

Vanke - H (2202 HK)

Takeaway from March sales conference call

Vanke just hosted its March results conference. Below are major questions and answers from management:

- **Impact of recent mortgage tightening?** Short-term impact may be limited to developers' collection rate. As of March, the Company has not seen any effect on market activity or sell-through on new projects (58% sell-through rate on new projects in March, within normal range).
- **Impact of land supply reform?** For Vanke, concentrated land supply provides incentive to accelerate turnover. Under similar turnover rates, developers who gained land in the same batch would pre-sale their projects at the same time so Vanke's fast move would make it appealing. Further impact of land supply reform include 1) potential increase in project profitability, given potentially less competition for land plots, but offset by 2) greater challenge for developers in terms of using capital.
- **Guidance on sales and scale expansion?** Vanke will still adopt a "depth over width" strategy in terms of scale expansion, and will only enter single-digit new cities per year. The Company seeks to expand in scale through 1) increasing saturation and striving to become Top 3 in covered cities, and 2) riding macro tailwinds. Vanke targets RMB790bn sellable projects in 2021, and assuming stable sell-through rate, this should provide double-digit sales growth for the year.
- **Future outlook for Vanke's commercial business?** Vanke's commercial projects has reached 14mn sq m, of which 10mn sq m are under SCPG. Commercial segment was flat in 2020 due to COVID-19, but the Company is confident in double-digit growth in 2021. Looking at the bigger picture, management foresees greater competition in shopping malls as new openings (Company est. malls to double by 2030) create larger supply-demand disparity, and will favor top commercial operators in the long term. Vanke's strategy is to improve brand by increasing concentration in key cities like Shanghai through project pipeline and asset-light gains, and unveiling new mall series.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	297,083	367,894	419,112	497,475	521,397
YoY growth (%)	25.2	23.8	13.9	18.7	4.8
Net income (RMB mn)	33,773	38,872	41,516	51,212	53,879
EPS (RMB)	3.06	3.47	3.62	4.41	4.64
YoY growth (%)	20.4	13.3	4.3	12.8	5.2
Consensus EPS (RMB)	N.A.	N.A.	N.A.	3.76	4.05
P/E (x)	8.3	7.3	6.5	5.8	5.5
P/B (x)	1.8	1.5	1.3	1.1	1.0
Yield (%)	3.3	3.3	4.1	4.6	4.9
ROE (%)	21.7	20.7	19.6	19.3	17.8
Net gearing (%)	30.9	34.3	28.1	23.2	30.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$33.92**
 Up/downside **+19.9%**
 Current Price **HK\$28.30**

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	390,429
Avg 3 mths t/o (HK\$ mn)	329.71
52w High/Low (HK\$)	35.00/22.95
Total Issued Shares (mn)	1,894(H) 9,724(A)

Source: Bloomberg

Shareholding Structure

Shenzhen Metro	33.35%
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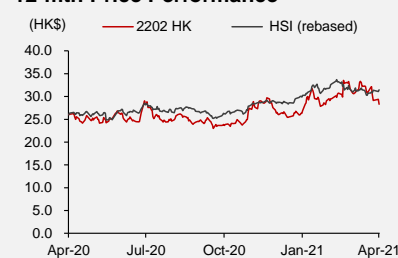
Source: Company data, CMBIS

Share Performance

	Absolute	Relative
1-mth	-6.8%	-5.4%
3-mth	11.8%	7.4%
6-mth	23.3%	4.2%
12-mth	10.5%	-6.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	297,083	367,894	442,402	497,475	521,397
Property development	278,083	340,582	408,466	456,925	472,927
Construction	3,411	7,299	8,904	10,863	13,253
Property services	9,796	12,700	16,256	19,507	23,409
Other business	5,793	7,313	8,775	10,179	11,808
Cost of sales	(187,131)	(235,697)	(301,577)	(339,431)	(356,227)
Gross profit	109,952	132,197	140,825	158,044	165,171
Other income and gains	3,585	5,687	5,753	6,637	6,854
Distribution expenses	(7,868)	(9,044)	(10,618)	(11,442)	(11,992)
Administrative expenses	(14,590)	(15,740)	(17,696)	(18,407)	(19,292)
Other expenses	(2,113)	(1,518)	(2,212)	(2,487)	(2,607)
Operating profit	88,966	111,581	116,052	132,345	138,134
Finance expenses	(8,181)	(9,255)	(9,337)	(10,175)	(11,149)
Associates/JV	6,280	3,791	7,780	8,240	8,240
Exceptional	0	0	0	0	0
Pre-tax profit	87,065	106,116	114,494	130,411	135,225
Profits tax	(37,793)	(50,985)	(51,253)	(57,948)	(60,096)
Minority interest	(15,500)	(16,260)	(18,500)	(21,250)	(21,250)
Perpetual	0	0	0	0	0
Net profit	33,773	38,872	44,742	51,212	53,879
Core profit	33,773	38,872	44,742	51,212	53,879

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
EBIT	88,966	111,581	116,052	132,345	138,134
Depreciation and amortization	2,922	6,306	5,940	5,800	5,860
Change in working capital	(21,185)	(26,226)	(50,844)	(86,000)	(97,000)
Income tax paid	(36,592)	(42,868)	(64,465)	(56,318)	(59,926)
Others	(493)	(3,106)	15,797	33,458	6,234
Net cash from operating	33,618	45,687	22,479	29,285	(6,698)
Capex	(18,486)	(10,057)	(5,242)	(6,100)	(7,060)
Associates/JV	(45,840)	(27,925)	(10,080)	(7,800)	(8,200)
Other	(3,038)	9,355	3,844	4,061	0
Net cash from investing	(67,364)	(28,627)	(11,477)	(9,839)	(15,260)
Equity raised	0	6,643	7,165	0	0
Change of Debts	61,181	(7,095)	27,949	21,000	36,000
Dividend paid	(40,249)	(36,823)	(11,811)	(14,467)	(16,388)
Other	23,866	3,937	0	0	0
Net cash from financing	44,798	(33,338)	23,303	6,533	19,612
Net change in cash	11,051	(16,278)	34,305	25,980	(2,346)
Cash at the beginning	164,326	175,668	159,739	194,294	220,524
Exchange difference	291	349	250	250	250
Cash at the end	175,668	159,739	194,294	220,524	218,428
Pledged deposit	12,749	6,456	6,152	6,152	6,152
Cash at BS	188,417	166,195	200,446	226,676	224,580

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	233,508	290,940	301,500	314,400	330,100
Fixed asset	22,645	29,698	29,000	29,300	30,500
Investment properties	25,898	94,521	98,500	104,000	112,000
Associates/JV	129,528	130,476	140,000	146,000	152,000
Intangible assets	1,015	786	800	800	800
Other non-current assets	54,421	35,459	33,200	34,300	34,800
Current assets	1,295,156	1,439,063	1,532,446	1,676,476	1,793,580
Cash	188,417	166,195	200,446	226,676	224,580
Account receivable	331,839	351,617	362,000	388,000	420,000
Inventories	754,310	901,807	950,000	1,040,000	1,125,000
Other current assets	20,590	19,445	20,000	21,800	24,000
Current liabilities	1,121,914	1,272,610	1,308,000	1,402,500	1,461,500
Borrowings	93,183	95,086	95,000	98,000	100,000
Trade and other payables	486,726	542,268	550,000	580,000	600,000
Contract liabilities	504,711	577,047	623,000	683,000	720,000
Deferred taxation	37,293	56,783	40,000	41,500	41,500
Other current liabilities	0	1,426	0	0	0
Non-current liabilities	171,129	186,814	217,700	237,130	272,300
Borrowings	168,024	185,243	192,000	210,000	244,000
Other non-current liabilities	3,105	1,571	25,700	27,130	28,300
Shareholders' equity	155,764	188,058	228,246	264,846	301,880
Minority interest	79,857	82,521	80,000	86,400	88,000
Perpetual bond	0	0	0	0	0
Total equity	235,621	270,579	308,246	351,246	389,880

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Property development	93.6	92.6	92.3	91.8	90.7
Construction	1.1	2.0	2.0	2.2	2.5
Property services	3.3	3.5	3.7	3.9	4.5
Other business	1.9	2.0	2.0	2.0	2.3
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.0	35.9	31.8	31.8	31.7
Pre-tax margin	29.9	30.3	26.2	26.6	26.5
Net margin	11.4	10.6	10.1	10.3	10.3
Effective tax rate	43.4	48.0	44.8	44.4	44.4
Balance sheet ratios					
Current ratio (x)	1.2	1.1	1.2	1.2	1.2
Receivable day	407.7	348.9	298.7	284.7	294.0
Payable day	598.0	538.0	453.8	425.5	420.0
Inventory day	1471.3	1396.5	1149.8	1118.3	1152.7
Net gearing ratio (%)	30.9	42.2	28.1	23.2	30.6
Returns (%)					
ROE	21.7	20.7	19.6	19.3	17.8
ROA	3.2	3.2	3.4	3.6	3.5
Per share data					
EPS (RMB)	3.06	3.47	3.92	4.41	4.64
DPS (RMB)	1.05	1.05	1.28	1.45	1.56
BVPS (RMB)	14.11	16.64	19.65	22.80	25.98

Source: Company data, CMBIS estimates

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