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Equity Research

A Battle for Survival

Intensified market consolidation & battle for resources

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Executive summary

Survivors in the elimination game

We recommend names with strong access to acquiring lands from M&A, urban redevelopment projects and shanty housing redevelopment, rather than developers only with land acquisition from auction market. SOE will have absolute advantage in this elimination game: low funding cost, access to land resource and shanty housing redevelopment experience. Our top pick is CR Lands: CR Lands has low funding cost at only 4.16% in 2017, its multi-channel of land acquisition is irreproducible competitiveness and its foreseeable growth of booking profit is a plus.

Home price cap continues

Tightening on property market comes to the harshest moment: introducing lock-up period for commercial housing; lottery system for home buyers; home price cap and more allocation for rental housing. We believe Central Government's ultimate goal is to establish a dual-track market: public housing and commercial housing markets. Long-term rental housing is also a way to increase housing supplies. However, according to our observation of current long-term rental housing projects, some issues must be solved: 1) low return rate and long pay-back period, 2) high cost of land premium; 3) relatively high rental for singles. We believe it will take time to solve these issues. In the meanwhile, the government will curb home price to lower expectation of home price rocketing.

Shanty housing redevelopment is a stimulus of domestic demand

We believe the shanty housing redevelopment is a stimulus of domestic demand, while stabilization is still the top priority in Central Government. However, it is not reasonable to sustain stimulus for long time and we expect that stimulus will exit in future. According to 2018 redevelopment plan, 5.8 million units of shanty house will be redeveloped. If we assume the cash compensation rate to be around 60% in 2018 and average GFA sold per unit is 84 sq.m, cash compensation will digest 294 million sq.m of residential property in 2018. We believe cash compensation will flat or increase, as destocking continues. In 2018-2020, we believe the redeveloped units will gradually decline from 5.8 million units to 5 million units in 2019 and 4.2 million units in 2020.

We expect home price cap will exist in next 3 years, profit margin will be affected.

We expect home price cap will exist in next 3 years, therefore, developers will shift their focus to sell more volume rather than holding inventories for better price. Developers' margin will be affected. Inventories flatted in 1Q18. Only inventories in 2nd titer cities declined 8.1% YoY; inventories in 1st tier and 3rd tier cities flatted and increased by 0.9% and 0.5% YoY. Although inventory level is still at the lowest point of last 3 years, we believe the inventory level will rebound, as slower sales growth in 1Q18, up 2.5% YoY and 11.4% YoY in terms of GFA sold and sales, respectively, compared with yoy growth of 16.9% and 22.7% in 1Q17. It also indicates that sales growth is mainly contributed by surge of home price, not increase in GFA sold.

Top 20's expansion is ongoing with rapid market consolidation

Top 20-50 companies are targeting 30-50% CAGR on contracted sales in next 3 years. All top 50 are targeting RMB 100bn of contracted sales in next 2 years. The property market is not growing but keener competition is among players. All top 100 developers are targeting to maintain their ranking in order to obtain low-cost funding and replenish land plots for sustainability. On the other hand, market consolidation is much faster than before. In 2017, Top 20 has taken 32.5% of total home sales, while Top 100 has taken 62.1% of total home sales. In first 3 months of 2018, consolidation has accelerated: Top 20's market share has improved to 47.0% and Top 100's market share has improved to 76.2%. We believe top 20 will meet their target as schedule, thanks to sufficient saleable resource and national wide exposure.

A battle for land resourcing

Developers have prepared for market consolidation and sales scale battle in next 3 years. Sales scale is a key criterion for bank loan application and land auction. Developers must boost their scales to survive in keen competition in future. We can see banks have set higher and more criteria for developers to obtain loans: sales scale and Top 100 sales ranking are the must. If developers want to boost sales, land resource is the key for developer's survival.

Figure 1: Peers comparison and our targets

Company	Stock code	Rating	Target Price HKD	Upside/ Downside (%)	PE 18e	PE 19e	PE 20e	PB 18e	PB 19e	PB 20e	ROE (%) 18e	Div Yield (%) 18e
Agile	3383.HK	Hold	17.80	8%	7.5	5.9	4.9	1.2	1.0	0.8	17.2	4.7
Aoyuan	3883.HK	Hold	8.10	21%	8.5	6.0	4.4	1.2	1.0	0.8	18.2	2.2
COLI	688.HK	Buy	33.92	24%	7.0	5.9	5.0	1.0	0.8	0.7	15.5	3.1
Country Garden	2007.HK	Hold	17.20	3%	9.1	6.4	5.3	2.2	1.6	1.2	22.1	1.5
CR Land	1109.HK	Buy	34.74	16%	8.4	5.9	4.5	1.1	1.0	0.8	16.0	3.5
Greentown	3900.HK	Hold	11.62	-4%	11.0	9.7	8.2	0.7	0.7	0.6	6.9	1.6
KWG	1813.HK	Hold	12.50	7%	8.6	6.0	5.1	1.0	0.9	0.8	12.8	4.1
Logan	3380.HK	Hold	12.32	-1%	8.7	6.7	4.9	2.2	1.7	1.2	29.0	3.0
Longfor	960.HK	Buy	28.90	15%	10.4	7.9	6.7	1.6	1.3	1.1	13.1	2.6
R & F	2777.HK	Hold	23.87	24%	4.2	3.3	2.9	0.7	0.6	0.5	19.7	3.9
Shimao	813.HK	Buy	27.41	24%	6.6	5.3	4.1	0.9	0.8	0.6	14.6	7.2

Source: Bloomberg, AMTD Equity Research
Note: As of May 15th, 2018

Policy: Home price cap will continue

Tightening measures continue

We can't see any signal that China government will ease its HPR in short term based on: 1) Local governments introduced more HPR policies; 2) lock-up period was introduced in 1st tier cities and 2nd tier cities; 3) public housing supplies will expand in future.

Fairer buying process, less chances to markup home price

More cities are introduced lottery system for home buyers. Shanghai, Nanjing, Changsha, Chengdu, Wuhan, Xi'an, Hangzhou had announced the system already. Buyers are required to have option of home purchasing via lottery system, while developers have to announce all saleable houses before lottery. Some cities will provide priority to first-time home buyers: Wuhan requires developers must allocate 40% of total saleable units for first-time home buyers before lottery system; Changsha requires that developers must offer top priority for first-time home buyers before non-first home buyers for lottery system. Lottery system provide a fair purchasing environment. However, the lottery system reduces the possibility to markup home price while project launching. We believe lottery system will be gradually introduced to more cities.

HPR + lockup = shattering speculative home purchase

HPR has covered most of key cities in China. Hainan is the first province to introduce HPR among all provinces. All home buyers of non-Hainan residences must 1) provide social insurance record of last 60 months; 2) 70% of down payment rate & 3) 5 years of lock-up period. These measures will reduce to the speculative purchasing in Hainan. The 5-year lock-up period increases uncertainty for home investors. 50 cities have announced lock-up period for home resold. We believe it will shatter speculative buyers' confidence on home investment.

Preparation of dual-track system

In last 30 years, China has transformed its public housing market to commercial housing market in a rapid pace, leading to all demand shift to commercial housing market with limited supplies and home price rocketing. We believe Central Government will gradually introduce more measures to build up long-term mechanism. HPR and lock-up period are only the preparation of long-term mechanism, targeting to lower home price to reasonable level. The ultimate goal is to establish dual-track market: public housing and commercial housing markets. Long-term rental housing is also a way to increase housing supplies. However, according to our observation of current long-term rental housing projects, some issues must be solved: 1) low return rate and long pay-back period, 2) high cost of land premium; 3) relatively high rental for singles. We believe that will take time to solve these issues.

As a result, we can see that Central Government has shown its determination to curb home price's growth and develop dual-track market. Local governments follow suits and continue to cap home price of new home in last 6 months. We believe the possibility of home price cap removal is low. Strict HPR, lock-up period and long-term rental housing will keep going in the next five or ten years.

From the perspective of property developers, HPR will slow down their turnover, lock-up period will reduce speculative purchasing, home price cap will affect margins and long-term rental housing will allocate more land plots to rental housing, which become a barrier for developers to acquire more land in future.

Shanty housing redevelopment: home sales catalyst in 2nd & 3rd tier cities

Boost upgrade demand in 2nd & 3rd tier cities till 2020

Central Government wants to redevelop old housing communities in China to improve living standard and acquire more land plots in core locations in urban area, while the redevelopment can increase investment, material demand and create jobs positions. Premier Li has mentioned in times that shanty housing redevelopment would redevelop 15 million units in 2018 to 2020.

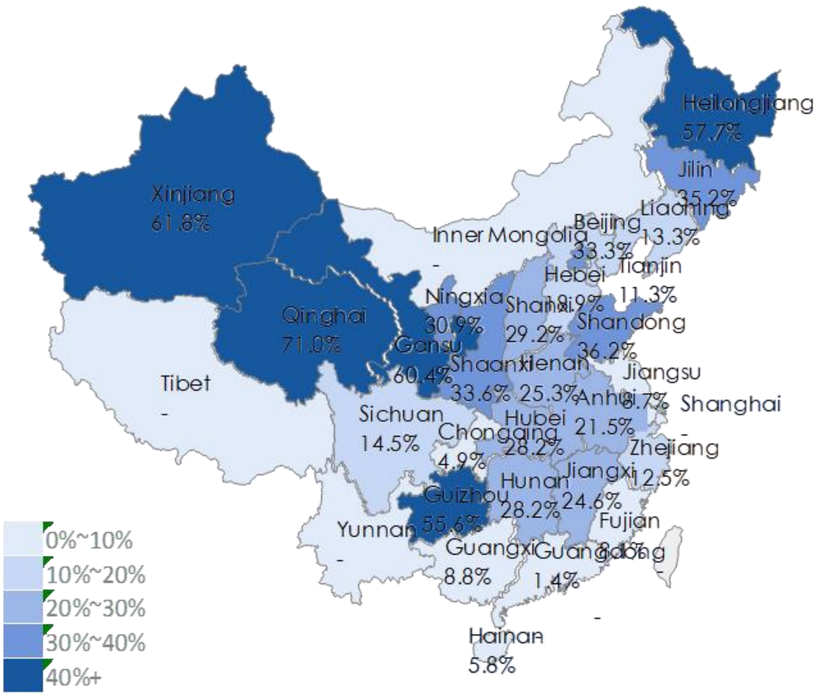
Released 307 million sq.m demand in 2nd & 3rd tier cities in 2017

However, does that mean more houses will be built? Nope. The government has increased portion of cash compensation for shanty house residents. Cash compensation will be used to pay for new home or buy in second-hand market.

In 2016, 6.06 million units of shanty houses are redeveloped and 48.5% of redeveloped shanty house will be compensated by cash compensation. (In 2015, 6 million units are redeveloped and cash compensation rate is 29.9%.) According to Minister of Housing and Urban-Rural Development (MOHURD), cash compensation helps original residents of shanty housing buying 250 million sq.m GFA of commodity residences from home market. We calculate that average GFA per unit sold is around 84 sq.m.

In 2017, 6.09 million units of shanty house are redeveloped. Up to Nov. 2017, the cash compensation rate is about 60%. We estimate cash compensation rate in 2017 is about 60% and average GFA per unit sold maintains at 84 sq.m; total GFA sold to shanty house residents is around 308 million sq.m, which is 21% of total home sales in 2017.

Figure 2: GFA bought by cash compensation to total GFA sold of residential property



Source: News; AMTD Equity Research
Note: No shanty house data for Tibet/Shanghai/Yunnan/Inner Mongolia

Central provinces are beneficiaries of shanty housing redevelopment

We compared the residential GFA sold to the residents and GFA sold in every province. We have found that the portion of GFA sold to the residents are very high in Qinghai/Xinjiang/Gansu/Heilongjiang/Guizhou (71%/60%/62%/58%/56%).

In some central provinces, Hunan, Hubei, Jiangxi, Anhui, Shanxi, Shaanxi, Shandong, GFA sold to shanty house residents to total GFA sold of residential property is about 20-35%. Cash compensation of shanty house redevelopment has digested 1/3 of GFA sold in these provinces in 2017.

Shanty housing redevelopment is a stimulus of domestic demand

Looking forward, how is the cash compensation of shanty house impact on sales of residential property? According to 2018 redevelopment plan, 5.8 million of shanty house will be redeveloped. We believe cash compensation rate will flat or increase, as destocking continues in 3rd or lower tier cities. If we assume the cash compensation rate to be around 60% in 2018 and average GFA sold per unit is 84, cash compensation will digest 294 million sq.m of residential property in 2018 (Figure 2).

We believe Central Government will review shanty housing redevelopment target yearly, depending on China Marco economy. In 2018-2020, we estimate the redevelop plan will continue and redeveloped units will gradually decline annually from 5.8 million units to 5 million units in 2019 and 4.2 million units in 2020. We believe developers still have good days in 2018-2020. Property sector is still playing significant part in China economy and supports upstream and downstream demand. Even in the strictest tightening environment, Central Government wouldn't be willing to see a sharp fall of upstream & downstream demand of property sector. We believe the shanty housing redevelopment is a stimulus of domestic demand, while stabilization is still the top priority in Central Government. However, it is not reasonable to sustain stimulus for long time and we expect that stimulus will exit in future.

Figure 3: GFA bought by Cash compensation

	2015	2016	2017E	2018E	2019E	2020E
Monetary compensation ratio	29.90%	48.50%	60%	60%	60%	60%
Units of Shanty house redevelopment	6,010,000	6,060,000	6,090,000	5,800,000	5,000,000	4,200,000
GFA bought By Shanty house residents (mn sq.m)	152	250	308	294	253	213
GFA sold to SH residents/ GFA sold of home sales	13%	18%	21%	n.a.	n.a.	n.a.

Source: Bloomberg, companies, AMTD Equity Research

Longfor, Sino-Ocean, COLI and CR Lands would benefit from shanty housing redevelopment

As our summaries, 33% of GFA sold in Northern and Northwestern China are sold to shanty housing residents. And our summary shows that Longfor, Sino-Ocean, COLI, CR Lands, R&F, China SCE and Sunac have more land reserves in Northern and Northwestern China. If the shanty housing redevelopment have similar pace in these areas, these developers would be benefited by Shanty housing redevelopment.

Country Garden and Evergrande are also beneficiaries in this redevelopment, who have the highest exposure in 3rd tier cities. Their sales have proved that already in 2017. We believe they will keep their pace in this redevelopment to achieve more sales from 2018 to 2019.

Figure 4: Land reserve exposure in 2017

	Northern and northwestern China	Eastern China	Southern China	Others
% of GFA sold to shanty house residents	**33%**	**13%**	**3%**	**24%**
Longfor	53%	29%	7%	11%
Sino-Ocean	44%	0%	22%	34%
COLI	40%	12%	22%	26%
CR Lands	38%	17%	23%	22%
Jinmao	36%	53%	4%	7%
R&F*	35%	17%	19%	29%
China SCE	35%	44%	9%	12%
Sunac	34%	19%	11%	36%
Greentown	30%	51%	3%	16%
Evergrande	27%	32%	7%	34%
Powerlong	21%	61%	0%	18%
COGO	20%	80%	0%	0%
CIFI	17%	57%	4%	22%
Agile	15%	15%	37%	34%
KWG	11%	20%	52%	17%
Yuzhou	11%	52%	3%	34%
Shimao	10%	20%	33%	37%
Country Garden	5%	18%	32%	45%
Fantasia	5%	10%	32%	54%
Logan	0%	0%	95%	5%
Yuexiu	0%	35%	46%	19%
Times	0%	0%	90%	10%

Source: Company data, CRIC

Note: R&F's figure is calculated by value of saleable resource

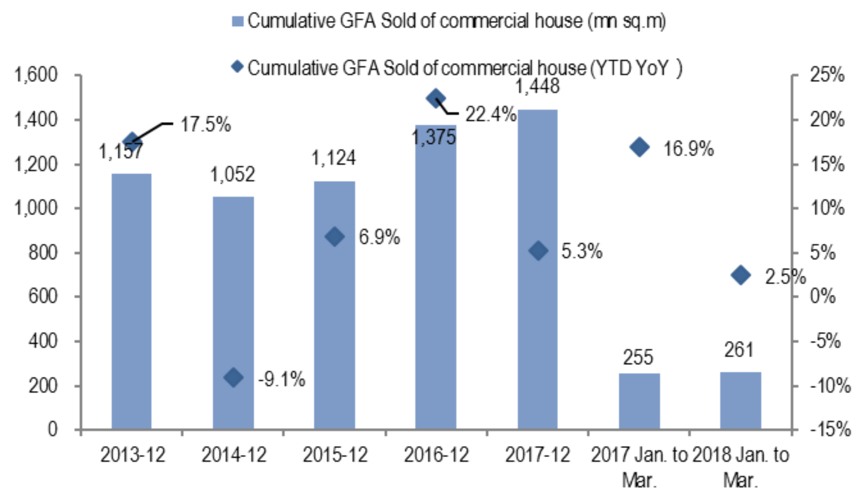
Home sales: strong momentum continues?

Home sales & inventories flatted in 1Q18

Home sales remained weak in 2018. According to CRIC, home sales in terms of GFA in 1st tier cities dropped 45.3% YoY in 1Q18, and dropped 62.1% comparing that of 1Q16. Home sales in 2nd tier cities were slightly better than those of 1st tier cities, which declined by 14.5% YoY and 17.0% vs 1Q16. Home sales in 3rd tier cities declined only 2.3% and 0.1% vs 1Q16.

Inventories flatted in 1Q18. Only inventories in 2nd tier cities declined 8.1% YoY; inventories in 1st tier and 3rd tier flatted and increased by 0.9% and 0.5%. Although inventory level is still at the lowest point of last 3 years, we believe the inventories will rebound, as slower sales growth in 1Q18, up 2.5% YoY and 11.4% YoY in terms of GFA sold and sales, respectively, compared with growth of 16.9% and 22.7% in 1Q17. It also indicates that sales growth is mainly contributed by surge of home price, not increase in GFA sold.

Figure 5: Weak GFA Sold YoY Growth in 2018



Source: NBS; AMTD Equity Research

Home price cap will continue; focus more on volume rather than price

We expect home price cap will exist in next 3 years. That will further affect the growth of home sales from 2018. In the next 3 years, developers have to increase its GFA sold to achieve their aggressive growth target, rather than a game for land appreciation. Appreciation game is long gone: buying cheap land plots in dip and sell them at peak will be a fairy tale. Therefore, we believe developers will shift their focus to sell more volume rather than holding inventories for better price.

As we discussed in last section, we believe the shanty housing will form some demands in 3rd cities and strong sales momentum will similar in 3rd tier cities in 2018 but gradually decline in the next two years. In 1st and 2nd tier cities, we believe home sales are under strict home price cap. Developers' margin will be affected. Financing cost will also increase under deleveraging environment. Better cash flow should be top priority for developers.

Figure 6: Destocking continue, 1Q18 GFA sold over new supply are over 1x in most of 1st and 2nd cities

Sq.m	Inventory	New Supply	GFA Sold	GFA Sold/New Supply	Inventory 18 vs 17	Inventory 18 vs 16	Inventory 18 vs 15	Inventory 18 vs 14	New Supply 18 vs 17	New Supply 18 vs 16	New Supply 18 vs 15	New Supply 18 vs 14	GFA Sold 18 vs 17	GFA Sold 18 vs 16	GFA Sold 18 vs 15	GFA Sold 18 vs 14
1st tier cities																
Shenzhen	5,650,191	126,572	654,193	517%	10.0%	3.6%	26.1%	8.5%	-57.8%	-88.4%	-81.0%	-75.1%	36.6%	-62.0%	-55.6%	-18.6%
Shanghai	1,763,900	900,845	1,192,653	132%	-46.1%	-72.0%	-84.5%	-79.9%	-15.2%	-38.2%	-50.0%	-65.5%	-16.8%	-72.6%	-39.1%	-41.8%
Guangzhou	9,094,497	1,622,347	1,793,578	111%	19.5%	-12.8%	-30.6%	7.1%	-19.0%	-8.0%	-21.6%	-18.1%	-53.9%	-37.5%	-13.0%	-16.2%
Beijing	6,239,856	628,200	518,051	82%	-4.3%	-28.5%	-40.1%	-20.9%	8.9%	-50.7%	-44.8%	-67.1%	-71.3%	-74.4%	-70.9%	-69.8%
2nd tier cities																
Shenyang	23,443,052	840,828	2,401,781	286%	-14.3%	-23.5%	-24.6%	-8.9%	-34.6%	-30.7%	-15.3%	-56.0%	-14.1%	2.7%	14.1%	17.6%
Changchun	8,143,065	640,232	1,680,020	262%	-5.4%	-23.1%	-33.2%	-26.7%	0.8%	20.0%	23.1%	34.1%	16.3%	11.9%	43.5%	18.7%
Kunming	3,898,187	605,012	1,574,283	260%	-27.3%	-45.8%	-53.2%	-52.5%	-53.0%	-31.4%	-23.2%	-66.7%	-17.3%	-3.3%	-2.3%	-16.2%
Xian	10,354,535	1,743,819	4,019,177	230%	-23.5%	-46.7%	-55.6%	-49.5%	-7.9%	2.0%	-37.8%	-40.1%	21.6%	35.1%	63.4%	105.5%
Harbin	7,017,947	1,427,798	2,448,835	172%	-17.7%	-18.3%	-14.0%	-6.1%	-10.0%				38.7%	19.5%	-23.4%	81.2%
Nanjing	3,306,952	1,108,830	1,838,553	166%	-3.4%	-42.1%	-60.3%	-38.2%	-17.9%	-53.1%	-17.9%	-43.0%	14.9%	-55.6%	1.1%	-8.9%
Changsha	11,489,491	2,200,971	3,623,319	165%	9.1%	-33.9%	-47.5%	-31.1%	49.9%	33.4%	-22.7%	-15.0%	-7.1%	15.2%	24.6%	38.9%
Zhengzhou	7,502,444	1,397,714	2,281,061	163%	67.2%	23.7%	34.4%	90.6%	8.8%	324.8%	77.6%	185.1%	18.3%	-2.6%	41.9%	92.2%
Hangzhou	4,826,627	2,281,880	3,427,594	150%	-35.1%	-57.8%	-63.7%	-51.9%	31.7%	8.3%	15.8%	39.7%	5.9%	-16.6%	97.2%	187.6%
Nanchang	2,955,509	826,540	1,161,538	141%	19.8%	-1.9%	-15.9%	17.9%	-35.7%	10.2%	-0.7%	-8.5%	-47.1%	6.9%	68.2%	-17.7%
Qingdao	12,854,802	2,661,673	3,706,372	139%	-7.0%	-34.8%	-33.5%	-9.8%	46.7%	96.2%	123.1%	43.0%	-15.9%	22.2%	90.3%	103.3%
Nanning	5,045,052	1,602,529	2,225,435	139%	21.0%	-21.4%	-13.4%	-9.2%	12.9%	15.6%	113.7%	88.6%	-0.2%	23.8%	84.0%	72.6%
Tianjin	15,635,346	1,335,943	1,708,159	128%	10.6%	-36.6%	-45.2%	-39.1%	-20.0%	-52.8%	-31.7%	-43.4%	-52.5%	-60.1%	-6.6%	-16.3%
Ningbo	4,596,613	1,357,067	1,646,449	121%	34.1%	-1.8%	-18.5%	-17.9%	38.6%	25.5%	158.1%	105.9%	-8.4%	16.7%	126.0%	248.0%
Wuhan	4,153,216	2,885,774	3,327,983	115%	-28.7%	-76.9%	-74.3%	-73.5%	-5.1%	-20.6%	11.3%	28.0%	-19.3%	-49.7%	-10.8%	-0.6%
Lanzhou	5,075,320	901,223	970,757	108%	-26.9%	-20.7%	-6.0%	8.2%	23.3%	-1.8%	177.3%	76.6%	-21.0%	24.4%	159.8%	99.7%
Xiamen	2,267,791	215,686	229,582	106%	38.5%	-21.6%	-24.3%	-8.4%	-83.2%	-5.0%	28.0%	-65.5%	-64.8%	-58.9%	-43.0%	-79.9%
Chongqing	4,313,724	5,862,111	6,133,014	105%	-32.4%	-74.6%	-79.2%	-80.3%	163.3%	50.3%	90.5%	74.4%	1.8%	48.7%	86.1%	137.0%
Chengdu	9,447,574	3,417,497	3,444,106	101%	-52.2%	-39.3%	-44.4%	-53.2%	-18.1%	43.9%	-10.2%	1.1%	-34.5%	-35.6%	-44.6%	-41.4%
Hohehot	8,863,103	127,420	119,475	94%	-11.4%	-31.9%	-30.3%	-21.3%	-80.3%	-68.7%	-83.7%	-64.1%	-84.6%	-82.4%	-76.3%	-57.2%
Fuzhou	3,283,376	670,792	611,193	91%	-44.2%	-38.3%	-29.6%	-0.7%	-3.9%	80.9%	60.8%	1.7%	-11.3%	-1.1%	3.2%	-4.9%
Hefei	8,798,746	1,437,086	1,161,278	81%	60.2%	117.4%	28.8%	56.6%	-5.5%	15.1%	0.1%	-33.6%	-1.7%	-52.7%	-32.9%	-53.5%
Jinan	9,592,479	1,784,894	1,414,564	79%	-16.0%	-36.9%	7.5%	19.9%	38.8%	-33.5%	-5.9%	91.7%	-37.8%	-54.3%	-28.3%	9.8%
Dalian	14,696,218	2,186,115	1,414,703	65%	-3.6%	20.2%	0.2%	5.0%					7.5%	22.6%	67.6%	35.1%
Guiyang	5,463,744	2,242,066	778,323	35%	-7.1%	-5.6%	-25.5%	-10.4%	32.5%	-4.1%	48.6%	172.9%	-57.7%	-53.4%	-40.1%	-49.3%
Taiyuan	12,791,278	3,727,946	1,072,591	29%	59.5%	74.7%	189.4%	96.0%	132.5%	109.1%			-39.2%	-54.3%	55.7%	56.8%
Shejiazhuang	5,927,602	1,456,663	240,482	17%	15.8%	1.8%	-1.4%	-11.8%	40.1%	34.4%	48.8%	-25.3%	-66.0%	-56.5%	-77.2%	-60.0%

Source: CRIC; AMTD Equity Research

Figure 7: Destocking continue, 1Q18 GFA sold over new supply are over 1x in half of 3rd tier cities (Con't)

3rd tier cities					Inventory				New Supply				GFA Sold			
	Inventory	New Supply	GFA Sold	GFA Sold/New Supply	18 vs 17	18 vs 16	18 vs 15	18 vs 14	18 vs 17	18 vs 16	18 vs 15	18 vs 14	18 vs 17	18 vs 16	18 vs 15	18 vs 14
Sanming	268,500	53,500	171,900	321%	-24.9%	-46.1%	-38.0%	-50.4%					98.0%	-10.0%	147.7%	90.6%
Jingmen	2,331,110	178,613	564,117	316%	-25.0%	-19.9%	5.0%	22.5%	-74.5%	-76.9%	-35.8%	-43.5%	-25.8%	4.1%	170.9%	79.5%
Zhangjiagang	718,606	196,096	448,243	229%	-4.7%	-66.7%	-70.1%	-70.9%	-58.4%				-8.7%			
Jiangyin	2,946,067	331,694	741,318	223%	-39.3%	-50.5%	-54.0%	-46.3%	-15.0%	17.9%	-48.5%	-66.8%	12.3%	9.1%	47.5%	107.0%
Rizhao	1,095,177	326,556	704,008	216%	-30.2%	-43.3%	-59.0%	-57.2%	-11.6%	-9.6%	-48.3%	-42.3%	207.1%	135.4%	84.4%	87.1%
Suzhou	8,834,713	777,618	1,427,954	184%	2.9%	47.3%	-4.8%	9.2%	-58.5%	-56.6%	-18.3%	-35.8%	-22.1%	-66.5%	-0.1%	2.3%
Taicang	968,658	164,120	298,561	182%	2.1%	-24.0%	-41.8%	-33.2%	-12.7%	53.3%			123.2%	4.8%		
Haikou	731,128	761,591	1,257,859	165%	-72.0%	-80.3%	-85.7%	-84.1%	-22.3%	-41.7%	101.7%	47.0%	-25.5%	41.2%	79.7%	136.0%
Beihai	2,468,804	492,018	793,984	161%	0.9%	-14.8%	-17.3%	-0.7%	-22.2%	19.2%	19.3%	3.3%	81.0%	238.0%	166.5%	18.0%
Chuzhou	1,397,530	881,488	1,392,055	158%	-38.4%	-66.0%	-69.5%	-64.1%	-57.9%	17.4%	-5.2%	13.0%	-33.2%	44.3%	60.8%	98.9%
Yantai	8,577,291	800,554	1,234,423	154%	-13.0%	-24.5%	-8.4%	12.1%	12.5%	207.9%	41.9%	20.1%	5.7%	64.2%	117.0%	88.5%
Zhuzhou	2,595,067	998,505	1,526,508	153%	-3.4%	-21.7%	-34.9%	-15.4%	370.1%	182.3%	34.9%	153.9%	275.8%	280.2%	175.0%	291.2%
Zhoushan	893,498	187,005	284,072	152%	-61.9%	-69.7%	-77.1%	-68.6%	-56.4%	87.0%	-30.9%	-24.2%	-13.6%	9.3%	39.6%	107.7%
Yueyang	1,409,501	511,790	757,275	148%	-19.9%	-42.0%	-57.3%	-50.4%	48.8%	438.9%	32.0%	-62.6%	31.3%	81.2%	51.6%	455.6%
Qinzhou	960,887	323,372	436,347	135%	-29.9%	-9.0%	36.7%	61.7%	42.8%	56.1%	2.6%	-21.3%	16.1%	241.8%	243.0%	
Maoming	1,086,019	932,434	1,255,647	135%	-39.7%	-40.0%	4.4%	9.4%	15.1%	75.9%			44.3%	280.5%		
Yinchuan	3,944,873	1,148,899	1,542,468	134%	-10.7%	-14.1%	-10.7%	-3.2%	49.2%	138.9%	70.2%	108.9%	69.5%	266.4%	153.4%	196.6%
Xining	5,668,332	448,786	587,405	131%	6.1%	8.8%	15.7%	43.5%	-1.9%	176.5%	0.5%	-38.2%	-2.9%	13.9%	36.3%	-40.8%
Jinhua	1,110,391	618,196	795,876	129%	-36.2%	-48.7%	-59.5%	-54.1%	164.5%				184.2%			
Yichang	1,801,009	842,452	1,038,145	123%	-25.0%	-23.0%	-33.6%	5.3%	65.8%	303.5%	26.3%	90.8%	27.0%	101.3%	27.3%	171.9%
Quanzhou	2,030,525	523,558	616,792	118%	-7.4%	-39.2%	-28.5%	4.4%	188.0%	63.7%	75.4%	-16.6%	26.5%	108.5%	135.6%	33.3%
Nantong	1,361,837	280,422	329,490	117%	-14.4%	-62.7%	-62.5%	-62.1%	117.1%	1.5%	-4.9%	-42.1%	-52.1%	-58.9%	-37.1%	-9.5%
Bengbu	3,742,079	1,003,846	1,178,251	117%	-20.2%	-21.4%	19.9%	102.2%	-96.3%	-94.3%	-94.0%	-95.7%	87.3%	176.1%	191.3%	191.6%
Changzhou	2,604,059	1,108,991	1,282,447	116%	23.0%	-45.3%	-64.2%	-68.7%	16.5%	70.0%	86.9%	-17.2%	8.3%	-11.8%	8.7%	22.6%
Dongguan	7,710,613	999,811	1,090,230	109%	37.0%	51.8%	-4.5%	6.7%	-16.9%	-32.2%	-42.8%	24.2%	-5.0%	-62.5%	-17.3%	13.5%
Xuzhou	2,138,643	2,593,290	2,709,839	104%	-34.3%	-57.9%	-66.7%	-55.9%	111.3%	249.2%	336.2%	353.1%	59.8%	167.0%	232.9%	230.2%
Wuhu	787,739	694,966	710,599	102%	22.6%	-35.6%	5.6%	21.5%	13.8%	5.2%	-19.1%	-42.9%	28.7%	-16.4%	17.7%	145.9%
Jiande	1,256,367	100,219	98,826	99%	199.9%	131.2%	82.6%	106.7%	47.5%	23.8%			14.8%	60.6%		
Huizhou	5,078,200	2,189,310	2,150,546	98%	140.2%	182.6%	86.6%	146.8%	109.9%	71.4%	309.1%	537.9%	40.7%	10.8%	112.2%	323.2%
Maanshan	772,318	744,972	682,794	92%	-31.7%	-53.6%	-61.7%	-50.6%	96.6%	293.6%			26.2%	98.8%		
Tangshan	8,741,570	1,450,286	1,266,007	87%	-4.8%	-5.6%	0.7%	6.0%	196.0%	93.4%	148.3%	137.8%	28.7%	59.5%	53.4%	149.3%
Yixing	2,581,855	297,108	258,057	87%	-17.9%	-22.4%	-30.2%	-32.0%	27.9%	37.7%	472.0%	102.4%	-30.3%	-22.6%	2.0%	37.9%
Qingyuan	2,008,214	936,094	795,245	85%	-9.3%	-45.6%	-46.1%	-31.8%	196.8%	77.2%	7.3%	6.1%	-49.1%	-2.2%	25.0%	38.2%
Jinjiang	2,486,685	743,539	613,406	82%	-14.3%	-30.0%	-24.5%	-9.4%	83.1%	92.7%	64.0%	22.3%	16.6%	54.5%	132.9%	92.4%
Foshan	9,975,742	2,418,213	1,988,621	82%	42.9%	-13.1%	-13.0%	0.6%	20.8%	-2.7%	5.6%	39.1%	-47.3%	-50.9%	-17.9%	28.2%
Luoyang	3,758,561	431,603	354,684	82%	-12.2%	-22.2%	-17.2%	-3.1%	-27.7%	-5.9%	-49.2%	-18.1%	-64.3%	-61.1%	-34.7%	-54.7%
Wenzhou	4,947,933	2,065,786	1,661,890	80%	14.0%	3.6%	-5.3%	18.6%	15.7%	-17.8%	64.6%	196.3%	5.2%	-23.2%	-8.7%	445.5%
Shangshu	431,207	126,455	88,949	70%	-36.7%	-73.9%	-83.2%	-80.7%	-50.0%				-80.0%			
Shantou	4,997,914	985,487	672,021	68%	-14.7%	16.0%	217.9%	299.0%	-39.8%	-7.6%			-35.7%	85.8%	379.5%	
Changde	1,414,546	606,312	365,024	60%	-24.5%	-41.3%	-43.8%	-13.1%	23.3%	-85.5%	-85.4%	-86.6%	-56.0%	-45.2%	-39.8%	-45.5%
Wuxi	6,803,432	1,484,922	886,212	60%	30.0%	-12.1%	-38.5%	-35.1%	54.7%	32.8%	-1.9%	56.6%	7.1%	-66.6%	-18.5%	0.1%
Urumqi	7,082,545	1,707,272	941,903	55%	14.8%	13.7%	5.7%	42.0%	127.6%	136.8%	101.4%	275.2%	-2.9%	90.5%	20.8%	29.5%
Zhuhai	3,143,603	693,397	340,233	49%	100.2%	134.6%	143.2%	193.2%	4.0%	-9.4%	-16.1%	139.7%	-36.6%	-60.8%	-53.6%	10.3%
Zhongshan	16,270,038	1,152,731	553,414	48%	24.6%	30.6%	74.8%	126.7%	2.0%	-14.1%	-37.2%	-7.3%	-47.5%	-53.5%	-67.9%	-58.2%
Jiaxing	2,657,727	1,509,841	672,289	45%	58.2%	5.5%	-29.7%	-37.2%					52.5%	36.3%	118.6%	91.8%
Zhangjiakou	1,441,302	344,903	148,873	43%	40.7%	-26.1%	-40.7%	-52.6%	477.5%	136.2%	762.3%	-26.0%	-52.7%	-46.1%	-61.8%	-27.7%
Dandong	4,307,553	711,622	228,604	32%	1.8%	-1.0%	13.1%	57.9%	115.6%	66.5%	59.2%	473.2%	-26.3%	-37.2%	-7.4%	-23.2%
Huainan	3,488,095	745,884	223,857	30%	2.3%	19.9%	65.2%	73.2%	8.1%	51.4%	260.8%	126.3%	-71.3%	-23.5%	-22.3%	-31.4%
Jiujiang	1,052,900	708,022	114,748	16%	-15.0%	-50.0%	-55.7%	-40.7%	39.3%	261.8%	106.4%	236.3%	-80.7%	-85.2%	-84.1%	-83.4%

Source: CRIC; AMTD Equity Research

Intensified market consolidation

Aggressive growth target for resourcing

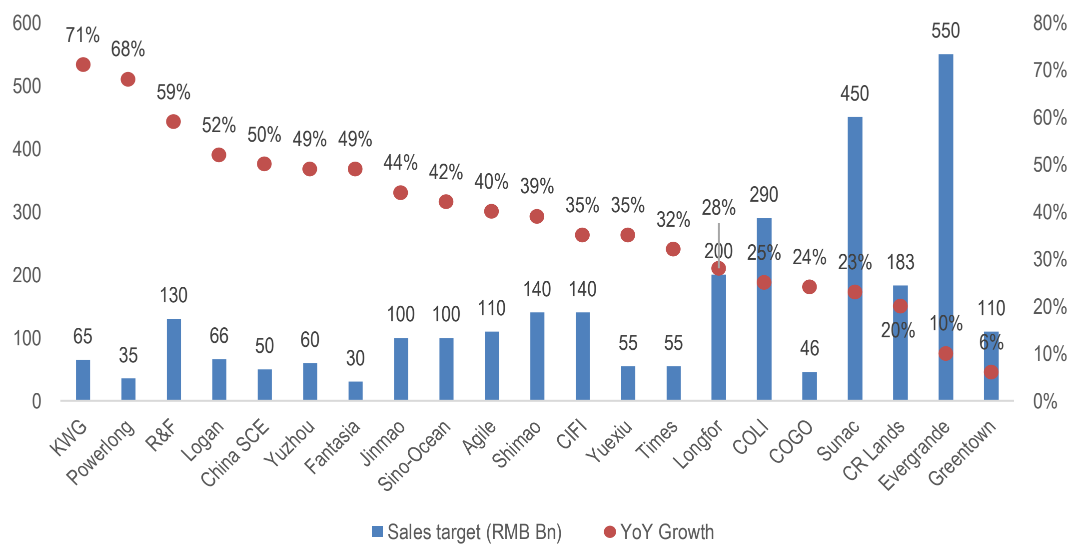
Most developers have aggressive sales targets in 2018.

Giants, like Country Garden and Vanke, haven't mentioned their growth target. We believe they are still targeting to 20-30% growth. Sunac and Evergrande also mentioned that they no longer seek to be No.1 in future and growth target is only 10% and 24%, which are much lower than peers'.

Top 20-50 companies are targeting 30-50% CAGR on contracted sales in next 3 years. All top 50 are targeting RMB 100bn of contracted sales in next 2 years. The property market is not growing but with keener competition among players. All top 100 developers are targeting to maintain their ranking in order to obtain low-cost funding and replenish land plots for sustainability. In the next 3 years, the physical market becomes an elimination game: small developers will struggle to access funding and lands, or sale their projects to other developers; larger companies will M&A more projects from small companies and much easier to access funding. That is why all developers are targeting to have rapid growth in next 3 years, all are for survival.

KWG, Powerlong & R&F should be the most aggressive companies in the market, targeting to achieve 71%, 68% & 59% sales growth. Logan, SCE, Yuzhou, Fantasia and Jinmao also target to achieve 49% to 52% YoY growth in 2018.

Figure 8: Aggressive Growth Target in 2018

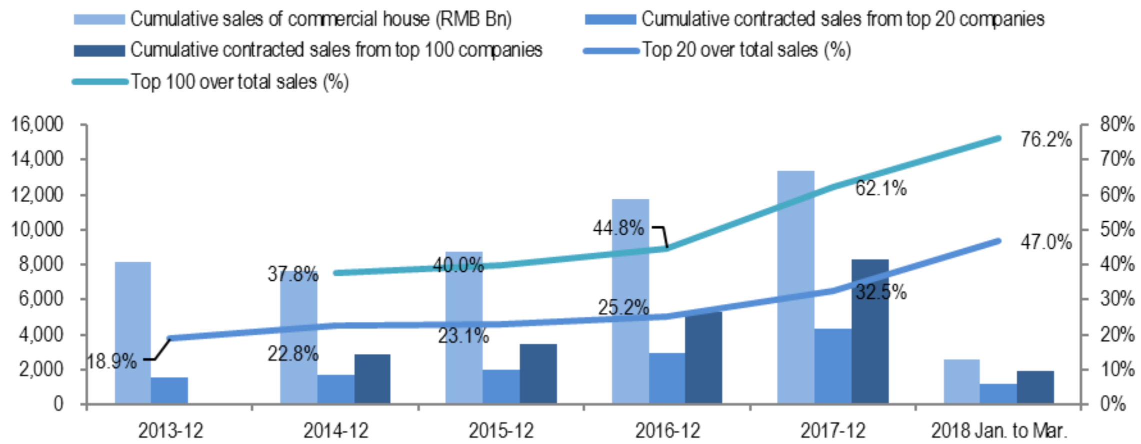


Source: Companies; AMTD Equity Research

Top 20's expansion is ongoing

Market consolidation is much faster than before. In 2017, Top 20 had taken 32.5% of total home sales, while Top 100 had taken 62.1% of total home sales. In first 3 months of 2018, consolidation is accelerating: Top 20's market share has improved to 47.0% and Top 100's market share has improved to 76.2%. Top 20-100's market share flatted as 29.2% in 1Q18 (29.7% in 2017). We believe top 20 will meet their target as schedule, thanks to sufficient saleable resource and national wide exposure. Market consolidation continue, the survivors will remain in the market. On the other hand, developers have to balance sales and land acquisitions: 1) not easy to obtain profitable land plot in future, 2) have to sell more to generate cash inflow, rather than hold for appreciation. Therefore, high turnover rate and high efficiency of land acquisition will be keys for developers in next 3 years. Survivors must have funding source and ability to M&A and auctions in land market. More lands and more sales are the only things that for survivors to do.

Figure 9: Acceleration of market consolidation



Source: CRIC, Companies; AMTD Equity Research

More land replenishment for high targets

Acquiring as more as possible

Some developers have obtained abundant land resources for future development. According to 2017 land replenishment data from listed developers, Sino-ocean has acquired 16mn sq.m of GFA in 2017, which is 4.4x of its 2017 contracted GFA, China SCE is following Sino-Ocean, whose land replenishment is 3.4x of its 2017 contracted GFA. Sunac's land replenishment is 3x of its contracted GFA. In terms of YoY growth of land replenishment, China SCE is the highest YoY growth of land replenishment in 2017, up 284% YoY. CIFI, Greentown, R&F and Sion-Ocean have 277%, 277%, 259% and 245% YoY growth of land replenishment. Only COLI, who has acquired CITIC property in 2016, recorded YoY decline of land replenishment.

Figure 10: Aggressive Growth Target

	2016 land replenishment GFA (k sq.m)	2017 land replenishment GFA (k sq.m)	2017 contracted GFA (k sq.m)	YoY Growth of 2017 Land replenishment	Land Replenishment /Contracted GFA in 2017
Evergrande	102,000	125,685	50,290	23%	250%
Country Garden	37,144	101,450	60,660	173%	167%
Sunac	53,940	67,642	22,298	25%	303%
Longfor	12,550	20,235	10,167	61%	199%
R&F	5,041	18,110	6,324	259%	286%
COLI	41,270	17,410	14,463	-58%	120%
Sino-Ocean	4,671	16,129	3,711	245%	435%
CIFI	3,500	13,200	6,292	277%	210%
CR Lands	10,520	11,790	9,573	12%	123%
Shimao	3,965	10,602	6,062	167%	175%
Greentown	2,280	8,589	4,440	277%	193%
Agile	2,320	7,460	7,357	222%	101%
China SCE	1,680	6,450	1,915	284%	337%
Logan	1,966	5,698	2,426	190%	235%
Yuexiu	4,210	5,050	2,220	20%	227%
Times	3,440	4,985	2,822	45%	177%
Powerlong	3,823	3,862	1,915	1%	202%
Yuzhou	2,648	3,793	2,381	43%	159%
KWG	2,374	3,350	1,801	41%	186%
COGO	1,353	2,508	3,412	85%	74%

Source: Companies; AMTD Equity Research

Land resourcing will be the key competitiveness

We do not concern the aggressive land acquisition in 2017, on the contrary, land resourcing should be the key factors of this survival battle. As we mentioned before, sales scale is a key criterion for bank loan application and land auction. Developers must boost their scales to survive in keen competition in future. We can see banks have set higher and more criteria for developers to obtain loans: sales scale and Top 100 sales ranking are the must. If developers want to boost sales, land resource is the key for developer's survival.

M&A should be the most efficient way for developers to acquire lands. M&A requires less requirements, but it takes long time on target seeking, due diligence and follow up processes. Many Top 100 developers have applied this way to acquire lands in last 2 years.

Redevelopment project is also a way to acquire land resource. Comparing with residential redevelopment, industrial project redevelopment is the best way to obtain land plots: less owners to negotiate (take less time to takeover); accord with local government purpose (high efficiency of land usage); and suitable size for resident development. Times and Logan have applied this way in Shenzhen and Guangzhou to acquire precious land plots in core location.

Shanty housing redevelopment project is another path to obtain lands in 1st or 2nd tier cities. However, some criteria will set high barrier for some developers to play. We can see that the biggest shanty housing redevelopment project in Shenzhen, Huafu Estate (华富邨), has been contracted by CR Lands. Shanty housing redevelopment in Buxin, Luohu district is contracted by Tagen Group, a SOE developers in Shenzhen. Hong'ao village redevelopment project is contracted by China Merchant Shekou. Bidding should be a standard process in Shanty housing redevelopment. However, bidders are required to have relative redevelopment experience, co-operation experience with local government and SOE. These will be a barrier for developers to enter shanty housing redevelopment. If we look at the Huafu Estate project, we will find that the total bid price is only RMB 63.8 mn and CR Lands has to construct public housing and transfer to Shenzhen Municipal government.

Land resourcing will be the first phase of elimination war for developers. As higher barrier for land auction, developers should expand more ways to access land resources for their sustainable development.

Our Picks

Survivors in the elimination war

We believe challenges for property market are 1) demand in 3rd tier cities will gradually decline as shanty housing redevelopment will come to the end in 2020; 2) overflow demand from 1st tier cities to 3rd tier cities will cool down as home price in satellite had surged rapidly for 2 years; 3) mortgage tightening continues; 4) home price cap will exist for a long time.

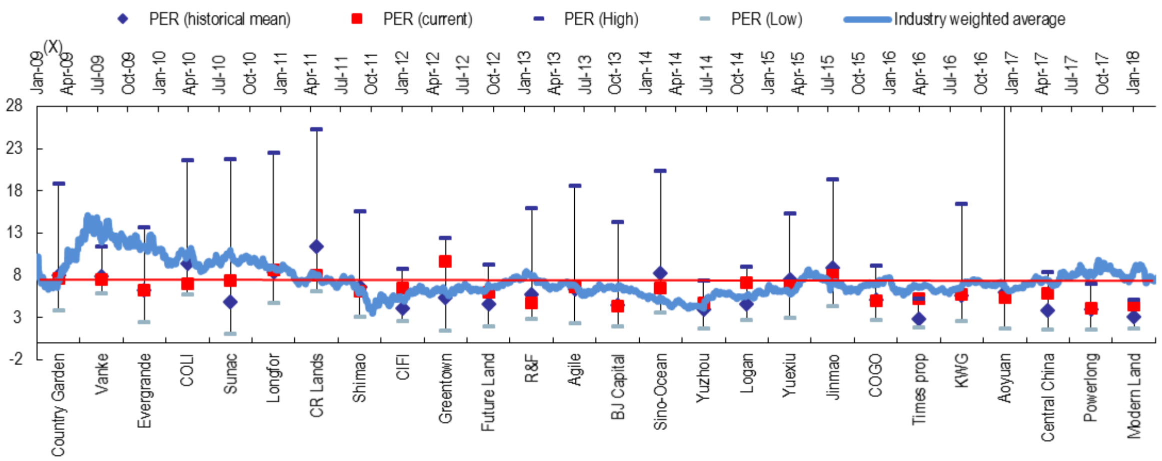
However, some good signs appear 1) home price cap in some 1st and 2nd tier cities might be adjusted according to inflation rate (Guangzhou and Shanghai), 2) core cities demand seem to come back again.

We recommend names with strong access to acquire lands from M&A, urban redevelopment projects and shanty housing redevelopment, rather than developers only acquire lands from auction market. SOE will have absolute advantage in this elimination war: low funding cost, access to land resource and shanty housing redevelopment experience.

Our top pick is CR Lands. CR Lands has low funding cost at only 4.16% in 2017, and its multi-channel of land acquisition is irreproducible competitiveness to scale pursuer with high land cost. Foreseeable growth is also the key to maintain its 'BUY' rating and target price of HK$34.74, which implies 38% discount to Dec-18 NAV, 9.7x 2018e core PE and 6.8x 2019e core PE.

Another pick is Shimao property, Shimao's target should be more achievable with more saleable resource in 1st and 2nd tier cities (40% growth vs peers' over 60%). We believe the company has ended its destocking and product restructure. On the other hand, the company has prepared for its growth in future: optimize internal management, more fastidious on land acquisitions to protect its profitability. We also notice that some 1st tier cities, e.g. Shanghai, has approved more presales permission in last two months. We expect turnover and supplies in 1st and 2nd tier cities will rebound after low supplies with strict home price cap. Therefore, we maintain its 'BUY' rating price target of HK$27.41, which implies 45% discount to Dec-18 NAV, 8.2x 2018e core PE and 6.5x 2019e core PE.

Figure 11: Valuation comparison



Source: Price as at May 15th, 2018; Bloomberg; AMTD Equity Research

Figure 12: Peers comparison and our targets

Company	Stock code	Rating	Target Price HKD	Upside/ Downside (%)	PE 18e	PE 19e	PE 20e	PB 18e	PB 19e	PB 20e	ROE (%) 18e	Div Yield (%) 18e
Agile	3383.HK	Hold	17.80	8%	7.5	5.9	4.9	1.2	1.0	0.8	17.2	4.7
Aoyuan	3883.HK	Hold	8.10	21%	8.5	6.0	4.4	1.2	1.0	0.8	18.2	2.2
COLI	688.HK	Buy	33.92	24%	7.0	5.9	5.0	1.0	0.8	0.7	15.5	3.1
Country Garden	2007.HK	Hold	17.20	3%	9.1	6.4	5.3	2.2	1.6	1.2	22.1	1.5
CR Land	1109.HK	Buy	34.74	16%	8.4	5.9	4.5	1.1	1.0	0.8	16.0	3.5
Greentown	3900.HK	Hold	11.62	-4%	11.0	9.7	8.2	0.7	0.7	0.6	6.9	1.6
KWG	1813.HK	Hold	12.50	7%	8.6	6.0	5.1	1.0	0.9	0.8	12.8	4.1
Logan	3380.HK	Hold	12.32	-1%	8.7	6.7	4.9	2.2	1.7	1.2	29.0	3.0
Longfor	960.HK	Buy	28.90	15%	10.4	7.9	6.7	1.6	1.3	1.1	13.1	2.6
R & F	2777.HK	Hold	23.87	24%	4.2	3.3	2.9	0.7	0.6	0.5	19.7	3.9
Shimao	813.HK	Buy	27.41	24%	6.6	5.3	4.1	0.9	0.8	0.6	14.6	7.2

Source: News; AMTD Equity Research
Note: As of May 15th, 2018

IMPORTANT DISCLOSURES

Analyst Certification

We, Donald Yu, Max Liang and Michelle Li, hereby certify that (i) all of the views expressed in this research report reflect accurately my personal views about the subject company or companies and its or their securities; and (ii) no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

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