

# Vanke - A (000002 CH)

## Results slightly missed

Bottom line of RMB38.9bn was 4.8% and 5.9% below our forecast and consensus' in 2019, respectively, mainly because of less profit contribution from JCE. We trim our earnings forecast by 6.7% in 2020 and 4.9% in 2021. TP is trimmed to RMB31.6, equivalent to 8.0x 20E P/E. Maintain BUY recommendation.

- Net profit growth slowed down to 15% in 2019.** Revenue and net profit grew by 23.8% to RMB367.9bn and 15.1% to RMB38.9bn, respectively. The reported net profit was less than 4.8% of our forecast and 5.9% of street's. Major discrepancy came from share profit from JCE which tumbled by 39.6% to RMB3.8bn. DPS was maintained as RMB1.045 per share that resulted in payout ratio decline from 34% in 2018 to 30% in 2019.
- Contracted sales grew by 4% in 2019.** Contracted sales amount and area gained by 3.9% to RMB630.8bn and 1.8% to 41.12mn sq m in 2019, respectively. About 42.89mn sq m (worth RMB609.1bn) of property were presold but unbooked as at end-19, providing solid earnings visibility. We expect full year contracted sales to be RMB650bn, up 3% YoY.
- Prudent land acquisition strategy in 2019.** In 2019, Vanke acquired 147 project with attributable GFA of 24.78mn sq m. Average land cost was RMB6,252 per sq m. As at end-19, attributable land bank under construction and for future planning were 61.70mn sq m and 33.6mn sq m, respectively. About 3% of land bank are located in Hubei. Sales suspension in Hubei has limited impact to its sales.
- Rental income and property management are shining points.** Rental income and revenue for property management increased by 55.6% to RMB4.77bn and 29.6% to RMB12.7bn in 2019, respectively. As at end-19, 108 retail property projects with 9.0mn sq m under management in over 50 cities were managed by SCPG. Vanke property management business had contracted and managed GFA of 640mn sq m and 450mn sq m respectively as at end-19. Vanke is one of the largest property management companies in China.
- Cut TP to RMB31.60.** Net gearing ratio and cash/short term debt ratio were 34.3% and 1.75x, respectively, as at end-19. The balance sheet was healthy. We cut earnings forecast by 6.7% to RMB44.7bn in 2020 and 4.9% to RMB51.1bn in 2021. In addition, we raise end-20 NAV forecast to RMB47.02. Based on 8.0x 20E P/E, our TP is changed from RMB33.92 to RMB31.60. Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	297,083	367,894	442,402	497,475	521,397
YoY growth (%)	25.2	23.8	20.3	12.4	4.8
Net income (RMB mn)	33,773	38,872	44,691	51,111	53,604
EPS (RMB)	3.06	3.47	3.95	4.52	4.74
YoY growth (%)	20.4	13.3	14.1	14.4	4.9
Consensus EPS (RMB)	N.A.	3.71	4.11	4.57	5.01
P/E (x)	8.2	7.3	6.4	5.6	5.3
P/B (x)	1.8	1.5	1.3	1.1	1.0
Yield (%)	4.1	4.1	5.1	5.7	6.2
ROE (%)	21.7	20.7	20.2	19.8	18.2
Net gearing (%)	30.9	34.3	31.1	25.7	39.5

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **RMB31.60**  
 (Previous TP **RMB33.92**)  
 Up/downside **+25.2%**  
 Current Price **RMB25.23**

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#### Stock Data

Mkt Cap (RMB mn)	278,814
Avg 3 mths t/o (RMB mn)	2,563
52w High/Low (RMB)	33.6/24.18
Total Issued Shares (mn)	<b>9,724(A)</b> 1,578(H)

Source: Bloomberg

#### Shareholding Structure

Shenzhen Metro	28.69%
Jushenghua	3.57%
AnBang	3.04%

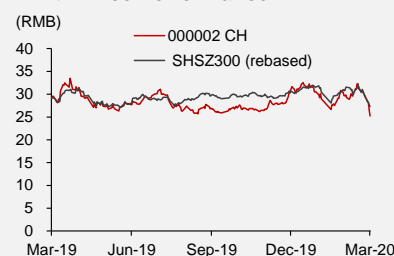
Source: Company data, CMBIS

#### Share Performance

	Absolute	Relative
1-mth	-11.4%	-1.2%
3-mth	-13.2%	-3.8%
6-mth	-2.4%	5.0%
12-mth	-10.5%	-5.1%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PricewaterhouseCoopers

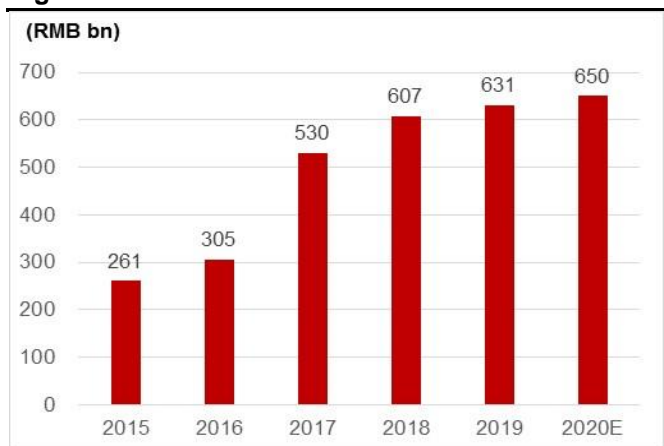
#### Related Reports

- Best of Top Three – 21 Aug 2019
- Steady sales growth – 10 Jun 2019
- Still the top pick among big cap developers – 27 Mar 2019

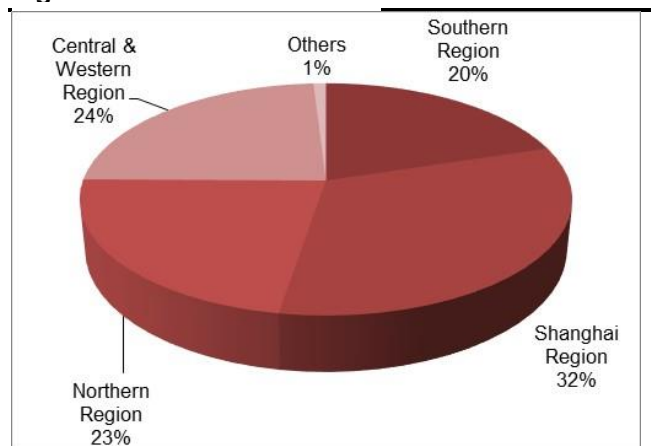
**Figure 1: 2019 results**

	2018A (Rmb mn)	2019A (Rmb mn)	Change (%)	2019E (Rmb mn)	Diff (%)	Remark
<b>Turnover</b>	<b>297,083</b>	<b>367,894</b>	<b>23.8%</b>	<b>395,725</b>	<b>-7.0%</b>	
Property development	278,083	340,582	22.5%	371,298	-8.3%	Delivery GFA and ASP increased by 12% and 11% in 2019
Construction	3,411	7,299	114.0%	4,162	-75.4%	
Property services	9,796	12,700	29.7%	12,734	-0.3%	Managed GFA amounted to 450mn sq m
Other business	5,793	7,313	26.2%	7,531	-2.9%	
Cost of Sales	(187,131)	(235,697)	26.0%	(261,053)	-9.7%	
<b>Gross Profit</b>	<b>109,952</b>	<b>132,197</b>	<b>20.2%</b>	<b>134,672</b>	<b>-1.8%</b>	Gross margin was squeezed by 1.1ppt to 35.9% in 2019
Other operating income	3,585	5,687	58.6%	5,371	5.9%	
Distribution Cost	(7,868)	(9,044)	15.0%	(9,893)	-8.6%	
Administrative Expenses	(14,590)	(15,740)	7.9%	(17,016)	-7.5%	
Other Expenses	(2,113)	(1,518)	-28.2%	(1,979)	-23.3%	
<b>EBIT</b>	<b>88,966</b>	<b>111,581</b>	<b>25.4%</b>	<b>111,155</b>	<b>0.4%</b>	SG&A/Revenue ratio declined from 8.3% in 2018 to 7.1% in 2019
Interest Expense	(8,181)	(9,255)	13.1%	(8,622)	7.3%	
Associated	6,280	3,791	-39.6%	6,500	-41.7%	
Pre-tax Profit	87,065	106,116	21.9%	109,033	-2.7%	
Taxation	(37,793)	(50,985)	34.9%	(50,405)	1.2%	Effective tax rate increased by 4.6ppts to 48.0% in 2019
Profit after Tax	49,272	55,132	11.9%	58,628	-6.0%	
Minority	(15,500)	(16,260)	4.9%	(17,800)	-8.7%	
<b>Net Profit</b>	<b>33,773</b>	<b>38,872</b>	<b>15.1%</b>	<b>40,828</b>	<b>-4.8%</b>	Declared final dividend of RMB 1.045 per share

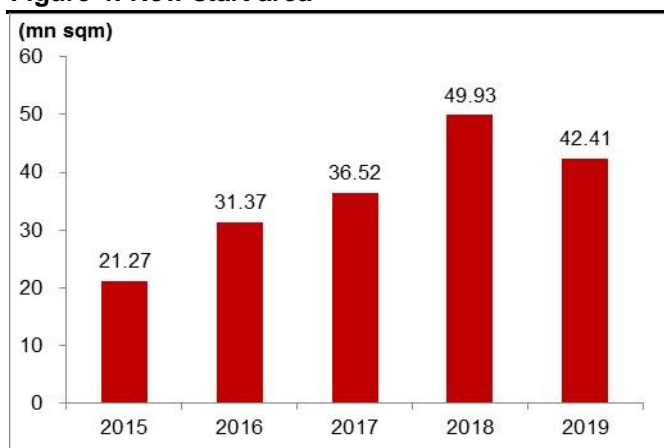
Source: Company data, CMBIS estimates

**Figure 2: Contracted sales**

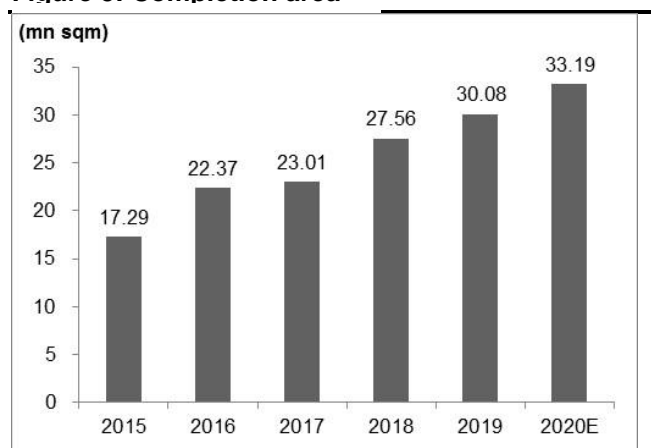
Source: Company data, CMBIS estimates

**Figure 3: Contracted sales breakdown in 2019**

Source: Company data, CMBIS

**Figure 4: New start area**

Source: Company data, CMBIS

**Figure 5: Completion area**

Source: Company data, CMBIS

Figure 6: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	442,402	497,475	521,397	457,827	506,463	N.A.	-3.4%	-1.8%	N.A.
Gross Profit	140,825	158,044	165,171	147,014	162,440	N.A.	-4.2%	-2.7%	N.A.
EBIT	115,987	132,216	137,782	120,928	135,500	N.A.	-4.1%	-2.4%	N.A.
Net profit	44,691	51,111	53,604	47,911	53,742	N.A.	-6.7%	-4.9%	N.A.
EPS (RMB)	3.95	4.52	4.74	4.24	4.76	N.A.	-6.7%	-5.0%	N.A.
Gross Margin	31.8%	31.8%	31.7%	32.1%	32.1%	N.A.	-0.3 ppt	-0.3 ppt	N.A.
EBIT Margin	26.2%	26.6%	26.4%	26.4%	26.8%	N.A.	-0.2 ppt	-0.2 ppt	N.A.
Net Margin	10.1%	10.3%	10.3%	10.5%	10.6%	N.A.	-0.4 ppt	-0.3 ppt	N.A.

Source: CMBIS estimates

Figure 7: End-20 NAV estimate

	(Rmb mn)	NAV/share		% of NAV	Remark
		(Rmb)	(HK\$)		
Completed projects	9,570	0.85	0.94	2%	WACC of 11.3%
Under construction	214,481	18.98	21.16	40%	
Future development	316,932	28.04	31.26	60%	
Investment properties	79,550	7.04	7.85	15%	6% cap rate
Listed securities	4,668	0.41	0.46	1%	Market value
Gross amount	625,201	55.32	61.67	118%	
Net debt	(93,770)	(8.30)	(9.25)	-18%	Dec 2020
NAV	531,431	47.02	52.42	100%	

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>297,083</b>	<b>367,894</b>	<b>442,402</b>	<b>497,475</b>	<b>521,397</b>
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)
<b>Gross profit</b>	<b>109,952</b>	<b>132,197</b>	<b>140,825</b>	<b>158,044</b>	<b>165,171</b>
Other income and gains	3,585	5,687	5,688	6,508	6,502
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)
<b>Operating profit</b>	<b>88,966</b>	<b>111,581</b>	<b>115,987</b>	<b>132,216</b>	<b>137,782</b>
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
<b>Pre-tax profit</b>	<b>87,065</b>	<b>106,116</b>	<b>114,429</b>	<b>130,281</b>	<b>134,872</b>
Profits tax	(37,793)	(50,985)	(51,239)	(57,920)	(60,018)
Minority interest	(15,500)	(16,260)	(18,500)	(21,250)	(21,250)
Perpetual	0	0	0	0	0
<b>Net profit</b>	<b>33,773</b>	<b>38,872</b>	<b>44,691</b>	<b>51,111</b>	<b>53,604</b>
<b>Core profit</b>	<b>33,773</b>	<b>38,872</b>	<b>44,691</b>	<b>51,111</b>	<b>53,604</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>EBIT</b>	<b>88,966</b>	<b>111,581</b>	<b>115,987</b>	<b>132,216</b>	<b>137,782</b>
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)	(122,000)
Income tax paid	(36,592)	(42,868)	(64,450)	(56,290)	(59,848)
Others	(493)	(3,106)	14,176	32,214	4,887
<b>Net cash from operating</b>	<b>33,618</b>	<b>45,687</b>	<b>20,807</b>	<b>27,940</b>	<b>(33,319)</b>
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	3,715	3,709	0
<b>Net cash from investing</b>	<b>(67,364)</b>	<b>(28,627)</b>	<b>(11,607)</b>	<b>(10,191)</b>	<b>(15,260)</b>
Equity raised	0	6,643	0	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
<b>Net cash from financing</b>	<b>44,798</b>	<b>(33,338)</b>	<b>16,138</b>	<b>6,533</b>	<b>19,612</b>
Net change in cash	11,051	(16,278)	25,339	24,282	(28,968)
Cash at the beginning	164,326	175,668	159,739	185,328	209,860
Exchange difference	291	349	250	250	250
<b>Cash at the end</b>	<b>175,668</b>	<b>159,739</b>	<b>185,328</b>	<b>209,860</b>	<b>181,143</b>
Pledged deposit	12,749	6,456	6,456	6,456	6,456
Cash at BS	188,417	166,195	191,784	216,316	187,599

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>233,508</b>	<b>290,940</b>	<b>301,500</b>	<b>314,400</b>	<b>330,100</b>
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
<b>Current assets</b>	<b>1,295,156</b>	<b>1,439,063</b>	<b>1,525,230</b>	<b>1,669,305</b>	<b>1,786,591</b>
Cash	188,417	166,195	193,230	219,505	192,591
Account receivable	331,839	351,617	362,000	388,000	420,000
Inventories	754,310	901,807	950,000	1,040,000	1,150,000
Other current assets	20,590	19,445	20,000	21,800	24,000
<b>Current liabilities</b>	<b>1,121,914</b>	<b>1,272,610</b>	<b>1,308,000</b>	<b>1,402,500</b>	<b>1,461,500</b>
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
<b>Non-current liabilities</b>	<b>171,129</b>	<b>186,814</b>	<b>217,700</b>	<b>237,130</b>	<b>272,300</b>
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
<b>Shareholders' equity</b>	<b>155,764</b>	<b>188,058</b>	<b>221,030</b>	<b>257,675</b>	<b>294,891</b>
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	301,030	344,075	382,891

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
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
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	37.0	35.9	31.8	31.8	31.7
Pre-tax margin	29.9	30.3	26.2	26.6	26.4
Net margin	11.4	10.6	10.1	10.3	10.3
Effective tax rate	43.4	48.0	44.8	44.5	44.5
<b>Balance sheet ratios</b>					
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	1178.3
Net gearing ratio (%)	30.9	42.2	31.1	25.7	39.5
<b>Returns (%)</b>					
ROE	21.7	20.7	20.2	19.8	18.2
ROA	3.2	3.2	3.5	3.6	3.5
<b>Per share data</b>					
EPS (RMB)	3.06	3.47	3.95	4.52	4.74
DPS (RMB)	1.05	1.05	1.28	1.45	1.56
BVPS (RMB)	14.11	16.64	19.56	22.80	26.09

Source: Company data, CMBIS estimates

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