First Read

China Property

Gauging the impact from offshore trust tax liability

Equities

China Emerging

Real Estate

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High dividend payout in the past

Recently, there may be concerns from investors that non-SOE property developers' major shareholders may sell some of their stakes to raise capital for their potential tax liability due to the recent regulation change for offshore trust and the requirement to pay tax in 90 days (ie 24 Oct 2026). Investors may also be concerned as non-SOE developers used to have a high dividend payout in the past, ie higher potential tax liability. Also, non-SOE developers market cap is lower than before. Hence, we estimate the potential tax liability by major shareholders to market cap for these non-SOE developers may range from 1% to 21%, depending on the company.

Limited impact on fundamentals, more about share overhang

This does not impact the fundamentals of non-SOE developers nor the sector, in our view, but may create a near-term overhang on non-SOE developers' share prices. Also, this does not have any impact on SOE developers.



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Valuation Method and Risk Statement

We base our valuations of China's property developers and managers on PE or P/BV multiples. We believe key downside risks related to the Chinese property market include: 1) government administrative policies that restrict demand and mortgage lending; 2) tight financing for China's developers; 3) lower-than-expected residential growth in China's economy. We believe key upside risks include: 1) material policy loosening that effectively boosts residential property sales, investments and prices to positive YoY growth; 2) large-scale asset disposals at fair prices by some developers to ease liquidity pressures.