

HK China Property Morning Post

Tightening commenced in tier 2 cities

Equities

Hong Kong
Real Estate

Hefei tightened mortgage downpayment and land acquisition rules

Hefei, a second tier city, announced a series of tightening measures relating to property mortgage and land acquisition. The minimum downpayment requirement for second homes is raised to 50% from 30% previously. For select second home buyers, who have already paid off the mortgage loan for their existing property, the downpayment requirement is also raised to 40% from 25%. For third home buyers, who have paid off all the existing mortgages, the downpayment requirement is raised to 60% and they are not allowed to borrow provident fund mortgages. We believe the tightened mortgage lending policies would further cool down the property market in Hefei over the rest of 2016. We expect more policies to be announced in other Tier-2 cities, particularly for cities that have irrational increase in property sales and price. We believe the sales momentum in these heated Tier-2 cities would decelerate starting from H2 2016.

CK Property followed SHKP to offer 123% mortgage loan

Local press reported that CK Property (CKP) offered a 123% mortgage loan offer in the launch of 52 3-bedroom units of Yuccie Square, located in Yuen Long. The mortgage loan package is very similar as that offered by SHKP on the planned launch of YOHO Park Venezia. This package allows buyers to borrow upto 123% loan of the purchased unit but the collateral will include the purchased ones as well as another HK residential unit. The mortgage term is only 3 years and the effective mortgage rate is 2.15% (P-2.85%). Buyers are only liable to service the interest portion in the first year. These units will be launched on Saturday, which is the same day that SHKP plans to launch YOHO Park Venezia. CKP would be directly competing for buyers' interest with SHKP in their Yuen Long launches. In line with our expectation, we expect developers are likely to follow with offering higher mortgage loan to values to lure local enduser buyers.

Other key news

China: Shimao sold project stake for the earlier record breaking land purchase

Upcoming events:

Interim FY16 results: Swire Properties Aug 18th

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China: Hefei tightened mortgage downpayment and land acquisition rules (Summer Xia)

Hefei, a second tier city, announced a series of tightening measures relating to property mortgage and land acquisition. The minimum downpayment requirement for second homes is raised to 50% from 30% previously. For select second home buyers, who have already paid off the mortgage loan for their existing property, the downpayment requirement is also raised to 40% from 25%. For third home buyers, who have paid off all the existing mortgages, the downpayment requirement is raised to 60% and they are not allowed to borrow provident fund mortgages. We believe the tightened mortgage lending policies would further cool down the property market in Hefei over the rest of 2016. We expect more policies to be announced in other Tier-2 cities, particularly for cities that have irrational increase in property sales and price. We believe the sales momentum in these heated Tier-2 cities would decelerate starting from H2 2016.

Separately, in terms of land acquisition, the government tightened the term of settlement for land purchase. Noticeably, for "landking sites" (land sold at historical high price on per square meter basis), developers need to pay off the land premium within one month too, no matter how high the land cost is. For the other land sites, developers are required to pay off the entire land premium within one month if the total land cost is below Rmb2bn. If total land cost is above Rmb2bn, it can be settled within six months. The government also required developers to pay a deposit equalling to 50% of total base price of land sites before bidding in any land auctions. We expect the policy would impose higher cashflow pressure on developers and might affect response to land acquisition in Hefei. (21st Century Business Herald, 22 June 2016)

Hong Kong: CK Property followed SHKP to offer 123% mortgage loan (Eva Lee)

Local press reported that CK Property (CKP) offered a 123% mortgage loan offer in the launch of 52 3-bedroom units of Yuccie Square, located in Yuen Long. The mortgage loan package is very similar as that offered by SHKP on the planned launch of YOHO Park Venezia. This package allows buyers to borrow upto 123% loan of the purchased unit but the collateral will include the purchased ones as well as another HK residential unit. The mortgage term is only 3 years and the effective mortgage rate is 2.15% (P-2.85%). Buyers are only liable to service the interest portion in the first year. These units will be launched on Saturday, which is the same day that SHKP plans to launch YOHO Park Venezia. CKP would be directly competing for buyers' interest with SHKP in their Yuen Long launches. In line with our expectation, we expect developers are likely to follow with offering higher mortgage loan to values to lure local enduser buyers. (HK Economic Journal, 22 June 2016)

China: Shimaos sold project stake for the earlier record breaking land purchase (Eugene Cheung)

Shimaos Property announced that it has disposed of 43.2% stake of its recently acquired Nanjing project to a local investment firm. The company earlier acquired the site that set a new record in terms of total consideration in Nanjing. The site

was acquired for Rmb8.8bn or Rmb15k psm on the developable GFA of 584,000 sqm. We believe the disposal could help alleviate the cashflow pressure for Shimao. (Company announcement, 21 June 2016)

HK/China property valuation table

			Price	Mkt Cap	Avg Daily Vol (20 Days)	PT	PT upside	Tgt NAV disc /PER	NAV disc	NAV/ share	16E P/E	16E P/B	16E Yield	16E Net gearing	15E Interest coverage
	Ticker	Ratings	(LC)	US\$ bn	USD m	(LC)	(%)	(%/x)	(%)	(LC)	(x)	(x)	(%)	(%)	(x)
HK developers															
	Cheung Kong	1113 HK Buy	48.30	24.0	30.3	70.07	45%	-25%	-48%	93.0	8.8	0.7	4.0%	NC	5.8
	Henderson Land	12 HK Sell	41.30	17.6	16.8	37.28	-10%	-40%	-34%	62.5	16.1	0.5	3.5%	15%	3.4
	Kerry Properties	683 HK Neutral	18.70	3.5	4.0	21.43	15%	-54%	-60%	46.6	8.4	0.3	4.8%	24%	3.7
	New World Dev	17 HK Neutral	7.46	8.7	10.5	7.68	3%	-50%	-51%	15.4	10.0	0.4	5.8%	18%	2.2
	Sino Land	83 HK Neutral	12.22	9.6	6.0	11.94	-2%	-40%	-39%	19.9	14.5	0.6	4.3%	NC	27.3
	Sun Hung Kai P.	16 HK Buy	88.95	33.0	64.9	109.36	23%	-25%	-39%	145.8	11.3	0.5	4.2%	14%	7.6
Weighted average							18%	-32%	-42%		11.7	0.6	4.2%	10%	7.7
HK landlords															
	Champion REIT	2778 HK Buy	4.14	3.1	1.7	4.66	13%	NA	-25%	5.5	20.6	0.5	5.1%	26%	4.7
	Hang Lung Group	10 HK Buy	21.55	3.7	2.9	30.39	41%	1%	-28%	30.0	10.1	0.4	3.7%	3%	11.5
	Hang Lung Properties	101 HK Buy	15.10	8.8	10.8	22.31	48%	-25%	-49%	29.7	14.5	0.5	5.0%	4%	11.4
	HK Land	HKL SP Buy	6.02	14.2	16.7	7.88	31%	-25%	-43%	10.5	14.6	0.5	3.4%	12%	7.5
	Hysan Develop.	14 HK Neutral	34.05	4.6	4.3	31.69	-7%	-40%	-36%	52.8	15.8	0.5	3.9%	4%	11.5
	Link REIT	823 HK Sell	50.55	14.7	36.5	37.81	-25%	NA	7%	47.3	24.4	0.9	4.1%	17%	12.1
	Swire Properties	1972 HK Buy	20.30	15.3	5.6	27.86	37%	-24%	-44%	36.6	15.6	0.6	3.5%	15%	5.7
	Wharf Holdings	4 HK Sell	45.85	17.9	34.8	34.84	-24%	-45%	-28%	63.3	11.4	0.4	4.1%	18%	5.9
Weighted average							10%	-30%	-30%		15.9	0.6	4.0%	14%	8.3
CN developers (covered)															
	Agile Property	3383 HK Sell	3.90	2.0	1.4	3.43	-12%	4.1	-71%	13.3	4.5	0.3	7.1%	76%	1.7
	Country Garden	2007 HK Neutral	3.12	9.1	5.3	3.36	8%	6.6	-44%	5.6	6.5	0.8	4.6%	7%	2.7
	COLI	688 HK Buy	23.05	29.3	42.4	33.43	45%	10.0	-29%	32.5	6.9	1.0	2.9%	6%	15.5
	CR Land	1109 HK Buy	17.72	15.8	26.7	26.22	48%	-33%	-55%	39.1	7.5	1.0	3.6%	25%	7.8
	Evergrande	3333 HK Sell	4.85	9.1	11.6	2.60	-46%	5.0	-18%	5.9	9.9	0.6	5.1%	71%	1.1
	Greentown China	3900 HK Buy	5.29	1.5	1.2	12.22	131%	7.1	-71%	18.1	3.0	0.3	6.9%	66%	1.6
	Guangzhou R&F	2777 HK Buy	10.60	4.4	5.8	11.65	10%	5.0	-54%	23.1	4.8	0.5	6.2%	80%	2.9
	Joy City Property	207 HK Buy	1.01	1.9	0.3	2.80	177%	-35%	-77%	4.3	17.6	0.5	1.4%	60%	2.0
	KWG Property	1813 HK Buy	4.45	1.7	2.5	9.17	106%	7.0	-69%	14.3	3.4	0.5	10.4%	46%	1.3
	Longfor	960 HK Buy	9.91	7.4	4.1	14.48	46%	8.0	-56%	22.3	5.5	0.8	4.2%	64%	4.2
	Poly Property	119 HK Sell	1.96	0.9	1.4	1.84	-6%	N/A	-84%	11.9	16.4	0.2	3.1%	84%	0.7
	Shimao	813 HK Neutral	9.57	4.3	5.7	10.52	10%	5.0	-68%	30.1	4.5	0.5	7.3%	70%	2.1
	Shui On	272 HK Buy	1.92	2.0	1.6	2.94	53%	-40%	-61%	4.9	7.0	0.3	3.2%	55%	1.3
	SOHO China	410 HK Neutral	3.59	2.4	2.6	4.11	14%	-33%	-41%	6.1	23.3	0.4	4.9%	48%	1.1
	Times Property	1233 HK Buy	3.12	0.7	0.5	4.38	40%	3.0	-62%	8.2	2.3	0.6	8.8%	55%	2.7
	Vanke - H	2202 HK Neutral	17.00	4.7	27.3	19.70	16%	8.6	-41%	29.1	7.9	1.4	5.3%	15%	6.9
Weighted average							32%	7.7	-44%		7.5	0.8	4.3%	34%	7.4

Above data as at 21st Jun 2016 market close.
Source: UBS estimates, Datastream

Valuation Method and Risk Statement

The key risks related to Hong Kong property are 1) a rapid increase in interest rates; 2) government administrative policies; 3) a substantial increase in government-led supply. The key risks related to China property are: 1) government administrative policies to restrict demand and mortgage lending; 2) tight financing for China developers; and 3) a hard landing for China's economy. Our valuation is based on a sum-of-parts methodology derived from DCF and yield capitalisation.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	19%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2016.

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UBS AG Hong Kong Branch: Eva Lee, CFA; Eugene Cheung, CFA; Summer Xia, CFA.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Cheung Kong Property Holdings¹⁶	1113.HK	Buy	N/A	HK\$48.30	21 Jun 2016
Shimao Property Holdings^{4, 7}	0813.HK	Neutral	N/A	HK\$9.57	21 Jun 2016
Sun Hung Kai Properties^{7, 16}	0016.HK	Buy	N/A	HK\$88.95	21 Jun 2016

Source: UBS. All prices as of local market close.

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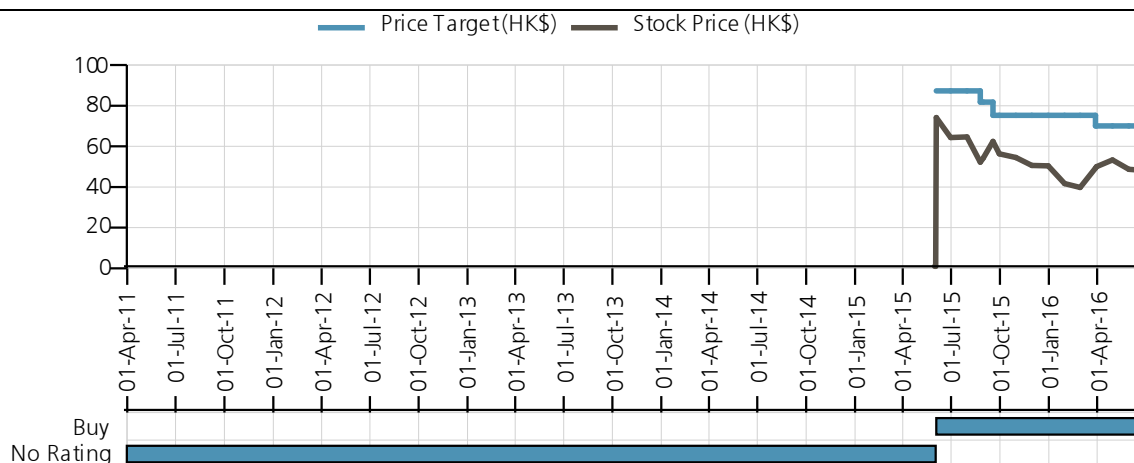
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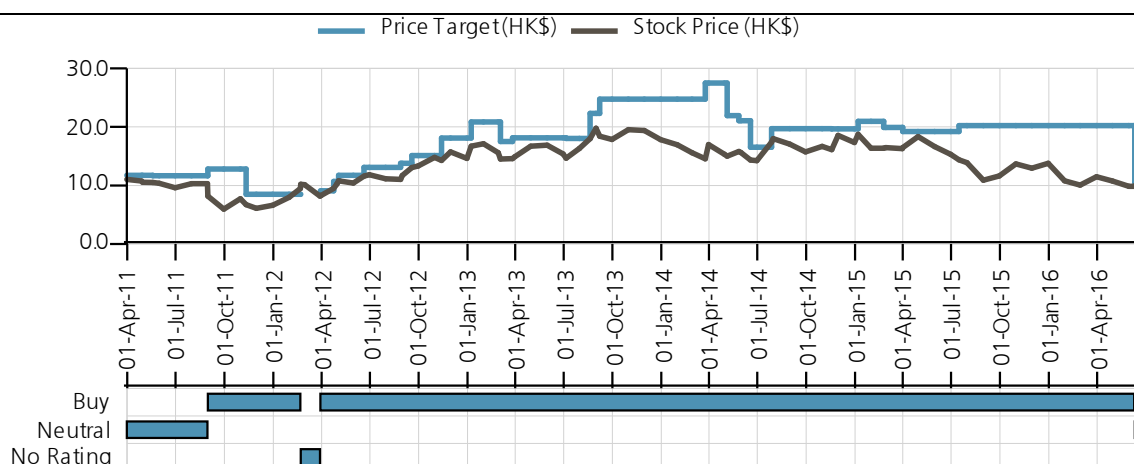
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Cheung Kong Property Holdings (HK\$)



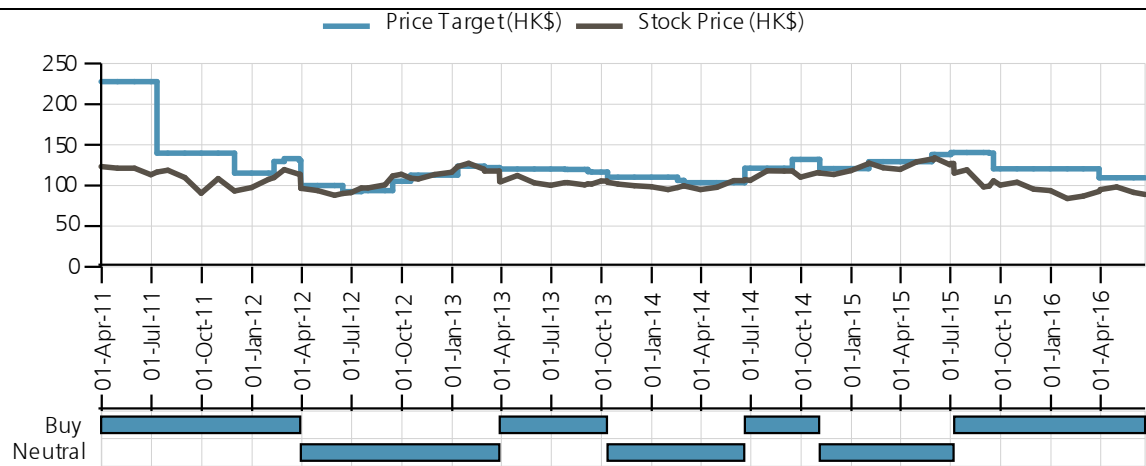
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