

Ke Holdings (BEKE US)

Solid market share gains amid uncertain environment

Beike reported (12 Aug) 2Q24 results: revenue increased 20% YoY to RMB23.4bn, and was 9% ahead of both our forecast and Bloomberg consensus estimates, thanks to a beat on GTV of both new home transactions (NHT) and existing home transactions (EHT), and stronger-than-expected expansion of NHT aided by strong industry demand. Non-GAAP net income was RMB2.7bn, 48% better than both our estimate and consensus, thanks to a beat on revenue and more optimized-than-expected operating expense spend. We remain constructive on Beike's market share gains for its core business aided by its well-established infrastructure and nimble business operation capability, and are positive on its new business development prospect. Our SOTP-based target price is fine-tuned to US\$21.5 (was US\$22.0), including US\$20.6 for Beike Core and US\$0.9 for Shengdu, translating into 20.8x 2024E PE (non-GAAP). BUY.

- **2Q results demonstrated solid market share gains and the trend is likely to sustain in 3Q.** Beike's 2Q results demonstrated strong market share gains in both EHT and NHT markets: 1) in the four first-tier cities, the total number of online registrations for EHT grew 16% YoY in 2Q24, per housing bureau data, as compared to 40% on Beike's platform; 2) NHT GTV on Beike's platform declined by 20% YoY, as compared to a decline of 35% YoY for the whole industry. In addition, for NHT, the reduction in account receivables days to 45 days in 2Q (from 69 days in 1Q), increase in take rate to 3.4% (from an already high level of 3.2% in 1Q), and a relative stable percentage of GTV generated from Kuaiyong Program (which requires counterparty to pay commissions in advance) all speak to Beike's strong bargaining power, in our view. We expect market share gains for both Beike's EHT and NHT businesses to sustain in 3Q, mainly due to: 1) strong industry destocking demand from developers; and 2) Beike's well established agency cooperation network and enhanced operating efficiency.
- **Home renovation: business development target shifted from pure scale growth to a focus on margin expansion as well.** In 2Q24, Beike generated RMB4.0bn of revenue in home renovation and furnishing business, up 54% YoY. Management noted that the KPI for home renovation business is shifting from rapid scale expansion to gross margin expansion in 2024, and contribution margin for the business has improved to 31% in 2Q24 (2Q23: 29%). Driven by more refined operation, we expect loss margin of home renovation and furnishing business to improve from -10% in 2023 to -4% in 2024 (previous forecast: -5%), while maintaining 44% YoY revenue growth forecast in 2024E.
- **Management remains committed to enhancing shareholder return.** Management highlighted that it has in aggregate repurchased shares with a total consideration of c.US\$480mn YTD in 2024, which accounted for approximately 2.75% of Beike's total issued shares at the end of 2023. Beike has upsized and extended the existing share repurchase program to 31 Aug 2025, with the repurchase authorization being increased to US\$3bn (was US\$2bn), and Beike maintains its target of 6-7% shareholder return per annum on a repurchase and dividend combined basis in 2024.
- **Property market outlook:** Amid the typical summer sales lull in Jul and Aug, sales momentum has decelerated post June's peak. Daily avg. transaction volume for new homes in 30 major cities recorded -24%/-19% MoM change in July/MTD in Aug (as of Aug 11). For secondary market, daily avg. sales volume

BUY (Maintain)

Target Price **US\$21.50**
 (Previous TP) US\$22.00
Up/Downside **53.2%**
Current Price **US\$14.03**

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Stock Data

Mkt Cap (US\$ mn)	16,598.1
Avg 3 mths t/o (US\$ mn)	39.7
52w High/Low (US\$)	19.47/12.51
Total Issued Shares (mn)	1183.0

Source: FactSet

Shareholding Structure

Propitious Global	23.3%
Tencent Mobility	10.0%

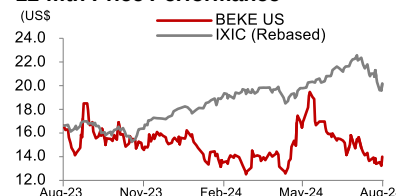
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.5%	1.7%
3-mth	-17.1%	-19.1%
6-mth	4.9%	0.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

in 17 cities booked +4%/-21% in July/MTD in Aug. In terms of YTD performance, new home sales and second-hand home sales declined 35% and 4% YoY, respectively. Our leading indicator shows a narrowed reduction in property-related searches in Jul, suggesting a narrowed new home sales decline in Aug. Considering 1) Our leading indicator suggests a narrowed sales decline in Aug, the anticipated increase in new project launches in Sep and Oct, and the promotional season in Nov and Dec in new home market, and 2) the rising listing number, the ongoing price-for-volume dynamic, as well as the lower base in 2H24 for secondary market, we maintain our full-year forecasts of a -20%/+1% YoY change in primary/secondary sales value for the industry in 2024E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	60,669	77,777	90,731	100,125	111,213
YoY growth (%)	(24.9)	28.2	16.7	10.4	11.1
Net profit (RMB mn)	(1,386.1)	8,132.1	6,083.5	7,425.5	8,703.8
Adjusted net profit (RMB mn)	2,842.8	12,047.4	8,967.6	9,840.2	11,140.1
Adj. NP (RMBmn; consensus)			8,741.8	10,228.3	11,614.2
EPS (Adjusted) (RMB)	2.39	10.26	7.64	8.38	9.49
ROE (%)	(2.0)	11.5	7.5	7.8	8.3

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Beike: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	2Q24E Consensus	Diff%
GTV	972	781	655	736	630	839	776	8.2%
Growth (YoY%)	66%	22%	-11%	14%	-35%	7%		
Existing home transactions	664	457	439	468	453	571	525	8.7%
Growth (YoY%)	78%	16%	-2%	30%	-32%	25%		
New home transactions	278	295	192	238	152	235	226	4.0%
Growth (YoY%)	44%	32%	-27%	-10%	-45%	-20%		
(%)								
Blended monetization rate								
Existing home transactions (revenue/GTV)	1.4	1.4	1.4	1.3	1.3	1.3	1.3	0.0 ppt
New home transactions (revenue/GTV)	3.0	2.9	3.1	3.2	3.2	3.4	3.2	0.1 ppt
(RMBbn)								
Revenue	20.3	19.5	17.8	20.2	16.4	23.4	21.5	8.5%
Growth (YoY%)	62	41	1	21	(19)	20		
Existing home transactions	9.2	6.4	6.3	6.0	5.7	7.3	6.9	6.9%
Growth (YoY%)	49	16	(12)	15	(38)	14		
New home transactions	8.4	8.7	5.9	7.6	4.9	7.9	7.3	8.3%
Growth (YoY%)	42	30	(24)	(9)	(41)	(9)		
Emerging and other services - old disclosure	2.7	4.4	5.6	6.6	5.7	8.1	7.3	10.2%
Growth (YoY%)	454	177	112	107	113	85		
Gross profit	6.3	5.3	4.9	5.1	4.1	6.5	5.5	18.9%
Operating profit	3.0	1.1	0.9	-0.2	0.0	2.0	0.9	112.7%
Contribution profit	7.5	6.5	6.1	6.4	5.2	7.7		
Non-GAAP net profit	3.6	2.4	2.1	1.7	1.4	2.7	1.8	48.3%
(%)								
Gross margin	31.3	27.4	27.4	25.5	25.2	27.9	25.5	2.4 ppt
Operating profit margin	14.7	5.5	5.1	-0.9	0.1	8.6	4.4	4.2 ppt
Contribution profit margin	36.8	33.4	34.2	31.8	31.7	33.0		
Non-GAAP net profit margin	17.6	12.1	12.1	8.5	8.5	11.5	8.4	3.1 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Beike: forecast revision

RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	90.7	100.1	111.2	90.2	99.5	107.9	0.6%	0.6%	3.0%
Gross profit	23.5	26.1	29.1	23.6	26.2	28.5	-0.1%	-0.3%	2.0%
Operating profit	5.5	7.2	8.9	5.0	6.2	7.4	8.8%	15.1%	21.0%
Non-GAAP net profit	9.0	9.8	11.1	9.4	10.4	11.4	-4.5%	-5.1%	-2.1%
Gross margin	25.9%	26.1%	26.2%	26.1%	26.3%	26.4%	-0.2 ppt	-0.2 ppt	-0.3 ppt
Operating margin	6.0%	7.2%	8.0%	5.6%	6.3%	6.8%	0.5 ppt	0.9 ppt	1.2 ppt
Non-GAAP net margin	9.9%	9.8%	10.0%	10.4%	10.4%	10.5%	-0.5 ppt	-0.6 ppt	-0.5 ppt

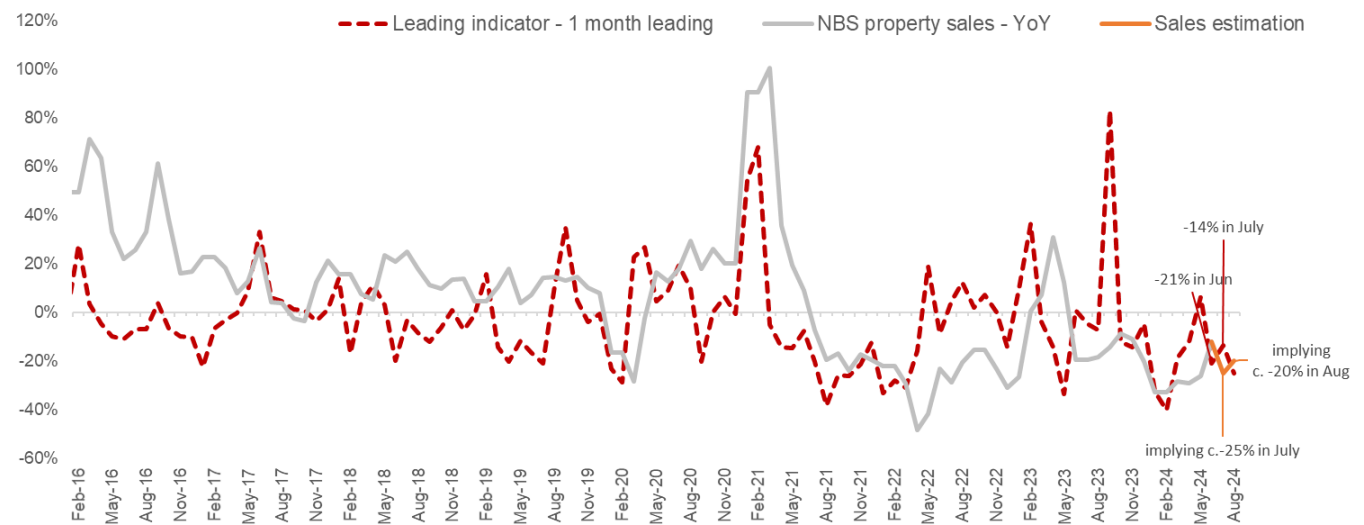
Source: Company data, CMBIGM estimates

Figure 3: Beike: estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	90.7	100.1	111.2	85.3	96.3	107.2	6.3%	3.9%	3.7%
Gross Profit	23.5	26.1	29.1	22.6	26.1	30.4	4.2%	-0.1%	-4.2%
Non-GAAP net profit	9.0	9.8	11.1	8.7	10.2	11.6	2.4%	-3.9%	-4.2%
Gross Margin	25.9%	26.1%	26.2%	26.4%	27.1%	28.3%	-0.5 ppt	-1.0 ppt	-2.2 ppt
Non-GAAP net margin	9.9%	9.8%	10.0%	10.2%	10.6%	10.8%	-0.4 ppt	-0.8 ppt	-0.8 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Leading Indicator



Source: Wind, CMBIGM

Note: Data as of 11 Aug 2024

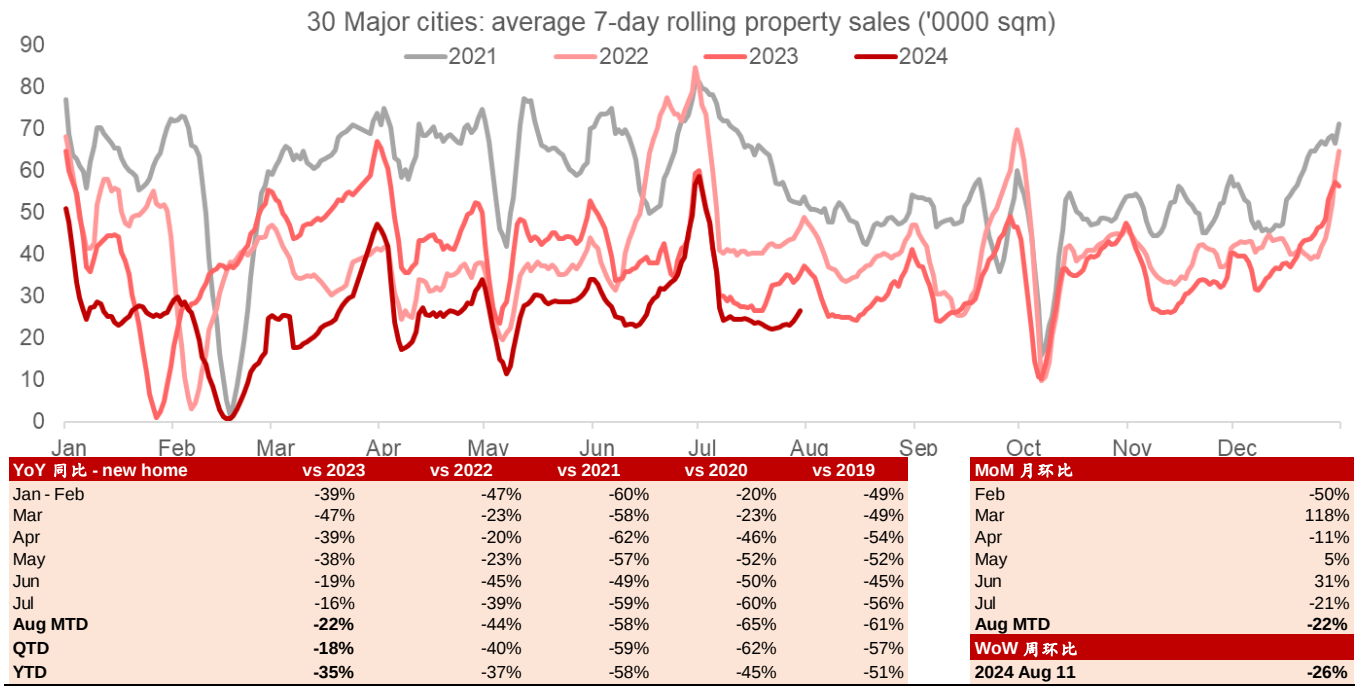
Figure 5: Daily avg. transaction volume ('0000 sqm)

Primary sales	Mar	Apr	May	Jun	Jul	Aug MTD	Aug Growth	Pre-517 (1.1-5.16)	Post-517 (5.17-8.11)	Growth	2023 (1.1-8.11)	YTD (1.1-8.11)	YoY Growth
30 major cities	28.41	26.00	26.48	33.81	25.82	20.80	-19%	23.72	28.90	22%	39.30	25.74	-35%
Tier 1&2	22.29	20.61	20.70	26.07	20.20	16.16	-20%	18.70	22.53	21%	30.86	20.19	-35%
Tier 3	6.12	5.39	5.77	7.74	5.62	4.64	-17%	5.02	6.37	27%	8.44	5.55	-34%
Shenzhen	0.96	1.00	0.79	1.12	1.05	1.29	22%	0.79	1.07	36%	1.34	0.90	-33%
Guangzhou	2.39	2.38	2.39	3.43	2.36	2.63	11%	1.99	2.82	41%	2.92	2.31	-21%
Beijing	2.60	2.40	2.00	2.95	2.84	2.67	-6%	2.54	2.76	9%	3.28	2.62	-20%
Suzhou	2.13	1.07	1.55	1.72	1.13	1.05	-7%	1.30	1.53	18%	2.07	1.39	-33%
Hangzhou	2.58	1.62	1.96	3.95	1.75	1.40	-20%	1.72	2.64	54%	2.88	2.07	-28%
Shanghai	4.65	4.23	3.63	4.74	4.39	3.43	-22%	3.48	4.39	26%	5.32	3.83	-28%
Chengdu	5.62	6.14	7.01	6.33	5.54	3.62	-35%	5.35	6.08	14%	8.28	5.63	-32%

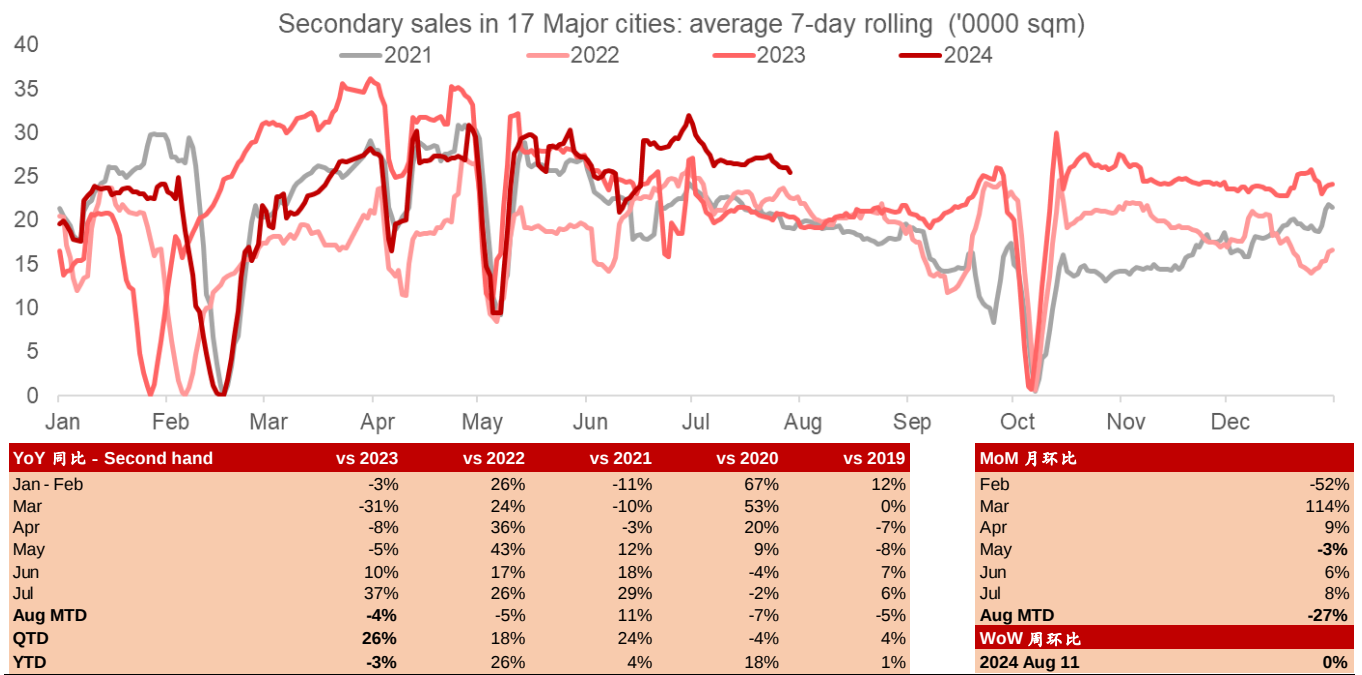
Secondary sales	Mar	Apr	May	Jun	Jul	Aug MTD	Aug Growth	Pre-517 (1.1-5.16)	Post-517 (5.17-8.11)	Growth	2023 (1.1-8.11)	YTD (1.1-8.11)	YoY Growth
17 major cities	23.51	26.38	24.66	25.90	26.96	21.24	-21%	21.44	26.07	22%	24.02	23.25	-3%
Shanghai	5.20	4.65	4.80	7.12	5.41	4.83	-11%	4.10	6.01	47%	0.00	4.84	n.a.
Suzhou	1.91	2.60	2.59	2.34	2.26	1.97	-13%	2.03	2.48	22%	2.27	2.21	-3%
Dongguan	0.74	0.81	0.75	0.91	0.90	0.78	-13%	0.74	0.86	15%	1.06	0.79	-26%
Qingdao	1.87	2.37	1.99	1.88	2.04	1.76	-14%	1.75	1.94	11%	1.69	1.83	8%
Foshan	2.18	2.17	2.42	2.41	2.39	1.91	-20%	2.01	2.40	19%	2.44	2.16	-11%
Shenzhen	1.34	1.54	1.53	1.63	1.73	1.35	-22%	1.25	1.63	31%	1.01	1.40	38%
Chengdu	6.56	7.47	6.72	6.60	7.53	5.79	-23%	6.04	6.93	15%	6.74	6.39	-5%
Beijing	4.36	4.30	4.21	4.83	4.92	3.64	-26%	3.68	4.75	29%	4.32	4.10	-5%
Hangzhou	1.51	1.47	1.45	1.82	1.56	1.15	-26%	1.16	1.63	40%	1.14	1.35	18%

Source: Wind, CMBIGM

Note: Data as of 11 Aug 2024

Figure 6: YTD new home sales decline narrowed to -35% YoY

Source: Wind, CMBIGM

Figure 7: YTD secondary sales decline narrowed to -3% YoY

Source: Wind, CMBIGM

Figure 8: Beike Core: DCF valuation table

(RMBmn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
NPV of FCF	45,184	46,479	46,163	43,548	41,241	37,111	32,679
Discounted terminal value	66,478	73,441					
Enterprise value	111,662	119,921					
Net cash	59,975	67,259					
Equity value	171,636	187,179					
No. of ADS (diluted, mn)	1,204	1,204					
Valuation per ADS (USD)	20.5						

Source: CMBIGM estimate

Note: 1) we assume USD:RMB exchange rate = 7.2:1; 2) our equity valuation for Beike Core is weighted average of 7 month in 2024 and 5 month in 2025

Figure 9: Beike: SOTP valuation

(RMBmn)	2024E
Beike Core	178,112
Shengdu	8,000
Total Beike valuation	186,112
Total Beike valuation (USDmn)	25,849
Valuation per ADS	21.5

Source: CMBIGM estimates

Note: Shengdu valuation based on acquisition value given by Beike

Risks

- 1) Slower-than-expected market recovery; 2) slower-than-expected margin expansion.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	80,752	60,669	77,777	90,731	100,125	111,213
Cost of goods sold	(64,933)	(46,888)	(53,810)	(67,203)	(74,035)	(82,127)
Gross profit	15,819	13,781	23,967	23,528	26,090	29,085
Operating expenses	(17,174)	(14,614)	(16,921)	(18,042)	(18,909)	(20,169)
SG&A expense	(13,234)	(11,920)	(14,891)	(16,010)	(16,766)	(17,845)
R&D expense	(3,194)	(2,546)	(1,937)	(2,033)	(2,143)	(2,325)
Others	(747)	(148)	(93)	0	0	0
Operating profit	(1,355)	(833)	7,046	5,485	7,181	8,916
Other income	1,702	1,569	1,869	1,869	1,682	1,514
Other expense	(163)	(719)	(133)	(81)	0	0
Investment gain/loss	565	(512)	78	78	0	0
Share of (losses)/profits of associates/JV	37	45	9	(4)	0	0
Interest income	355	743	1,263	1,351	1,454	1,553
Pre-tax profit	1,141	292	10,133	8,699	10,317	11,984
Income tax	(1,665)	(1,690)	(1,994)	(2,604)	(2,880)	(3,268)
After tax profit	(525)	(1,397)	8,138	6,095	7,437	8,716
Minority interest	1	11	(6)	(12)	(12)	(12)
Net profit	(524)	(1,386)	8,132	6,083	7,425	8,704
Core net profit	(524)	(1,386)	8,132	6,083	7,425	8,704
Adjusted net profit	2,294	2,843	12,047	8,968	9,840	11,140

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	69,926	70,425	69,754	78,497	86,793	96,735
Cash & equivalents	20,446	19,413	19,635	26,037	33,322	42,549
Restricted cash	6,286	6,181	6,223	6,534	6,861	7,204
Account receivables	9,325	4,163	3,176	6,193	7,070	7,295
Other current assets	33,869	40,667	40,720	39,734	39,542	39,688
Non-current assets	30,393	38,923	50,578	54,460	58,325	62,274
PP&E	1,972	2,037	1,965	2,189	2,383	2,660
Right-of-use assets	7,244	11,284	17,618	21,618	25,618	29,618
Intangibles	1,141	1,687	1,067	725	397	68
Goodwill	1,806	4,934	4,857	4,857	4,857	4,857
Other non-current assets	18,230	18,981	25,071	25,071	25,071	25,071
Total assets	100,319	109,347	120,332	132,957	145,118	159,008
Current liabilities	28,936	33,341	39,524	43,349	45,870	48,820
Short-term borrowings	260	619	290	290	290	290
Account payables	6,009	5,843	6,329	7,904	8,707	9,659
Other current liabilities	15,361	14,528	13,175	14,209	15,224	16,390
Lease liabilities	2,753	4,972	9,369	9,369	9,369	9,369
Contract liabilities	1,102	3,260	4,665	4,665	4,665	4,665
Accrued expenses	3,451	4,118	5,696	6,912	7,615	8,447
Non-current liabilities	4,327	6,952	8,607	8,607	8,607	8,607
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	4,327	6,952	8,607	8,607	8,607	8,607
Total liabilities	33,263	40,293	48,131	51,956	54,477	57,427
Share capital	0	0	0	0	0	0
Retained earnings	(9,843)	(11,406)	(5,673)	2,810	10,235	18,939
Other reserves	76,817	80,326	77,773	86,990	89,193	91,417
Total shareholders equity	66,974	68,920	72,100	89,800	99,428	110,357
Minority interest	82	134	101	113	125	137
Total equity and liabilities	100,319	109,347	120,332	141,870	154,031	167,921

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,141	292	10,133	8,699	10,317	11,984
Depreciation & amortization	1,158	1,089	932	1,127	1,158	1,187
Tax paid	1,665	1,690	1,994	2,604	2,880	3,268
Change in working capital	32	5,036	1,818	(2,842)	(2,146)	(1,379)
Others	(402)	354	(3,720)	(2,586)	(3,556)	(4,311)
Net cash from operations	3,595	8,461	11,158	7,003	8,652	10,748
Investing						
Capital expenditure	(1,430)	(793)	(874)	(927)	(1,023)	(1,136)
Acquisition of subsidiaries/ investments	(9,876)	5,420	(5,595)	0	0	0
Others	(13,578)	(13,099)	2,492	608	(19)	(43)
Net cash from investing	(24,884)	(8,472)	(3,977)	(319)	(1,042)	(1,180)
Financing						
Net borrowings	260	359	(329)	30	1	2
Proceeds from share issues	0	0	0	0	0	0
Others	(1,334)	(1,514)	(6,632)	0	0	0
Net cash from financing	(1,074)	(1,155)	(6,962)	30	1	2
Net change in cash						
Cash at the beginning of the year	49,537	26,732	25,594	25,857	32,571	40,182
Exchange difference	(442)	29	45	0	0	0
Cash at the end of the year	26,732	25,594	25,857	32,571	40,182	49,753
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	14.6%	(24.9%)	28.2%	16.7%	10.4%	11.1%
Gross profit	(6.2%)	(12.9%)	73.9%	(1.8%)	10.9%	11.5%
Operating profit	na	na	na	(22.2%)	30.9%	24.2%
Net profit	na	na	na	(25.2%)	22.1%	17.2%
Adj. net profit	(59.9%)	23.9%	323.8%	(25.6%)	9.7%	13.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	19.6%	22.7%	30.8%	25.9%	26.1%	26.2%
Operating margin	(1.7%)	(1.4%)	9.1%	6.0%	7.2%	8.0%
Adj. net profit margin	2.8%	4.7%	15.5%	9.9%	9.8%	10.0%
Return on equity (ROE)	(0.8%)	(2.0%)	11.5%	7.5%	7.8%	8.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Current ratio (x)	2.4	2.1	1.8	1.8	1.9	2.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	14.5	19.4	15.9	13.6
P/E (diluted)	ns	ns	14.9	19.9	16.3	13.9
P/B	1.1	1.7	1.7	1.3	1.2	1.1
P/CFPS	55.0	15.5	11.6	19.6	15.6	12.4

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

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