

SECTOR UPDATE

Property – China

Sales Pull Back mom Before Chinese New Year; Updates Of 2024 Operational Data Of COLI And Longfor

In Jan 25, both new homes sales in 14 major cities and second-hand home transactions in Tier 1 cities saw a mom decline, which is within our expectation and partly due to the holiday factor. Potential policy catalysts, especially fiscal easing, remain key drivers. Maintain OVERWEIGHT. We lower our earnings forecasts and cut our target price by 30% for Longfor on lower property development margins. We update COLI's land investment for 2024 and maintain our target price and outlook for COLI.

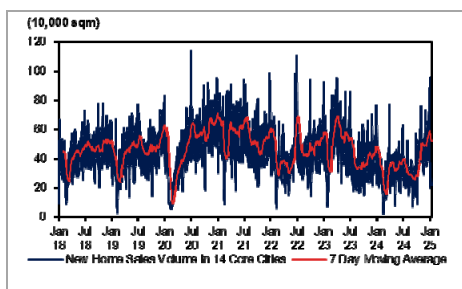
WHAT'S NEW

- Financial data terminal (iFind) released property sales data in major cities for 6-12 Jan 25.
- COLI published annual contracted sales and land acquisition data for 2024.
- Longfor published annual contracted sales and recurring income data for 2024.

ESSENTIALS

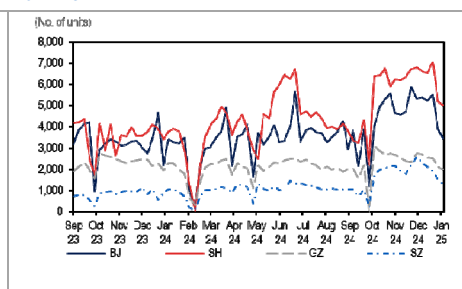
- In Jan 25, new home transactions in major cities showed negative mom growth. During Jan 25, the average daily sales volume of new homes (by GFA) in 14 major cities decreased 24.7% mom and increased 30.2% yoy. In Tier 1/2/3 cities, the average daily sales volume of new homes (by GFA) in Jan 25 saw changes of -14.1%/-38.2%/+4.7% mom and increased 26.7%/22.6%/41.5% yoy respectively.
- Second-hand housing transactions in Tier 1 cities also pulled back in Jan 25. In Jan 25, the average daily sales of second-hand homes (by number of units) in four Tier 1 cities decreased 27.9% mom and increased 24.4% yoy. Beijing/ Shanghai/Guangzhou/Shenzhen recorded a mom decrease of 31.2%/24.6%/22.2%/36.4% respectively in Jan 25.

NEW HOME SALES VOLUME IN 14 KEY CITIES



Source: iFind, UOB Kay Hian

SECOND-HAND HOME SALES UNITS IN TIER 1 CITIES



Source: iFind, UOB Kay Hian

ACTION

- Maintain OVERWEIGHT on China's property sector. The mom drop in property transactions in Jan 25 is within our expectation, and is partly attributable to the Chinese New Year holiday. Due to rising geopolitical tensions, we expect the Chinese government to prioritise stabilising the property market. Potential further fiscal easing measures in Mar 25 will boost sentiment in the sector. We maintain an OVERWEIGHT stance on the Chinese property market, with COLI as our top pick.

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Upside/	Market	PE		P/B		Yield	
			Current Price (13 Jan 25) (HK\$)	Price (HK\$)	(Downside) to TP (%)		Cap (HK\$m)	2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (%)
China Resources Land Ltd	1109 HK	BUY	22.00	32.40	47.3	156,880.7	6.6	5.6	0.5	0.5	6.2	7.0
Sunac China Holdings Limited	1918 HK	SELL	1.49	1.06	-28.9	13,866.3	n.m	n.m	0.4	0.0	0.0	0.0
China Overseas Land	688 HK	BUY	12.08	18.60	54.0	132,214.2	7.0	6.3	0.3	0.3	5.4	5.6
Longfor Properties	960 HK	BUY	9.46	11.99	26.7	65,162.0	8.5	9.1	0.4	0.4	3.4	3.2

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
COLI	688 HK	BUY	12.08	18.60
Longfor	960 HK	BUY	9.46	11.99

Source: UOB Kay Hian

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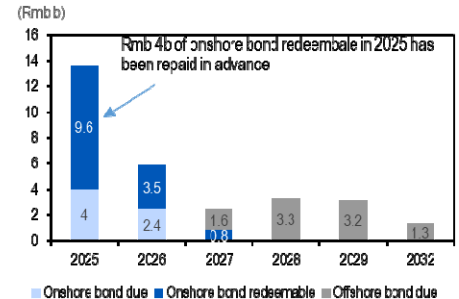
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Lower earnings forecasts for Longfor (960 HK); maintain BUY with a lower target price of HK\$11.99.

- **IP stayed resilient in 2H24.** In 2024, Longfor's contracted sales dropped by 42% yoy to Rmb101.1b. Despite macro challenges, Longfor achieved a 7.4% yoy growth in recurring income (after tax) and 4.5% yoy growth in rental income (after tax) for full-year 2024. In 1H24, Longfor's malls achieved a 5% yoy growth in same-store retail sales. We believe the growing momentum continued in 2H24, supporting positive same-store rental income growth during the period.
- **Consistently fulfilling its commitment to debt repayment.** As of Dec 24, Longfor had repaid its HK\$9.45b syndicated loan ahead of the Jan 25 due date. For 2025, key debt maturities include: a) a HK\$9.2b syndicated loan due by end-25; b) Rmb4b in domestic corporate bonds; and c) Rmb9.6 b in redeemable domestic bonds (of which, Rmb4b has been repaid in advance). We hold a positive view on Longfor's debt repayment capabilities, considering: a) the potential to increase over Rmb10b of IP loans; and b) positive operating cash flow in 2024 per our estimation. It is noteworthy that after 2025, debt repayment pressure will decrease significantly, with only Rmb2.4b in domestic bonds due and Rmb3.5b redeemable in 2026. Note that Longfor will not have any payment obligations from onshore bonds starting 2028.
- **Rising pressure on property development margin; lower earnings forecasts and target price; maintain BUY.** Property prices in mainland China faced growing downward pressure in 3Q24. Although the policy combo announced in Sep 24 help improved market sentiment, destocking inventories at an attractive price was the key objective for most developers in 4Q24. Considering the sharper-than-expected property price decline in 2H24 and based on our recent channel check with Longfor, we lower the growth rate and gross profit margin of Longfor's property development (PD), and increase the SG&A to sales ratio to reflect the company's destocking efforts. Consequently, we cut our 2024/25/26 core earnings forecast by 28%/28%/24% respectively. We also lower our SOTP-derived target price by 30% to HK\$11.99/share on lower targeted PE. Maintain BUY.

DEBT MATURITY OF EXISTING BONDS OF LONGFOR (UPDATED IN AUG 24)



Source: Longfor, UOB Kay Hian

EARNINGS REVISION FOR LONGFOR

	New			Old			YoY Change		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
Revenue	136,620	106,521	89,864	144,225	112,208	94,745	-5.3%	-5.1%	-5.2%
GPM - PD	4.0%	4.0%	5.0%	7.0%	7.5%	7.5%	-3.0%	-3.5%	-2.5%
Net profit	7,003	6,813	7,188	9,705	9,490	9,481	-27.8%	-28.2%	-24.2%

Source: UOB Kay Hian

SOTP VALUATION OF LONGFOR

Valuation		2025	Target PE	Target PB	Valuation	Remarks
Attributable net profit from property development	Rmb m	-1,951		0.15x	9,412	Expecting PD business turned a net loss in 2024 and 2025, we convert to P/B valuation and assign 0.10x P/B to PD business
Attributable net profit from recurring income	Rmb m	8,764	8.0		70,114	We lowered target PE from 13x to 8.0x to reflect downward pressure on consumption
Sum of the Parts	Rmb m	6,813			79,526	
Sum of the Parts	HK\$ m				85,512	
No. of shares	m				7,130	
Target price	HK\$/sh				11.99	

Source: UOB Kay Hian

- **Maintain BUY on COLI (688 HK) with an unchanged target price of HK\$18.60.** In 2024, COLI registered Rmb310.7b of contracted sales, increasing by 0.3% yoy, beating its target of achieving sales growth. For land acquisition, COLI (excluding COGO) acquired 22 (2023:43) land parcels in 12 (2023: 23) cities in 2024, adding a total GFA of 4.23m sqm, decreasing 44.6% yoy. The total land premium was Rmb80.6b, dropping 40.0% yoy. The ratio of total land premium to contracted property sales in 2024 was 0.30x, compared with 0.50x in 2023. We think COLI's investment pace was reasonable in 2024, considering raising uncertainties facing the economy and the property market. We maintain BUY with an unchanged target price of HK\$18.60, derived from 55% discount to NAV of HK\$41.40.

COLI'S LAND ACQUISITION IN 2024

	City	% interest	Total GFA	attributable GFA	Attributable land premium (Rmbm)	Total land premium (RMB mn)
Feb-24	Tianjin	100%	77,809	77,809	960	960
Mar-24	Xi'an	100%	64,053	64,053	632	632
May-24	Beijing	100%	316,420	316,420	5,750	5,750
	Beijing	70%	69,600	48,720	2,020	2,886
Jun-24	Xi'an	100%	444,203	444,203	1,058	1,058
	Jinan	100%	197,091	197,091	1,603	1,603
Jul-24	Chengdu	100%	185,747	185,747	2,423	2,423
Aug-24	Tianjin	100%	97,043	97,043	60	60
	Haikou	100%	189,430	189,430	1,794	1,794
Sep-24	Shijiazhuang	100%	179,407	179,407	1,154	1,154
	Shenzhen	51%	86,422	44,075	887	1,738
Oct-24	Changchun	100%	71,486	71,486	223	223
	Shanghai	100%	77,985	77,985	3,213	3,213
	Dalian	100%	121,872	121,872	851	851
Nov-24	Shanghai	100%	78,036	78,036	3,645	3,645
	Beijing	100%	638,887	638,887	15,332	15,332
	Shenzhen	50%	394,246	197,123	9,256	18,512
	Xi'an	100%	308,060	308,060	797	797
Dec-24	Beijing	100%	244,873	244,873	11,054	11,054
	Tianjin	100%	124,537	124,537	2,040	2,040
	Changchun	100%	119,627	119,627	388	388
	Hangzhou	100%	144,797	144,797	4,490	4,490
Total 2024			4,231,631	3,971,281	69,629	80,603

Source: COLI, UOB Kay Hian

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