Macroeconomic Analysis of the Investment Value of Individual Stocks in the Chinese Real Estate Market

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Abstract. Following several years of downturn in the Chinese real estate market, recent developments have introduced potential favorable opportunities for the market. The Chinese macroeconomic environment is heating up, providing a favorable backdrop for the development of the real estate sector. This article aims to combine the current development prospects of the Chinese macroeconomy and the real estate industry to offer stock recommendations. By comparing relevant data from the perspectives of risk, return, and market conditions, the article seeks to identify reasonable stock choices. This includes comparing the company's performance from various perspectives through market size, price fluctuations, returns, and momentum. Overall, among the three stocks analyzed, Vanke A and China Merchants Shekou display a stable upward trend and are suitable for long-term investment. They hold significant appeal for value investors, as the data suggests that these two stocks are clearly undervalued. Country Garden is in a period of adjustment with less favorable returns but could be considered for short-term investment.

Keywords: Real estate, China, analysis, Stocks.

1. Introduction

The Chinese real estate industry, which has faced serious issues such as severe price premiums in first- and second-tier cities and unsold properties over the past few years, is expected to encounter a potential turning point in 2024. As macroeconomic conditions in China continue to improve, demand for the real estate market is rising. Given China's unique economic system, the government's relaxation of regulations on the real estate sector is expected to significantly stimulate the market. Unlike in 2016, when the government implemented policies stating that "homes are for living in, not for speculation," in 2024, the Chinese government is more inclined to use the real estate industry to drive expansionary economic growth. This will involve increasing consumer demand for residential properties by lowering down payment ratios and interest rates.

This article aims to provide reasonable investment choices for different investors by combining the macroeconomic environment in China with the development prospects of the real estate market, selecting three representative companies as the main subjects of this analysis. The comparison will focus on risk, return, and market factors for these three companies.

2. Fundamental analysis

2.1. Macoreconomic environment

By analyzing the macroeconomic environment and the real estate industry environment, this paper aims to identify common factors that benefit the development of the industry and to jointly advance the development of the real estate sector, seeking economic growth points that can be leveraged. The intent is to combine a broad economic environment analysis with specific stock analysis to provide investors with reasonable stock choices.

The Chinese real estate market was officially established in September 1978 with the commercialization of housing, allowing homes to be viewed as commodities that can be bought and sold regardless of their age. In the same year, the first real estate company in mainland China, Shenzhen Economic Zone Real Estate Company, was established. China's unique economic model determines that the real estate market is influenced by both international markets and government intervention. Unlike capitalist countries like the United States and Japan, which are driven by free markets, China’s economic model ensures a close relationship between the central government and real estate developers, with market regulation typically discussed and adjusted by the central government. Since 2003, the favorable macroeconomic environment, combined with supportive policies, led to a rapid increase in commodity housing prices. From 2003 to 2005, the growth rate of average commodity housing prices increased from 3.82% to 16.75%. Although the government implemented policies to curb the rise in housing prices, the effects were not significant. After the global financial crisis erupted in 2008, the economy and real estate market in mainland China were severely impacted. In December of the same year, the State Council issued related policies to stimulate the market and maintain stable economic growth. Since 2016, the government has started to limit the expansion of debts by real estate companies and related financial institutions, suppressing housing prices through measures such as raising interest rates [1]. This indicates that the macroeconomic environment and government intervention jointly determine the direction and price trends of the Chinese real estate market. Monitoring these two indicators helps in gaining macro-level insights into the real estate market's trends [2].

In the first quarter of 2024, China’s GDP growth rate year-on-year reached 5.3%, an increase of 0.1% compared to 5.2% in the fourth quarter of 2023, with an upward growth trend. Compared to the domestic GDP growth rates from 2019 to 2023, 2024 shows a turnaround and trend towards stability. The economic slowdown at the end of 2019 and the beginning of 2020 was due to the impact of the pandemic. The domestic CPI index in 2023 decreased compared to 2019. As purchasing power improves, consumer demand is expected to rise. In 2023, the foreign trade import and export volume decreased by about 5% compared to 2022. Due to equipment upgrading policies and strong overseas demand, export, manufacturing, and industrial production investment activity rebounded in the first quarter [3]. From 2019 to 2023, export volumes consistently exceeded import volumes, maintaining a trade surplus. Despite continued low investment in real estate and constraints on local investment capabilities due to hidden debt risks, domestic demand remains weak. However, data suggests that the main factors driving economic growth in the first quarter of 2024 rely on the joint increase in domestic demand and supply.

Possible measures include government policies such as low loan interest rates and reduced personal income tax rates to enhance consumer spending, thereby increasing domestic output. At the same time, reducing corporate income tax and providing support for raw material costs for some factories aims to increase production capacity and output while meeting domestic consumer demand [4-6]. Supply and demand together drive the growth rate of the Chinese macroeconomy. From 2022 to 2024, as of the second quarter of 2024, the overall unemployment rate in mainland China has shown a downward trend. The unemployment rate in 2024 decreased by about 4 percentage points compared to 2023, approaching the lowest level in nearly five years. The unemployment rate significantly rose in 2020 due to the pandemic but has since decreased to a low point after some easing (Figure 1).

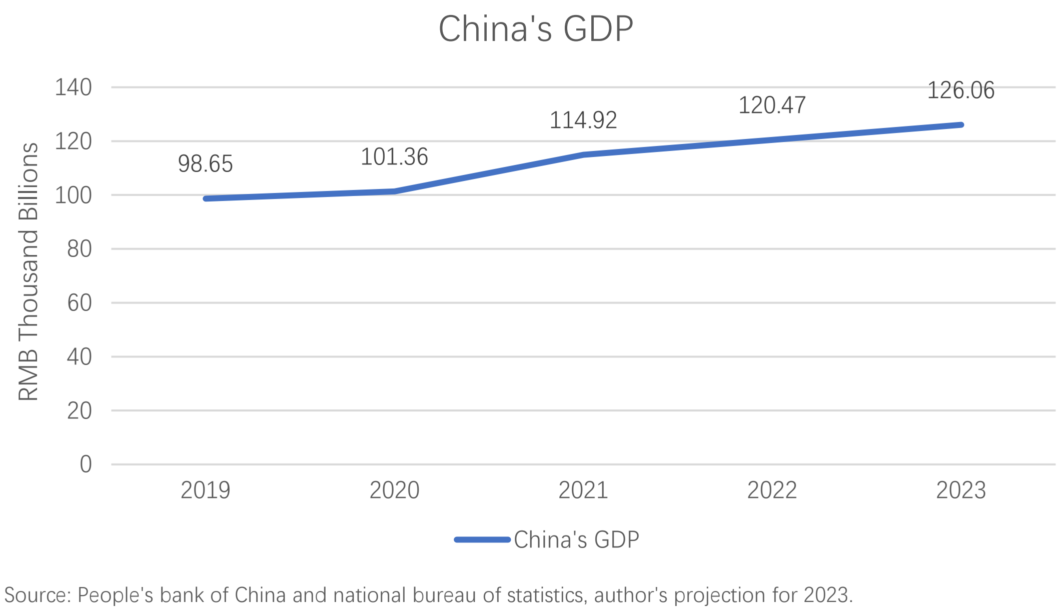

Fig. 1 Moving trend of China's GDP in recent five years

2.2. Industry environment analysis

Since 2013, after the State Council issued the "Notice on Continuing to Strengthen Real Estate Market Regulation," which included a series of tightening policies targeting the real estate industry, such as restricting equity financing to reduce the number of real estate IPO applications, the Chinese real estate market has been on a continuous decline. By 2015, the real estate market had accelerated its divergence, with first-tier cities like Beijing, Shanghai, and Guangzhou experiencing persistent supply shortages and rising housing prices. Meanwhile, some second- and third-tier cities saw a slow recovery in their real estate markets, leading to severe unsold inventory and exacerbating regional industrial imbalances.

In 2016, the Central Economic Work Conference proposed that housing should not be treated as a speculative commodity but should be used for living. Consequently, under the overall tone of "de-stocking" in the housing market in 2016, policies became more lenient, leading to a general rise in housing prices, which stabilized the economic situation but also resulted in the accumulation of bubbles [5]. Similar to the collapse of the Japanese real estate bubble, in 2020, the central bank and other institutions tightened credit financing policies and restricted financial institutions from financing the real estate sector. This led to defaults and bankruptcies among numerous real estate companies, resulting in a significant number of unfinished buildings. This issue continued into 2023.

By the end of 2023, the real estate credit platform recorded approximately 140,300 real estate development companies nationwide with development qualifications. Among them, 30,243 companies had negative credit information, a 17.40% increase compared to 2022, accounting for 21.54% of all real estate development companies in China. The real estate credit platform recorded a total of 260,000 cases of various types of negative credit information in 2023, a 49.71% increase compared to 2022. Notably, among these 260,000 default records, tax arrears cases were the most significant, accounting for 75.05% of all negative credit, totaling about 198,300 cases. This was followed by individuals subject to enforcement, with approximately 48,000 cases, making up 18.16%. These two types of issues have become the absolute main contributors to negative credit information for real estate development companies, together accounting for 93.21% (Table 1).

Table 1. Data for real estate industry in China in recent five years

	2019	2020	2021	2022	2023
Investment	9.9%↑	7.0%↑	4.4%↑	10%↓	9.6%↓
Construction area	8.7%↑	3.7%↑	5.2%↑	7.2%↓	7.2%↓
Residential construction area	10.2%↑	4.4%↑	5.3%↑	7.3%↓	7.7%↓
Newly started construction area	8.5%↑	1.2%↓	10.9%↓	39.4%↓	20.4%↓
Completed housing area	2.6%↑	4.9%↓	11.2%↑	15%↓	17%↑
Completed residential area	3.0%↑	3.1%↓	10.8%↑	14.3%↓	17.2%↑
Funds in place	7.6%↑	8.1%↑	4.2%↑	25.9%↓	13.6%↓
Domestic loans	5.1%↑	5.7%↑	12.7%↓	25.4%↓	9.9%↓
Foreign investment	62.7%↑	9.3%↑	44.1%↓	27.4%↓	39.1%↓

The reduction in real estate credit has led to many real estate companies facing bankruptcy and other issues. The appearance of unfinished buildings not only fails to maximize the use of social resources but also causes aesthetic problems for cities and significant distress for buyers of these unfinished properties [6]. This serious issue saw a turnaround in 2024, as the central government announced the lifting of purchase restrictions and introduced a "three-pronged" policy approach to revitalize the Chinese real estate market. This included reducing down payment ratios: the minimum down payment for the first home loan was adjusted to no less than 15%, and the minimum down payment for a second home loan was adjusted to no less than 25%. This level of stimulus had never been seen before in history; even during the major stimulus periods of 2008 and 2016, the first home loan interest rates were maintained at the lowest level of 20%.

Additionally, the policy included reducing interest rates, primarily targeting provident fund loan rates and commercial mortgage rates. The removal of the lower limit on commercial mortgage rates means banks can freely compete and significantly lower rates to attract loans [7]. Combined with reduced down payment ratios, this is expected to lower the cost of purchasing homes. Furthermore, the government was allowed to directly purchase housing and set up a 300-billion-yuan re-loan for affordable housing, used to support local state-owned enterprises in acquiring completed but unsold commercial housing at reasonable prices for use as affordable housing, while also alleviating unsold property issues [8-10]. Overall, with the continuous introduction of expansionary policies, the Chinese real estate industry is seeing a turnaround, and the market is gradually becoming more favorable. Proper selection of companies can seize rare market opportunities.

3. Investment value analysis

3.1. Company Overview:

Vanke A: Vanke Enterprises Co., Ltd. (referred to as "Vanke") was established in 1984 and is headquartered in Shenzhen. It is one of China's leading real estate development companies. Initially, Vanke focused on residential development, but as the market evolved, the company expanded its business scope to include commercial real estate, logistics real estate, and property management. Vanke operates in numerous cities across China and is dedicated to providing comprehensive real estate solutions. Its main sources of revenue include residential sales, commercial real estate leasing, and property management services. Through continuous innovation and market expansion, Vanke has grown into a leading player in the Chinese real estate industry, with significant market competitiveness and brand influence.

Country Garden: Country Garden Holdings Company Limited (referred to as "Country Garden") was established in 1992 and is headquartered in Foshan, Guangdong Province, China. Initially focusing on residential development, the company has gradually expanded into commercial real estate, property management, and hotel businesses. Country Garden's main operations include real estate development, property management, and the construction and sale of residential and commercial properties. Its primary revenue source is residential sales, with additional income coming from commercial property leasing and property management services. With its extensive market presence and diversified business model, Country Garden has become one of the major players in the Chinese real estate market.

China Merchants Shekou: China Merchants Shekou Industrial Zone Holdings Co., Ltd. (referred to as "China Merchants Shekou") was established in 1979 and is headquartered in Shenzhen. Initially starting with the development of the China Merchants Shekou Industrial Zone, the company has gradually expanded into real estate development, property management, commercial real estate, and logistics real estate. China Merchants Shekou has achieved significant success in residential development and has accumulated extensive experience in developing commercial properties and logistics facilities. Its main sources of revenue include residential sales, commercial property leasing, and property management services. With its diversified business and nationwide expansion, China Merchants Shekou has become a key player in the Chinese real estate market, continuously leading the industry with its comprehensive strength and market reach.

3.2. Risk comparison

Table 2. Data of risk factors

Risk factor	Vanke A	Country Garden	China Merchants Shekou
Market cap	81.01B	13.57B	79.10B
Beta	1.27	2.18	0.33
Total Debt ratio	85.90%	101.63%	75.44%
Current ratio	1.38	1.20	1.57

Market capitalization: From analysing the data, Vanke A leads to a market cap of 81.08B. Country Garden leads to market cap of 13.57B and China Merchants Shekou has market cap of 79.10B. Company with greater market cap, Vanke A and China Merchants Shekou indicates that there are market dominance and influence.

Beta: Beta measures company’s volatility relative to the market. As the data shown, Beta level from high too low for these three companies are Country Garden，Vanke A and China Merchants Shekou. This indicates the potential risk of these three stocks from the lowest to highest is China Merchants Shekou，Vanke A and Country Garden.

Total debt ratio: These measures how much leverage a company takes. Country Garden has debt ratio of 1.02. It’s relatively higher than Vanke A which has debt ratio of 0.86, indicating that Vanke A is less risky than Country Garden. China Merchants Shekou has the lowest debt ratio 0.75, indicating it has the lowest risk in this scenario.

Current ratio: Both of these three companies have current ratio greater than 1 which means they own less than what they actually have. More short-term assets need to cover their short-term liabilities. Indicating that liquidity for these three companies is high.

Based on the above comparative analysis, this paper concludes that, from the perspective of investment risk, China Merchants Shekou may outperform the other two companies (Table 2).

3.3. Profit comparison

Table 3. Data of Profitability ratio

Profitability ratio	Vanke A	Country Garden	China Merchants Shekou
Total asset turnover	0.27	0.25	0.2
Profit margin	2.26%	-11.25%	3.47%
ROA	1.03%	-1.16%	0.94%
ROE	4.51%	-20.21%	3.32%

Total asset turnover: This measures efficiency of using assets to generate revenue. Vanke A has the highest total asset turnover, then is Country Garden， China Merchants Shekou. This shows Vanke A is the most effective ones.

Profit margin: Vanke A has profit margin of 2.26%, suggesting that it has moderate level of profitability, relatively low to the market. China Merchants Shekou has profit margin 3.47%, higher than Vanke A. Country Garden has negative profit margin of -11.25%, a zero or negative profit margin translates to a business that's either struggling to manage its expenses or failing to achieve good sales (Table 3).

ROA: ROA shows efficiency of assets utilization. Vanke A has the highest ROA at 1.03%, followed by China Merchants Shekou at 0.94%. However, Country Garden has negative ROA which indicates that a company is not making a profit and is not using its assets efficiently. Therefore, we can deduce that Vanke A receive the highest return on asset, then is China Merchants Shekou. Country Garden receive no return on asset.

ROE: Vanke A outperform with an ROE of 4.51% followed by China Merchants Shekou with an ROE of 3.32%. Indicating that higher return on shareholders in stock Vanke A. Country Garden has negative ROE, hence no net income [9].

Based on the above comparative analysis, this paper concludes that Vanke A excels in terms of market return. Considering this aspect, Vanke A offers greater investment value compared to the other two companies.

3.4. Market comparison

Table 4. Data of Market ratio

Market ratio	Vanke A	Country Garden	China Merchants Shekou
PE	7.87	3.34	13.37
PB	0.33	0.07	0.67
Dividend yield	/	/	3.65%
PEG	0.27	/	/
Intrinsic value	335.38B	22.07B	216.79B
Moving average 50	7.17	2.3072	9.17
Moving average 200	9.07	2.2418	9.43
Current stock price	6.83	1.4500	8.73
Insider holding	41.02%	/	64.23%
Smart money	10.08%	/	14.35%

PE: Country Garden has the lowest PE ratio 10.23, followed by Vanke A 7.87, and China Merchants Shekou has the highest PE ratio which means Country Garden has the high growth expectations priced into the stock (Table 4).

PB: Similar to PE ratio, Country Garden has the lowest PB ratio 0.07, both Vanke A and China Merchants Shekou has PB ratio less than 1 indicating that they have been undervalued. Both of these three companies are attractive to value investors.

Dividend yield: Only China Merchants Shekou has dividend yield.

Moving average: Vanke A and China Merchants Shekou presents positive momentum relative to their current stock price in both the 50-days moving average and 200-days moving average. This indicates upward trends in stock value [10].

Based on the above textual analysis, this paper finds that both Vanke A and China Merchants Shekou exhibit a stable upward trend in market comparison analysis, with both performing excellently.

4. Conclusion

As a conclusion, China Merchants Shekou presents the best performance in risk comparison scenario due to its high growth potential and liquidity and low risk provide stable moving trend. Vanke A outperforms advantage in profit comparison scenarios, in which lead to the potential of higher profit return on investment. Both Vanke A and China Merchants Shekou have positive moving trend and have been undervalued. Although Country Garden have poor performances in these three scenarios, adjustment in financial situation may bring prosperity to this company’s market performance. Based on the value shown above, PE and PB ratio suggest that both of these three companies are valued by value investor due to their market features. Long-term investment would like to invest their money into such companies which have greater inner value and potential to growth. However, Country Garden now have negative value of profit margin and ROE. Temporary market adjustment would lead to such result, so it is wise to tracking the index to test whether this company is worth to invest in. This analysis is constrained by insufficient data and the absence of models, resulting in a lack of model validation and practical evidence for the final investment value assessment. In future analyses, the paper will provide more rational and evidence-supported stock analysis by integrating mathematical models with quantitative analysis.

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