4th floor
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY
United Kingdom

tel +44 20 7260 2000
fax +44 20 7260 2001
www.markit.com

Markit Commentary

March 15th 2016

Chinese property too hot for short sellers

An unexpected thirst for real estate by Chinese insurers has seen short sellers continue their retreat from the sector as falling equities and deregulation fuel an increased appetite for local property empires.

- Chinese property companies in high demand despite fears of the market overheating
- Short interest across China's largest homebuilders the lowest seen in 12 months
- Developer Evergrande's debt pile continues to grow as firm acquires financial assets

From the Waldorf Astoria to China's largest homebuilder, Chinese insurers continue to bulk up their **real estate exposure** supporting stock prices and sending short sellers covering.

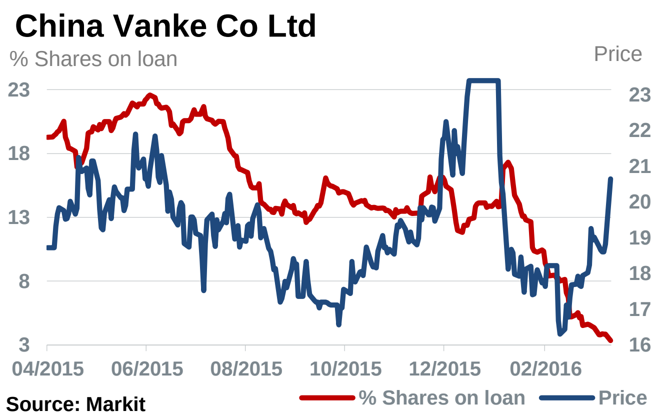
Slumping equity markets saw concerns of fewer **Chinese buyers** in international residential markets materialise in 2015 but Chinese corporates continue to aggressively seek assets both abroad and locally. Anbang, once a simple chinese car insurance business, has just **pipped** Marriot to the post with a $13bn bid for Sheraton owner; Starwood Hotels & Resorts.

Deregulation by the Chinese government has allowed for increased investment allocation by Chinese insurance firms in real estate. Volaitliy in Chinese markets has seen companies eager to splurge on **foreign acquisitions** ramp up their efforts - but this has also been accompanied with a soaring demand for investment in local Chinese property developers.

Adding to the property fever is real estate firms that are borrowing to fund the **acquisition** of their own shares creating an environment that has become untenable for short sellers. Additionally, a recent **four week** rally in shares has lifted markets.

Source: Markit

Average short interest across the largest real estate developers listed in Hong Kong and China has decreased over a third since the highs of 2015.



Source: Markit

The most shorted developer at the start of the year was China Vanke with 14% of its shares sold. The percentage of shares outstanding on loan or short interest has subsequently declined by over two thirds to 3.3%.

Shares in Vanke were suspended in December at the request of the firm pending a resturcturing and possibly part of efforts to fend off a hostile takeover from insurance firm and major shareholder Baoneng.

Vanke's Shenzen listed shares remain suspended pending the restructuing, with Hong Shares resuming trading in January. Meanwhile, Vanke announced this week a bid to **acquire a stake** in the Shenzhen Metro (through share issuance) as part of restructuring efforts and analyts **speculate** this forms part of the efforts to fend off Baoneng.

Instead, Vanke has welcomed recent moves by Anbang (referred above), who has increased their stake in the homebuilder from 4.5% to 7.0%.

Evergrande Real Estate Group Ltd

Source: Markit

Shorts have also been seen giving up positions in the second largest residential developer in China, Evergrande Real Estate Group. Currently the **most shorted** with 6.5% short interest, shares were down by 29% in February after the stock was **downgraded** but have since recovered and are down 7% year to date.

Shares were initially lower after the stock was shunned by analysts as the company splashed out on a Hong Kong office tower for ~$1.6bn, adding to Evergrande's profile as the most **indebted Chinese** developer.

Poly Property Group Co Ltd

Source: Markit

Third most shorted Chinese developer is currently Poly Property Group which has seen shorts reduce positions by 40% in the past six months. Shares have hovered after diving by 40% in 2015, yet since early February shares have rallied 20% with short sellers trimming positions by 15%.

*To receive more information on **Securities Finance**, **Research Signals**, **Exchange Traded Products**, **Dividend Forecasting** or our Short Squeeze model please **contact us**

To read this article on our commentary website please click **here.**

Relte Stephen Schutte

Analyst

Markit

Tel: +44 207 064 6447

Email: **relte.schutte@markit.com**

For further information, please visit **www.markit.com**