CHINA PROPERTY

Inventory structure and balance sheet depth differentiate ROE recovery path; ASP key to upside; Buy COLI, CRL, Jinmao, upgrade CMSK to Buy

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We expect sales model reforms (here and here) to slow ROE recovery across the housing sector. Our analysis of inventory, city exposure, and balance sheet suggests that companies with higher saleable resources, longer duration of land reserves, higher exposure to higher-tier cities, and lower leverage/debt repayment pressures, notably COLI and CRL, are best positioned to adapt, while Seazen and Vanke face higher risks.

We believe ASP trends are now the key driver of ROE and reinvestment scale under deleveraging constraints. A move to a 20% project net margin (vs. our assumed 10%) could meaningfully boost recovery; however, this would require a ~20% rise in property prices or a 25% fall in land prices—scenarios we view as remote due to weak housing demand and competitive land bidding for attractive land parcels.

Outlook: Potential supply gaps may allow new tailored products to command higher prices, but this may be offset by forced liquidation of vintage inventory to meet high bond repayment pressures in 2027E-29E, especially among POE developers.

We lower underlying profit forecasts for our developers coverage by 2%-27% on average in 2026E-28E and introduce our 2029E forecasts. We also roll over our NAV estimate to end-2027E, which is on average 1% above end-2026E, reflecting higher prices in top cities (see our China Property 2027 Outlook companion report), but slower asset turnover. As a result, we revise 12-month NAV-based target prices for our coverage by -24% to +13%, implying average 14% upside (including 2% 2027E dividend yield). We upgrade CMSK to Buy on the back of sector-leading footprint in core cities with solid profitability recovery/earnings growth outlook; and downgrade Greentown to Neutral due to comparatively weaker balance sheet, which could undermine ROE recovery and future scale visibility. We retain our Buy ratings on COLI, CRL and Jinmao; and Sell ratings on Seazen and Vanke A/H.

Key risks: (+/-) above-/below-expectation property price trends; (+) significant project level cooperation to mitigate funding constraints for new investments and hence better scale outlook; (+) unexpected funding injections into POE developers' projects that increase their saleable resources; (-) unexpected refinancing/bank loan rollover difficulties.

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