

Ke Holdings (BEKE US)

2Q23E will be another market surprise

BEKE's strong 1Q23 guidance and YTD data proved our higher-than-market sales forecast published [in January](#). We expect the sales growth to further improve in 2Q and beyond based on our leading indicator, channel check and low base (2023E EHT at +20% YoY). Together with the amplification effect via its ACN network, we expect 23/24E adjusted net profits to achieve RMB6.2/7.7bn, 17/13% higher than consensus now. Reiterate Buy and raise TP to US\$24.3/ADS. **Catalysts:** sales data continues to beat; policy relaxation.

- **4Q22 a solid beat:** BEKE delivered RMB1.55bn adjusted NP in 4Q22, much higher than our and street expectation of RMB0.7-1bn. The beat mainly came from the margin expansion to 9.2% NPM, thanks to GTV recovery and improving commission rate to 3.14% in new home market. In detail, Beike's existing home transaction (EHT) GTV was RMB360bn (+1.5% YoY) while new home transaction recorded RMB263.5bn (-26% YoY), both outperforming the market. Service fees from ACN increased 25.2% YoY to RMB0.9bn.
- **Strong 1Q23 guidance not a surprise:** Management expects total revenue generation of RMB18.0-18.5bn in 1Q23E, based on the assumption of 40% YoY increase in GTV market (EHT up 60% YoY and new home market up 20% YoY). This is actually in line with the current market condition that EHT +52% YoY.
- **We are more positive on the sales sustainability to drive BEKE's earnings upside in 2023E:** [Our sales leading indicator model](#) and recent channel check in major cities suggests sales momentum continues as buyers are still buying earlier than later on stabilized property price and historically low mortgage rate. Further to Apr/May, sales are likely to stay positive as well on the very low base. All these would imply a strong 1H market. Thus we expect BEKE to deliver 29%/4% YoY increase in existing home/new home revenue, based on the market assumption of 20% in EHT and 0% in new home market. **Also, after the two sessions, we think the overhang of commission rate cap risk is almost gone.**
- **ACN network would further amplify the solid market for connected stores:** The stronger-than-expected market would benefit connected stores more given their relatively lower efficiency. Therefore, this would provide more service fees upside so we expect it to increase 30% YoY to RMB4.5bn contributing 20% bottom line. As for Shengdu, company would continue to invest due to large room improving the conversion rate from BEKE platform. We think its loss would narrow in 2023E on the solid existing home sales.
- **Reiterate Buy and Raise TP to US\$24.3/share:** We raised 23/24E revenue by both 6% on higher existing and new home GTV assumption. We also adjusted up NP by 11%/9% to RMB6.2/7.7bn. Our SOTP model implies the new TP of US\$24.3/ADS, including US\$23.3 for Beike Core and US\$1.0 for Shengdu, and our TP is equivalent to 32/26x 2023/24E PE (non-GAAP).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	80,752	60,669	73,499	80,944	87,273
YoY growth (%)	14.6	(24.9)	21.1	10.1	7.8
Adjusted net profit (RMB mn)	2,294.0	2,842.8	6,231.3	7,677.3	8,653.6
Adj. NP (consensus; RMB mn)	N/A	N/A	5,316.1	6,812.5	9,425.0
EPS (Adjusted) (RMB)	7.71	1.94	2.39	5.24	6.42
P/E (x)	204.8	N/A	N/A	48.9	33.0
ROE (%)	(0.8)	(2.0)	4.2	5.7	6.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$24.30
 (Previous TP US\$23.30)
Up/Downside 38.1%
Current Price US\$17.60

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Stock Data

Mkt Cap (US\$ mn)	20,821.5
Avg 3 mths t/o (US\$ mn)	17.9
52w High/Low (US\$)	20.30/9.77
Total Issued Shares (mn)	1183.0

Source: FactSet

Shareholding Structure

Propitious Global	23.3%
Tencent Mobility	10.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.3%	-4.2%
3-mth	23.2%	16.5%
6-mth	-4.6%	-3.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Management guidance:

- 1) Company forecasts industry wide EHT GTV to reach 15% YoY growth and new home transaction to be flattish YoY in 2023E
- 2) For 1Q23E, management expects BEKE to deliver 60% YoY increase in EHT GTV and 20% in new home GTV. In detail, Lianjia is likely to record 30% YoY increase in EHT while connected stores could book 90% YoY increase given the lower base.
- 3) There will be certain amount of write off reversal (total RMB2bn bad debt) in 2023E as market is improving, just like RMB206mn in 2022.
- 4) Currently Beike has RMB83.5bn cash on hands which is enough for any financial crisis. Also there was no cash deposit in Credit Swiss nor SVB.
- 5) Shengdu: management expects 2023E loss no larger than 2022 and it may achieve breakeven in some months of 2024E.

Figure 1: BEKE: quarterly financial results

(RMBbn)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	CMBI estimates	Diff%
GTV	1,070	1,221	831	732	586	640	737	647	615	5.2%
Growth (YoY%)	224%	22%	-21%	-35%	-45%	-48%	-11%	-12%		
Existing home transaction	673	652	378	355	374	394	449	360	343	4.9%
Growth (YoY%)	244%	12%	-34%	-39%	-44%	-40%	19%	1%		
New home transaction	343	498	410	357	193	223	262	264	239	10.1%
Growth (YoY%)	195%	32%	-3%	-24%	-44%	-55%	-36%	-26%		
(%)										
Blended monetization rate										
Existing home transaction (revenue/GTV)	1.5	1.5	1.6	1.7	1.6	1.4	1.6	1.5	1.6	-0.1 ppt
New home transaction (revenue/GTV)	2.9	2.8	2.8	3.2	3.1	3.0	3.0	3.1	3.0	0.2 ppt
(RMBbn)										
Revenue	20.7	24.2	18.1	17.8	12.6	13.8	17.6	16.7	14.8	13.0%
Growth (YoY%)	191	20	(12)	(22)	(39)	(43)	(3)	(6)		
Existing home transaction	10.2	9.6	6.1	6.0	6.2	5.5	7.2	5.3	5.3	-0.7%
Growth (YoY%)	202	5	(31)	(35)	(40)	(43)	17	(12)		
New home transaction	9.9	13.9	11.3	11.3	5.9	6.7	7.8	8.3	7.1	16.4%
Growth (YoY%)	188	32	2	(12)	(40)	(52)	(31)	(27)		
Emerging and other services - old disclosure	0.6	0.7	0.6	0.5	0.5	1.6	2.6	3.2	2.4	33.5%
Growth (YoY%)	96	51	(2)	(21)	(15)	139	334	549		
Gross profit	4.8	5.3	2.8	2.9	2.3	2.7	4.8	4.1	3.2	29.3%
Operating profit	1.0	1.1	-2.3	-1.2	-0.8	-1.5	1.2	0.4		
Contribution profit	6.5	7.1	4.5	4.6	3.6	4.1	6.0	5.0		
Non-GAAP net profit	1.5	1.6	-0.9	0.0	0.1	-0.6	1.9	1.6	0.7	133.7%
(%)										
Gross margin	23.3	22.1	15.2	16.4	18.3	19.7	27.0	24.4	21.4	3.1 ppt
Operating profit margin	4.9	4.6	-12.7	-6.7	-6.6	-11.0	6.9	2.3	-2.4	4.8 ppt
Contribution profit margin	31.3	29.4	24.6	25.8	28.7	30.0	34.0	30.0		
Non-GAAP net profit margin	7.3	6.8	-4.9	0.2	0.9	-4.5	10.7	9.2	4.5	4.7 ppt

Source: Company data, CMBIGM

Figure 2: BEKE: forecast revision

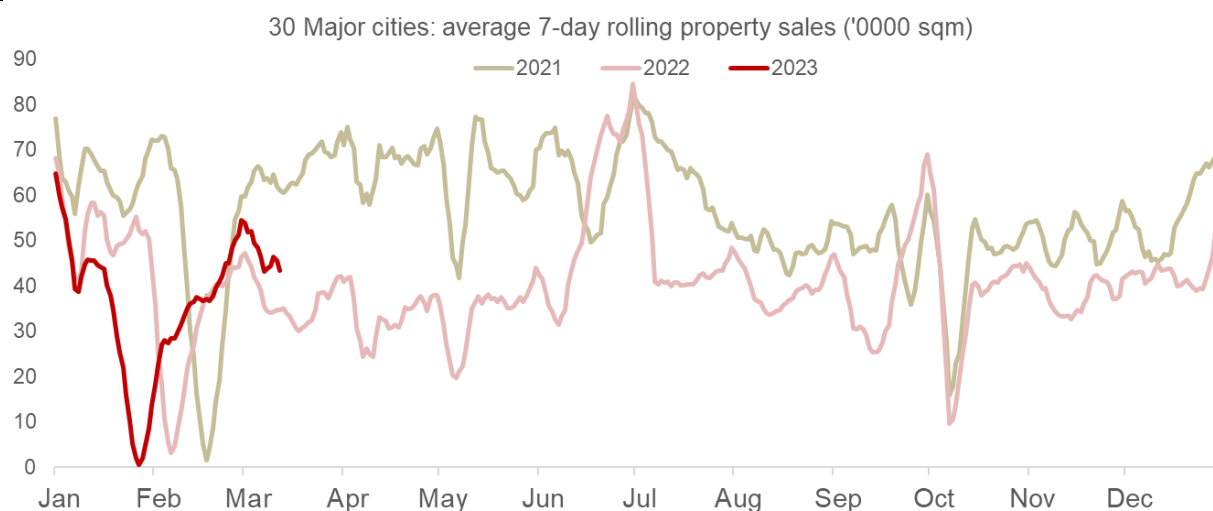
RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	73.5	80.9	87.3	69.5	76.6		5.7%	5.7%	
Gross Profit	17.8	20.4	22.6	17.2	19.9		3.1%	2.5%	
Operating Profit	2.5	4.5	6.3	2.4	4.2		5.0%	5.1%	
Non-GAAP net profit	6.2	7.7	8.7	5.6	7.0		10.5%	9.1%	
Gross Margin	24.2%	25.1%	25.9%	24.8%	25.9%		-0.6 ppt	-0.8 ppt	
Operating Margin	3.4%	5.5%	7.2%	3.5%	5.5%		0.0 ppt	0.0 ppt	
Non-GAAP net margin	8.5%	9.5%	9.9%	8.1%	9.2%		0.4 ppt	0.3 ppt	

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	73.5	80.9	87.3	69.8	80.5	90.4	5.3%	0.6%	-3.5%
Gross Profit	17.8	20.4	22.6	17.2	20.5	23.3	3.3%	-0.9%	-2.8%
Non-GAAP net profit	6.2	7.7	8.7	5.3	6.8	9.4	17.4%	12.9%	-8.1%
Gross Margin	24.2%	25.1%	25.9%	24.6%	25.5%	25.7%	-0.5 ppt	-0.4 ppt	0.2 ppt
Non-GAAP net margin	8.5%	9.5%	9.9%	7.6%	8.5%	10.4%	0.9 ppt	1.0 ppt	-0.5 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: New home sales grew 34% YoY in March MTD

Source: Wind, CMBIGM

Figure 5: Existing home sales grew 100% YoY in March MTD


Source: Wind, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	70,481	80,752	60,669	73,499	80,944	87,273
Cost of goods sold	(53,621)	(64,933)	(46,888)	(55,731)	(60,590)	(64,666)
Gross profit	16,860	15,819	13,781	17,767	20,354	22,607
Operating expenses	(14,018)	(17,174)	(14,614)	(15,246)	(15,900)	(16,315)
SG&A expense	(11,304)	(13,234)	(11,920)	(12,750)	(13,394)	(13,875)
R&D expense	(2,478)	(3,194)	(2,546)	(2,496)	(2,506)	(2,440)
Others	(236)	(747)	(148)	0	0	0
Operating profit	2,842	(1,355)	(833)	2,521	4,454	6,293
Other income	781	1,702	1,569	1,098	878	791
Other expense	(2)	(163)	(719)	0	0	0
Investment gain/loss	473	565	(512)	0	0	0
Share of (losses)/profits of associates/JV	(34)	37	45	0	0	0
Interest income	163	355	743	1,018	1,216	1,275
Pre-tax profit	4,223	1,141	292	4,637	6,548	8,358
Income tax	(1,609)	(1,665)	(1,690)	(1,692)	(2,158)	(2,585)
After tax profit	2,614	(525)	(1,397)	2,945	4,391	5,774
Minority interest	(1)	1	11	11	11	11
Net profit	2,613	(524)	(1,386)	2,956	4,402	5,785
Core net profit	922	(524)	(1,386)	2,956	4,402	5,785
Adjusted net profit	5,720	2,294	2,843	6,231	7,677	8,654
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	87,539	69,926	70,425	82,497	91,252	101,516
Cash & equivalents	40,970	20,446	19,413	30,622	40,419	50,570
Restricted cash	8,567	6,286	6,181	6,490	6,815	7,155
Account receivables	13,184	9,325	4,163	4,770	3,524	3,304
Other current assets	24,818	33,869	40,667	40,614	40,495	40,487
Non-current assets	16,756	30,393	38,923	37,832	38,245	38,818
PP&E	1,472	1,972	2,037	1,456	1,179	908
Right-of-use assets	6,821	7,244	11,284	12,412	13,654	15,019
Intangibles	1,643	1,141	1,687	49	(502)	(1,024)
Goodwill	2,467	1,806	4,934	4,934	4,934	4,934
Other non-current assets	4,353	18,230	18,981	18,981	18,981	18,981
Total assets	104,296	100,319	109,347	120,329	129,497	140,334
Current liabilities	33,633	28,936	33,341	40,059	42,004	44,187
Short-term borrowings	0	260	619	619	619	619
Account payables	6,595	6,009	5,843	9,772	10,624	11,339
Other current liabilities	20,728	15,361	14,528	16,708	17,570	18,705
Lease liabilities	2,626	2,753	4,972	4,972	4,972	4,972
Contract liabilities	734	1,102	3,260	3,260	3,260	3,260
Accrued expenses	2,950	3,451	4,118	4,728	4,958	5,291
Non-current liabilities	3,870	4,327	6,952	6,952	6,952	6,952
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	3,870	4,327	6,952	6,952	6,952	6,952
Total liabilities	37,503	33,263	40,293	47,011	48,955	51,138
Share capital	0	0	0	0	0	0
Retained earnings	(9,228)	(9,843)	(11,406)	(8,273)	(3,871)	1,914
Other reserves	75,993	76,817	80,326	81,468	84,301	87,181
Total shareholders equity	66,765	66,974	68,920	73,195	80,430	89,095
Minority interest	27	82	134	123	112	100
Total equity and liabilities	104,296	100,319	109,347	120,329	129,497	140,334

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,223	1,141	292	4,637	6,548	8,358
Depreciation & amortization	1,174	1,158	1,089	1,569	1,656	1,684
Tax paid	1,609	1,665	1,690	1,692	2,158	2,585
Change in working capital	2,991	32	5,948	5,120	2,115	1,095
Others	(635)	(402)	(558)	(664)	(1,482)	(2,290)
Net cash from operations	9,362	3,595	8,461	12,354	10,994	11,433
Investing						
Capital expenditure	(887)	(1,430)	(680)	(751)	(827)	(892)
Acquisition of subsidiaries/ investments	(13,198)	(9,876)	(5,724)	0	0	0
Others	(892)	(13,578)	(2,068)	(100)	(64)	(51)
Net cash from investing	(14,978)	(24,884)	(8,472)	(851)	(891)	(943)
Financing						
Net borrowings	(720)	260	(194)	15	18	2
Proceeds from share issues	0	0	0	0	0	0
Others	26,126	(1,334)	(961)	0	0	0
Net cash from financing	25,406	(1,074)	(1,155)	15	18	2
Net change in cash						
Cash at the beginning of the year	31,931	49,537	26,732	25,594	37,112	47,233
Exchange difference	(2,184)	(442)	29	0	0	0
Cash at the end of the year	49,537	26,732	25,594	37,112	47,233	57,725
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	53.2%	14.6%	(24.9%)	21.1%	10.1%	7.8%
Gross profit	49.6%	(6.2%)	(12.9%)	28.9%	14.6%	11.1%
Operating profit	na	na	na	na	76.7%	41.3%
Net profit	na	na	na	na	48.9%	31.4%
Adj. net profit	245.4%	(59.9%)	23.9%	119.2%	23.2%	12.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	23.9%	19.6%	22.7%	24.2%	25.1%	25.9%
Operating margin	4.0%	(1.7%)	(1.4%)	3.4%	5.5%	7.2%
Adj. net profit margin	8.1%	2.8%	4.7%	8.5%	9.5%	9.9%
Return on equity (ROE)	5.3%	(0.8%)	(2.0%)	4.2%	5.7%	6.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.3)	(0.3)	(0.4)	(0.5)	(0.6)
Current ratio (x)	2.6	2.4	2.1	2.1	2.2	2.3
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	204.8	na	na	48.9	33.0
P/E (diluted)	na	208.6	na	na	48.9	33.0
P/B	2.8	2.9	1.8	2.0	1.8	1.6
P/CFPS	56.3	139.0	15.8	12.4	14.1	13.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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