

Ke Holdings (BEKE US)

Existing home sales recovery to be better than anticipated

We expect industry-wide Existing Home Transactions (EHT) recovery to be stronger than current market expectation (our forecast: 17% YoY GTV growth) in 2023E. We also expect Beike's network efficiency should amplify the benefits from such recovery, as EHT has higher than group average contribution profit margin (CPM). In addition, increase in revenue contribution from high CPM (80%+) services revenue generated by Beike's established agency cooperation network (ACN) could aid long-term margin expansion. Recovery in EHT and combining operational optimization effort could drive a beat on bottom line in 2023E. We reiterate BUY on Beike with SOTP-based TP of US\$23.3.

■ **EHT is on recovery trend while new home sales still struggle.** Per Wind, existing home sales in eight major cities were up 53% YoY post-CNY (28 Jan to 20 Feb 2023) vs +15% YoY pre-CNY, and new home sales in 30 major cities were down 15% YoY post-CNY, which improved from -25% YoY pre-CNY. We are positive on EHT recovery in 2023E driven by the turnover rate recovery and natural existing home size growth. We think policy will continue to stay supportive in the coming months as property prices in the existing home market remain relatively stable. We forecast industry-wide EHT GTV to grow 17% in 2023E, and estimate Beike's market share in EHT business could expand to 30.6/31.0% in 2023/2024E (2021: 29.4%), aided by its strong network effect and superior services capability.

■ **Well established ACN network aids resilient service fee revenue growth and long-term margin expansion.** Beike's established ACN network could help generate resilient services revenue with high CPM. We estimate services fee have contributed to 5.8/20% of Beike's total revenue/non-GAAP net profit in 2022E. We forecast revenue contribution from services fee to increase to 6.0/6.7% of total in 2023/2024E, which will help drive Beike's overall non-GAAP net margin to 8.1/9.2% in 2023/2024E (2022E: 3.3%).

■ **Earnings growth could beat expectations in 2023E.** Stronger than expected recovery in relatively high CPM EHT business, as well as Beike's operating expense optimization effort could drive a beat on bottom line for 2023E, in our view. We forecast EHT/group level CPM to expand to 42.2/33.5% in 2023E (2022E: 40.3/31.1%), and our 2023E non-GAAP net income forecast was 7% higher than Bloomberg consensus. Our SOTP-based TP of US\$23.3 per ADS is made up of: 1) US\$22.3 for Beike's core housing transaction business (WACC of 10.5%; terminal growth of 2.5%); and 2) US\$1.0 for Shengdu, based on the RMB8.0bn Beike paid for the acquisition of Shengdu. Our TP translates into 34x/27x 23/24E PE (non-GAAP).

■ **Catalysts:** 1) 4Q22 results; 2) stronger than expected housing transaction market recovery; and 3) better than expected earnings recovery.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	70,481	80,752	58,744	69,515	76,594
YoY growth (%)	53.2	14.6	(27.3)	18.3	10.2
Net profit (RMB mn)	2,613.5	(524.1)	(1,920.2)	2,551.1	3,947.5
Adjusted net profit (RMB mn)	5,719.7	2,294.0	1,965.1	5,647.0	7,047.2
Adj. NP (consensus; RMBmn)			2,019.6	5,280.1	6,705.3
EPS (Adjusted) (RMB)	3.60	7.71	1.94	1.65	4.75
P/E (x)	na	204.8	na	na	59.6
ROE (%)	5.3	(0.8)	(2.9)	3.6	5.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$23.30
Up/Downside 25.3%
Current Price US\$18.60

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Stock Data

Mkt Cap (US\$ mn)	22,004.6
Avg 3 mths t/o (US\$ mn)	17.0
52w High/Low (US\$)	20.35/9.00
Total Issued Shares (mn)	1183.0

Source: FactSet

Shareholding Structure

Propitious Global	23.3%
Tencent Mobility	10.0%

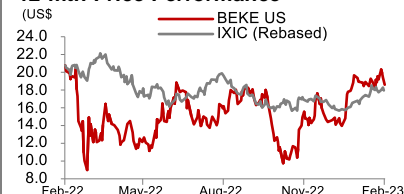
Source: HKEx

Share Performance

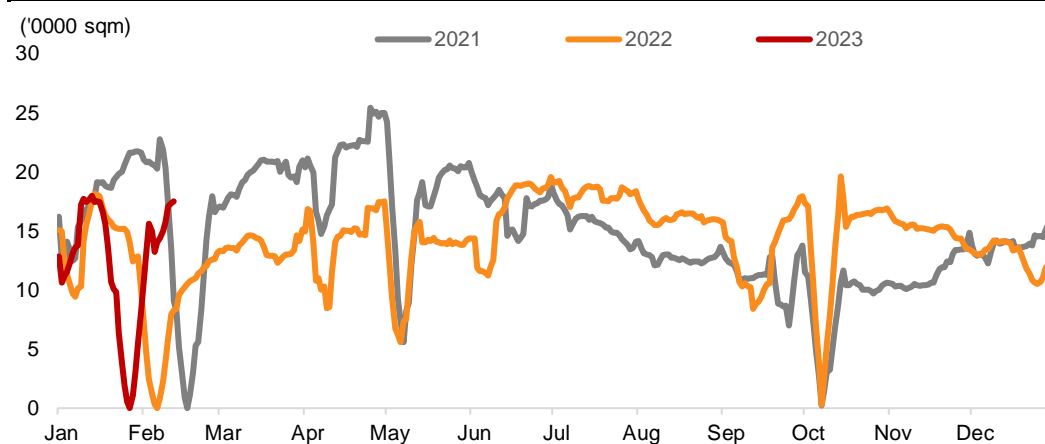
	Absolute	Relative
1-mth	-3.9%	-9.5%
3-mth	19.7%	13.2%
6-mth	15.0%	26.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

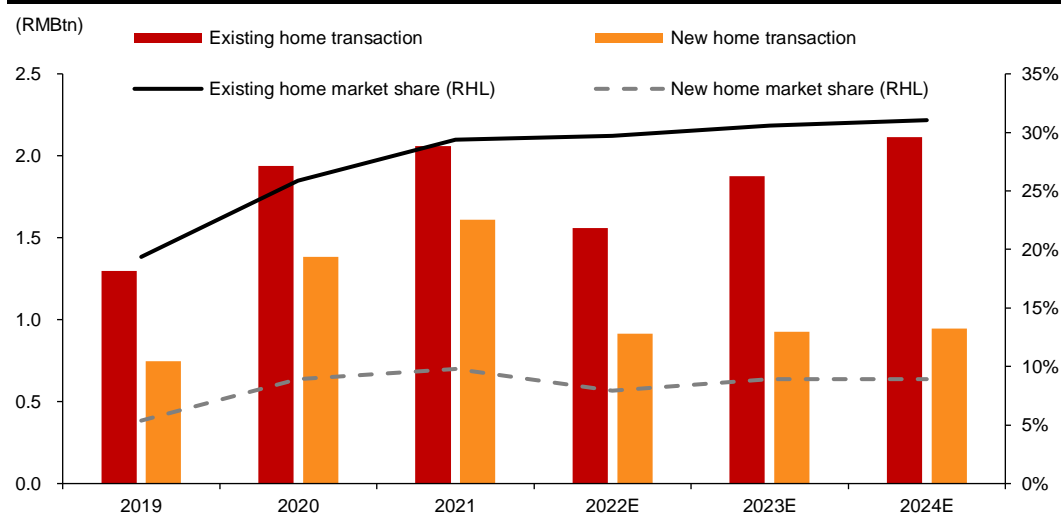
Figure 1: China: existing home sales in 8 major cities (7-day rolling)

Source: Wind, CMBIGM

Figure 2: Existing home GTV forecast (2023E +17% YoY)

Year	housing value (RMB bn)	Turnover rate	market (RMB bn)	YoY
2016	191,889	3.0%	5,700	
2017	215,115	2.4%	5,200	-9%
2018	254,781	2.2%	5,700	10%
2019	293,340	2.0%	5,900	4%
2020	328,823	2.0%	6,500	10%
2021	354,702	1.7%	6,200	-5%
2022E	360,439	1.3%	4,650	-25%
2023E	376,111	1.4%	5,435	17%
2024E	391,950	1.5%	6,036	11%
2025E	403,196	1.6%	6,451	7%
2026E	413,423	1.6%	6,739	4%
2027E	423,843	1.7%	7,036	4%
2028E	434,458	1.7%	7,342	4%
2029E	444,720	1.7%	7,649	4%
2030E	455,132	1.8%	7,965	4%

Source: CMBIGM estimates

Figure 3: Existing home/new home GTV transacted on Beike

Source: Company data, CMBIGM estimates

SOTP based valuation of US\$23.3 per ADS

Our sum of the parts (SOTP) method values Beike at US\$23.3 per ADS, which is made up of: 1) US\$22.3 per ADS for Beike's core housing transaction business, assuming WACC of 10.5% and terminal growth of 2.5%; and 2) US\$1.0 per ADS for Shengdu, based on the RMB8.0bn Beike paid for the acquisition of Shengdu. Our target price translates into 33.9x 2023E PE and 27.2x 2024E PE under non-GAAP, and 2.8/2.5x 2023/2024E PS.

Figure 4: Beike Core: DCF valuation, WACC of 10.5%, terminal growth of 2.5%

(RMBmn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
NPV of FCF	51,474	49,345	45,811	41,773	35,089	28,716	19,998	11,198
Discounted terminal value	71,661							
Enterprise value	123,135							
Net cash	60,199							
Equity value	183,334							
No. of ADS (diluted, mn)	1,188							
Valuation per ADS (US\$)	22.3							

Source: Company data, CMBIGM estimates

Figure 5: Beike: SOTP valuation

(RMBmn)	2023E
Beike Core	183,334
Shengdu	8,000
Total Beike valuation	191,334
Total Beike valuation (US\$mn)	27,730
Valuation per ADS	23.3

Note: Our exchange rate assumption is RMB:USD=6.9:1

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	46,015	70,481	80,752	58,744	69,515	76,594
Cost of goods sold	(34,747)	(53,621)	(64,933)	(45,890)	(52,278)	(56,736)
Gross profit	11,268	16,860	15,819	12,853	17,237	19,858
Operating expenses	(13,054)	(14,018)	(17,174)	(14,435)	(14,837)	(15,620)
SG&A expense	(11,482)	(11,304)	(13,234)	(10,273)	(10,558)	(11,135)
R&D expense	(1,571)	(2,478)	(3,194)	(4,086)	(4,279)	(4,485)
Others	0	(236)	(747)	(76)	0	0
Operating profit	(1,786)	2,842	(1,355)	(1,582)	2,400	4,238
Other income	431	781	1,702	1,192	953	763
Other expense	(54)	(2)	(163)	(685)	0	0
Investment gain/loss	(109)	473	565	(378)	0	0
Share of (losses)/profits of associates/JV	11	(34)	37	45	0	0
Interest income	230	163	355	687	727	925
Pre-tax profit	(1,276)	4,223	1,141	(721)	4,080	5,926
Income tax	(904)	(1,609)	(1,665)	(1,200)	(1,530)	(1,980)
After tax profit	(2,180)	2,614	(525)	(1,921)	2,550	3,946
Minority interest	(3)	(1)	1	1	1	1
Net profit	(2,184)	2,613	(524)	(1,920)	2,551	3,947
Core net profit	(4,050)	922	(524)	(1,920)	2,551	3,947
Adjusted net profit	1,656	5,720	2,294	1,965	5,647	7,047
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	51,912	87,539	69,926	67,241	74,955	82,792
Cash & equivalents	24,319	40,970	20,446	23,516	31,136	39,927
Restricted cash	7,380	8,567	6,286	6,600	6,930	7,277
Account receivables	8,093	13,184	9,325	4,374	4,363	3,219
Other current assets	12,120	24,818	33,869	32,750	32,526	32,368
Non-current assets	15,353	16,756	30,393	30,309	30,258	30,279
PP&E	1,134	1,472	1,972	1,710	1,411	1,107
Right-of-use assets	5,625	6,821	7,244	7,969	8,765	9,642
Intangibles	2,560	1,643	1,141	595	47	(506)
Goodwill	2,477	2,467	1,806	1,806	1,806	1,806
Other non-current assets	3,556	4,353	18,230	18,230	18,230	18,230
Total assets	67,265	104,296	100,319	97,550	105,213	113,071
Current liabilities	27,798	33,633	28,936	25,665	28,206	29,437
Short-term borrowings	720	0	260	260	260	260
Account payables	4,213	6,595	6,009	7,921	9,167	9,948
Other current liabilities	17,046	20,728	15,361	11,329	12,460	12,869
Lease liabilities	2,223	2,626	2,753	2,753	2,753	2,753
Contract liabilities	593	734	1,102	1,102	1,102	1,102
Accrued expenses	3,003	2,950	3,451	2,301	2,465	2,505
Non-current liabilities	7,932	3,870	4,327	4,327	4,327	4,327
Long-term borrowings	4,890	0	0	0	0	0
Other non-current liabilities	3,042	3,870	4,327	4,327	4,327	4,327
Total liabilities	35,730	37,503	33,263	29,993	32,533	33,764
Share capital	0	0	0	0	0	0
Retained earnings	(11,776)	(9,228)	(9,843)	(11,763)	(9,212)	(5,264)
Other reserves	43,224	75,993	76,817	79,240	81,812	84,492
Total shareholders equity	31,448	66,765	66,974	67,477	72,600	79,228
Minority interest	87	27	82	81	80	79
Total equity and liabilities	67,265	104,296	100,319	97,550	105,213	113,071

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,276)	4,223	1,141	(721)	4,080	5,926
Depreciation & amortization	1,039	1,174	1,158	1,481	1,558	1,638
Tax paid	904	1,609	1,665	1,200	1,530	1,980
Change in working capital	(1,762)	2,991	32	1,704	1,992	1,663
Others	1,207	(635)	(402)	8	(488)	(1,278)
Net cash from operations	113	9,362	3,595	3,672	8,673	9,928
Investing						
Capital expenditure	(703)	(887)	(1,430)	(659)	(710)	(782)
Acquisition of subsidiaries/ investments	785	(13,198)	(9,876)	0	0	0
Others	(3,956)	(892)	(13,578)	498	(26)	(19)
Net cash from investing	(3,874)	(14,978)	(24,884)	(161)	(736)	(802)
Financing						
Net borrowings	8,831	(720)	260	(127)	13	12
Proceeds from share issues	15,844	0	0	0	0	0
Others	(1,648)	26,126	(1,334)	0	0	0
Net cash from financing	23,026	25,406	(1,074)	(127)	13	12
Net change in cash						
Cash at the beginning of the year	12,760	31,931	49,537	26,732	30,116	38,066
Exchange difference	(95)	(2,184)	(442)	0	0	0
Cash at the end of the year	31,931	49,537	26,732	30,116	38,066	47,204
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	60.6%	53.2%	14.6%	(27.3%)	18.3%	10.2%
Gross profit	64.0%	49.6%	(6.2%)	(18.7%)	34.1%	15.2%
Operating profit	na	na	na	na	na	76.6%
Net profit	na	na	na	na	na	54.7%
Adj. net profit	1,166.0%	245.4%	(59.9%)	(14.3%)	187.4%	24.8%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	24.5%	23.9%	19.6%	21.9%	24.8%	25.9%
Operating margin	(3.9%)	4.0%	(1.7%)	(2.7%)	3.5%	5.5%
Adj. net profit margin	3.6%	8.1%	2.8%	3.3%	8.1%	9.2%
Return on equity (ROE)	(9.4%)	5.3%	(0.8%)	(2.9%)	3.6%	5.2%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.6)	(0.3)	(0.3)	(0.4)	(0.5)
Current ratio (x)	1.9	2.6	2.4	2.6	2.7	2.8
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	na	na	204.8	na	na	59.6
P/E (diluted)	na	na	208.6	na	na	59.6
P/B	na	2.8	2.9	2.2	2.1	1.9
P/CFPS	na	56.3	139.0	50.3	19.0	16.6

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

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