

Policy Tightening For China's Property Sector Shows No Signs Of Abating

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HONG KONG (S&P Global Ratings) Feb. 16, 2017--S&P Global Ratings today said that Chinese authorities are likely to continue their efforts to curb property prices in the near future. In fact, high new household lending in January could lead to further tightening policies.

In the latest effort to curb property prices, the Asset Management Association of China (AMAC) recently banned privately-offered asset management products from channeling funds into residential property projects in 16 key cities across China. The restrictions include entrusted loans, trust plans, other financial products, and debt-like instruments that are passed as equity.

"We believe the funding restriction will weaken Chinese property developers' access to alternative financing and increase their cash flow burden," said S&P Global Ratings credit analyst Cindy Huang.

In the past, many property developers tapped funding from asset management products to jointly acquire land or co-develop new projects. The ban will limit this access, and developers will need to rely more on internal cash generation through contracted sales to invest in new or existing projects.

"In our view, property developers' ability to generate satisfactory contracted sales and the quality of their land bank will be even stronger differentiators in 2017," said Ms. Huang.

We expect market consolidation to accelerate and large developers will continue to gain market share. This is because large developers have more sellable resources, higher geographic diversification, and better sales execution to ensure good contracted sales even as the industry slows. Strong contracted sales will also be important for companies to maintain good access to bank credit as flight to quality is likely to gather pace.

Although the share of new household loans in total new loans has declined to 31% in January 2017, from 75% in October 2016, the amount is still 32% higher than the January 2016 figure, and 49% higher than December 2016 number. This suggests that, while sales have cooled in targeted cities, they have spilled over to non-targeted cities. Therefore, more government measures to curb property market speculation are likely.

The divergence in sales performance of property developers in China in January suggests that the credit profiles of rated developers are likely to polarize in 2017. A company's individual performance and financial situation, rather than the overall industry trend, are likely to be key rating factors, in our view.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

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