



Jan Sales Summary

Sector Update

China Property Sector

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Related report:

Nov Sales Performance of China Developers

Dated on 14 Dec 2011

Oct Sales Performance of China Developers

Dated on 15 Nov 2011

Sep Sales Performance of China Developers

Dated on 13 Oct 2011

We reviewed the sales performance of our covered 15 developers (12 listed in HK and 3 listed in China) in Jan 2012. Their sales amount deteriorated sharply in Jan, down 51.2% YoY or 41.0% MoM.

Demand tumbled: The GFA sold dropped 50.1% YoY in Jan. Developers explained their sales performances in Jan were distorted by Chinese New Year holidays which were in February last year. However, we believe home buyers are more selective in making decision. Some developers had outstanding performance in Jan. Kaisa (1638) bucked the trend, registered 44% YoY increase in sales volume in Jan. Sunac recorded 7.5% YoY decline in sales volume. Vanke also outperformed the average, registered 28.1% YoY decline in sales volume in Jan.

Some developers managed to raise ASP: Despite of the decline in sales volume, some developers managed to raise ASP, including China Overseas (688), Agile Property (3383) and Shimao Property (813). Among the peer group, ASP was up 3.4% YoY or 7.6% MoM in Jan.

Our stock pick: We prefer to developers with fast asset turnover, large exposure in low-tier cities or strong product differentiation. Our top picks are Evergrande (3333; TP HK\$4.5), Poly (119; TP HK\$4.7) and Sunac (1918; TP HK\$2.95)

Jan Sales performance of China developers (HK listing ranked by MV)

Code	Name	Contracted sales			GFA		ASP	
		Rmb100mn	YoY	MoM	YoY	Rmb/sqm	YoY	MoM
688	China Overseas	39.4	-49.3%	-28.8%	-52.3%	15,391	6.3%	1.3%
3333	Evergrande	22.2	-77.3%	73.4%	-73.5%	5,952	-14.3%	-17.2%
960	Longfor Properties	11.8	-72.3%	-55.5%	-	-	-	-
3383	Agile Property	20.8	-35.0%	-40.6%	-54.8%	18,407	43.8%	99.8%
813	Shimao Property	9.1	-70.0%	-59.4%	-79.0%	18,062	42.9%	44.6%
2777	R&F Properties	12.3	-56.7%	-44.3%	-47.0%	14,009	-18.3%	9.2%
119	Poly HK	5.0	-52.4%	-66.7%	-45.4%	7,692	-12.8%	38.5%
1813	KWG	4.1	-68.8%	-26.4%	-	16,200	-	-
1638	Kaisa Group	5.6	60.0%	-69.7%	44.0%	7,970	11.1%	-35.9%
1918	Sunac	5.9	6.4%	-68.9%	-7.5%	14,750	15.0%	-22.4%
1777	Fantasia	0.9	-79.3%	-82.6%	-77.4%	8,550	-8.3%	0.1%
1224	C C Land	1.0	-89.0%	-91.1%	-89.0%	8,591	0.0%	-7.3%
000002	Vanke A-share	122.0	-39.3%	109.6%	-28.1%	10,252	-15.6%	5.5%
600048	Poly A-share	15.1	-69.4%	-73.1%	-74.7%	12,088	21.1%	11.7%
600383	Gemdale A-share	4.0	-75.8%	-91.5%	-66.8%	10,811	-27.1%	-29.5%
Average			-51.2%	-41.0%	-50.1%		3.4%	7.6%
>0			13.3%	13.3%	7.7%		46.2%	61.5%
<0			86.7%	86.7%	92.3%		53.8%	38.5%

Source: Companies' announcements and ABCI Securities

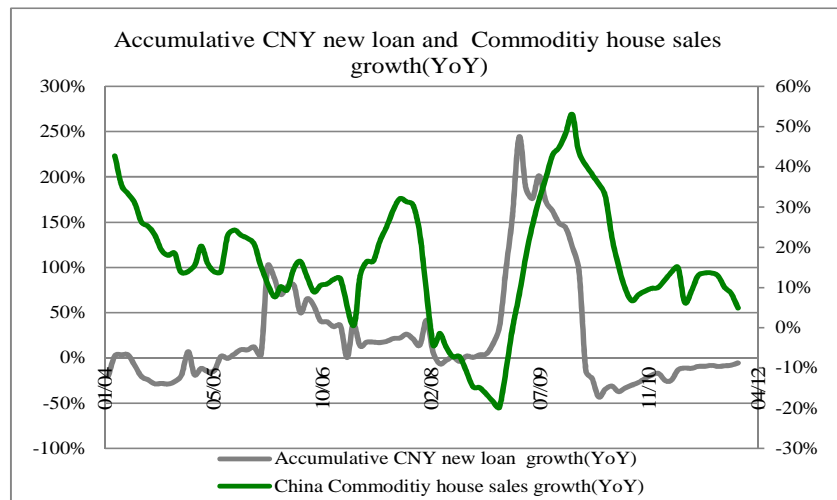


Macro and Sector Issues

Policy stance remains intact: We maintain our view that the austerity measures to curb speculation activities in the property market will remain intact in 2012. Local government of Wuhu, a 3rd-tier city, located in Anhui province of eastern China, announced to waive a deed tax and subsidize some small home purchases on 9 Feb while the decision was suspended 3 day after. Back to last Oct, Foshan, a city located in Guangdong Province of southern China suspended the decision just one day after saying it would allow residents to buy a second home.

In Dec, 74.3% of 70 major cities in the monthly survey registered MoM decline in new home prices, compared with 70.0% in Nov and 48.6% in Oct, according to the National Bureau of Statistics. As investment demand is limited, home price will be determined by demand from genuine end users.

Renew in bank facility alleviating bankruptcy risk: Our channel check indicated that in Jan most of the listed developers have succeeded in renewing their bank facilities. The 50bp BRR cut last Dec and new loan quota in the beginning of this year helped to lower financial risk of developers.



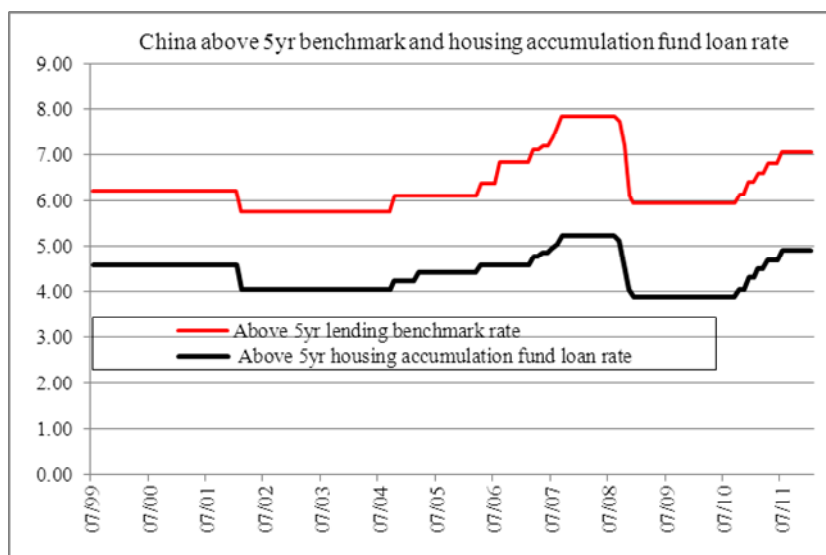
Source: PBOC, NBSC and ABCI securities

We expect that China will continue to moderately loosen its monetary policy and the high level of BRR (21%) and interest rate(5-yr benchmark lending rate 7.05%) provide room for government to fine-tune its economy. However, we expect that the developers will not benefit from the relaxing in monetary policy as strong as previous cycle as banks contain the lending to the sector. The historical strong positive correlation between new loan growth with commodity property sales has weakening since early 2011 and we expect that the situation will continue into 2012.



Offer favorable mortgage rate on first home purchase: Our channel chat with the management of Sunac(1918), Evergrande(3333), C C Land(1224) and Fantasia(1777) all indicated that loosening credit in the beginning of year, led some banks to offer rate cuts to the first-home buyers again. We doubt the real effect of the above measures, in terms of boosting up short term demand. Particularly after the Wuhu case, home buyers' bargaining hunting may dampen and wait-and-see would rise further.

We expect that government will encourage commercial banks to provide concessions to genuine end users to purchase their first homes on one hand and maintain high barriers from speculators entering the property market on the other hand. In such a scenario, the pend-up demand may start to release gradually. Currently, the above 5-yr housing accumulation fund loan rate (4.90%) is at 30% discount to the same term banking lending rate (7.05%).



Source: PBOC, NBSC and ABCI securities

Home prices yet to bottom if sales volume continue to shrink : We believe the price correction will eventually become a nationwide phenomenon with the outskirts area in 1st-2nd offering most discounts(15-20%), followed by lower tier cities(5-15%).



Valuation and stock picks

Sector valuation now has rebounded to 1.11x 2011FY PB, against 5-year average of 1.30x forward PB. A mean reversion means of further upside potential for the sector.

However, we suggest investors to be selective as a homogeneous fundamental for developers is not expected. A divergence in sales performance will continue into 2012. We prefer developers with a fast asset turnover, large exposure in low-tier cities or strong product differentiation. We pick Evergrande (3333), Poly(119) and Sunac (1918).

Sector valuation and recommendations

Company	Code	Price (HK\$)	MV (HK\$mn)	1mth Chg.	YTD Chg.	2011 P/E	2011 P/B	5-yr Avg PB
China Overseas	688	15.10	123,405	9.9%	16.3%	9.9	1.90	2.21
China Resources Land	1109	14.56	84,833	9.5%	16.7%	13.7	1.53	1.54
Evergrande	3333	4.32	64,339	25.6%	34.2%	5.8	1.74	1.73
Longfor Properties	960	11.16	57,530	24.0%	27.1%	10.5	2.32	2.20
Country Garden	2007	3.43	57,278	3.9%	17.9%	8.7	1.62	1.53
Agile Property	3383	9.21	31,769	16.3%	32.3%	6.0	1.17	1.47
Shimao Property	813	9.08	31,471	26.3%	37.0%	6.2	0.88	1.18
R&F Properties	2777	8.65	27,873	25.5%	40.9%	5.1	1.01	1.43
Poly HK	119	4.20	15,155	18.3%	24.6%	8.5	0.64	1.13
KWG	1813	3.83	11,081	29.4%	46.2%	5.1	0.69	0.94
Kaisa Group	1638	1.63	7,996	15.6%	21.6%	4.6	0.61	1.02
Sunac	1918	2.65	7,950	23.8%	64.6%	2.8	0.93	0.86
Fantasia	1677	0.82	4,270	10.8%	20.6%	3.6	0.63	0.88
Beijing Capital Land	2868	2.08	4,283	37.7%	35.9%	3.0	0.56	0.75
C C Land	1224	1.87	4,757	16.1%	29.9%	10.5	0.38	0.67
Median						6.0	0.93	1.18
Average						6.9	1.11	1.30
+1.0SD						10.1	1.69	1.79
-1.0SD						3.7	0.53	0.82

Source: Bloomberg; ABCI



Appendix

Dec Sales performance of China developers (HK listing ranked by MV)

Code	Name	12/2011			1-12/2011		12/2011		1-12/2011		YoY	MoM	YoY
		Contract sales	YoY	MoM	Contract sales	YoY	ASP	ASP					
		Rmbbn			Rmbbn		Rmb/sqm.						
688	China Overseas	5.5	-34.1%	59.4%	87.1	29.8%	15,192	15,604	7.7%	18.6%	23.3%		
3333	Evergrande	1.3	-52.6%	3.2%	80.4	59.5%	7,191	6,589	-13.7%	-4.3%	3.1%		
960	Longfor Properties	2.7	-52.6%	-11.9%	38.3	14.8%	-	11,653	-	-	-14.3%		
2007	Country Garden	3.8	52.0%	52.0%	43.2	31.0%	6,333	6,288	1.3%	6.4%	13.9%		
3383	Agile Property	3.5	-49.3%	94.4%	31.5	-2.5%	9,211	10,161	-25.2%	12.6%	-11.0%		
813	Shimao Property	2.2	-33.3%	28.8%	30.7	0.7%	12,491	12,845	15.7%	14.0%	6.5%		
2777	R&F Properties	2.2	-32.4%	-21.4%	28.5	-11.5%	12,826	13,040	-8.1%	104.1%	0.0%		
119	Poly HK	1.5	15.4%	25.0%	15.8	39.0%	5,556	7,349	-51.3%	-7.4%	-7.9%		
1638	Kaisa Group	1.8	24.0%	47.1%	15.3	52.0%	12,442	7,022	-10.8%	31.0%	-39.0%		
1918	Sunac	1.9	148.9%	9.2%	17.7	150.0%	19,000	15,775	43.1%	31.0%	49.3%		
1777	Fantasia	0.5	-35.1%	10.8%	7.0	80.0%	8,540	9,385	-	-8.5%	-7.7%		
2868	Beijing Capital Land	0.9	-54.0%	-17.1%	11.0	-11.4%	9,109	9,364	9.3%	-24.5%	-10.6%		
1224	C C Land	1.1	96.0%	262.2%	6.4	10.0%	9,267	8,608	18.1%	30.4%	21.1%		
000002	Vanke A-share	5.8	-30.3%	-29.8%	121.5	12.4%	9,716	11,303	-19.8%	-13.5%	-6.2%		
600048	Poly A-share	5.6	-37.7%	14.1%	73.2	10.7%	10,818	11,263	-25.4%	-7.5%	17.2%		
600383	Gemdale A-share	4.7	18.0%	23.6%	30.9	9.1%	15,342	13,828	-3.4%	11.5%	11.8%		

Source: Companies' announcements and ABCI Securities



Disclosures

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