

Ke Holdings (BEKE US)

Limited long-term impact on commission rate cut for home transactions in Beijing

According to Beijing Daily ([link](#)), Beijing Lianjia has lowered commission rate for existing home transactions (EHT) in Beijing, from previous nominal rate of 2.7% to 2.0%, and will start to charge 1.0% each on both home sellers and buyers, instead of only from the buyer side. In the prudent scenario, we estimate a 1.5/6.3% negative impact on Ke Holdings (Beike)'s group-level contribution profit (CP) in 2023/2024E. However, we expect limited long-term impact on Beike's earnings from the adjustment of commission rate, as: 1) current commission rate for EHT in Beijing could be lower than 2.7%; 2) Lianjia in cities other than Beijing may have limited room to cut rates given actual rates could be lower than 2%. Maintain BUY with SOTP-based TP unchanged at US\$24.5.

■ 1.5/6.3% negative impact on Beike's CP in 2023/2024 in a prudent scenario.

In the prudent case, we assume: 1) all of Beike's EHT in Beijing is fulfilled by Lianjia platform, and all of the commission rate charge will be 2.7% (at the high-end of the nominal rate charge); 2) EHT GTV in Beijing accounted for 25% of Beike's overall EHT GTV; 3) contribution profit margin (CPM) is 45.5% for EHT for Beike in both 4Q23/2024. Maintaining other assumptions unchanged compared to our current forecast, the commission rate cut for Beijing will lead to 1.5/6.3% decline in our 2023/2024E CP forecast for Beike in the prudent scenario. That said, we expect short-term negative impact to be milder than expected, and limited long-term impact on earnings, given that: 1) Beike's current commission rate for EHT in Beijing could be lower than the nominal 2.7% given discount provided in various scenarios (such as large order-value transactions); and 2) Lianjia in cities other than Beijing may have limited room to cut rates given actual rates could be lower than 2%.

■ **Expect a recovery in housing transaction in 4Q23:** demand released by recent policies is supporting the recovery of the property sales evidenced by high frequent data we followed. As of 25 Sep, [new home transaction](#) surged 49% WoW, and MTD was at +10%/-14% MoM/YoY (vs. -1%/-23% in Aug). [Secondary home transaction](#) went up 8% WoW, with MTD at +3%/+42% MoM/YoY (vs. +8%/-4% in Aug). However, our channel check indicates that buyers' sentiment in tier-1 cities signalled a retreat after the rally in the first week when the new policy was rolled out (time lag in sales data). We believe the regulator's intention on stabilizing property market was clear and the relevant policies will be further relaxed especially in first tier cities, taking into account that 1) BEKE's action today will boost secondary transaction and release more new home demand, 2) developers will accelerate project launch to benefit from the recovering sentiment, 3) [CMBI Leading Indicator](#) suggests surprising sales data in Oct, and we believe the sales may have better performance in 4Q.

Earnings Summary

| (YE 31 Dec) | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------------|---------|---------|---------|---------|----------|
| Revenue (RMB mn) | 80,752 | 60,669 | 74,095 | 83,369 | 91,017 |
| Adjusted net profit (RMB mn) | 2,294.0 | 2,842.8 | 7,830.2 | 8,585.3 | 9,431.1 |
| Adj. NP (consensus; RMB mn) | | | 7,873.9 | 9,168.0 | 10,558.6 |
| EPS (Adjusted) (RMB) | 1.94 | 2.39 | 6.58 | 7.18 | 7.85 |
| P/E (Adjusted) (x) | 55.0 | 44.4 | 16.1 | 14.7 | 13.4 |
| P/B (x) | 2.9 | 1.8 | 1.7 | 1.5 | 1.4 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$24.50

(Previous TP) US\$24.50

Up/Downside 63.3%

Current Price US\$15.00

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Stock Data

Mkt Cap (US\$ mn) 17,745.6

Avg 3 mths t/o (US\$ mn) 64.5

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

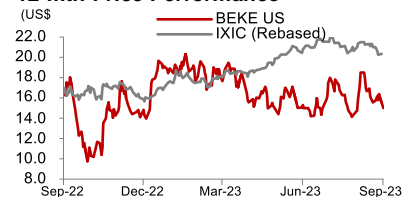
1-mth 4.7% 7.3%

3-mth -2.0% 0.1%

6-mth -15.0% -24.6%

Source: FactSet

12-mth Price Performance



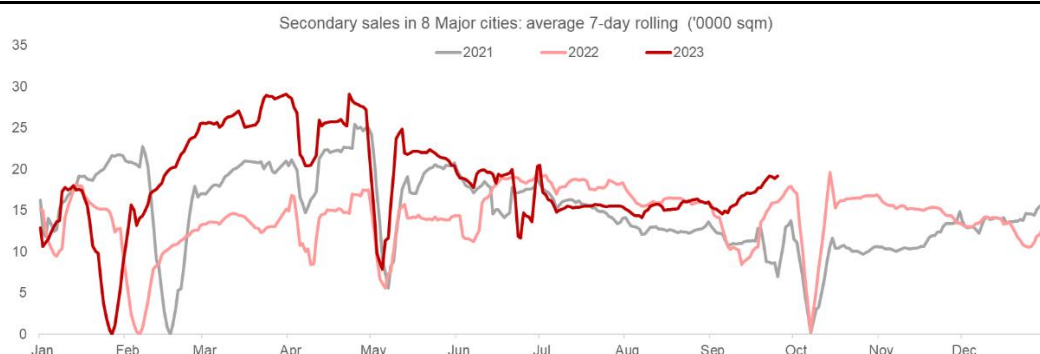
Source: FactSet

Figure 1: New home sales +49% WoW as of 25 Sep, MTD was at +10/-14% MoM/YoY



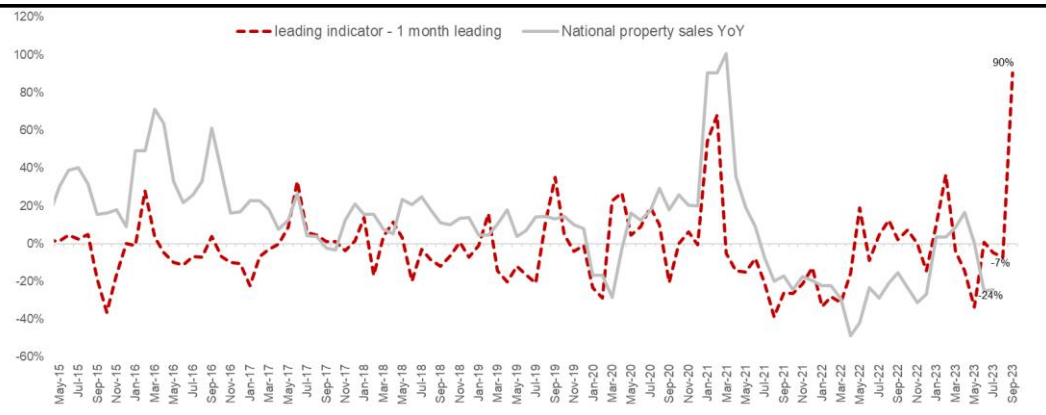
Source: Wind, CMBIGM

Figure 2: Secondary home sales +8% WoW as of 25 Sep, MTD was at +3/+42% MoM/YoY



Source: Wind, CMBIGM

Figure 3: Leading indicator shows the property-related search interests surged to 90% YoY in MTD Sep suggesting new home sales to have a good performance in Oct



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 | 74,095 | 83,369 | 91,017 |
| Cost of goods sold | (53,621) | (64,933) | (46,888) | (54,503) | (61,174) | (66,141) |
| Gross profit | 16,860 | 15,819 | 13,781 | 19,592 | 22,195 | 24,876 |
| Operating expenses | (14,018) | (17,174) | (14,614) | (15,370) | (16,877) | (17,970) |
| 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 |
| Operating profit | 2,842 | (1,355) | (833) | 4,222 | 5,318 | 6,906 |
| 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 |
| Pre-tax profit | 4,223 | 1,141 | 292 | 6,391 | 7,473 | 9,088 |
| Income tax | (1,609) | (1,665) | (1,690) | (2,042) | (2,286) | (2,660) |
| After tax profit | 2,614 | (525) | (1,397) | 4,350 | 5,187 | 6,428 |
| Minority interest | (1) | 1 | 11 | 11 | 11 | 11 |
| Net profit | 2,613 | (524) | (1,386) | 4,361 | 5,198 | 6,439 |
| Core net profit | 922 | (524) | (1,386) | 4,361 | 5,198 | 6,439 |
| Adjusted net profit | 5,720 | 2,294 | 2,843 | 7,830 | 8,585 | 9,431 |
| BALANCE SHEET | | | | | | |
| | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 87,539 | 69,926 | 70,425 | 83,533 | 94,327 | 106,049 |
| 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 |
| Non-current assets | 16,756 | 30,393 | 38,923 | 38,996 | 39,160 | 39,487 |
| 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 |
| Total assets | 104,296 | 100,319 | 109,347 | 122,529 | 133,487 | 145,536 |
| Current liabilities | 33,633 | 28,936 | 33,341 | 39,264 | 42,118 | 44,735 |
| 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 |
| 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 | 46,216 | 49,070 | 51,687 |
| 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 |
| Total shareholders equity | 66,765 | 66,974 | 68,920 | 76,190 | 84,306 | 93,749 |
| Minority interest | 27 | 82 | 134 | 123 | 112 | 100 |
| Total equity and liabilities | 104,296 | 100,319 | 109,347 | 122,529 | 133,487 | 145,536 |

| CASH FLOW | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|-----------------|-----------------|----------------|---------------|---------------|---------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| 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) |
| Net cash from operations | 9,362 | 3,595 | 8,461 | 12,501 | 11,610 | 11,247 |
| Investing | | | | | | |
| 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) |
| Net cash from investing | (14,978) | (24,884) | (8,472) | (814) | (931) | (993) |
| Financing | | | | | | |
| 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 |
| Net cash from financing | 25,406 | (1,074) | (1,155) | 14 | 18 | 3 |
| Net change in cash | | | | | | |
| 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 |
| Cash at the end of the year | 49,537 | 26,732 | 25,594 | 37,296 | 47,992 | 58,250 |
| GROWTH | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| 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% |
| PROFITABILITY | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| 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% |
| 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) | (0.5) |
| Current ratio (x) | 2.6 | 2.4 | 2.1 | 2.1 | 2.2 | 2.4 |
| VALUATION | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| P/E | 324.5 | na | na | 29.9 | 25.2 | 20.4 |
| P/E (diluted) | 330.5 | na | na | 29.9 | 25.2 | 20.4 |
| P/B | 2.8 | 2.9 | 1.8 | 1.7 | 1.5 | 1.4 |
| P/CFPS | 56.3 | 139.0 | 16.0 | 11.0 | 12.0 | 12.6 |

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

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