

Ke Holdings (BEKE US)

New policy? What's good for BEKE?

BEKE's share price surged 13/12% on ADR/H-share market in the last two trading days mainly driven by news from BBG which stated that government is preparing a new basket of measures to support property market and Tsingdao to ease the home purchase limit. We do NOT find the document on any official sites but based on historical experience and our channel check, we listed 4 possibilities and its implications to the industry in which the base case is assuming most 2nd-tier cities would follow what Tsingdao imposed and will largely stabilize the market sentiment and property sales. It implies a 10/20% GTV growth in new home/existing home market in 2023E for BEKE. Moreover, the cancellation of Fuzhou's commission rate regulation will ease the concern on commission rate cut. Giving the new home quality issues lately spreads to SOE's projects that will squeeze more demand to second hand market, as well as BEKE's to-be-delivered solid 1H23 (strong 1Q23 results + promising 2Q23), we **reiterate BUY** and keep TP unchanged at US\$25.0/ADS (reflecting the base case). Catalysts: More cities to follow the policy in Tsingdao, sale growth to stay stable in June MoM, and strong 1H23 results.

- What's new?** BEKE's share price rallied 13/12% on its ADR and H-share in the last two trading days, mainly driven by news from BBG which stated that China is working on a new basket of measures to support property market and Tsingdao to relax purchase limits. The document attached in the news were jointly signed by MOHURD, PBOC and CBIRC Tsingdao Branches, stating to 1) reduce the down payment ratio for 1st/2nd home buyers from 30/40% to 20/30% and 2) encourage to restart monetization compensation for shanty town redevelopment.
- What's the implication to the industry?** We have NOT seen the original documents published on any official websites/channel of MOHURD, PBOC or CBIRC's Tsingdao branch. Based on the historical experience, the policy may 1) be withdrawn/stopped by Central gov. as it has caused large market volatility, or 2) be implemented as the documents were distributed to the relevant departments only. If the policy stays, the influence to the market will depend on how many city follows. **In our base case**, most 2nd-tier cities will follow the easing except 1 or 2 at the top as the last round of city-level down payment ratio cut is only up to Hangzhou (strong tier 2). This would largely resume the confidence and stabilize the property sales to maintain a mild recovery pace for the year, which is also what regulators prefer to see as the main theme is always to "Stabilize the property market". Thus, MoM sales growth is likely to remain stable in June and 2H23 in our view. **Our best case** assume all 2nd-tier cities and 1 or 2 1st-tier cities may follow, which now have less possibility in our view as property sales were still growing at 14% YoY YTD as of 31 May. **Our worst case** is that only several weak 2nd-tier cities follow which is not likely to have significant influence on overall sales and sentiment as some of them and most 3rd-tier cities already loosened the related policy. ([figure 1](#))

BUY (Maintain)

Target Price **US\$25.00**
 (Previous TP) US\$25.00
Up/Downside **55.2%**
Current Price **US\$16.11**

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Stock Data

Mkt Cap (US\$ mn)	19,921.2
Avg 3 mths t/o (US\$ mn)	119.5
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%

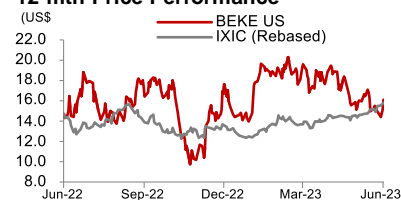
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.3%	-3.0%
3-mth	-17.8%	-28.8%
6-mth	-8.5%	-20.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

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)

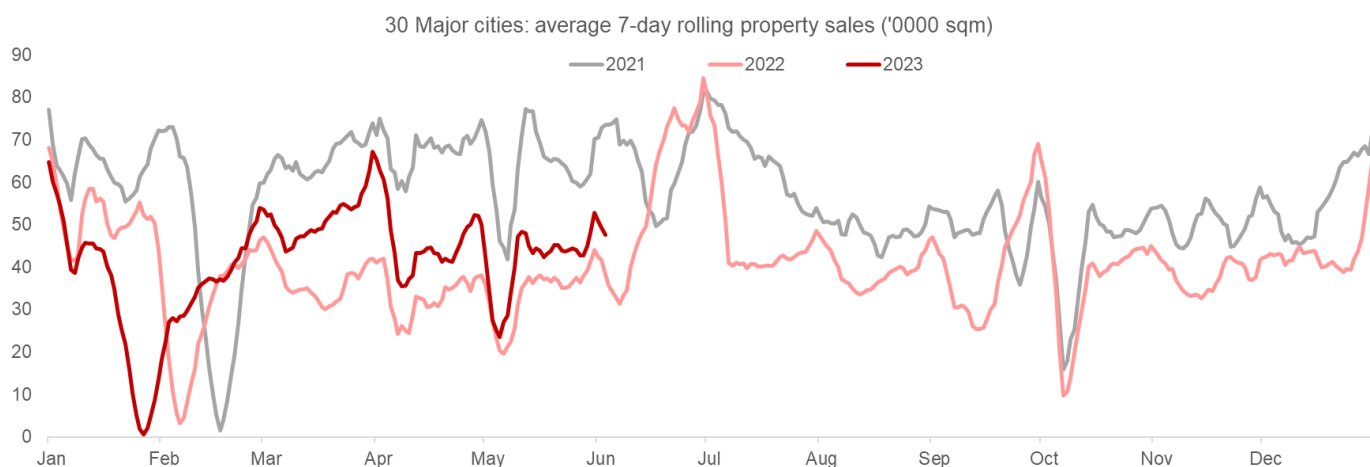
Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Scenario analysis of Tsingdao’s purchase limit easing policy

	Scenario	Impact	Implied GTV growth (2023E)	Implied TP (US\$/ADS)	Upside
	Best case All 2nd tier cities to follow and 1 or 2 1st-tier cities may follow	Largely reverse the sentiment on property market, the sales will be recovered quickly	New home +15% YoY Existing home +25% YoY	30.9	91.8%
Tsingdao’s new policy be implemented	Base case Most 2nd-tier cities to follow except 1 or 2 at the top	Recover the confidence and stabilize the property sales to maintain a mild recovery pace	New home +10% YoY Existing home +20% YoY	25.0	55.2%
	Worst case Only several weak 2nd-tier cities follow	Will not likely to have significant influence on overall sales and sentiment as some of them and most 3rd-tier cities already loosened the related policy	New home +5% YoY Existing home +15% YoY	16.7	3.7%
Tsingdao’s new policy be cancelled		Confidence will be further dented, sales continue to slowdown			

Source: CMBIGM

Figure 2: New home sales grew 14% YTD as of 31 May



Source: Company data, CMBIGM

Figure 3: Existing home sales grew 63% YTD as of 31 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

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
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)
Net cash from operations	9,362	3,595	8,461	12,556	11,480	11,056
Investing						
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)
Net cash from investing	(14,978)	(24,884)	(8,472)	(943)	(963)	(1,031)
Financing						
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
Net cash from financing	25,406	(1,074)	(1,155)	16	20	3
Net change in cash						
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
Cash at the end of the year	49,537	26,732	25,594	37,224	47,760	57,787
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
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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