

E-House (2048 HK)

Capture a larger market share

Revenue and net profit increased by 55.8% to RMB4.33bn and 23.6% to RMB578mn in 1H19, respectively. We cut earnings forecast by 13.5% to RMB1.25bn in 2019 and 7.5% to RMB1.5bn in 2020. As a result, we cut TP from HK\$16.30 to HK\$12.82. Maintain BUY.

- Bottom line gained 23.6% to RMB578mn in 1H19.** Revenue from primary market and data & consulting businesses recorded a 15% growth in 1H19. On the other hand, revenue from real estate brokerage posted a 6.8x growth to RMB1.31bn in the period. 7.6x rise in distribution expenses dragged down EBIT margin from 28.1% in 1H18 to 21.3% in 1H19. Furthermore, finance cost surged 7.2x due to the issuance of senior notes. As a result, net profit increased by 23.6% to RMB578mn in 1H19.
- Property sales in the primary market surged 25.1% to RMB320bn in 1H19.** In 1H19, total sales area and transacted amount for property sales in the primary market increased by 14.2% to 23.4mn sq m and 25.1% to RMB320bn in 1H19, respectively. Looking forwards, we believe developers will rely on the independent brokers to disperse inventories in the coming future. However, we also believe E-House is facing challenge, as developers will give priority to their own property management companies. As at Jun 2019, reserve projects amounted to 283mn sq m that would ensure E-House's future income. The Company wishes to expand its market share in primary property market sales from 4% in 2018 to 10% next three years.
- Steady data & consulting business.** In 1H19, revenue from data & consulting business grew by 15.4% to RMB443mn in 1H19. In the period, E-House had launched many application service platforms to attract and retain customers. In the future, it will maintain the leading position in the data collection and application in the real estate market.
- Fangyou made profit in 1H19.** Revenue from real estate brokerage soared 6.8x to RMB1,310mn in 1H19 due to the expansion of more than 10,000 stores in 2018. About 40k new houses or RMB50.2bn of transaction were arranged by Fangyou brokers in 1H19. Management disclosed that Fangyou business became profitable in 1H19. We expect robust growth of this business segment is the major growth engine of E-House.
- Maintain BUY.** On the one hand, we raise our revenue forecast by 15.3% in 2019 and 29.8% in 2020 because of Fangyou expansion. On the other hand, we cut earnings forecast by 13.5% to RMB1.25bn in 2019 and 7.5% to RMB1.5bn in 2020 because of change in sales mix. As a result, we cut TP from HK\$16.30 to HK\$12.82, representing 10x 2020E P/E.

Earnings Summary

| (YE 31 Dec) | FY17A | FY18A | FY19E | FY20E | FY21E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 4,633 | 5,948 | 9,730 | 12,203 | 14,713 |
| YoY growth (%) | 15.9 | 28.4 | 63.6 | 25.4 | 20.6 |
| Net income (RMB mn) | 352 | 950 | 1,254 | 1,560 | 1,970 |
| EPS (RMB) | 0.704 | 0.805 | 0.877 | 1.121 | 1.416 |
| YoY growth (%) | 32.3 | 14.4 | 8.9 | 27.8 | 26.3 |
| P/E (x) | 12.9 | 10.1 | 9.3 | 7.3 | 5.7 |
| P/B (x) | N.A. | 1.5 | 1.3 | 1.1 | 1.0 |
| Yield (%) | 0.0 | 2.4 | 3.7 | 4.4 | 4.9 |
| ROE (%) | 16.3 | 11.9 | 13.9 | 15.3 | 16.8 |
| Net gearing (%) | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price HK\$12.82
 (Previous TP) HK\$16.30
Up/downside +41.5%
Current Price HK\$9.06

China Property Sector

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 12,610 |
| Avg 3 mths t/o (HK\$ mn) | 20.4 |
| 52w High/Low (HK\$) | 15.34/7.77 |
| Total Issued Shares (mn) | 1,392 |
| Source: Bloomberg | |

Shareholding Structure

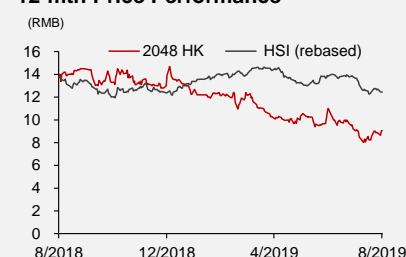
| | |
|----------------|-------|
| Zhou Xin | 21.0% |
| Evergrande | 11.7% |
| Vanke | 11.7% |
| Country Garden | 11.7% |
| Source: HKEx | |

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | -2.0% | 8.5% |
| 3-mth | -9.6% | -3.9% |
| 6-mth | -25.5% | -16.6% |
| 12-mth | -33.0% | -26.2% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

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Figure 1: 2019 interim results

| YE Dec 31 (RMB mn) | 1H19 | 1H18 | Change | Remark |
|----------------------------------|--------------|--------------|--------------|--|
| Revenue | 4,330 | 2,780 | 55.8% | |
| Primary market | 2,578 | 2,228 | 15.7% | Total sales amount increased 25.1% to RMB320bn in 1H19 |
| Data & consulting | 443 | 384 | 15.4% | |
| Real estate brokerage | 1,310 | 168 | 681.3% | Sales of new houses amounted to RMB50.2bn in 1H19 |
| Staff costs | (1,825) | (1,345) | 35.7% | |
| Advertising & promotion expenses | (140) | (132) | 6.7% | |
| Operating lease charges | (28) | (56) | -49.8% | IFRS 16 "Leases" |
| D&A expenses | (40) | (12) | 228.4% | IFRS 16 "Leases" |
| Loss allowance | (69) | (80) | -13.6% | |
| Consultancy expenses | (94) | (76) | 22.7% | |
| Distribution expenses | (1,161) | (135) | 757.9% | Significant growth of Real estate brokerage business |
| Other operating costs | (187) | (148) | 25.9% | |
| Other income/expenses | 136 | (13) | N.A. | |
| EBIT | 923 | 782 | 18.0% | EBIT margin tumbled from 28.1% in 1H18 to 21.3% in 1H19 |
| Finance cost | (96) | (12) | 721.2% | Cost of senior notes |
| Share of associates | 7 | (2) | N.A. | |
| Pre-tax profit | 834 | 768 | 8.6% | |
| Taxation | (180) | (205) | -12.1% | |
| After-tax profit | 654 | 563 | 16.1% | |
| Minority interest | (76) | (96) | -20.6% | |
| Net profit | 578 | 468 | 23.6% | Net margin narrowed from 16.8% in 1H18 to 13.3% in 1H19 |

Source: Company data

Figure 2: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|-----------------------|-------|--------|--------|-------|-------|--------|----------|----------|----------|
| | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E |
| Revenue | 9,730 | 12,203 | 14,713 | 8,439 | 9,403 | 10,639 | 15.3% | 29.8% | 38.3% |
| EBIT | 1,869 | 2,356 | 2,929 | 2,089 | 2,434 | 2,834 | -10.5% | -3.2% | 3.4% |
| Pre-tax profit | 1,723 | 2,145 | 2,708 | 1,994 | 2,319 | 2,728 | -13.6% | -7.5% | -0.7% |
| Net profit | 1,254 | 1,560 | 1,970 | 1,450 | 1,687 | 1,985 | -13.5% | -7.5% | -0.7% |
| EPS (RMB) | 0.88 | 1.12 | 1.42 | 0.99 | 1.15 | 1.35 | -11.2% | -2.4% | 4.9% |
| Gross Margin | 19.2% | 19.3% | 19.9% | 24.8% | 25.9% | 26.6% | -5.5 ppt | -6.6 ppt | -6.7 ppt |
| EBIT Margin | 17.7% | 17.6% | 18.4% | 23.6% | 24.7% | 25.6% | -5.9 ppt | -7.1 ppt | -7.2 ppt |
| Net Margin | 12.9% | 12.8% | 13.4% | 17.2% | 17.9% | 18.7% | -4.3 ppt | -5.2 ppt | -5.3 ppt |

Source: CMBIS estimates

Financial Summary

Income statement

| YE Dec 31 (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|----------------------------------|--------------|--------------|--------------|---------------|---------------|
| Revenue | 4,633 | 5,948 | 9,730 | 12,203 | 14,713 |
| Primary market | 3,927 | 4,753 | 6,220 | 7,279 | 8,709 |
| Data & consulting | 629 | 773 | 897 | 1,005 | 1,105 |
| Real estate brokerage | 77 | 421 | 2,613 | 3,919 | 4,899 |
| Staff costs | (2,623) | (2,994) | (3,843) | (4,390) | (5,103) |
| Advertising & promotion expenses | (236) | (310) | (438) | (513) | (589) |
| Operating lease charges | (106) | (119) | (58) | (61) | (59) |
| D&A expenses | (28) | (26) | (45) | (54) | (54) |
| Loss allowance | (120) | (167) | (295) | (366) | (438) |
| Consultancy expenses | (224) | (218) | (389) | (488) | (589) |
| Distribution expenses | (52) | (332) | (2,247) | (3,292) | (4,115) |
| Other operating costs | (285) | (369) | (584) | (732) | (883) |
| Other income/expenses | 33 | 83 | 38 | 50 | 46 |
| EBIT | 993 | 1,497 | 1,869 | 2,356 | 2,929 |
| Finance cost | (22) | (25) | (148) | (217) | (226) |
| Share of associates | 0 | 1 | 2 | 5 | 5 |
| Pre-tax profit | 971 | 1,473 | 1,723 | 2,145 | 2,708 |
| Taxation | (206) | (391) | (431) | (536) | (677) |
| After-tax profit | 765 | 1,082 | 1,293 | 1,608 | 2,031 |
| Minority interest | (413) | (131) | (39) | (48) | (61) |
| Net profit | 352 | 950 | 1,254 | 1,560 | 1,970 |

Cash flow summary

| YE Dec 31 (RMB mn) | FY17A | FY18A | FY19E | FY20E | FY21E |
|--------------------------------|--------------|----------------|--------------|--------------|--------------|
| EBIT | 993 | 1,497 | 1,869 | 2,356 | 2,929 |
| Depreciation and amortization | 28 | 26 | 45 | 54 | 54 |
| Change in working capital | (891) | (4,149) | (1,734) | (1,419) | (1,422) |
| Income tax paid | (522) | (268) | (431) | (536) | (677) |
| Others | 186 | 650 | 696 | (170) | (263) |
| Net cash from operating | (207) | (2,243) | 445 | 286 | 622 |
| Capex | (19) | (21) | (355) | (65) | (65) |
| Associates/JV | (5) | (200) | 0 | 0 | 0 |
| Other | (39) | (322) | (15) | (15) | (15) |
| Net cash from investing | (63) | (543) | (370) | (80) | (80) |
| Equity raised | 0 | 3,738 | 0 | 0 | 0 |
| Change of Debts | 60 | 247 | 1,177 | (612) | 305 |
| Dividend paid | (29) | (285) | (418) | (501) | (557) |
| Other | 1,072 | (49) | 761 | 395 | 386 |
| Net cash from financing | 1,103 | 3,651 | 1,521 | (718) | 134 |
| Net change in cash | 833 | 864 | 1,596 | (512) | 676 |
| Cash at the beginning | 975 | 1,791 | 2,692 | 4,288 | 3,776 |
| Exchange difference | (17) | 36 | 53 | 53 | 53 |
| Cash at the end | 1,791 | 2,692 | 4,341 | 3,829 | 4,505 |
| Pledged deposit | 0 | 0 | 0 | 0 | 0 |
| Cash at BS | 1,791 | 2,692 | 4,341 | 3,829 | 4,505 |

Balance sheet

| YE Dec 31 (RMB mn) | FY17A | FY18A | FY19A | FY20A | FY21A |
|--------------------------------|--------------|---------------|---------------|---------------|---------------|
| Non-current assets | 639 | 1,279 | 2,154 | 2,170 | 2,187 |
| Fixed asset | 62 | 59 | 358 | 354 | 351 |
| Investment properties | 19 | 20 | 35 | 50 | 65 |
| Associates/JV | 11 | 213 | 215 | 220 | 225 |
| Intangible assets | 11 | 7 | 5 | 5 | 5 |
| Other non-current assets | 536 | 979 | 1,541 | 1,541 | 1,541 |
| Current assets | 5,701 | 10,540 | 14,481 | 16,139 | 18,964 |
| Cash | 1,923 | 2,745 | 4,341 | 3,829 | 4,505 |
| Account receivable | 3,380 | 5,958 | 7,436 | 9,327 | 11,245 |
| Inventories | 379 | 1,565 | 2,432 | 2,712 | 2,943 |
| Other current assets | 20 | 272 | 272 | 272 | 272 |
| Current liabilities | 4,177 | 3,803 | 5,572 | 6,055 | 7,007 |
| Borrowings | 450 | 1,000 | 1,300 | 1,000 | 1,200 |
| Trade and other payables | 1,770 | 2,139 | 3,284 | 3,818 | 4,328 |
| Contract liabilities | 297 | 68 | 118 | 148 | 177 |
| Deferred taxation | 406 | 513 | 869 | 1,089 | 1,301 |
| Other current liabilities | 1,254 | 83 | 0 | 0 | 0 |
| Non-current liabilities | 0 | 0 | 2,040 | 2,040 | 2,400 |
| Borrowings | 0 | 0 | 2,040 | 2,040 | 2,400 |
| Other non-current liabilities | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 1,025 | 7,872 | 8,841 | 9,983 | 11,453 |
| Minority interest | 1,138 | 144 | 182 | 231 | 292 |
| Perpetual bond | 0 | 0 | 0 | 0 | 0 |
| Total equity | 2,163 | 8,016 | 9,023 | 10,214 | 11,744 |

Key ratios

| YE Dec 31 | FY17A | FY18A | FY19E | FY20E | FY21E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mix (%) | | | | | |
| Primary market | 84.7 | 79.9 | 63.9 | 59.6 | 59.2 |
| Data & consulting | 13.6 | 13.0 | 9.2 | 8.2 | 7.5 |
| Real estate brokerage | 1.7 | 7.1 | 26.9 | 32.1 | 33.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Profit & loss ratios (%) | | | | | |
| EBIT margin | 21.4 | 25.2 | 19.2 | 19.3 | 19.9 |
| Pre-tax margin | 21.0 | 24.8 | 17.7 | 17.6 | 18.4 |
| Net margin | 7.6 | 16.0 | 12.9 | 12.8 | 13.4 |
| Effective tax rate | 21.2 | 26.6 | 25.0 | 25.0 | 25.0 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1.4 | 1.5 | 1.6 | 1.6 | 1.6 |
| Receivable day | 225.0 | 229.3 | 208.5 | 234.3 | 238.5 |
| Payable day | 14.0 | 20.1 | 17.7 | 18.2 | 18.6 |
| Inventory day | N.A. | N.A. | N.A. | N.A. | N.A. |
| Net gearing ratio (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Returns (%) | | | | | |
| ROE | 16.3 | 11.9 | 13.9 | 15.3 | 16.8 |
| ROA | 12.1 | 9.2 | 7.8 | 8.8 | 9.6 |
| Per share data | | | | | |
| EPS (RMB) | 0.70 | 0.81 | 0.88 | 1.12 | 1.42 |
| DPS (RMB) | 0.00 | 0.00 | 0.30 | 0.36 | 0.40 |
| BVPS (RMB) | 0.00 | 5.45 | 6.48 | 7.34 | 8.44 |

Source: Company data, CMBIS estimates

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