

# Ke Holdings (BEKE US)

## Strong 2Q guidance points to a robust 1H23

BEKE's reported strong 1Q23 results with adjusted NP doubled from last quarter to reach RMB 3.56bn, strongly beating market expectations. Moreover, the Company guided another strong quarter with GTV for ETH/new home to grow >20%/30% YoY. Due to improving GTV growth outlook and narrower than expected losses from new business, we raise our forecasts and expect the adjusted NP to reach RMB 7.4/8.5bn in 2023/24E, 17%/6% higher than the consensus. Despite the concern on continuous weakening of economic activities, Beke's growth is driven by offline activities normalization in 2023 and take rates remain stable, business model network impacts. Reiterate BUY and raise TP to US\$25.0/ADS. Catalysts: sales data continues to beat; policy relaxation.

- **1Q23 beat.** BEKE reported adjusted NP of RMB 3.56bn in 1Q23, more than doubled from 4Q22 and 67%/61% ahead of our expectation/market consensus. This expanded the NP margin to 17.6% from 9.2% in 4Q22 on the back of a GTV surge. GTV for Existing home transaction (EHT) went up 78% YoY to RMB 664bn and that for new home grew 44% YoY to RMB 278bn. Blended take rate slightly dropped as there are more GTV contributions from EHT with a lower take rate. Service fee from ACN network surged 111% YoY to RMB 1.4bn.
- **Guided a strong 2Q23E.** Company expects >20% YoY EHT GTV growth and 30-35% YoY new home GTV growth in 2Q23E which is in-line with the market condition of +67%/30% YoY EHT/new home market growth in quarter to date (QTD: April-now). Take rates are expected to be stable which lead to a revenue guidance of RMB 18.5-19bn, representing a 35-40% YoY increase in 2Q23E. NP margin is guided to be normalized to >8% level in 2Q23E as GPM is falling to 25% by excluding one-off benefit and SG&A fee rate hike given the continuous expansion of home furnishing business.
- **New business expansion is in progress.** GTV for emerging business increased 53%/24% YoY/QoQ in 1Q23, together with a high take rate at ~9%, the revenue surged 5x YoY. Home furnishing segment recorded RMB 2.7bn contract value in 1Q23 (+100% YoY) so as to secure a revenue booking of RMB 2.3bn in 2Q23E. The segment loss is expected to narrow given the fast scale expansion
- **Maintain BUY and raise TP to US\$25.0/share.** We raise 23/24E revenue by 6%/7% given higher new home GTV outlook, based on good new home performance in YTD and the Company's overall recovery growth guidance. NP forecasts are lifted by 18.4%/10.6% and our SOTP model implies the new TP of US\$25.0/ADS, including US\$24.0 for Beike Core and US\$1.0 for Shengdu. The new TP is equivalent to 28/24x 2023/24E PE (non-GAAP).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	80,752	60,669	77,605	86,384	94,168
YoY growth (%)	14.6	(24.9)	27.9	11.3	9.0
Net profit (RMB mn)	(524.1)	(1,386.1)	3,951.2	5,026.1	6,242.2
Adjusted net profit (RMB mn)	2,294.0	2,842.8	7,378.2	8,491.8	9,338.5
EPS (Adjusted) (RMB)	7.71	1.94	2.39	6.20	7.10
P/E (x)	204.8	na	na	35.5	28.1
P/B (x)	2.9	1.8	1.9	1.7	1.5
ROE (%)	(0.8)	(2.0)	5.5	6.3	7.1
Net gearing (%)	(30.1)	(27.3)	(39.7)	(48.1)	(53.7)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** US\$25.00  
(Previous TP US\$24.30)  
**Up/Downside** 48.4%  
**Current Price** US\$16.85

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#### Stock Data

Mkt Cap (US\$ mn)	19,934.2
Avg 3 mths t/o (US\$ mn)	118.4
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%

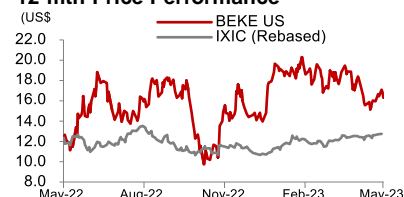
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-7.2%	-8.6%
3-mth	-9.4%	-13.5%
6-mth	8.4%	-2.1%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

Figure 1: BEKE quarterly financial results

(RMBbn)	1Q22	2Q22	3Q22	4Q22	1Q23	1Q23 CMBI estimates	Diff%
<b>GTV</b>	<b>586</b>	<b>640</b>	<b>737</b>	<b>647</b>	<b>972</b>	<b>864</b>	12.4%
Growth (YoY%)	-45%	-48%	-11%	-12%	66%		
Existing home transaction	374	394	449	360	664	595	11.7%
Growth (YoY%)	-44%	-40%	19%	1%	78%	59%	
New home transaction	193	223	262	264	278	232	19.9%
Growth (YoY%)	-44%	-55%	-36%	-26%	44%	20%	
( <b>%</b> )							
<b>Blended monetization rate</b>							
Existing home transaction (revenue/GTV)	1.6	1.4	1.6	1.5	1.4	1.5	-0.1 ppt
New home transaction (revenue/GTV)	3.1	3.0	3.0	3.1	3.0	3.1	0.0 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>18.1</b>	12.3%
Growth (YoY%)	(39)	(43)	(3)	(6)	62		
Existing home transaction	6.2	5.5	7.2	5.3	9.2	8.6	6.2%
Growth (YoY%)	(40)	(43)	17	(12)	49		
New home transaction	5.9	6.7	7.8	8.3	8.4	7.1	18.1%
Growth (YoY%)	(40)	(52)	(31)	(27)	42		
Emerging and other services - old disclosure	0.5	1.6	2.6	3.2	2.7	2.3	16.8%
Growth (YoY%)	(15)	139	334	549	454		
<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>5.1</b>	25.5%
Operating profit	-0.9	-1.5	1.2	0.4	3.0	1.4	
Contribution profit	3.6	4.1	6.0	5.0	7.5	0.0	
Non-GAAP net profit	0.0	-0.6	1.9	1.6	3.6	2.1	66.8%
( <b>%</b> )							
Gross margin	17.7	19.7	27.0	24.4	31.3	28.0	3.3 ppt
Operating profit margin	-7.3	-11.0	6.9	2.3	14.7	7.7	7.0 ppt
Contribution profit margin	28.9	30.0	34.0	30.0	36.8	0.0	
Non-GAAP net profit margin	0.2	-4.5	10.7	9.2	17.6	11.8	5.8 ppt

Source: Company data, CMBIGM

Figure 2: BEKE forecast revision

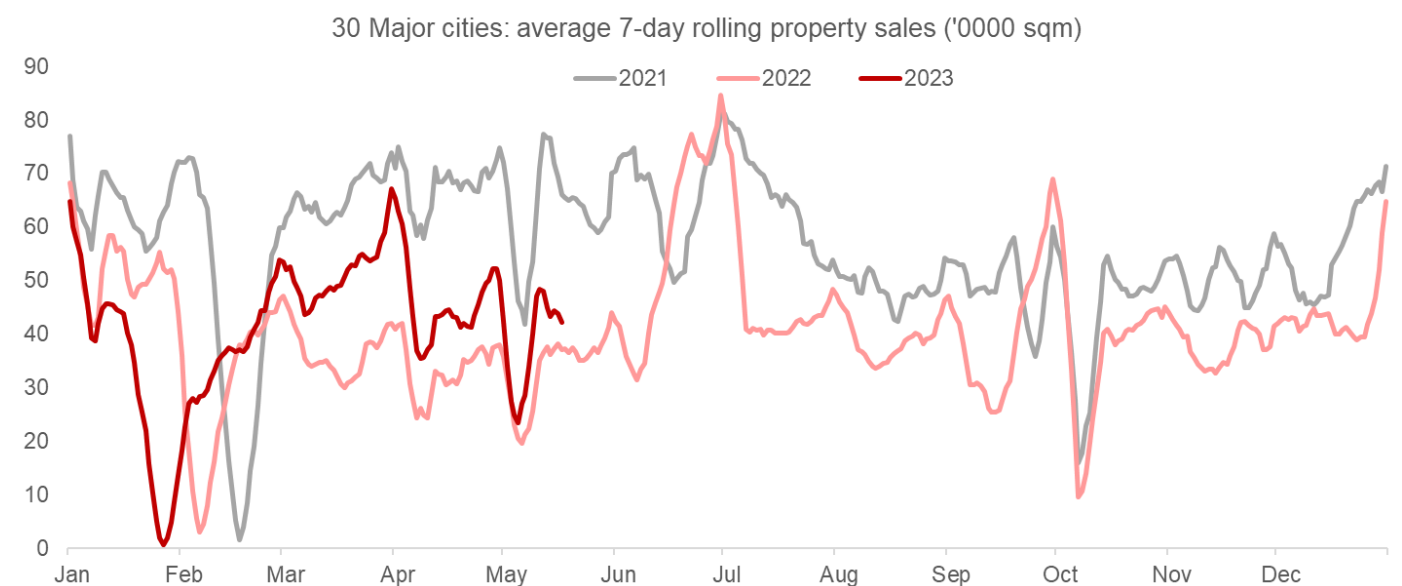
RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	77.6	86.4	94.2	73.5	80.9	87.3	5.6%	6.7%	7.9%
Gross Profit	19.2	22.0	24.7	17.8	20.4	22.6	7.9%	8.0%	9.2%
Operating Profit	3.6	5.2	6.8	2.5	4.5	6.3	43.6%	16.7%	8.7%
Non-GAAP net profit	7.4	8.5	9.3	6.2	7.7	8.7	18.4%	10.6%	7.9%
Gross Margin	24.7%	25.5%	26.2%	24.2%	25.1%	25.9%	0.5 ppt	0.3 ppt	0.3 ppt
Operating Margin	4.7%	6.0%	7.3%	3.4%	5.5%	7.2%	1.2 ppt	0.5 ppt	0.1 ppt
Non-GAAP net margin	9.5%	9.8%	9.9%	8.5%	9.5%	9.9%	1.0 ppt	0.3 ppt	0.0 ppt

Source: Company data, CMBIGM

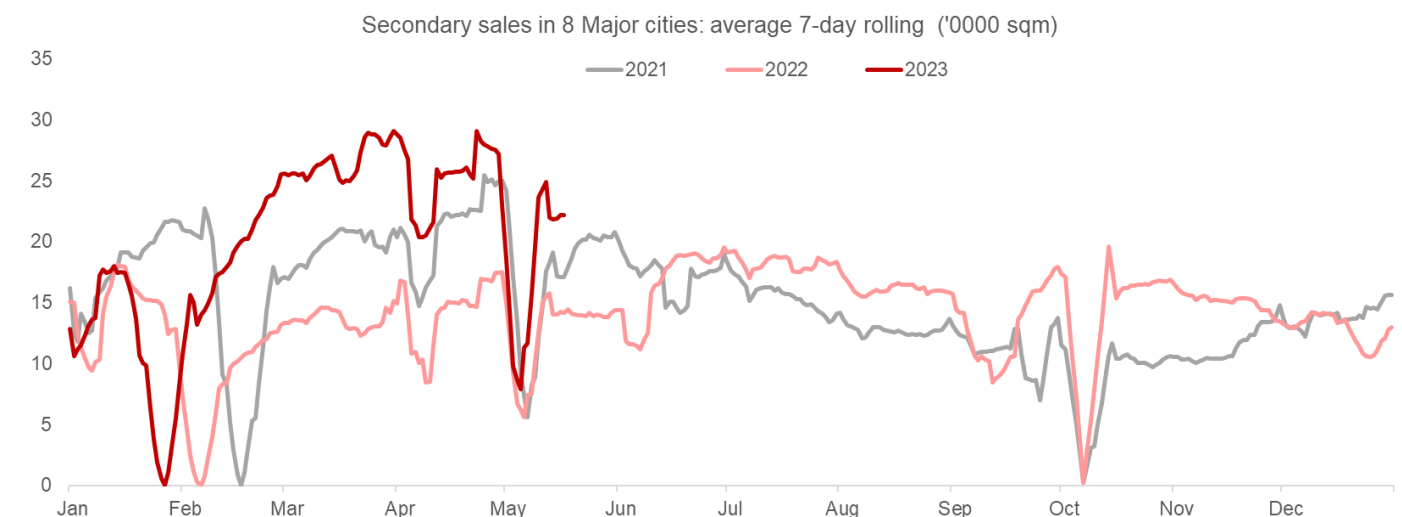
**Figure 3: BEKE estimates vs consensus**

RMB bn	Current			Consensus			Diff (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	77.6	86.4	94.2	74.5	84.2	91.8	4.2%	2.6%	2.6%
Gross Profit	19.2	22.0	24.7	19.3	22.4	24.7	-0.6%	-1.7%	0.1%
Non-GAAP net profit	7.4	8.5	9.3	6.3	8.0	9.4	16.8%	6.4%	-0.8%
Gross Margin	24.7%	25.5%	26.2%	25.9%	26.6%	26.9%	-1.2 ppt	-1.1 ppt	-0.7 ppt
Non-GAAP net margin	9.5%	9.8%	9.9%	8.5%	9.5%	10.3%	1.0 ppt	0.4 ppt	-0.3 ppt

Source: Company data, CMBIGM

**Figure 4: New home sales grew 30% QTD and 13% YTD as of 17 May**

Source: Company data, CMBIGM

**Figure 5: New home sales grew 67% QTD and 65% YTD as of 17 May**

Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	70,481	80,752	60,669	77,605	86,384	94,168
Cost of goods sold	(53,621)	(64,933)	(46,888)	(58,430)	(64,392)	(69,487)
Gross profit	16,860	15,819	13,781	19,175	21,992	24,681
Operating expenses	(14,018)	(17,174)	(14,614)	(15,555)	(16,796)	(17,839)
SG&A expense	(11,304)	(13,234)	(11,920)	(13,075)	(14,295)	(15,300)
R&D expense	(2,478)	(3,194)	(2,546)	(2,480)	(2,502)	(2,539)
Others	(236)	(747)	(148)	0	0	0
Operating profit	2,842	(1,355)	(833)	3,620	5,196	6,842
Other income	781	1,702	1,569	1,255	1,004	904
Other expense	(2)	(163)	(719)	33	0	0
Investment gain/loss	473	565	(512)	43	0	0
Share of (losses)/profits of associates/JV	(34)	37	45	6	0	0
Interest income	163	355	743	1,018	1,216	1,275
Pre-tax profit	4,223	1,141	292	5,975	7,416	9,020
Income tax	(1,609)	(1,665)	(1,690)	(2,035)	(2,401)	(2,789)
After tax profit	2,614	(525)	(1,397)	3,940	5,015	6,231
Minority interest	(1)	1	11	11	11	11
Net profit	2,613	(524)	(1,386)	3,951	5,026	6,242
Core net profit	922	(524)	(1,386)	3,951	5,026	6,242
Adjusted net profit	5,720	2,294	2,843	7,378	8,492	9,339

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	87,539	69,926	70,425	85,055	95,434	107,114
Cash & equivalents	40,970	20,446	19,413	30,734	40,946	50,632
Restricted cash	8,567	6,286	6,181	6,490	6,815	7,155
Account receivables	13,184	9,325	4,163	6,675	6,556	8,044
Other current assets	24,818	33,869	40,667	41,156	41,118	41,283
Non-current assets	16,756	30,393	38,923	39,025	39,209	39,552
PP&E	1,472	1,972	2,037	1,801	1,536	1,276
Right-of-use assets	6,821	7,244	11,284	12,412	13,654	15,019
Intangibles	1,643	1,141	1,687	897	103	(658)
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	124,080	134,643	146,666
Current liabilities	33,633	28,936	33,341	41,244	43,768	46,452
Short-term borrowings	0	260	619	619	619	619
Account payables	6,595	6,009	5,843	10,245	11,291	12,184
Other current liabilities	20,728	15,361	14,528	17,190	18,356	19,731
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	4,956	5,269	5,686
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	48,195	50,719	53,404
Share capital	0	0	0	0	0	0
Retained earnings	(9,228)	(9,843)	(11,406)	(7,455)	(2,429)	3,814
Other reserves	75,993	76,817	80,326	83,217	86,240	89,348
Total shareholders equity	66,765	66,974	68,920	75,762	83,812	93,161
Minority interest	27	82	134	123	112	100
Total equity and liabilities	104,296	100,319	109,347	124,080	134,643	146,666

<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	5,975	7,416	9,020
Depreciation & amortization	1,174	1,158	1,089	1,838	1,941	1,984
Tax paid	1,609	1,665	1,690	2,035	2,401	2,789
Change in working capital	2,991	32	5,036	3,907	1,501	(266)
Others	(635)	(402)	354	(1,198)	(1,779)	(2,471)
<b>Net cash from operations</b>	<b>9,362</b>	<b>3,595</b>	<b>8,461</b>	<b>12,556</b>	<b>11,480</b>	<b>11,056</b>
<b>Investing</b>						
Capital expenditure	(887)	(1,430)	(793)	(793)	(883)	(962)
Acquisition of subsidiaries/ investments	(13,198)	(9,876)	5,420	0	0	0
Others	(892)	(13,578)	(13,099)	(150)	(81)	(69)
<b>Net cash from investing</b>	<b>(14,978)</b>	<b>(24,884)</b>	<b>(8,472)</b>	<b>(943)</b>	<b>(963)</b>	<b>(1,031)</b>
<b>Financing</b>						
Net borrowings	(720)	260	359	16	20	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>16</b>	<b>20</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	37,224	47,760
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>37,224</b>	<b>47,760</b>	<b>57,787</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%)	27.9%	11.3%	9.0%
Gross profit	49.6%	(6.2%)	(12.9%)	39.1%	14.7%	12.2%
Operating profit	na	na	na	na	43.5%	31.7%
Net profit	na	na	na	na	27.2%	24.2%
Adj. net profit	245.4%	(59.9%)	23.9%	159.5%	15.1%	10.0%
<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%	24.7%	25.5%	26.2%
Operating margin	4.0%	(1.7%)	(1.4%)	4.7%	6.0%	7.3%
Adj. net profit margin	8.1%	2.8%	4.7%	9.5%	9.8%	9.9%
Return on equity (ROE)	5.3%	(0.8%)	(2.0%)	5.5%	6.3%	7.1%
<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	2.3
<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	35.5	28.1
P/E (diluted)	na	208.6	na	na	35.5	28.1
P/B	2.8	2.9	1.8	1.9	1.7	1.5
P/CFPS	56.3	139.0	16.0	11.9	13.2	13.8

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

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