-5%	1,120	-6%	21,696	1%	250	9.7%
3	Yuzhou	1628 HK	5.7	10%	370	6%	15,454	4%	10.4	-6%	665	-10%	15,584	4%	100	10.4%
4	Logan	3380 HK	7.1	-9%	493	-13%	14,442	4%	15.9	-7%	1,058	-15%	14,991	10%	110	14.4%
5	Vanke	2202 HK	54.9	-4%	3,781	5%	14,531	-9%	137.9	-8%	8,848	-4%	15,583	-4%	na	na
6	Jinmao	817 HK	13.0	30%	786	70%	16,587	-24%	26.1	-8%	1,566	25%	16,638	-26%	200	13.0%
7	Shimao	813 HK	20.3	6%	1,151	9%	17,663	-3%	37.0	-9%	2,109	-8%	17,554	-1%	300	12.3%
8	Times	1233 HK	4.7	-30%	385	-12%	12,130	-21%	12.4	-11%	901	-4%	13,789	-7%	82	15.1%
9	COLI	688 HK	26.8	7%	1,496	12%	17,896	-4%	59.7	-12%	3,306	-11%	18,064	-1%	360	16.6%
10	Longfor	960 HK	21.1	8%	1,208	0%	17,425	8%	38.2	-14%	2,248	-21%	16,975	8%	260	14.7%
11	KWG	1813 HK	6.2	-2%	393	8%	15,695	-10%	13.0	-16%	784	-14%	16,633	-2%	103	12.6%
12	Country garden	2007 HK	47.0	4%	5,710	18%	8,238	-12%	100.9	-16%	12,020	-13%	8,393	-4%	na	na
13	Sunac	1918 HK	30.9	-18%	2,287	-13%	13,520	-6%	61.8	-23%	4,534	-16%	13,622	-7%	600	10.3%
14	Aoyuan	3883 HK	7.3	-3%	743	-5%	9,798	2%	14.3	-24%	1,377	-21%	10,383	-3%	132	10.8%
15	CR Land	1109 HK	22.4	-13%	1,313	6%	17,070	-19%	38.9	-24%	2,155	-20%	18,062	-5%	262	14.9%
16	Powerlong	1238 HK	3.2	-31%	215	-29%	14,869	-2%	8.0	-25%	521	-26%	15,387	2%	75	10.7%
17	Sino-Ocean	3377 HK	9.0	-18%	459	2%	19,604	-20%	15.5	-30%	769	-22%	20,195	-10%	130	11.9%
18	R&F	2777 HK	8.0	-32%	659	-37%	12,175	7%	16.7	-33%	1,401	-35%	11,918	3%	152	11.0%
19	CIFI	884 HK	10.1	-47%	625	-39%	16,168	-13%	22.4	-35%	1,389	-31%	16,127	-5%	230	9.7%
20	Poly-A	600048 CH	27.4	-36%	2,014	-29%	13,592	-10%	71.0	-35%	4,903	-30%	14,487	-8%	na	na
21	Yuexiu	123 HK	4.8	-34%	183	-41%	26,421	11%	9.1	-36%	347	-42%	26,236	9%	80	11.4%
22	Agile	3383 HK	7.7	-35%	568	-32%	13,468	-4%	15.7	-38%	1,053	-38%	14,862	1%	120	13.0%
23	Beijing Capital	2868 HK	2.4	-50%	80	-52%	30,000	3%	7.6	-46%	263	-54%	28,745	17%	80	9.5%
Total			416.3	-9%	32,453	2%	12,828	-11%	904	-15%	69,918	-7%	12,930	-8%	4,277	13.9%

National figures

- All types of commodity properties	1,216	-15%	135,030	-14%	9,005	-1%	2,036	-25%	219,780	-26%	9,264	2%
- Residential only	1,074	-12%	117,460	-14%	9,140	2%	1,793	-23%	192,350	-26%	9,324	4%

# Country Garden reported its attributable figures only

Source(s): Companies, NBS, ABCI Securities

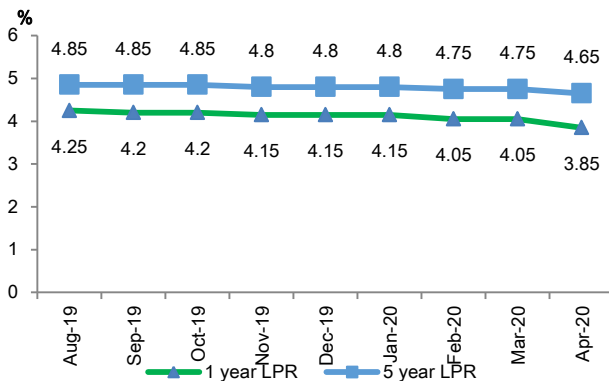
Exhibit 2: Contracted sales performance of recently listed developers

Developers	listing		2018	2019	YoY change	1Q2020	YoY change
	date	stock code					
			RMBmn	RMBmn	%	RMBmn	%
Sinic	11-Nov-19	2103 HK	71,081	91,423	29%	14,440	NA
Tianbao	11-Nov-19	1427 HK	NA	NA	NA	NA	NA
JY Grandmark	5-Dec-19	2231 HK	2,298	3,116	38%	NA	NA

Source(s): Companies, ABCI Securities

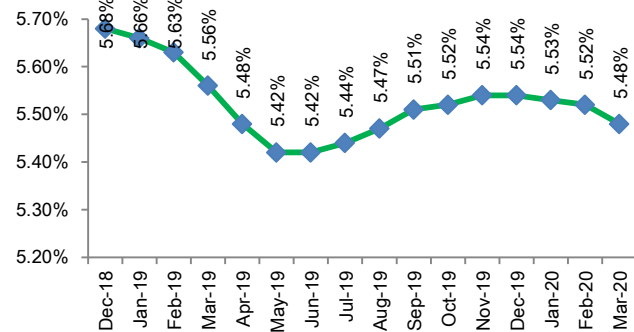


Exhibit 3: LPR trend



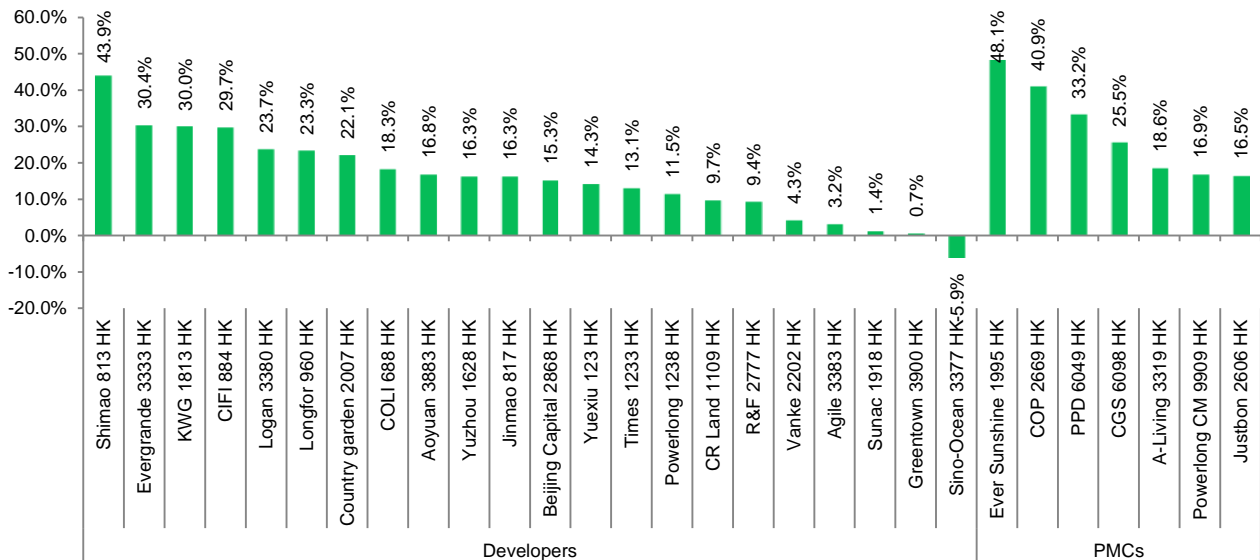
Source(s): Bloomberg, ABCI Securities

Exhibit 4: Average first-home mortgage rate based on Rong360



Source(s): Rong 360, ABCI Securities

Exhibit 5: 1-month share price performance of developers and PMCs



Source(s): Bloomberg, ABCI Securities

Exhibit 6: PMCs: GFA under management vs. Parent/ related developer's GFA sold

	PMC	stock code	GFA under management (mn sqm)			Parent/related developers	stock code	GFA sold (mn sqm)					1Q20 GFA sold as % of PMC's GFA under management as at Dec 2019
			2018	2019	YoY			2018	2019	YoY	1Q20	YoY	
			<A>					<B>					<B/A>
1	CGS	6098 HK	182	276	52%	Country garden	2007 HK	77.3	81.4	5%	12.0	-13%	4.4%
2	PPD	6049 HK	191	287	51%	Poly-A	600048 CH	27.7	31.2	13%	4.9	-30%	1.7%
3	A-Living	3319 HK	138	234	69%	Agile+ Greenland	3383 HK/ 600606 CH	43.7	41.4	-5%	5.2	-33%	2.2%
4	COP	2669 HK	141	151	7%	COLI	688 HK	15.9	17.9	13%	3.3	-11%	2.2%
5	S-Enjoy	1755 HK	43	60	40%	Seazen	1030 HK	18.1	24.3	34%	2.9	-31%	4.8%
6	Ever Sunshine	1995 HK	40	65	62%	CIFI	884 HK	9.6	12.0	26%	1.4	-31%	2.1%
7	AHL	3662 HK	10	15	45%	Aoyuan	3883 HK	8.9	11.7	32%	1.4	-21%	9.1%
8	Justbon	2606 HK	61	72	18%	Languang	600466 CH	8.0	11.0	37%	1.2	-51%	1.6%
9	Powerlong CM	9909 HK	17	18	12%	Powerlong	1238 HK	2.8	3.8	34%	0.5	-26%	2.8%
Average													3.4%

Source(s): Companies, ABCI Securities



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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

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