

Industry Report

China Property

Invest on fundamentals not on rumours

■ Sector tumbled due to rumours on cancellation of presales in Guangdong province, despite government denial

■ We expect the policy will roll out in an orderly manner i.e. with minimal earnings impact in NT and LT impact well-contained

■ Market is sensitive to rumours amid macro-uncertainties. We recommend investors to hold on quality big caps i.e. Longfor, COLI

Guangdong government denied on rumours

On 21 Sep 2018, local media reported that Guangdong province might put an end to property presales policy. Guangdong housing authority clarified over the weekend that the policy adjustment remains on consultation stage. The policy adjustment aims to avoid inefficient/ over-leveraged property investment, unfinished construction, lack of standardization and dispute over presales process etc.

Minimal earnings impact, LT impact well-contained

We expect the policy will eventually roll out in the medium term i.e. 3-5 years and in an orderly manner i.e. in pilot cities first and on new land sales only. In the near term, we analyse the impact should be minimal, as developers have already secured 80-90%/60-70% of their 2018-19E earnings and have ~3 years landbank on hand. The longer-term cashflow impact should be well contained too, as developers will have enough time to accommodate their construction and financing. The longer-term earnings prospect may be impaired with the longer project cycle, yet we remind investors that policy change may take much longer than expected time to roll out i.e. Guangxi mentioned about cancellation of presales since 2010 but have yet rolled out till now.

Don't be too sensitive to rumours

The sector corrected 4% in today's morning session, ending the rally since mid-Sep (+12%). With the macro-uncertainties (trade war, economic slowdown), we expect the sector will remain lumpy in NT and market/media may be sensitive to rumours. We retain NEUTRAL rating to sector and recommend investors to buy quality big caps i.e. Longfor, COLI. Guangdong based developers i.e. Country Garden, Evergrande etc may be under pressure in NT yet we believe the correction is overdone. Upside risks to our sector call: relaxation policies, resolution of trade war; downside risks: further tightening policies, slowdown in economy.

Financials

| Company | Ticker | Rating | Current Price (HK\$) | Target Price (HK\$) | +/- (%) | NAV (HK\$) | NAV disc (%) | Adj. P/E (x) | | Div yield (%) | | Net gearing (%) | |
|----------------|---------|---------|----------------------|---------------------|---------|------------|--------------|--------------|-------|---------------|-------|-----------------|-------|
| | | | | | | | | 2018E | 2019E | 2018E | 2019E | 2018E | 2019E |
| Vanke | 2202 HK | BUY | 27.9 | 36.0 | 29 | 40 | 30 | 7.5 | 6.1 | 4.8 | 5.9 | 12 | 18 |
| Country Garden | 2007 HK | NEUTRAL | 11.5 | 13.0 | 13 | 15 | 25 | 6.5 | 5.0 | 5.9 | 7.6 | 53 | 44 |
| Evergrande | 3333 HK | BUY | 26.8 | 36.0 | 35 | 42 | 37 | 7.5 | 5.8 | 11.6 | 8.6 | 103 | 71 |
| COLI | 688 HK | BUY | 26.2 | 32.0 | 22 | 35 | 25 | 6.8 | 5.6 | 4.1 | 5.0 | 37 | 39 |
| Sunac | 1918 HK | BUY | 27.4 | 36.0 | 32 | 45 | 39 | 9.0 | 5.3 | 2.8 | 4.7 | 186 | 121 |
| Longfor | 960 HK | BUY | 23.0 | 28.0 | 22 | 31 | 26 | 9.3 | 7.4 | 4.3 | 5.4 | 46 | 45 |

Sources: Bloomberg, CMS (HK); share price as of 21 Sep 2018

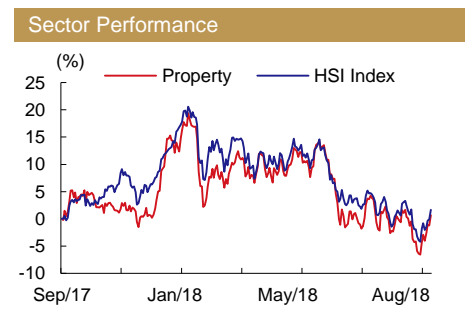
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NEUTRAL

| | |
|----------|---------|
| Previous | NEUTRAL |
| HSI | 27954 |
| HSCEI | 11027 |



Source: Bigdata

| % | 1m | 6m | 12m |
|-----------------|-------|-------|-------|
| Absolute return | 0.1 | (9.4) | (5.7) |
| Relative return | (0.6) | 1.6 | (5.1) |

Related Research

1. China Property - Eye on Golden September sales (NEUTRAL) 2018/09/17
2. China Property - Macro uncertainties hinder re-rating (NEUTRAL) 2018/09/04
3. China Property - Policy is good for health (NEUTRAL) 2018/08/08

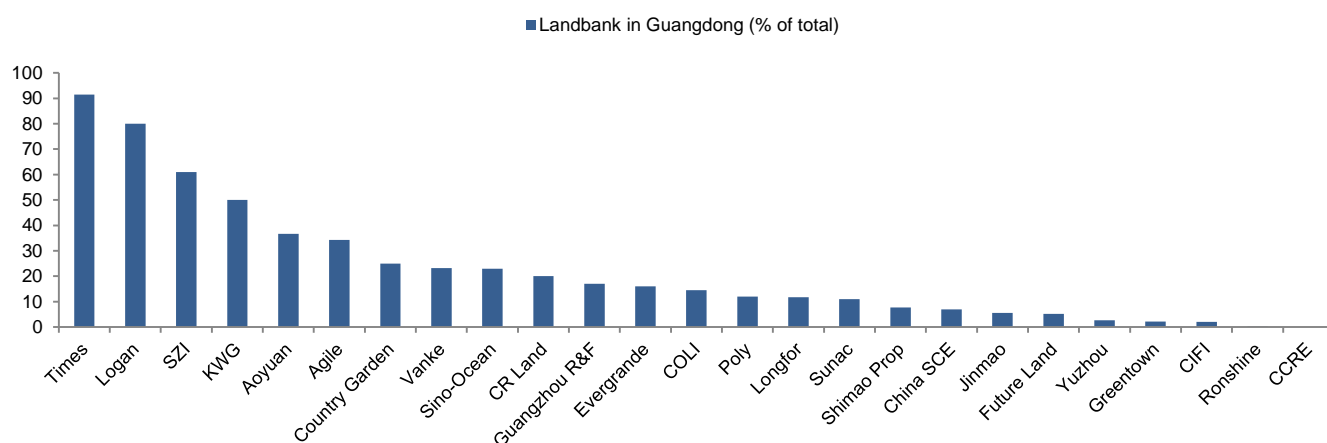
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Figure 1: Presale requirement

| Cities | Requirement |
|-----------|---|
| Beijing | 1-7 floors: topping-out; >8 floors: 1/2 completed |
| Shanghai | Topping-out |
| Guangzhou | 1-3 floors: topping-out; >4 floors with basement: 1st floor completed; >4 floors without basement: 4 floors completed |
| Shenzhen | 1-7 floors: topping-out; >8 floors: 2/3 completed |
| Foshan | 1-7 floors: topping-out; >8 floors: 2/3 completed |
| Huizhou | 1-7 floors: topping-out; >8 floors: 2/3 completed |
| Dongguan | 1-7 floors: topping-out; >8 floors: 2/3 completed |
| Zhuhai | 1-7 floors: topping-out; >8 floors: 2/3 completed |
| Chengdu | 1-7 floors: topping-out; >8 floors: 2/3 completed |
| Chongqing | 1-8 floors: topping-out; >9 floors: 1/2 completed |
| Hangzhou | 1-10 floors topping-out; >11 floors: 1/2 completed; >100m: 1/3 completed |
| Suzhou | Investment more than 25%; 1-6 floors: 0-1/2 completed; >7 floors: 1/5-1/3 completed |
| Hefei | 1-6 floors: topping-out; >7 floors: 1/3 completed |
| Xiamen | 1-7 floors: topping-out; >8 floors: 1/2 completed and investment >25% |

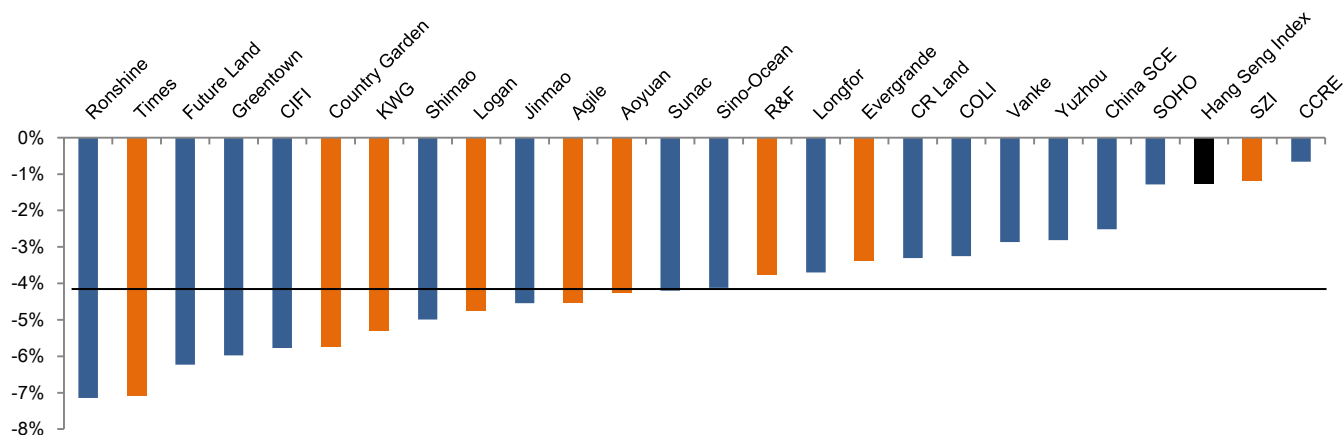
Sources: Local governments, CMS (HK)

Figure 2: Key developers' land bank exposure in Guangdong



Source: Company data, CMS (HK)

Figure 3: Sector corrected 4% in today's morning session (Orange color represents companies based in Guangdong)



Source: Bloomberg, CMS (HK)

Figure 4: Peers comparison

| | | Share Price | TP | | Mkt Cap | NAV | Disc to NAV | Disc to Mkt NAV | Upside | P/E (x) | | | P/B (x) | | Yield (%) | | Net gearing | |
|----------------|---------|-------------|--------|---------|----------|--------|-------------|-----------------|--------|---------|-------|-------|---------|-------|-----------|-------|-------------|------|
| Company | Ticker | (HK\$) | (HK\$) | Rating | (US\$ m) | (HK\$) | (%) | (%) | (%) | 2017 | 2018E | 2019E | 2018E | 2019E | 2018E | 2019E | 2017 | 1H18 |
| Vanke | 2202 HK | 27.90 | 36.0 | Buy | 41.3 | 40 | 30 | 40 | 29 | 9.4 | 7.5 | 6.1 | 1.7 | 1.4 | 4.8 | 5.9 | 9 | 33 |
| Country Garden | 2007 HK | 11.48 | 13.0 | Neutral | 31.9 | 15 | 25 | 50 | 13 | 9.6 | 6.5 | 5.0 | 1.7 | 1.4 | 5.9 | 7.6 | 57 | 59 |
| Evergrande | 3333 HK | 26.75 | 36.0 | Buy | 44.7 | 42 | 37 | 28 | 35 | 11.2 | 7.5 | 5.8 | 2.1 | 1.7 | 11.6 | 8.6 | 184 | 127 |
| COLI | 688 HK | 26.15 | 32.0 | Buy | 36.7 | 35 | 25 | 35 | 22 | 8.4 | 6.8 | 5.6 | 0.8 | 0.7 | 4.1 | 5.0 | 28 | 27 |
| Sunac | 1918 HK | 27.35 | 36.0 | Buy | 15.4 | 45 | 39 | 55 | 32 | 23.1 | 9.0 | 5.3 | 1.9 | 1.5 | 2.8 | 4.7 | 257 | 232 |
| Longfor | 960 HK | 22.95 | 28.0 | Buy | 17.4 | 31 | 26 | 41 | 22 | 11.9 | 9.3 | 7.4 | 1.5 | 1.3 | 4.3 | 5.4 | 48 | 55 |
| CR Land | 1109 HK | 29.37 | - | NR | 26.2 | - | - | 34 | - | 10.6 | 8.0 | 6.9 | 1.3 | 1.1 | 4.8 | 5.7 | 43 | 47 |
| Shimao Prop | 813 HK | 22.05 | - | NR | 9.4 | - | - | 40 | - | 9.3 | 6.9 | 5.5 | 1.0 | 0.9 | 5.6 | 7.1 | 61 | 63 |
| Logan | 3380 HK | 9.88 | - | NR | 7.0 | - | - | 47 | - | 10.3 | 6.6 | 4.9 | 1.7 | 1.3 | 6.3 | 8.6 | 51 | 66 |
| Guangzhou R&F | 2777 HK | 15.44 | - | NR | 6.4 | - | - | 57 | - | 5.7 | 4.1 | 3.3 | 0.6 | 0.6 | 9.6 | 11.6 | 189 | 187 |
| Agile | 3383 HK | 12.36 | - | NR | 6.2 | - | - | 51 | - | 6.9 | 5.4 | 4.4 | 0.9 | 0.8 | 8.9 | 10.8 | 94 | 88 |
| Jinmao | 817 HK | 3.96 | - | NR | 5.9 | - | - | 52 | - | 9.4 | 7.6 | 5.8 | 1.0 | 0.9 | 5.3 | 6.7 | 69 | 66 |
| CIFI | 884 HK | 4.16 | - | NR | 4.1 | - | - | 61 | - | 6.3 | 4.9 | 3.8 | 1.0 | 0.9 | 7.3 | 9.4 | 49 | 72 |
| Sino-Ocean | 3377 HK | 3.88 | - | NR | 3.8 | - | - | 67 | - | 6.3 | 5.0 | 4.2 | 0.5 | 0.5 | 8.2 | 10.0 | 66 | 77 |
| Future Land | 1030 HK | 5.78 | - | NR | 4.4 | - | - | 63 | - | 9.2 | 5.8 | 4.1 | 1.6 | 1.2 | 6.2 | 8.0 | 117 | 155 |
| KWG | 1813 HK | 8.10 | - | NR | 3.3 | - | - | 61 | - | 6.2 | 4.8 | 3.7 | 0.7 | 0.6 | 7.7 | 9.9 | 72 | 77 |
| SZI | 604 HK | 2.50 | - | NR | 2.6 | - | - | 62 | - | 4.2 | 6.5 | 5.3 | 0.4 | 0.4 | 7.0 | 8.0 | 22 | 38 |
| Greentown | 3900 HK | 8.20 | - | NR | 2.3 | - | - | 58 | - | 9.2 | 6.6 | 6.1 | 0.5 | 0.5 | 3.0 | 3.2 | 59 | 55 |
| Yuzhou | 1628 HK | 3.55 | - | NR | 2.1 | - | - | 68 | - | 4.4 | 3.4 | 2.7 | 0.7 | 0.6 | 10.4 | 13.0 | 69 | 63 |
| Times | 1233 HK | 9.18 | - | NR | 2.2 | - | - | 57 | - | 5.6 | 4.2 | 3.3 | 0.8 | 0.7 | 6.9 | 8.9 | 68 | 67 |
| Aoyuan | 3883 HK | 5.88 | - | NR | 2.0 | - | - | 52 | - | 7.2 | 5.7 | 4.0 | 1.1 | 0.9 | 6.6 | 9.4 | 65 | 73 |
| Ronshine | 3301 HK | 10.08 | - | NR | 2.1 | - | - | 60 | - | - | 4.6 | 3.2 | 1.0 | 0.8 | 3.8 | 5.8 | 165 | 140 |
| China SCE | 1966 HK | 3.18 | - | NR | 1.6 | - | - | 67 | - | 5.2 | 3.6 | 3.0 | 0.7 | 0.6 | 7.9 | 10.3 | 81 | 69 |
| Poly | 119 HK | 2.90 | - | NR | 1.4 | - | - | 64 | - | 6.9 | 3.4 | 3.3 | 0.3 | 0.3 | 8.8 | 8.7 | 72 | 85 |
| CCRE | 832 HK | 3.03 | - | NR | 1.1 | - | - | 64 | - | 7.9 | 7.3 | 3.5 | 0.8 | 0.7 | 4.0 | 7.9 | 50 | 47 |
| Big 6 | | | | | 187.6 | | 30 | 41 | 25 | 12.3 | 7.8 | 5.9 | 1.6 | 1.3 | 5.6 | 6.2 | 97 | 89 |
| Small-mid cap | | | | | 93.9 | | | 57 | | 7.3 | 5.5 | 4.3 | 0.9 | 0.7 | 6.8 | 8.6 | 77 | 81 |
| Overall | | | | | 281.5 | | | 53 | | 8.5 | 6.0 | 4.6 | 1.1 | 0.9 | 6.5 | 8.0 | 82 | 83 |

Note: All information of non-rated stocks are sourced from Bloomberg; Sources: Bloomberg, Company data, CMS(HK); Share price as of 21 Sep 2018

Investment Ratings

| Industry Rating | Definition |
|-----------------|--|
| OVERWEIGHT | Expect sector to outperform the market over the next 12 months |
| NEUTRAL | Expect sector to perform in-line with the market over the next 12 months |
| UNDERWEIGHT | Expect sector to underperform the market over the next 12 months |

| Company Rating | Definition |
|----------------|---|
| BUY | Expect stock to generate 10%+ return over the next 12 months |
| NEUTRAL | Expect stock to generate +10% to -10% over the next 12 months |
| SELL | Expect stock to generate loss of 10%+ over the next 12 months |

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