

Ke Holdings (BEKE US)

Eyeing on the pace of fundamental recovery post sentiment rebound

Beike reported (23 May) 1Q24 results: revenue declined 19% YoY to RMB16.4bn, owing to industrywide headwinds, but was 3/1% ahead of our forecast/ Bloomberg consensus estimates, aided by stronger-than-expected revenue growth in new businesses. Non-GAAP net income was RMB1.4bn, better than both our estimate and consensus at RMB1.0bn, thanks to more optimized-than-expected operating expense spend. Aided by the launch of supporting policies, we expect GTV growth of both Beike's existing home and new business to bottom out in 2Q24E. Following the sentiment rebound, the pace of fundamental recovery is the key to watch, in our view. Beike's core business is continuously gaining market share aided by its well-established ACN ecosystem, while its home renovation and home rental services are ramping up quickly, which in our view is on track to support Beike's long-term revenue and earnings growth. Our SOTP-based target price is fine-tuned to US\$22.0 (was US\$23.0), including US\$21.1 for Beike Core and US\$0.9 for Shengdu, translating into 20.4x 24E PE (non-GAAP). Maintain BUY.

- **Policies should help drive industry fundamental recovery starting from 2Q24.** In 1Q24, overall industry headwinds weighed on growth, while Beike still outperformed overall market for new home business: GTV for Beike's existing home transaction (EHT) dropped 32% YoY to RMB453bn and that for new home transactions (NHT) dropped 45% YoY to RMB152bn (as compared to a 50% YoY decline for sales from top 100 developers, per CRRIC data). However, the introduction of industry policies should help drive industry fundamental recovery, in our view. We forecast Beike to record 2Q24 total GMV of RMB796bn, up 2% YoY, and total revenue of RMB21.5bn, up 10% YoY.
- **New businesses development remains bright spot.** In 1Q24, Beike generated RMB2.4bn of revenue in home renovation and furnishing business, up 71% YoY. Management expects to drive operating efficiency improvement of home renovation and furnishing business in 2024 post a year of aggressive nationwide expansion in 2023. We expect net loss margin of home renovation and furnishing business to improve from -10% in 2023 to -5% in 2024, and to reach breakeven in 2025E, driven by both gross margin expansion and operating efficiency improvement aided by solid revenue growth.
- **Demonstrated commitment to enhancing shareholder return.** Management highlighted that it has allocated c. US\$220mn for share repurchase in 1Q24, which represents c. 1% of market cap based on share price of latest market close on 23 May. Management highlighted that it will maintain high standards for risk management and capital allocation efficiency, to foster long-term business development.
- **Property market outlook:** We think recently announced policies of down payment ratio and mortgage loan interest rate cuts may marginally boost property sales, but the extent of the enhancement is likely to be less pronounced than those observed during prior downturns given the unchanged long-term condition that population decline may continue and the fact that housing inventory remains high and the downward trend in housing prices is challenging to reverse. It seems that the full removal of purchase restrictions is showing more evident impact with [Chengdu/Hangzhou](#) seeing spikes in new home sales growth. Regarding

BUY (Maintain)

Target Price US\$22.00
 (Previous TP) US\$23.00
Up/Downside 16.6%
Current Price US\$18.87

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Stock Data

Mkt Cap (US\$ mn)	22,324.0
Avg 3 mths t/o (US\$ mn)	70.5
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	38.6%	29.5%
3-mth	33.5%	27.1%
6-mth	20.2%	2.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

the RMB300bn re-lending program, we think it faces several hurdles ([report](#)) that could impede its successful implementation, but with the shift of top-level policy direction, we are confident that more de-stocking related measures will be rolled out to fulfil the top level's objectives. Overall, we believe the fundamental may see positive signs in 2Q-4Q24 given continued demand-side easing and implementation of financing policies.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	60,669	77,777	90,179	99,546	107,931
YoY growth (%)	(24.9)	28.2	15.9	10.4	8.4
Net profit (RMB mn)	(1,386.1)	6,872.1	5,242.8	6,081.3	6,880.1
Adjusted net profit (RMB mn)	2,842.8	10,787.3	9,379.5	10,361.1	11,370.6
YoY growth (%)	23.9	279.5	(13.1)	10.5	9.7
EPS (Adjusted) (RMB)	2.39	9.19	7.95	8.74	9.54
Consensus EPS (RMB)	na	8.13	7.34	8.70	9.99
P/E (x)	ns	23.3	30.7	26.6	23.7

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Beike: quarterly financial results

(RMBbn)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	1Q24E CMBI estimates	Diff%
GTV	737	647	972	781	655	736	630	636	-0.9%
Growth (YoY%)	-11%	-12%	66%	22%	-11%	14%	-35%		
Existing home transaction	449	360	664	457	439	468	453	432	5.0%
Growth (YoY%)	19%	1%	78%	16%	-2%	30%	-32%		
New home transaction	262	264	278	295	192	238	152	167	-9.4%
Growth (YoY%)	-36%	-26%	44%	32%	-27%	-10%	-45%		
(%)									
Blended monetization rate									
Existing home transaction (revenue/GTV)	1.6	1.5	1.4	1.4	1.4	1.3	1.3	1.3	-0.1 ppt
New home transaction (revenue/GTV)	3.0	3.1	3.0	2.9	3.1	3.2	3.2	3.0	0.2 ppt
(RMBbn)									
Revenue	17.6	16.7	20.3	19.5	17.8	20.2	16.4	15.9	2.8%
Growth (YoY%)	(3)	(6)	62	41	1	21	(19)		
Existing home transaction	7.2	5.3	9.2	6.4	6.3	6.0	5.7	5.7	-0.3%
Growth (YoY%)	17	(12)	49	16	(12)	15	(38)		
New home transaction	7.8	8.3	8.4	8.7	5.9	7.6	4.9	5.0	-2.2%
Growth (YoY%)	(31)	(27)	42	30	(24)	(9)	(41)		
Emerging and other services - old disclosure	2.6	3.2	2.7	4.4	5.6	6.6	5.7	5.2	10.9%
Growth (YoY%)	334	549	454	177	112	107	113		
Gross profit	4.8	4.1	6.3	5.3	4.9	5.1	4.1	4.4	-6.3%
Operating profit	1.2	0.4	3.0	1.1	0.9	-0.2	0.0	0.1	
Contribution profit	6.0	5.0	7.5	6.5	6.1	6.4	5.2		
Non-GAAP net profit	1.9	1.6	3.6	2.4	2.1	1.7	1.4	1.0	41.5%
(%)									
Gross margin	27.0	24.4	31.3	27.4	27.4	25.5	25.2	27.6	-2.4 ppt
Operating profit margin	6.9	2.3	14.7	5.5	5.1	-0.9	0.1	0.6	-0.5 ppt
Contribution profit margin	34.0	30.0	36.8	33.4	34.2	31.8	31.7		
Non-GAAP net profit margin	10.7	9.2	17.6	12.1	12.1	8.5	8.5	6.2	2.3 ppt

Source: Company data, CMBIGM

Figure 2: Beike: forecast revision

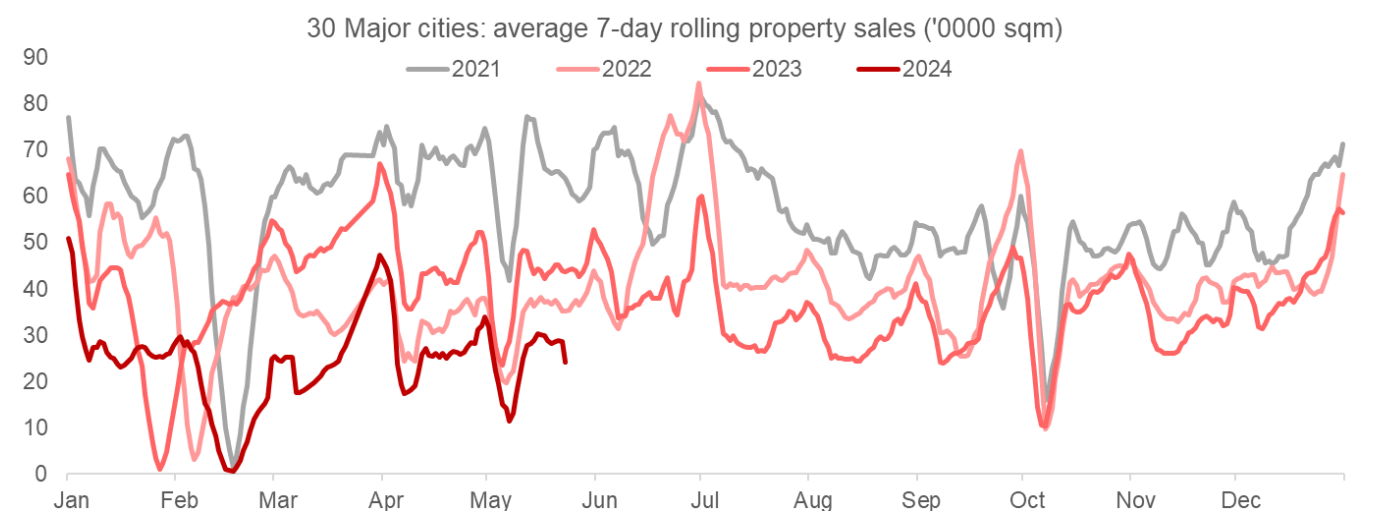
RMB bn	Current			Previous			Change (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	90.2	99.5	107.9	86.6	95.3	102.9	4.1%	4.5%	4.9%
Gross Profit	23.6	26.2	28.5	24.4	27.1	29.4	-3.3%	-3.4%	-3.1%
Operating Profit	5.0	6.2	7.4	6.7	8.1	9.4	-24.4%	-23.3%	-21.5%
Non-GAAP net profit	9.4	10.4	11.4	9.8	11.0	12.0	-4.8%	-5.5%	-5.6%
Gross Margin	26.1%	26.3%	26.4%	28.1%	28.5%	28.6%	-2.0 ppt	-2.2 ppt	-2.2 ppt
Operating Margin	5.6%	6.3%	6.8%	7.7%	8.5%	9.1%	-2.1 ppt	-2.3 ppt	-2.3 ppt
Non-GAAP net margin	10.4%	10.4%	10.5%	11.4%	11.5%	11.7%	-1.0 ppt	-1.1 ppt	-1.2 ppt

Source: Company data, CMBIGM

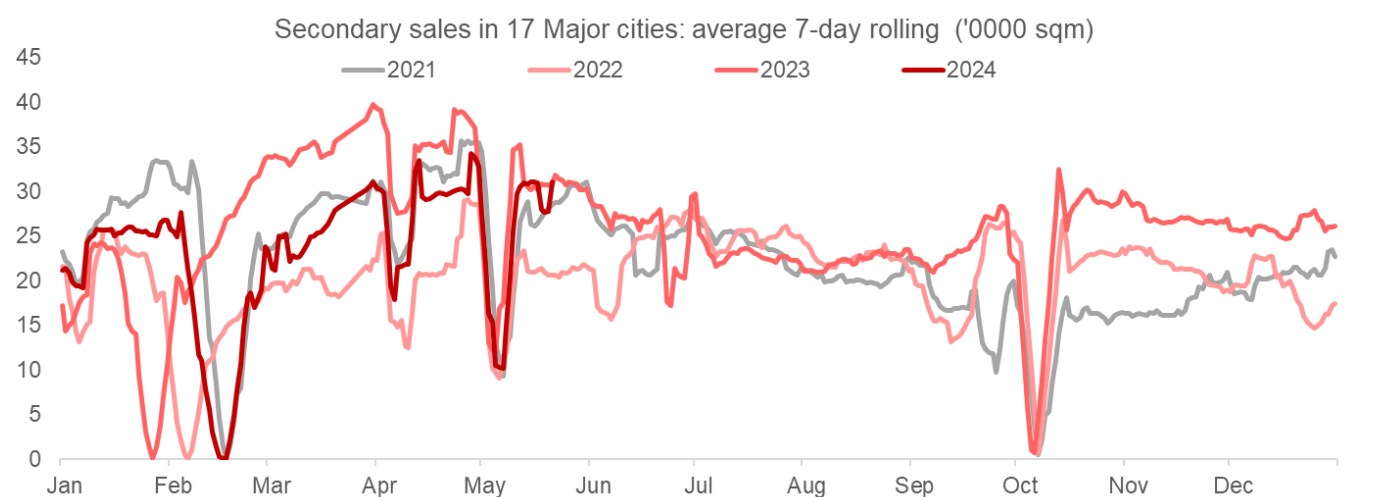
Figure 3: Beike: estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	90.2	99.5	107.9	83.7	93.0	98.6	7.8%	7.1%	9.5%
Gross Profit	23.6	26.2	28.5	22.8	26.0	29.2	3.3%	0.6%	-2.3%
Non-GAAP net profit	9.4	10.4	11.4	8.8	10.4	12.2	6.0%	-0.7%	-6.8%
Gross Margin	26.1%	26.3%	26.4%	27.3%	28.0%	29.6%	-1.1 ppt	-1.7 ppt	-3.2 ppt
Non-GAAP net margin	10.4%	10.4%	10.5%	10.6%	11.2%	12.4%	-0.2 ppt	-0.8 ppt	-1.8 ppt

Source: Company data, CMBIGM

Figure 4: YTD new home sales declined 42% YoY as of end of 23 May 2024

Source: Wind, CMBIGM

Figure 5: YTD second-hand home sales declined 14% YoY as of end of 23 May 2024

Source: Wind, CMBIGM

Figure 6: Beike Core: DCF valuation table

(RMBmn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
NPV of FCF	48,340	49,473	49,218	46,326	44,135	39,523	35,209
Discounted terminal value	69,410	76,680					
Enterprise value	121,251						
Net cash	62,513						
Equity value	183,764						
No. of ADS (diluted, mn)	1,210						
Valuation per ADS (USD)	21.1						

Source: CMBIGM estimate

Note: 1) we assume USD:RMB exchange rate = 7.2:1; 2) our valuation is based on weighted average of 7-month valuation in 2024 and 5-month valuation in 2025.

Figure 7: Beike: SOTP valuation

(RMBmn)	2024E
Beike Core	183,764
Shengdu	8,000
Total Beike valuation	191,764
Total Beike valuation (USDmn)	26,634
Valuation per ADS	22.0

Source: CMBIGM estimates

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	90,179	99,546	107,931
Cost of goods sold	(64,933)	(46,888)	(55,070)	(66,619)	(73,365)	(79,420)
Gross profit	15,819	13,781	22,707	23,560	26,181	28,511
Operating expenses	(17,174)	(14,614)	(16,921)	(18,519)	(19,945)	(21,139)
SG&A expense	(13,234)	(11,920)	(14,891)	(16,453)	(17,764)	(18,829)
R&D expense	(3,194)	(2,546)	(1,937)	(2,065)	(2,180)	(2,310)
Others	(747)	(148)	(93)	0	0	0
Operating profit	(1,355)	(833)	5,786	5,041	6,236	7,372
Other income	1,702	1,569	1,869	1,495	1,346	1,211
Other expense	(163)	(719)	(133)	(24)	0	0
Investment gain/loss	565	(512)	78	8	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	8,873	7,868	9,036	10,136
Income tax	(1,665)	(1,690)	(1,994)	(2,618)	(2,948)	(3,250)
After tax profit	(525)	(1,397)	6,878	5,249	6,088	6,886
Minority interest	1	11	(6)	(6)	(6)	(6)
Net profit	(524)	(1,386)	6,872	5,243	6,081	6,880
Core net profit	(524)	(1,386)	6,872	5,243	6,081	6,880
Adjusted net profit	2,294	2,843	10,787	9,379	10,361	11,371

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	69,926	70,425	69,754	78,310	87,208	96,796
Cash & equivalents	20,446	19,413	19,635	25,721	32,574	41,746
Restricted cash	6,286	6,181	6,223	6,534	6,861	7,204
Account receivables	9,325	4,163	3,176	6,208	7,691	7,604
Other current assets	33,869	40,667	40,720	39,848	40,082	40,243
Non-current assets	30,393	38,923	50,578	54,085	57,560	61,084
PP&E	1,972	2,037	1,965	2,018	2,036	2,112
Right-of-use assets	7,244	11,284	17,618	21,618	25,618	29,618
Intangibles	1,141	1,687	1,067	521	(22)	(573)
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	132,396	144,768	157,880
Current liabilities	28,936	33,341	39,524	42,733	45,235	47,467
Short-term borrowings	260	619	290	290	290	290
Account payables	6,009	5,843	6,329	7,656	8,431	9,127
Other current liabilities	15,361	14,528	13,175	14,063	15,111	16,040
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	6,691	7,368	7,976
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	51,340	53,842	56,074
Share capital	0	0	0	0	0	0
Retained earnings	(9,843)	(11,406)	(5,673)	709	6,790	13,670
Other reserves	76,817	80,326	77,773	87,885	91,668	95,661
Total shareholders equity	66,974	68,920	72,100	88,594	98,458	109,332
Minority interest	82	134	101	108	114	120
Total equity and liabilities	100,319	109,347	120,332	140,042	152,414	165,527

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,141	292	8,873	7,868	9,036	10,136
Depreciation & amortization	1,158	1,089	932	1,503	1,542	1,578
Tax paid	1,665	1,690	1,994	2,618	2,948	3,250
Change in working capital	32	5,036	1,818	(3,576)	(3,165)	(1,797)
Others	(402)	354	(2,460)	(1,720)	(2,114)	(2,506)
Net cash from operations	3,595	8,461	11,158	6,693	8,248	10,661
Investing						
Capital expenditure	(1,430)	(793)	(874)	(921)	(1,017)	(1,103)
Acquisition of subsidiaries/ investments	(9,876)	5,420	(5,595)	0	0	0
Others	(13,578)	(13,099)	2,492	595	(54)	(45)
Net cash from investing	(24,884)	(8,472)	(3,977)	(326)	(1,070)	(1,148)
Financing						
Net borrowings	260	359	(329)	30	2	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	2	2
Net change in cash						
Cash at the beginning of the year	49,537	26,732	25,594	25,857	32,255	39,434
Exchange difference	(442)	29	45	0	0	0
Cash at the end of the year	26,732	25,594	25,857	32,255	39,434	48,949
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	14.6%	(24.9%)	28.2%	15.9%	10.4%	8.4%
Gross profit	(6.2%)	(12.9%)	64.8%	3.8%	11.1%	8.9%
Operating profit	na	na	na	(12.9%)	23.7%	18.2%
Net profit	na	na	na	(23.7%)	16.0%	13.1%
Adj. net profit	(59.9%)	23.9%	279.5%	(13.1%)	10.5%	9.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	19.6%	22.7%	29.2%	26.1%	26.3%	26.4%
Operating margin	(1.7%)	(1.4%)	7.4%	5.6%	6.3%	6.8%
Adj. net profit margin	2.8%	4.7%	13.9%	10.4%	10.4%	10.5%
Return on equity (ROE)	(0.8%)	(2.0%)	9.7%	6.5%	6.5%	6.6%
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	23.3	30.7	26.6	23.7
P/E (diluted)	ns	ns	23.9	31.5	27.3	24.3
P/B	1.5	2.3	2.3	1.9	1.7	1.5
P/CFPS	74.6	21.1	15.7	28.0	22.4	16.9

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

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