



Monthly Review and Outlook

Recovery on track driven by volume

Sector Update

China Residential Property Sector
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Related Reports:

Apr Sales Performance of China Developers
Dated on 15 May 2012

Mar Sales Performance of China Developers
Dated on 12 April 2012

Jan Sales Performance of China Developers
Dated on 14 Feb 2012

Jun-sales continue to pick up: The new home sales kept recovery in Jun after bottomed out in Apr, according to the reported sales figures of major property developers in China. Moreover, proportion of listed developers posting MoM increase in new home sales increased in Jun. Among 16 major China property developers (13 listed in HK and 3 listed in China) we followed, 87.5% (vs 87.5% in May) of them posted MoM growth with avg. rate at 27.5% (vs 23.0% in May) in June. 81.3% (vs 85.7% in May) of them posted YoY contracted sales growth with avg. rate at 34.3% (vs 29.5% in May). The price cut together with the increased tailor-made projects focusing on real demand (small size with low ASP) contributed to the sales rebound but the lending interest rate cut cycle starts to weight more.

Volume growth: Sales volume growth is the key growth driver. Among the developers in our pool which posted MoM rebound, we estimated 90% of the growth was driven by increase in sales volume. In June 87.5% of the developers posted MoM growth with avg. MoM growth rate at 23.7%.

Full year sales target on track: Despite of tough market environment in 1H12, 50.0% of the developers recorded YoY growth for contracted sales with avg. rate at 15.6%. 92.3% of them achieved above 40% of full year target while according to the industry practice, 1H is the weak season and usually 30% of full year budget sales will be attained. The sales of property developers are tracking their full year target, in our view.

Contracted sales summary by major listed China developers

		6/2012			1-6/2012		2012	2012
		Rmbbn	YOY	MoM	Rmbbn	YoY	Target Rmbbn	% Achieved
688	China Overseas^	14.8	22%	20%	65.1	25%	800	81.4%
3333	Evergrande	8.2	-4%	-21%	35.0	-17%	800	43.8%
960	Longfor Properties	4.5	104%	36%	17.5	-4%	390	44.8%
2007	Country Garden	4.5	22%	20%	17.3	-19%	430	40.3%
3383	Agile Property	3.2	43%	31%	14.1	-10%	310	45.4%
813	Shimao Property	6.0	90%	17%	22.5	58%	307	73.3%
2777	R&F Properties	2.8	9%	19%	14.6	9%	320	45.8%
119	Poly HK	5.1	111%	143%	10.1	26%	160	63.1%
1813	KWG	1.2	20%	10%	5.4	-18%	120	44.7%
1638	Kaisa Group	1.5	-12%	25%	6.5	44%	165	39.4%
1918	Sunac	3.3	112%	42%	11.2	129%	220	51.0%
1777	Fantasia	0.8	-9%	15%	3.4	-1%	72	46.6%
1224	C C Land	0.7	8%	-2%	2.8	-13%	68	41.4%
000002	Vanke A-share	13.3	1%	24%	62.6	-5%	-	-
600048	Poly A-share	15.5	37%	44%	50.3	27%	-	-
600383	Gemdale A-share	3.6	-4%	17%	13.5	20%	-	-
Average			34.3%	27.5%		15.6%		52.8%
>0			75.0%	87.5%		50.0%		
<0			25.0%	12.5%		50.0%		

^contracted sales unit is HK\$bn

Source: Companies' announcements and ABCI Securities



Reversal of tightening-key catalyst in 2H12: We believe the lending interest rate cuts, not limited to the cuts on 8 June and 6 July, but also factor in expectation of more cuts in 2H12 could ultimately boost end-user demand by enhancing their purchasing power and changing their expectations on home prices.

We estimate that the total 50bp rate cut (25bp on 8 June and 25bp cut on 6 July) will lower the home buyers' monthly payment by Rmb160 (or 3.8%) from Rmb4,168 to Rmb4,008, based on the following key assumptions.

	Assumptions
House value	Rmb0.765mn with ASP at Rmb8,500/sqm. and GFA at 90 sqm.
Down payment ratio	30%
Loan duration	20 years
Benchmark lending rate	Declines by 50bp (25bp cut on 8 June and 25bp cut on 6 July) to 6.55% on 6, July from 7.05% on 7 June

Source: PBOC and ABCI Securities estimates

We highlight that China is in the beginning of loosening cycle, hence a further rate cut is built in expectation. Per market consensus, PBOC may cut rate two times more for the rest of 2012. Assuming further 50bp rate cut, home buyers' monthly payment will therefore decline further by Rmb156 (or 3.9%) from Rmb4,008 to Rmb3,852. The affordability of buyers will be healthier.

ASP showing stabilize signs but upside capped by short term oversupply and policy stance: On the back of strong release of pending demand last two months as well as eased cash flow concern on the developers' side, ASP shows signs of stabilizing and rebound is at sight for some core area projects. In June, 56.3% of developers reported MoM rebound in ASP against 50.0% in May and 33.3% in Mar. However, upside potential for ASP will be limited to 3-5%MoM in our view. It should be capped by short term oversupply and policy stance. Further austerity measure will be triggered given sharp rebound on ASP as it is against government intention.

With supply (GFA start + inventory) continuing to go down and the rebound of new home sales last two months, we expect developers to turn more positive on the ASP trend. Against prior consensus, 15-20% YoY price drop in 1st-2nd cities and 5-10% YoY decline in 3rd-4th cities in 2012, an upward revision on ASP is expected in the near future.

Prefer high leveraged stocks: Given capital-intensive nature, the reversal of monetary tightening policy is good for the whole property sector while the high leveraged names benefit most, they are benefiting from interest cost saving and better sales outlook arising from credit easing. Hence we suggest investors ramp up positions in Evergrande (3333), Shimao Property(813), R&F Properties(2777), Poly HK(119) and Sunac(1918).



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	18.16	148,413	3.9%	39.9%	8.33	1.84	1.83	33.2%
China Resources	1109	15.42	89,857	-1.8%	23.6%	11.09	1.35	1.30	56.7%
Evergrande	3333	4.04	60,432	-13.5%	25.5%	4.51	1.24	1.30	67.5%
Longfor Properties	960	12.56	64,900	0.5%	43.1%	7.98	1.96	1.77	39.2%
Country Garden	2007	3.03	55,236	-9.3%	9.2%	6.32	1.28	1.24	61.4%
Agile Property	3383	10.60	36,564	5.4%	52.3%	6.17	1.20	1.08	52.6%
Shimao Property	813	12.06	41,879	4.3%	81.9%	6.82	1.05	0.95	81.6%
R&F Properties	2777	10.12	32,610	-7.5%	64.8%	5.41	1.05	1.12	85.1%
Poly HK	119	4.61	16,635	13.8%	36.8%	6.07	0.63	0.91	93.2%
KWG	1813	4.80	13,887	-3.2%	83.2%	4.91	0.75	0.81	61.8%
Kaisa Group	1638	1.46	7,162	-7.0%	9.0%	2.72	0.48	0.92	76.6%
Sunac	1918	3.40	10,206	19.3%	111.2%	2.65	0.80	0.61	104.1%
Fantasia	1777	0.85	4,426	-5.6%	25.0%	3.22	0.55	0.74	56.7%
Beijing Capital	2868	2.34	4,818	4.9%	52.9%	3.33	0.53	0.61	-13.3%
C C Land	1224	1.83	4,736	3.3%	32.7%	6.42	0.34	0.53	3.4%
Median						6.07	1.05	0.95	-
Average						5.73	1.00	1.05	57.3%
+1.0SD						8.06	1.49	1.44	-
-1.0SD						3.40	0.52	0.66	-

Source: Bloomberg; ABCI Securities



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Disclosures

I, Li Hong-ying, Vivian, being the person 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 my personal view about the subject company or companies and its or their securities.

I, Li Hong-ying, Vivian, have financial interest in Evergrande Real Estate Group Limited (3333) as at 13 July 2012.

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