China Property

Huafa tests the faith in SOEs

On 26 October, Bloomberg reported market speculation that Zhuhai Huafa Group (珠海华发集团), a local state-owned conglomerate, was in talks with creditors to delay some debt payments and reduce interest rates. The report also said Huafa had missed payments on two trust products (link). Bloomberg later reported that Huafa had repaid the overdue products (link), but the episode has still renewed concerns about developers' liquidity. **It also challenges the common view that SOEs are unlikely to default**. First of all, perhaps to some investors' surprise, the balance sheets of many SOEs (mostly small/mid-caps) are actually weak. **Of the 45 SOE developers we screened below, 22 have breached 2 or 3 of the "Three Red Lines"** (Table 2). Thus, the confidence in SOEs rests largely on the expectation of sufficient state funding support to prevent defaults (instead of strong balance sheets). Our base case is that governments will seek to prevent public bond defaults by SOE developers. However, extensions of bank loans or non-standard debt remain possible, as these may not constitute public bond defaults per se. In general, we still see low default risk for central government-owned SOEs (央企), but more liquidity noise among certain local-government SOEs (地方国企), especially those in low-tier cities, is possible (like the case of Huafa). For ***equity***, we continue to favor central government-controlled SOEs with strong balance sheets, namely **CR Land** & **COLI**. However, we expect small/mid-cap SOEs with higher leverage to face near-term pressure (mostly driven by sentiment), until stronger state support for Huafa restores market confidence in SOEs. From a ***credit*** perspective, we prefer the **Longfor** curve, as we appreciate its decent debt servicing ability, with an attractive 15% yield after the selloff this week.

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A recap of the liquidity concerns at Huafa

- **What's new?** On 26 October, Bloomberg reported that Zhuhai Huafa Group (珠海华发集团), an unlisted conglomerate controlled by the local government of Zhuhai (a tier-3 city), was in talks with at least three Chinese banks to extend loans and reduce interest rates, and that the group had also missed payments on two trust products. The news has triggered a selloff in the shares of the group's listed property subsidiary, Zhuhai Huafa Properties (珠海华发实业) (600325.SH; market cap: Rmb5.7bn). On 29 October, Bloomberg reported that Huafa Group had repaid some investors on one of its overdue trust products. On the same day, Debtwire reported that Huafa was readying funds to redeem CNY 1bn 2.95% onshore bonds puttable on 2 November.
- **Background of Zhuhai Huafa Group:** Zhuhai Huafa Group is a diversified SOE conglomerate, 93.5%-owned by Zhuhai SASAC, with businesses spanning property development, urban operations, financial services, etc. The property development segment, Huafa Properties, contributed 46% of group revenue in FY25. In 1H26, Huafa Properties' DP revenue dropped 51.8% Y/Y. Although 83.6% of Huafa Properties' unsold landbank is located in tier 1/2 cities, the inventory is concentrated in Western and Central China (44% of total). As of 9M26, Huafa ranks 21st among top 100 developers' contracted sales (according to CREIS), with a 0.3% market share in China. In terms of leverage, both Huafa Group and Huafa Properties have a net gearing of >100% and a <1x cash coverage on short-term debt (Table 2). Huafa Group/Huafa Properties has total debt of Rmb377bn/126bn, respectively.

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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Screening SOE developers against the "three red lines" (三条红线)

- We conducted a high-level screening of 45 SOE developers against the "three red lines" based on the latest 1H26 financials (Table 1): (1) **adjusted liabilities-to-assets ratio < 70%,** (2) **net gearing < 100%, and** (3) **cash coverage of short-term debt >1.0x**.
- In the screening, 22 developers (49%) have breached 2 or 3 thresholds.
- **Most large-cap developers (e.g. COLI, CR Land, Poly, CMSK) under our coverage remain fully compliant,** with breaches primarily concentrated among smaller-cap names and local SOEs.
- Meanwhile, among the 22 central SOEs, 11 (50%) of them are compliant, while 5 of them (23%) have breached all 3 thresholds.
- Note that several companies with "net cash" have undergone restructuring after 2021, and they are now operating in a new asset-light model, which explains the stronger balance sheets.

Credit view: Huafa's liquidity stress drives HY Property selloff (by Alvin Au)

- **HY Property selloff triggered by Huafa's liquidity stress:** Zhuhai Huafa's offshore CNH bonds have dropped by 54pts on average this week as a result of the developer's liquidity stress, with the largest impact on the 6% perp (down 65pts to 34). The incident has triggered a selloff across other China Property credits as well. Greentown '28s have dropped 7pts to 92, and the Longfor curve has lost up to 6-8pts as well. Impact on Seazen and China Jinmao is relatively mild (down 2-4pts), and **IG developers (COLI, CR Land) have remained resilient despite the HY selloff.**
- **Resilient fundamentals for Greentown and Jinmao:** We believe the credit market is worried about Zhuhai Huafa, as it is an SOE 93.5% owned by Zhuhai SASAC, and 6.5% owned by the Guangdong Department of Finance. There could be negative implications for other weaker SOEs, if the Zhuhai government does not extend support in times of liquidity stress. Within our credit coverage, Greentown China is 29% owned by and consolidated into central SOE China Communications Construction Group (CCCG). Meanwhile, China Jinmao is 38% owned by and consolidated into central SOE Sinochem. We are comfortable with **Greentown China**'s debt servicing ability, as it has Rmb58bn cash on balance sheet with positive FCF, and it shares the same credit line with parent CCCG. This should be sufficient for it to repay the Rmb8bn/13bn of bond maturities in 2027/28, in our view. For **China Jinmao**, the developer only has Rmb7bn/4bn of bonds due in 2027/28, and with Rmb37bn cash and recovering FCF, we believe it should be able to cover the maturities as well.
- **Prefer Longfor for solid debt-servicing ability and attractive yields:** In the China Property sector, we continue to prefer developers with extensive IP exposure, as DP will likely be pressured next year due to the phase-out of pre-sales policy. We stay OW on **Longfor,** as it should be able to service its Rmb6-7bn of debt maturities in each of 2027/28, on the back of positive FCF and over Rmb13bn of accessible cash. Valuation is attractive at 15% after the selloff this week, and we prefer the '28s (88.4, 15.4% ytw) along the LNGFOR curve.

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Screening SOE developers against the "Three Red Lines"

Table 1: Balance sheet metrics of SOE developers, based on "three red lines" (0 or 1 violation)

						3 Red Lines			
Developer		Ticker	SOE Ownership	Market Cap (US$ bn)	FY25 Core Net Profit (Rmb bn)	No. of violation	Adj. liabilities-to-assets ratio (<70%)	Net gearing (<100%)	Cash coverage on ST debt (>1x)
CCCG Urban Development	中交发展	000736 CH	Central	0.4	(2)	0	48%	net cash	17.48x
Langold Real Estate	南国置业	002305 CH	Central	0.5	(2)	0	67%	net cash	1.26x
Guangzhou Pearl River	珠江股份	600684 CH	Guangzhou	0.5	0	0	38%	net cash	28.28x
China Overseas Grand Ocean	中国海外宏洋	81 HK	Central	1.3	0	0	60%	12%	4.93x
China Everbright Industry	中国光大实业	-	Central	-	(0)	1	59%	25%	0.90x
China Overseas Land & Investment	中国海外	688 HK	Central	17.1	13	0	45%	27%	1.86x
C&D International Investment	建发国际	1908 HK	Xiamen	3.8	4	0	59%	29%	11.61x
Shenzhen Zhenye Group	深振业	000006 CH	Shenzhen	1.3	(0)	0	55%	32%	1.32x
China Resources Land	华润置地	1109 HK	Central	26.5	22	0	54%	41%	1.82x
China Merchants Land	招商局置地	978 HK	Central	0.1	(3)	0	67%	49%	1.15x
Shenzhen Investment	深圳控股	604 HK	Shenzhen	0.5	(4)	1	65%	50%	0.93x
Yuexiu Property	越秀地产	123 HK	Guangzhou	1.5	0	0	65%	51%	1.99x
Tianjin Tianbao Infrastructure	大保基建	000965 CH	Tianjin	0.5	0	1	48%	51%	0.92x
China Merchants Shekou	招商蛇口	001979 CH	Central	10.9	1	0	61%	52%	1.43x
Tibet Urban Development	西藏城投	600773 CH	Shanghai	1.2	(1)	1	64%	58%	0.84x
Poly Developments	保利发展	600048 CH	Central	9.7	1	0	64%	62%	1.87x
Greentown China	绿城中国	3900 HK	Central	1.8	0	0	67%	64%	1.93x
China Enterprise	中华企业	600675 CH	Shanghai	2.0	0	0	65%	80%	2.38x
Shanghai Industrial Development	上实发展	600748 CH	Shanghai	1.0	(1)	1	57%	82%	0.49x
Poly Property Group	保利置业	119 HK	Central	0.5	1	0	68%	86%	1.75x
China Jinmao	中国金茂	817 HK	Central	1.9	1	0	66%	95%	1.45x
China Green Development	中国绿发投资	-	Central	-	(2)	1	59%	96%	0.86x
Shanghai Lingang Holding	上海临港	900928 CH	Shanghai	2.9	1	1	66%	96%	0.77x

Source: Company data, Bloomberg Finance L.P. Based on last close on 29 October 2026.
Note: Guangzhou Pearl River, Langold Real Estate and CCCG Urban Development Holding Group have restructured their businesses to focus on asset-light property services or operations.

Table 2: Balance sheet metrics of SOE developers, based on "three red lines" (2 or 3 violations)

						3 Red Lines			
Developer		Ticker	SOE Ownership	Market Cap (US$ bn)	FY25 Core Net Profit (Rmb bn)	No. of violation	Adj. liabilities-to-assets ratio (<70%)	Net gearing (<100%)	Cash coverage on ST debt (>1x)
MCC Real Estate Group	中冶置业	-	Central	-	(23)	2	72%	73%	0.59x
Zhuhai Huafa Properties	**华发股份**	**600325 CH**	**Zhuhai**	**0.9**	**(9)**	**2**	**65%**	**101%**	**0.53x**
Shanghai Lujiazui	陆家嘴	600663 CH	Shanghai	5.2	1	2	65%	116%	0.32x
Beijing North Star	北辰实业	588 HK	Beijing	0.7	(3)	3	70%	116%	0.97x
Lianfa Group	联发集团	-	Xiamen	-	(10)	2	76%	122%	5.30x
China Railway Construction	中国铁建	1186 HK	Central	11.6	18	3	78%	136%	0.45x
Grandjoy Holdings	大悦城	000031 CH	Central	1.3	(2)	2	76%	138%	1.23x
Cinda Real Estate	信达地产	600657 CH	Central	1.1	(6)	3	75%	140%	0.44x
Beijing Urban Construction	城建发展	600266 CH	Beijing	1.2	(0)	2	77%	151%	1.65x
Shanghai Zhangjiang High-Tech	张江高科	600895 CH	Shanghai	5.7	1	2	66%	161%	0.29x
Shanghai SMI Holding	城投控股	600649 CH	Shanghai	1.3	0	3	70%	168%	0.47x
Beijing Capital City Development	首创城市发展	-	Beijing	-	(12)	3	78%	171%	0.92x
Zhuhai Huafa Group	**珠海华发集团**	**-**	**Zhuhai**	**-**	**(10)**	**3**	**74%**	**200%**	**0.36x**
Shenzhen Overseas Chinese Town	华侨城	000069 CH	Central	2.0	(14)	3	79%	209%	0.65x
Cinda Investment	信达投资	-	Central	-	4	3	77%	235%	0.26x
Financial Street Holdings	金融街	000402 CH	Beijing	1.0	(5)	2	79%	248%	4.87x
Everbright Jiabao	光大嘉宝	600622 CH	Central	0.5	(1)	2	82%	251%	1.02x
Beijing Capital Development	首开股份	600376 CH	Beijing	1.0	(7)	3	79%	259%	0.56x
Bright Real Estate	光明地产	600708 CH	Shanghai	0.9	(4)	3	88%	317%	0.83x
Nanjing Chixia Development	栖霞建设	600533 CH	Nanjing	0.3	(2)	3	95%	1273%	0.37x
Metro Land	京投发展	600683 CH	Beijing	0.8	(1)	3	90%	2435%	0.30x
Overseas Chinese Town Asia	华侨城亚洲	3366 HK	Central	0.0	(1)	2	113%	-ve equity	1.90x

Source: Company data, Bloomberg Finance L.P. Based on last close on 29 October 2026.

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Bond price moves

Table 3: China Property Bonds - Valuation Change This Week

Issuer	Instrument	Price		Change	YTW		Change
		23-Oct	29-Oct		23-Oct	29-Oct	
Zhuhai Huafa	ZHHFGR '27	98.3	55.0	-43.3	6.1%	67.0%	60.9%
	ZHHFGR '28	94.7	45.0	-49.7	6.0%	50.5%	44.5%
	ZHHFGR '29	97.8	41.0	-56.8	5.2%	47.0%	41.8%
	ZHHFGR 6% Perp	99.3	34.0	-65.3	5.1%	15.6%	10.5%
Average		**97.5**	**43.8**	**-53.8**	**5.6%**	**45.0%**	**39.5%**
Distressed							
Vanke	VNKRLE '27	57.1	53.7	-3.4	68.9%	77.8%	8.9%
	VNKRLE '29	50.9	48.9	-2.0	29.0%	30.5%	1.5%
Average		**54.0**	**51.3**	**-2.7**	**48.9%**	**54.2%**	**5.2%**
HY							
Seazen	FUTLAN '28	98.4	94.8	-3.6	13.0%	15.6%	2.6%
Greentown	GRNCH '28	99.4	92.1	-7.3	9.0%	15.3%	6.3%
Longfor	LNGFOR '27	96.9	95.7	-1.2	10.8%	13.5%	2.7%
	LNGFOR '28	93.1	88.4	-4.7	10.8%	15.4%	4.6%
	LNGFOR '29	83.0	76.9	-6.1	11.1%	14.0%	2.9%
	LNGFOR '32	74.2	66.5	-7.7	10.5%	12.9%	2.4%
Jinmao	CHJMAO '29	92.0	89.6	-2.4	7.6%	8.6%	1.0%
Average		**91.0**	**86.3**	**-4.7**	**10.4%**	**13.6%**	**3.2%**
IG							
CR Land	CRHZCH '29	97.4	97.4	0.0	5.3%	5.3%	-0.04%
COLI	CHIOLI '28	99.3	99.2	-0.1	5.3%	5.3%	0.02%
	CHIOLI '30	91.3	91.3	0.0	5.7%	5.7%	0.05%
	CHIOLI '35	81.8	81.7	-0.1	6.0%	5.9%	-0.06%
	CHIOLI '43	99.6	99.1	-0.5	6.4%	6.5%	0.08%
Average		**93.9**	**93.7**	**-0.1**	**5.7%**	**5.7%**	**0.01%**

Source: Bloomberg Finance L.P. and J.P. Morgan. Note: Pricing as of 29 October 2026.

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Valuation Summary

Figure 1: China Property - Equity Valuation Summary

Company	Stock Code	JPM Rating	JPM Price Target	Last Close (HK$)	Mkt Cap US$B	ADV US$M	P/E 1FY (x)	P/E 2FY (x)	Yield 1FY (%)	P/B 1FY (x)	Share price return 5D	1M	YTD	vs. peak
Mainland China Developers														
China Resources Land	1109.HK	OW	40.00	29.20	26.5	92.3	9.3	8.3	4.0%	0.6	-1%	-4%	7%	-24%
China Overseas Land	0688.HK	OW	16.00	12.25	17.1	45.7	8.9	8.1	4.1%	0.3	-1%	-8%	0%	-44%
China Jinmao	0817.HK	N	1.18	1.12	1.9	11.0	15.3	8.5	3.2%	0.3	2%	-18%	-7%	-76%
C&D International	1908.HK	NC	-	12.79	3.8	11.7	7.4	7.0	7.2%	0.6	1%	-7%	-18%	-39%
Greentown China	3900.HK	NC	-	5.53	1.8	10.0	44.3	20.7	1.2%	0.3	5%	-17%	-35%	-65%
Yuexiu Property	123.HK	NC	-	2.91	1.5	4.2	37.4	17.9	1.8%	0.2	-3%	-16%	-27%	-73%
COGO	81.HK	NC	-	2.77	1.3	2.5	15.7	11.9	2.1%	0.3	0%	-9%	40%	-63%
SOEs							**11.3**	**8.9**	**4.0%**	**0.5**	**-1%**	**-7%**	**1%**	**-37%**
Longfor	0960.HK	N	5.60	4.55	4.1	18.7	-	-	-	0.2	-7%	-21%	-47%	-89%
Seazen Group	1030.HK	N	1.40	1.38	1.3	3.9	-	-	-	0.2	6%	-8%	-33%	-86%
Private							**-**	**-**	**-**	**0.2**	**-4%**	**-18%**	**-43%**	**-88%**
China Vanke - H	2202.HK	UW	1.60	2.20	5.3	10.8	-	-	-	0.2	-2%	-22%	-33%	-93%
Country Garden	2007.HK	UW	0.10	0.15	0.9	7.9	-	-	-	-	-5%	-24%	-65%	-99%
Sunac China	1918.HK	UW	0.30	0.45	1.1	21.4	-	-	-	0.1	-9%	-35%	-66%	-99%
Shimao	0813.HK	UW	0.03	0.04	0.1	0.6	-	-	-	-	-26%	-9%	-79%	-100%
Distressed							**-**	**-**	**-**	**0.2**	**-3%**	**-24%**	**-42%**	**-95%**
Mainland China Developers (Overall)							**9.2**	**7.2**	**3.3%**	**0.4**	**-1%**	**-10%**	**-7%**	**-47%**
Mainland China Property Management & Services														
China Resources Mixc	1209.HK	OW	49.00	38.30	11.1	22.9	17.0	15.8	5.9%	4.8	-1%	0%	-9%	-21%
China Overseas PH	2669.HK	UW	2.90	3.17	1.3	2.5	6.9	6.9	6.7%	1.3	0%	-4%	-30%	-67%
Poly Property Services	6049.HK	OW	41.50	26.14	1.8	2.2	7.6	7.2	6.6%	1.1	0%	-6%	-18%	-67%
Greentown Service	2869.HK	OW	5.50	3.99	1.6	1.4	10.0	9.2	7.2%	1.2	1%	-5%	-13%	-64%
Backed by SOE developers							**14.4**	**13.4**	**6.2%**	**3.7**	**0%**	**-2%**	**-12%**	**-35%**
Country Garden Services	6098.HK	N	5.40	4.87	2.1	3.9	5.4	5.4	11.1%	0.4	-2%	-9%	-12%	-93%
A-Living	3319.HK	UW	1.50	1.78	0.3	0.5	2.9	3.2	7.7%	0.2	-10%	6%	-22%	-96%
Sunac Services	1516.HK	UW	0.70	0.67	0.3	0.3	3.7	4.4	8.1%	0.3	-2%	-14%	-52%	-97%
Backed by POE developers							**4.9**	**5.0**	**10.4%**	**0.4**	**-3%**	**-8%**	**-17%**	**-93%**
Mainland China Property Management & Services							**13.0**	**12.2**	**6.8%**	**3.2**	**-1%**	**-2%**	**-13%**	**-43%**
KE Holdings	2423.HK	OW	59.00	44.88	19.6	53.6	13.9	12.7	1.9%	1.8	1%	1%	8%	-36%
Mainland China Property Agent							**13.9**	**12.7**	**1.9%**	**1.8**	**1%**	**1%**	**8%**	**-36%**

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. Note: Companies marked "NC" are not under J.P. Morgan coverage, all estimates for such companies are based on consensus estimates from Bloomberg Finance L.P. Pricing as of close of October 29 2026.

Table 4: China Property - Credit Valuation

Issuer	Instrument	Credit rating (M/S/F)	Maturity	Price	Coupon	YTM	Z-spd (bps)	SOT (bps)	Dur
Longfor	LNGFOR '27	B2/B+/BB-	4/13/2027	95.7	3.38%	13.5%	914	885	0.4
	LNGFOR '28	B2/NA/BB-	1/16/2028	88.4	4.50%	15.4%	1094	1101	1.1
	LNGFOR '29	B2/B+/BB-	9/16/2029	76.9	3.95%	14.0%	931	920	2.5
	LNGFOR '32	B2/B+/BB-	1/13/2032	66.5	3.85%	12.9%	837	811	4.3
Shui On	SHUION '29	NA/NA/NA	1/26/2029	93.7	9.75%	13.2%	849	838	1.9
Seazen	FUTLAN '28	NA/B-/NA	6/26/2028	94.6	11.88%	15.6%	1687	1690	0.6
Vanke	VNKRLE '27	C/CCC-/C	11/9/2027	53.7	3.98%	77.8%	7491	7534	0.7
	VNKRLE '29	C/CCC-/C	11/12/2029	48.9	3.50%	30.5%	2581	2578	2.4
Greentown	GRNCH '28	B1/NA/NA	2/24/2028	92.1	8.45%	15.3%	1054	1053	1.2
Jinmao	CHJMAO '29	Ba3/NA/NA	7/23/2029	89.6	4.25%	8.6%	399	386	2.5
CR Land	CRHZCH '29	Baa1/BBB+/NA	2/26/2029	97.4	4.13%	5.3%	76	60	2.2
COLI	CHIOLI '28	Baa2/A-/A-	4/26/2028	99.2	4.75%	5.3%	78	64	1.4
	CHIOLI '30	Baa2/NA/A-	3/2/2030	911.3	2.75%	5.7%	111	87	3.1
	CHIOLI '35	Baa2/NA/A-	3/2/2035	81.7	3.13%	5.9%	134	99	7.0
	CHIOLI '43	Baa2/A-/A-	10/29/2043	99.1	6.38%	6.5%	170	109	10.3

Source: Bloomberg Finance L.P. and J.P. Morgan. Note: Pricing as of 29 October 2026.