

Vanke - A (000002 CH)

Steady sales growth

SUMMARY. We initiate coverage with a BUY recommendation on Vanke – A share. Vanke is a pioneer in China property market, in terms of leasing apartment, prefabricated construction and etc. We set TP as RMB31.68, which is equivalent to past five years average forward P/E of 9.0x. Upside potential is 16.8%.

- **Share placement strengthened balance sheet.** Vanke underwent shares placement and completed in Apr 2019. The Company issued and sold 263mn new H shares at price of HK\$29.68 per share. The newly issued H shares represented 16.67% and 2.33% of the enlarged total issued H shares and total issued share capital, respectively. Net proceeds of this H shares placement was HK\$7.78bn and used for debt repayment. New capital can flourish the balance sheet although net gearing of Vanke was low at 30.9% as at Dec 2018.
- **Bottom line surged 25% in 1Q19.** In 1Q19, revenue and net profit surged by 59.4% to RMB48.4bn and 25.2% to RMB1.12bn, respectively. The slower growth in bottom line was due to the scale effect. Delivered GFA climbed 88.2% to 3.11mn sq m in 1Q19 but only represented 10.5% of our forecast full year delivered GFA. On the other hand, other fixed cost including SG&A expenses and interest expenses would not change following to the scale of delivered GFA. As at May 2019, pre-sold but unbooked properties amounted to RMB704.6bn or 47.79mn sq m that provided good earnings visibility in the coming year.
- **Contracted sales grew by 12% in 5M19.** Contracted sales amount and area surged by 12.0% to RMB267.6bn and 4.7% to 16.61mn sq m in 5M19, respectively. It seems Vanke's growth was slower than most peers but it was still the fastest among BIG 3, followed by Country Garden (2007 HK) and Evergrande (3333 HK).
- **Attributable land bank amounted to 92.45mn sq m.** Vanke acquired 19 new projects with attributable land bank of 5.99mn sq m in 1Q19. As at Mar 2019, total and attributable land bank amounted to 153mn sq m and 92.45mn sq m, respectively. Moreover, Vanke participated in several urban redevelopment projects with aggregate attributable GFA of 3.48mn sq m. Current land bank is sufficient for next three years' development.
- **Initiate with BUY recommendation.** Vanke is a pioneer in China property market, in terms of leasing apartment, prefabricated construction and etc. We set TP as RMB31.68, which is equivalent to past five years average forward P/E of 9.0x. Upside potential is 16.8%.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	237,345	297,083	412,073	467,727	512,899
YoY growth (%)	3.7	25.2	38.7	13.5	9.7
Net income (RMB mn)	28,052	33,773	39,517	47,628	52,644
EPS (RMB)	2.54	3.06	3.52	4.21	4.66
YoY growth (%)	33.4	20.4	15.0	19.8	10.5
P/E (x)	10.7	8.9	7.7	6.4	5.8
P/B (x)	2.3	1.9	1.6	1.4	1.2
Yield (%)	3.3	3.9	4.4	5.2	5.9
ROE (%)	21.1	21.7	20.8	21.2	20.2
Net gearing (%)	8.8	30.9	18.9	20.2	22.4

Source: Company data, CMBIS estimates

BUY (Initiation)

Target Price	RMB31.68
Up/downside	+16.8%
Current Price	RMB27.12

China Property Sector

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Stock Data

Mkt Cap (RMB mn)	302,695
Avg 3 mths t/o (RMB mn)	1,584
52w High/Low (RMB)	33.60/20.40
Total Issued Shares (mn)	9.742(A)
	1,578(H)

Source: Bloomberg

Shareholding Structure

Shenzhen Metro	28.69%
Jushenghua	14.33%
AnBang	6.57%

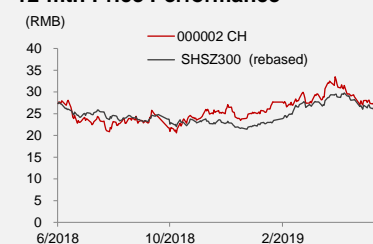
Source: Company data, CMBIS

Share Performance

	Absolute	Relative
1-mth	-6.4%	1.8%
3-mth	-9.7%	-4.2%
6-mth	6.8%	-3.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Figure 1: Share structure

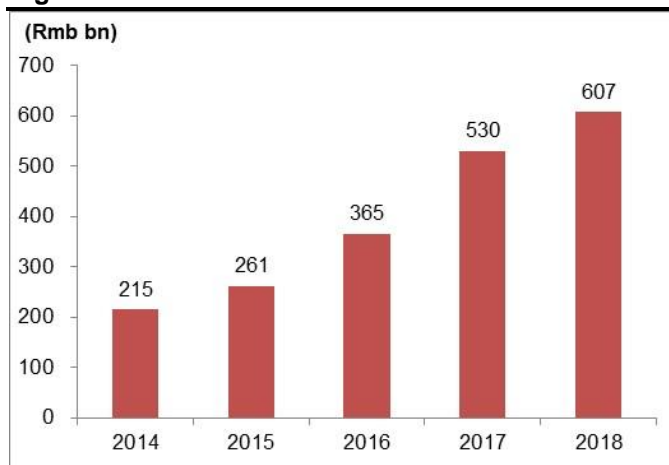
Class of Shares	Immediately before Completion of the Placing		Immediately after Completion of the Placing	
	No. of Shares (mn)	% of total issued Shares	No. of Shares (mn)	% of total issued Shares
A Shares	9,724.20	88.09%	9,724.20	86.04%
H Shares	1,314.96	11.91%	1,577.95	13.96%
Total	11,039.15	100.00%	11,302.14	100.00%

Source: Company data

Figure 2: 1Q19 results

	1Q18 (Rmb mn)	1Q19 (Rmb mn)	Change (%)	Remark
Turnover	30,344	48,375	59.4%	Delivered GFA increased 88% YoY to 3.11mn sq m in 1Q19
Cost of Sales	(20,300)	(31,428)	54.8%	
Gross Profit	10,044	16,947	68.7%	Gross margin expanded by 1.9ppts to 35.0% in 1Q19
Other operating income	956	1,101	15.2%	
Distribution Cost	(1,276)	(1,371)	7.5%	
Administrative Expenses	(2,475)	(3,423)	38.3%	
Other Expenses	(160)	(552)	245.2%	
EBIT	7,088	12,701	79.2%	EBIT margin expanded by 2.9ppts to 26.3% in 1Q19
Interest Expense	(1,881)	(2,699)	43.4%	
Associated	(343)	(312)	-9.0%	
Pre-tax Profit	4,864	9,690	99.2%	
Taxation	(3,084)	(6,484)	110.2%	Effective tax rate expanded by 3.5ppts to 66.9% in 1Q19
Profit after Tax	1,779	3,206	80.2%	
Minority	(885)	(2,085)	135.7%	
Net Profit	895	1,121	25.2%	

Source: Company data

Figure 3: Contracted sales

Source: Company data

Figure 4: China Top 10 developers' sales in 5M19

Company	5M19 (RMB bn)	YoY
Country Garden (Attributable)	218.4	-4.3%
Vanke	268.1	12.2%
Evergrande	231.5	-8.9%
Polu Development	190.0	22.5%
Sunac	163.0	12.0%
Greenland	123.9	15.3%
COLI	122.9	33.3%
Future Land	92.9	38.3%
CR Land	89.0	34.9%
Longfor	84.1	10.5%

Source: CRIC

Figure 5: Earnings revision

	Revenue (RMB mn)			Net profit (RMB mn)			EPS (RMB)		
	Old	New	Change	Old	New	Change	Old	New	Change
2019E	412,073	412,073	0.0%	39,453	39,517	0.2%	3.574	3.517	-1.6%
2020E	467,727	467,727	0.0%	47,517	47,628	0.2%	4.304	4.214	-2.1%
2021E	512,899	512,899	0.0%	52,544	52,644	0.2%	4.760	4.658	-2.1%

Source: CMBIS estimate

Figure 6: End-19 NAV estimate

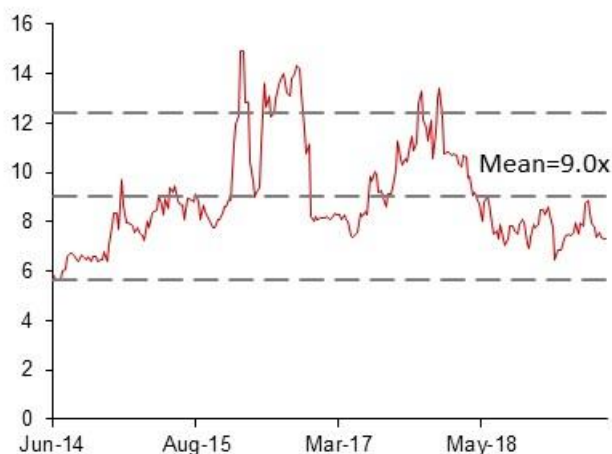
	(Rmb mn)	NAV/share (Rmb)	NAV/share (HK\$)	% of NAV	Remark
Completed projects	31,621	2.80	3.18	7%	WACC of 13.1%
Under construction	213,798	18.92	21.50	48%	
Future development	241,704	21.39	24.30	55%	
Listed securities	5,828	0.52	0.59	1%	Market value
Gross amount	492,951	43.62	49.56	112%	
Net debt	(51,860)	(4.59)	(5.21)	-12%	Dec 2019
NAV	441,091	39.03	44.35	100%	

Source: CMBIS estimate

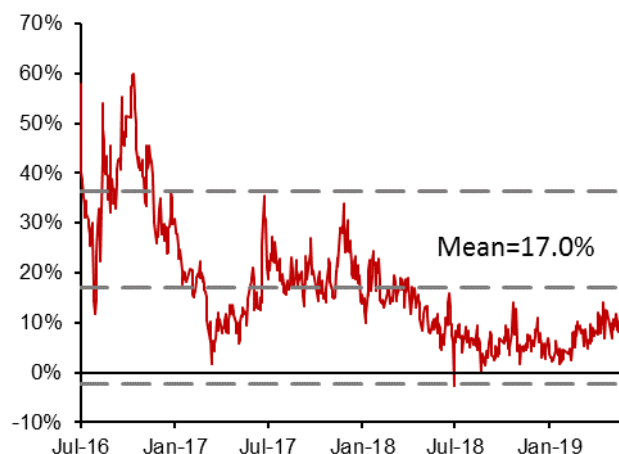
Figure 7: Peer group

Name	Chinese name	BLP Ticker	Share Price	Mkt Cap	P/E		
			RMB	RMB mn	18A	19E	20E
CHINA VANKE CO LTD -A	万科	000002 CH	27.12	302,698	8.8	7.3	6.4
CHINA MERCHANTS SHEKOU IND-A	招商蛇口	001979 CH	21.01	166,065	14.3	9.0	6.7
POLY DEVELOPMENTS AND HOLD-A	保利地产	600048 CH	12.54	149,164	7.8	6.4	5.3
CHINA FORTUNE LAND DEVELOP-A	华夏幸福	600340 CH	29.3	87,976	7.2	6.0	4.9
GREENLAND HOLDINGS GROUP C-A	绿地控股	600606 CH	6.63	80,675	6.6	5.7	4.7
SHENZHEN OVERSEAS CHINESE-A	华侨城	000069 CH	6.8	55,788	5.3	4.6	4.3
SHANGHAI LUJIAZUI FIN&TRAD-A	陆家嘴	600663 CH	14.38	50,892	16.4	17.6	14.2
BBMG CORPORATION-A	金隅集团	601992 CH	3.6	34,828	10.0	10.0	9.1
GEMDALE CORP-A	金地集团	600383 CH	11.66	52,640	6.2	5.6	4.9
RISESUN REAL ESTATE DEVEL-A	荣盛发展	002146 CH	9.53	41,438	5.4	4.3	3.5
SEAZEN HOLDINGS CO LTD-A	新城控股	601155 CH	37.84	85,394	8.2	6.3	5.0
FINANCIAL STREET HOLDINGS-A	金融街	000402 CH	7.37	22,028	6.6	6.3	5.5
JINKE PROPERTIES GROUP CO -A	金科股份	000656 CH	6.25	33,373	8.4	6.9	5.9
XIAMEN C & D INC-A	建发股份	600153 CH	8.74	24,780	5.4	4.6	3.9
JIANGSU ZHONGNAN CONSTRUCT-A	中南建设	000961 CH	8.91	33,054	14.4	8.3	5.0
YANGO GROUP CO LTD-A	阳光城	000671 CH	6.13	24,827	8.0	6.0	4.4
BEIJING URBAN CONSTRUCTION-A	北京城建	600266 CH	9.46	14,824	7.1	7.0	6.3
HANGZHOU BINJIANG REAL EST-A	滨江集团	002244 CH	4.02	12,508	9.8	6.2	5.8
TAHOE GROUP CO LTD-A	泰禾集团	000732 CH	15.08	18,766	5.7	6.8	5.2
SICHUAN LANGUANG DEVELOPME-A	蓝光发展	600466 CH	5.7	17,009	7.5	4.9	3.5
Average					8.4	7.0	5.7

Source: Bloomberg, CMBIS estimate

Figure 8: Forward P/E

Source: Bloomberg

Figure 9: A-H Premium

Source: Bloomberg, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E	YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	237,345	297,083	412,073	467,727	512,899	EBIT	64,173	88,966	100,245	115,136	127,931
Property development	225,761	278,083	387,646	437,313	476,662	Depreciation and	1,929	2,922	4,529	4,640	4,700
Construction	845	3,411	4,162	5,077	6,194	Change in working capital	45,230	(21,185)	(63,577)	(62,000)	(90,000)
Property services	7,199	9,796	12,734	16,300	19,560	Income tax paid	(26,514)	(36,592)	(45,067)	(54,847)	(56,147)
Other business	3,538	5,793	7,531	9,037	10,483	Others	(2,496)	(493)	58,077	28,396	40,539
Cost of sales	(160,621)	(187,131)	(287,349)	(326,292)	(357,933)	Net cash from operating	82,323	33,618	54,207	31,326	27,024
Gross profit	76,723	109,952	124,725	141,435	154,966	Capex	(41,043)	(18,486)	(5,084)	(4,940)	(5,600)
Other income and gains	4,538	3,585	5,602	5,974	6,304	Associates/JV	(24,036)	(45,840)	(26,883)	(28,200)	(20,600)
Distribution expenses	(6,262)	(7,868)	(10,302)	(11,225)	(11,797)	Other	13,466	(3,038)	3,561	3,511	0
Administrative expenses	(9,633)	(14,590)	(17,719)	(18,709)	(18,977)	Net cash from investing	(51,613)	(67,364)	(28,405)	(29,629)	(26,200)
Other expenses	(1,193)	(2,113)	(2,060)	(2,339)	(2,564)	Equity raised	0	0	6,691	0	0
Operating profit	64,173	88,966	100,245	115,136	127,931	Change of Debts	63,942	61,181	(8,208)	5,000	16,000
Finance expenses	(4,061)	(8,181)	(7,327)	(7,282)	(7,581)	Dividend paid	(19,134)	(40,249)	(11,812)	(13,563)	(16,049)
Associates/JV	4,569	6,280	7,200	7,940	8,620	Other	10,457	23,866	0	0	0
Exceptional	0	0	0	0	0	Net cash from financing	55,265	44,798	(13,329)	(8,563)	(49)
Pre-tax profit	64,682	87,065	100,118	115,794	128,970	Net change in cash	85,974	11,051	12,473	(6,866)	775
Profits tax	(27,473)	(37,793)	(43,701)	(49,967)	(55,077)	Cash at the beginning	79,490	164,326	175,668	188,391	181,775
Minority interest	(9,157)	(15,500)	(16,900)	(18,200)	(21,250)	Exchange difference	(1,139)	291	250	250	250
Perpetual	0	0	0	0	0	Cash at the end	164,326	175,668	188,391	181,775	182,800
Net profit	28,052	33,773	39,517	47,628	52,644	Pledged deposit	9,795	12,749	12,749	12,749	12,749
						Cash at BS	174,121	188,417	201,140	194,524	195,549

Balance sheet						Key ratios					
YE Dec 31 (RMB mn)	FY17A	FY18A	FY19A	FY20A	FY21A	YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	147,794	233,508	264,820	291,200	311,400	Sales mix (%)					
Fixed asset	10,735	22,645	23,200	23,500	24,400	Property development	95.1	93.6	94.1	93.5	92.9
Investment properties	17,046	25,898	28,000	29,500	30,000	Construction	0.4	1.1	1.0	1.1	1.2
Associates/JV	81,224	129,528	165,000	192,000	212,000	Property services	3.0	3.3	3.1	3.5	3.8
Intangible assets	1,096	1,015	1,020	1,000	1,000	Other business	1.5	1.9	1.8	1.9	2.0
Other non-current assets	37,693	54,421	47,600	45,200	44,000	Total	100.0	100.0	100.0	100.0	100.0
Current assets	1,017,64	1,295,15	1,396,14	1,482,72	1,604,34	Profit & loss ratios (%)					
Cash	174,121	188,417	201,140	194,524	195,549	Gross margin	32.3	37.0	30.3	30.2	30.2
Account receivable	238,405	331,839	343,000	325,000	355,000	Pre-tax margin	27.0	29.9	24.3	24.6	24.9
Inventories	597,487	754,310	840,000	950,000	1,040,000	Net margin	11.8	11.4	9.6	10.2	10.3
Other current assets	7,632	20,590	12,000	13,200	13,800	Effective tax rate	42.5	43.4	43.6	43.2	42.7
Current liabilities	847,355	1,121,91	1,198,00	1,258,00	1,344,80	Balance sheet ratios					
Borrowings	62,273	93,183	68,000	60,000	58,000	Current ratio (x)	1.2	1.2	1.2	1.2	1.2
Trade and other payables	352,677	486,726	520,000	550,000	580,000	Receivable day	366.6	407.7	303.8	253.6	252.6
Contract liabilities	407,706	504,711	580,000	623,000	683,000	Payable day	542.4	598.0	460.6	429.2	412.8
Deferred taxation	24,700	37,293	30,000	25,000	23,800	Inventory day	1357.7	1471.3	1067.0	1062.7	1060.5
Other current liabilities	0	0	0	0	0	Net gearing ratio (%)	8.8	30.9	18.9	20.2	22.4
Non-current liabilities	131,410	171,129	188,800	202,120	220,550	Returns (%)					
Borrowings	128,352	168,024	185,000	198,000	216,000	ROE	21.1	21.7	20.8	21.2	20.2
Other non-current liabilities	3,058	3,105	3,800	4,120	4,550	ROA	3.2	3.2	3.4	3.7	3.9
Shareholders' equity	132,675	155,764	190,160	224,304	260,899	Per share data					
Minority interest	53,999	79,857	84,000	89,500	89,500	EPS (RMB)	2.54	3.06	3.52	4.21	4.66
Perpetual bond	0	0	0	0	0	DPS (RMB)	0.90	1.07	1.20	1.42	1.60
Total equity	186,674	235,621	274,160	313,804	350,399	BVPS (RMB)	12.02	14.11	16.83	19.85	23.08

Source: Company data, CMBIS estimates

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