

# Ke Holdings (BEKE US)

## Short-term headwind, but bottoming out is in sight

Beike reported (31 Aug) 2Q23 financial results: total revenue was up 41.4% YoY to RMB19.5bn in 2Q23, inline with our forecast and Bloomberg consensus estimates. Non-GAAP net income was RMB2.4bn, 34/43% better than our forecast/consensus estimate, which translates into a 12.1% NPM (our estimate: 9.1%), thanks to continuous operating efficiency improvement. Given the fluctuation in macro recovery, and that the stimulus policy takes time to transit into housing sales recovery, management guided 3Q23 revenue to be between RMB15.5bn and RMB16.0bn, implying a decline of 9.1-11.9% YoY and 18-20% QoQ. However, aided by the stimulus policy, 3Q23 is likely to be a trough and bottoming out is in sight. We remain positive on Beike's ability to gain more market share amid industry headwind aided by its well established ACN ecosystem. Our SOTP based target price is fine tuned to US\$24.5 (was US\$25.0), including US\$23.5 for Beike Core and US\$1.0 for Shengdu, and translates into 25.7x 2023E non-GAAP PE. Maintain BUY.

- Solid 2Q results, but expecting short-term headwind in 3Q.** In 2Q23, GTV for Existing home transaction (EHT) went up 16% YoY to RMB457bn and that for new home grew 32% YoY to RMB295bn. Blended take rate for EHT remained stable at 1.4% in 2Q23. Service fee from ACN network grew 40% YoY to RMB 1.4bn. For 3Q23, management is expecting for a 18-20% QoQ decline in revenue to RMB15.5-16.0bn. Although facing short-term headwind, we expect the set of stimulus policy that launched to stabilize new home sales and boost secondary house transactions, especially for the transactions with improvement need, and Beike's market share gain could sustain amid industry headwind, backed by its ACN ecosystem, and we are expecting a bottoming out trend to start from 3Q23 onwards.
- Home renovation and furnishing business delivered solid rev growth.** In 2Q23, Beike generated RMB2.6bn revenue in home renovation and furnishing business, up 157% YoY, and management highlighted that monthly operating profit of home renovation business in Beijing, one of its benchmark cities, has exceeded RMB10mn for five consecutive quarters.
- Operating efficiency improvement drove a beat on margin.** The non-GAAP margin of 12.1% was 3.0pp better than our forecast, thanks to a beat on gross margin aided by ongoing operating efficiency improvement for both existing and new home transactions, as well as for the new business.
- Unveiled upsizing and extension of share repurchase program and a special cash dividend to enhance shareholder return.** Beike announced to upsize its share repurchase program to US\$2bn (from US\$1bn), and extended the program until 31 August 2024. In addition, Beike also announced a special dividend of US\$0.2bn (c. US\$0.171 per ADS, translating into 1.1% dividend yield based on market close as of 30 Aug) in order to enhance shareholder return.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	80,752	60,669	74,095	83,369	91,017
YoY growth (%)	14.6	(24.9)	22.1	12.5	9.2
Net profit (RMB mn)	(524.1)	(1,386.1)	4,360.8	5,198.1	6,438.8
Adjusted net profit (RMB mn)	2,294.0	2,842.8	7,830.2	8,585.3	9,431.1
EPS (Adjusted) (RMB)	7.71	1.94	2.39	6.58	7.18
P/E (x)	204.8	na	na	31.2	26.3
ROE (%)	(0.8)	(2.0)	6.0	6.5	7.2

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** US\$24.50

(Previous TP) US\$25.00

**Up/Downside** 56.4%

**Current Price** US\$15.66

**China Internet**

**Saiyi HE, CFA**

(852) 3916 1739

hesaiyi@cmbi.com.hk

**Ye TAO**

franktao@cmbi.com.hk

**Miao ZHANG**

(852) 3761 8910

zhangmiao@cmbi.com.hk

**Wentao LU, CFA**

luwentao@cmbi.com.hk

### Stock Data

Mkt Cap (US\$ mn)	18,526.4
Avg 3 mths t/o (US\$ mn)	87.0
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%

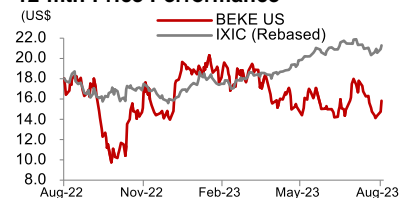
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-10.1%	-8.0%
3-mth	10.0%	1.5%
6-mth	-14.2%	-29.9%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: Beike: quarterly financial results

(RMBbn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	2Q23 CMBI estimates	Diff%
<b>GTV</b>	<b>586</b>	<b>640</b>	<b>737</b>	<b>647</b>	<b>972</b>	<b>781</b>	<b>804</b>	-2.9%
Growth (YoY%)	-45%	-48%	-11%	-12%	66%	22%		
Existing home transaction	374	394	449	360	664	457	471	-3.0%
Growth (YoY%)	-44%	-40%	19%	1%	78%	16%		
New home transaction	193	223	262	264	278	295	294	0.3%
Growth (YoY%)	-44%	-55%	-36%	-26%	44%	32%		
<b>(%)</b>								
<b>Blended monetization rate</b>								
Existing home transaction (revenue/GTV)	1.6	1.4	1.6	1.5	1.4	1.4	1.5	-0.1 ppt
New home transaction (revenue/GTV)	3.1	3.0	3.0	3.1	3.0	2.9	3.0	-0.1 ppt
<b>(RMBbn)</b>								
<b>Revenue</b>	<b>12.5</b>	<b>13.8</b>	<b>17.6</b>	<b>16.7</b>	<b>20.3</b>	<b>19.5</b>	<b>19.5</b>	0.1%
Growth (YoY%)	(39)	(43)	(3)	(6)	62	41		
Existing home transaction	6.2	5.5	7.2	5.3	9.2	6.4	6.9	-6.4%
Growth (YoY%)	(40)	(43)	17	(12)	49	16		
New home transaction	5.9	6.7	7.8	8.3	8.4	8.7	8.8	-1.4%
Growth (YoY%)	(40)	(52)	(31)	(27)	42	30		
Emerging and other services - old disclosure	0.5	1.6	2.6	3.2	2.7	4.4	3.8	15.6%
Growth (YoY%)	(15)	139	334	549	454	177		
<b>Gross profit</b>	<b>2.2</b>	<b>2.7</b>	<b>4.8</b>	<b>4.1</b>	<b>6.3</b>	<b>5.3</b>	<b>4.9</b>	9.9%
Operating profit	-0.9	-1.5	1.2	0.4	3.0	1.1	0.9	
Contribution profit	3.6	4.1	6.0	5.0	7.5	6.5	0.0	
Non-GAAP net profit	0.0	-0.6	1.9	1.6	3.6	2.4	1.8	34.1%
<b>(%)</b>								
Gross margin	17.7	19.7	27.0	24.4	31.3	27.4	25.0	2.4 ppt
Operating profit margin	-7.3	-11.0	6.9	2.3	14.7	5.5	4.7	0.9 ppt
Contribution profit margin	28.9	30.0	34.0	30.0	36.8	33.4		
Non-GAAP net profit margin	0.2	-4.5	10.7	9.2	17.6	12.1	9.1	3.1 ppt

Source: Company data, CMBIGM

Figure 2: Beike: forecast revision

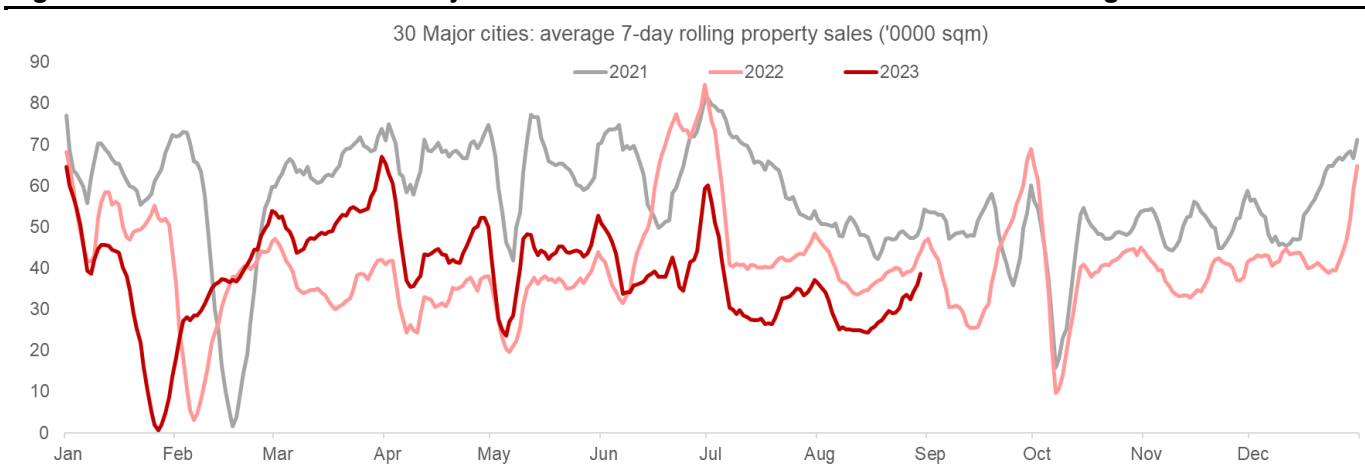
RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	74.1	83.4	91.0	77.6	86.4	94.2	-4.5%	-3.5%	-3.3%
Gross Profit	19.6	22.2	24.9	19.2	22.0	24.7	2.2%	0.9%	0.8%
Operating Profit	4.2	5.3	6.9	3.6	5.2	6.8	16.6%	2.4%	0.9%
Non-GAAP net profit	7.8	8.6	9.4	7.4	8.5	9.3	6.1%	1.1%	1.0%
Gross Margin	26.4%	26.6%	27.3%	24.7%	25.5%	26.2%	1.7 ppt	1.2 ppt	1.1 ppt
Operating Margin	5.7%	6.4%	7.6%	4.7%	6.0%	7.3%	1.0 ppt	0.4 ppt	0.3 ppt
Non-GAAP net margin	10.6%	10.3%	10.4%	9.5%	9.8%	9.9%	1.1 ppt	0.5 ppt	0.4 ppt

Source: Company data, CMBIGM

**Figure 3: Beike: estimates vs consensus**

RMB bn	Current			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	74.1	83.4	91.0	78.2	88.5	97.5	-5.2%	-5.8%	-6.7%
Gross Profit	19.6	22.2	24.9	20.5	23.7	26.6	-4.5%	-6.4%	-6.5%
Non-GAAP net profit	7.8	8.6	9.4	7.9	9.2	10.6	-0.4%	-6.2%	-10.6%
Gross Margin	26.4%	26.6%	27.3%	26.2%	26.8%	27.3%	0.2 ppt	-0.2 ppt	0.0 ppt
Non-GAAP net margin	10.6%	10.3%	10.4%	10.1%	10.4%	10.8%	0.5 ppt	0.0 ppt	-0.5 ppt

Source: Company data, CMBIGM

**Figure 4: New home sales in 30 major cities in China declined 5% YoY YTD as of 30 Aug**

Source: Wind, CMBIGM

**Figure 5: Secondary home sales in 8 cities in China up 32% YoY YTD as of 31 Aug vs 50% in 1H23**

Source: Wind, CMBIGM

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>70,481</b>	<b>80,752</b>	<b>60,669</b>	<b>74,095</b>	<b>83,369</b>	<b>91,017</b>
Cost of goods sold	(53,621)	(64,933)	(46,888)	(54,503)	(61,174)	(66,141)
<b>Gross profit</b>	<b>16,860</b>	<b>15,819</b>	<b>13,781</b>	<b>19,592</b>	<b>22,195</b>	<b>24,876</b>
<b>Operating expenses</b>	<b>(14,018)</b>	<b>(17,174)</b>	<b>(14,614)</b>	<b>(15,370)</b>	<b>(16,877)</b>	<b>(17,970)</b>
SG&A expense	(11,304)	(13,234)	(11,920)	(13,447)	(14,879)	(15,880)
R&D expense	(2,478)	(3,194)	(2,546)	(1,923)	(1,997)	(2,090)
Others	(236)	(747)	(148)	0	0	0
<b>Operating profit</b>	<b>2,842</b>	<b>(1,355)</b>	<b>(833)</b>	<b>4,222</b>	<b>5,318</b>	<b>6,906</b>
Other income	781	1,702	1,569	941	753	678
Other expense	(2)	(163)	(719)	(25)	0	0
Investment gain/loss	473	565	(512)	73	0	0
Share of (losses)/profits of associates/JV	(34)	37	45	14	0	0
Interest income	163	355	743	1,166	1,402	1,504
<b>Pre-tax profit</b>	<b>4,223</b>	<b>1,141</b>	<b>292</b>	<b>6,391</b>	<b>7,473</b>	<b>9,088</b>
Income tax	(1,609)	(1,665)	(1,690)	(2,042)	(2,286)	(2,660)
<b>After tax profit</b>	<b>2,614</b>	<b>(525)</b>	<b>(1,397)</b>	<b>4,350</b>	<b>5,187</b>	<b>6,428</b>
Minority interest	(1)	1	11	11	11	11
<b>Net profit</b>	<b>2,613</b>	<b>(524)</b>	<b>(1,386)</b>	<b>4,361</b>	<b>5,198</b>	<b>6,439</b>
<b>Core net profit</b>	<b>922</b>	<b>(524)</b>	<b>(1,386)</b>	<b>4,361</b>	<b>5,198</b>	<b>6,439</b>
<b>Adjusted net profit</b>	<b>5,720</b>	<b>2,294</b>	<b>2,843</b>	<b>7,830</b>	<b>8,585</b>	<b>9,431</b>
<b>BALANCE SHEET</b>						
	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>87,539</b>	<b>69,926</b>	<b>70,425</b>	<b>83,533</b>	<b>94,327</b>	<b>106,049</b>
Cash & equivalents	40,970	20,446	19,413	30,806	41,178	51,094
Restricted cash	8,567	6,286	6,181	6,490	6,815	7,155
Account receivables	13,184	9,325	4,163	5,870	5,952	7,288
Other current assets	24,818	33,869	40,667	40,367	40,383	40,511
<b>Non-current assets</b>	<b>16,756</b>	<b>30,393</b>	<b>38,923</b>	<b>38,996</b>	<b>39,160</b>	<b>39,487</b>
PP&E	1,472	1,972	2,037	1,773	1,490	1,215
Right-of-use assets	6,821	7,244	11,284	12,412	13,654	15,019
Intangibles	1,643	1,141	1,687	896	101	(663)
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
<b>Total assets</b>	<b>104,296</b>	<b>100,319</b>	<b>109,347</b>	<b>122,529</b>	<b>133,487</b>	<b>145,536</b>
<b>Current liabilities</b>	<b>33,633</b>	<b>28,936</b>	<b>33,341</b>	<b>39,264</b>	<b>42,118</b>	<b>44,735</b>
Short-term borrowings	0	260	619	619	619	619
Account payables	6,595	6,009	5,843	9,557	10,726	11,597
Other current liabilities	20,728	15,361	14,528	16,233	17,534	18,874
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	4,623	5,006	5,412
<b>Non-current liabilities</b>	<b>3,870</b>	<b>4,327</b>	<b>6,952</b>	<b>6,952</b>	<b>6,952</b>	<b>6,952</b>
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
<b>Total liabilities</b>	<b>37,503</b>	<b>33,263</b>	<b>40,293</b>	<b>46,216</b>	<b>49,070</b>	<b>51,687</b>
Share capital	0	0	0	0	0	0
Retained earnings	(9,228)	(9,843)	(11,406)	(7,045)	(1,847)	4,592
Other reserves	75,993	76,817	80,326	83,235	86,153	89,157
<b>Total shareholders equity</b>	<b>66,765</b>	<b>66,974</b>	<b>68,920</b>	<b>76,190</b>	<b>84,306</b>	<b>93,749</b>
Minority interest	27	82	134	123	112	100
<b>Total equity and liabilities</b>	<b>104,296</b>	<b>100,319</b>	<b>109,347</b>	<b>122,529</b>	<b>133,487</b>	<b>145,536</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	4,223	1,141	292	6,391	7,473	9,088
Depreciation & amortization	1,174	1,158	1,089	1,831	1,929	1,968
Tax paid	1,609	1,665	1,690	2,042	2,286	2,660
Change in working capital	2,991	32	5,036	3,431	1,576	(152)
Others	(635)	(402)	354	(1,194)	(1,654)	(2,317)
<b>Net cash from operations</b>	<b>9,362</b>	<b>3,595</b>	<b>8,461</b>	<b>12,501</b>	<b>11,610</b>	<b>11,247</b>
<b>Investing</b>						
Capital expenditure	(887)	(1,430)	(793)	(757)	(852)	(930)
Acquisition of subsidiaries/ investments	(13,198)	(9,876)	5,420	0	0	0
Others	(892)	(13,578)	(13,099)	(57)	(79)	(63)
<b>Net cash from investing</b>	<b>(14,978)</b>	<b>(24,884)</b>	<b>(8,472)</b>	<b>(814)</b>	<b>(931)</b>	<b>(993)</b>
<b>Financing</b>						
Net borrowings	(720)	260	359	14	18	3
Proceeds from share issues	0	0	0	0	0	0
Others	26,126	(1,334)	(1,514)	0	0	0
<b>Net cash from financing</b>	<b>25,406</b>	<b>(1,074)</b>	<b>(1,155)</b>	<b>14</b>	<b>18</b>	<b>3</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	31,931	49,537	26,732	25,594	37,296	47,992
Exchange difference	(2,184)	(442)	29	0	0	0
<b>Cash at the end of the year</b>	<b>49,537</b>	<b>26,732</b>	<b>25,594</b>	<b>37,296</b>	<b>47,992</b>	<b>58,250</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	53.2%	14.6%	(24.9%)	22.1%	12.5%	9.2%
Gross profit	49.6%	(6.2%)	(12.9%)	42.2%	13.3%	12.1%
Operating profit	na	na	na	na	26.0%	29.9%
Net profit	na	na	na	na	19.2%	23.9%
Adj. net profit	245.4%	(59.9%)	23.9%	175.4%	9.6%	9.9%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	23.9%	19.6%	22.7%	26.4%	26.6%	27.3%
Operating margin	4.0%	(1.7%)	(1.4%)	5.7%	6.4%	7.6%
Adj. net profit margin	8.1%	2.8%	4.7%	10.6%	10.3%	10.4%
Return on equity (ROE)	5.3%	(0.8%)	(2.0%)	6.0%	6.5%	7.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.3)	(0.3)	(0.4)	(0.5)	(0.5)
Current ratio (x)	2.6	2.4	2.1	2.1	2.2	2.4
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	na	204.8	na	na	31.2	26.3
P/E (diluted)	na	208.6	na	na	31.2	26.3
P/B	2.8	2.9	1.8	1.8	1.6	1.5
P/CFPS	56.3	139.0	16.0	11.5	12.6	13.1

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

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<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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