

China Property

Ground checks with a construction contractor

Industry Overview

Developers' payment status

On January 11, we hosted a conference call with Mr. Sun Letian – vice president at Zhejiang Urban Construction Group, which has ongoing business with almost all the top Chinese developers.

Mr. Sun observed 3 stages for developer payment timeliness: (1) very fast payments before 2019; (2) some delays between 2019 and 2H21; (3) fast deterioration since 2019. According to Mr. Sun, at this point, top SOEs' payments remain mostly on time. He noted that mixed-ownership developers and quality POEs generally still make full payments of receivables but with frequent delays in some cases. For distressed POEs, he sees payments mostly at the minimum level. Mr. Sun indicated that cash collection from economically developed regions, such as the Yangtze River Delta and Greater Bay Areas, seems better.

Payment peak coming before Chinese New Year

According to Mr. Sun, a meaningful number of projects suspended construction due to a lack of funds during 2023. The period right before Chinese New Year should be the peak season for construction payments. Mr. Sun estimates that about 70% of payments would be due before Chinese New Year this year (compared with 20%-30% in normal years given many payment delays during previous months). Mr. Sun hence expects to see more project suspension before or after the Chinese New Year and notes that many workers might not receive their remuneration on time this year.

Still room to improve escrow account supervision

According to Mr. Sun, stringent escrow account supervision may be still lacking in many cities, especially in Central and Western China. There is risk that developers could manage to withdraw funds from escrow accounts via transactions with contractors, potentially deepening the funding shortage for project completion.

Cautious view on new starts and completion assurance

Mr. Sun has a very cautious view on both new starts and completions. He believes that new starts should continue to decline significantly in 2024, while social housing and urban village redevelopment should help only marginally. He believes that local governments have low incentives for social housing construction and that urban village redevelopment should only see fast progress in economically developed areas. LGFVs from economically developed areas may see some pick-up of new starts, according to Mr. Sun. However, he believes that funding aids to help completion of stalled projects are below expectations in general. Mr. Sun notes that, in many cases, local governments are not giving direct funding support to ensure completion: governments either pledge the future projects' saleable resources to incentivize the contractors or try to attract large SOEs to take over projects (but he observes that SOEs are very selective).

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Karl Choi, CFA >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3108
karl.choi@bofa.com

Eric Du >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3329
eric.du@bofa.com

Summer Wang, CFA >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 4351
summer.wang@bofa.com

Yoyo Pang >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 7607
yoyo.pang@bofa.com

LGFV: local government financing vehicles

POE: privately owned enterprise

SOE: state-owned enterprise

UVR: urban village renewal

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