

Ke Holdings (BEKE US)

To ride on the policy tailwind in 4Q

Beike reported (21 Nov) 3Q24 results: revenue increased 27% YoY to RMB22.6bn, 1.5%/4.7% below Bloomberg consensus/CMBI estimates, mainly due to the mixed performance where existing home GTV (EHT) was dragged by low home transaction sentiment and new home transactions (NHT) were benefited from market share gains. Non-GAAP net income was RMB1.8bn, representing a margin of 7.9%, in-line with both our estimates and consensus, thanks to fee controlling measures. We remain positive on Beike given its continuously increasing market share in EHT & NHT businesses and smooth expansion of new business. Our SOTP-based target price is lifted to US\$23.3 (was US\$21.5), including US\$22.3 for Beike Core and US\$0.9 for Shengdu, translating into 21.4x 2025E PE (non-GAAP). Maintain BUY

- EHT/NHT biz performance diverged in 3Q24.** GTV for EHT rose 9% YoY but dropped 17% QoQ due to sluggish trading sentiment after peaking in Jun. Company's proactive scale expansion (12k/4.7k YoY/QoQ agents increase) hiked fixed costs, cutting EHT contribution margin by 7ppts to 41%. In contrast, the new housing biz gained from more SOE developer partnerships, with GTV up 18.5% YoY, well above the industry's 19% slump. Thanks to stable SG&A costs, the company reported a non-GAAP NP of RMB 1.8bn and a 7.9% NP margin, in line with Bloomberg/our estimates.
- 4Q24 GTV to benefit from policies, profit growth may be normalized by fee expansion.** The 924 policy package and follow-up notably lifted new and second-hand home trading sentiment with better growth sustainability than previous policy support. The company revealed an upbeat 4Q guidance with both EHT and NHT GTV to grow over 40% YoY, underpinned by outperforming records in Oct-Nov. But an increase in expenses of about RMB 1-1.5bn may result in lower non-GAAP net profit at RMB 2.2bn in 4Q, representing a margin of 7.7% according to our estimates.
- Sizable expense outlays to fulfill corporate social responsibilities.** Beike stated to spend RMB 1.2bn in 3-4 yrs on staff welfare. Besides store and staff expansion, it also started to shift salary structure from floating to fixed and pay social insurance funds for agents. The company expects to cover social insurance for agents in most top tier cities in a legal and compliant manner. By increasing employment and enhancing employee compensation and benefits, the company has better fulfilled its social responsibilities. We believe this helps to enhance the company's long-term value.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	60,669	77,777	91,042	107,717	121,757
YoY growth (%)	(24.9)	28.2	17.1	18.3	13.0
Net profit (RMB mn)	(1,386.1)	9,880.1	5,189.6	6,752.9	8,200.4
Adjusted net profit (RMB mn)	2,842.8	13,795.4	8,082.7	9,434.7	10,947.5
YoY growth (%)	23.9	385.3	(41.4)	16.7	16.0
EPS (Adjusted) (RMB)	2.39	11.75	6.89	8.04	9.33
P/E (x)	ns	17.4	33.1	25.5	21.0
P/B (x)	2.5	2.4	2.2	2.0	1.8
ROE (%)	(2.0)	14.0	6.8	8.0	8.7
Net gearing (%)	(27.3)	(26.8)	(31.7)	(36.9)	(43.1)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$23.30
(Previous TP)	US\$21.50
Up/Downside	15.2%
Current Price	US\$20.23

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Stock Data

Mkt Cap (US\$ mn)	23,932.1
Avg 3 mths t/o (US\$ mn)	90.7
52w High/Low (US\$)	25.80/12.51
Total Issued Shares (mn)	1183.0

Source: FactSet

Shareholding Structure

Propitious Global	23.3%
Tencent Mobility	10.0%

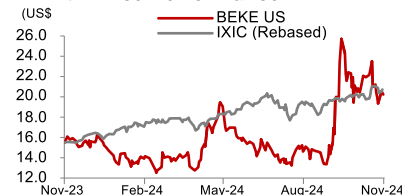
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.5%	-3.7%
3-mth	37.0%	29.4%
6-mth	7.0%	-5.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: BEKE: quarterly financial results

(RMBbn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	3Q24E Consensus	Diff%	CMBI estimates	Diff%
GTV	972	781	655	736	630	839	737	1,045	748	-1.5%	773	-4.7%
Growth (YoY%)	66%	22%	-11%	14%	-35%	7%	12%	42%				
Existing home transaction	664	457	439	468	453	571	478	662	503	-5.0%	512	-6.7%
Growth (YoY%)	78%	16%	-2%	30%	-32%	25%	9%	41%				
New home transaction	278	295	192	238	152	235	228	334	214	6.2%	221	3.0%
Growth (YoY%)	44%	32%	-27%	-10%	-45%	-20%	18%	40%				
(%)												
Blended monetization rate												
Existing home transaction (revenue/GTV)	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.4	-0.1 ppt	1.4	-0.1 ppt
New home transaction (revenue/GTV)	3.0	2.9	3.1	3.2	3.2	3.4	3.4	3.2	3.3	0.1 ppt	3.4	0.0 ppt
(RMBbn)												
Revenue	20.3	19.5	17.8	20.2	16.4	23.4	22.6	28.7	22.7	-0.5%	23.5	-3.7%
Growth (YoY%)	62	41	1	21	(19)	20	27	42				
Existing home transaction	9.2	6.4	6.3	6.0	5.7	7.3	6.2	8.4	6.9	-10.2%	7.2	-13.6%
Growth (YoY%)	49	16	(12)	15	(38)	14	(1)	39				
New home transaction	8.4	8.7	5.9	7.6	4.9	7.9	7.7	10.7	7.1	9.6%	7.4	3.8%
Growth (YoY%)	42	30	(24)	(9)	(41)	(9)	31	42				
Emerging and other services - old disclosure	2.7	4.4	5.6	6.6	5.7	8.1	8.6	9.6	8.7	-1.1%	8.8	-2.0%
Growth (YoY%)	454	177	112	107	113	85	54	45				
Gross profit	6.3	5.3	4.9	5.1	4.1	6.5	5.1	7.1	5.3	-2.4%	6.1	-15.8%
Operating profit	3.0	1.1	0.9	-0.2	0.0	2.0	0.7	1.4	0.7	10.0%	1.4	-49.2%
Contribution profit	7.5	6.5	6.1	6.4	5.2	7.7	6.3					
Non-GAAP net profit	3.6	2.4	2.1	1.7	1.4	2.7	1.8	2.2	1.7	6.7%	2.1	-13.0%
(%)												
Gross margin	31.3	27.4	27.4	25.5	25.2	27.9	22.7	24.7	23.2	-0.4 ppt	26.0	-3.3 ppt
Operating profit margin	14.7	5.5	5.1	-0.9	0.1	8.6	3.2	4.8	2.9	0.3 ppt	6.1	-2.9 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	7.9	7.7	7.4	0.5 ppt	8.8	-0.9 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	91.0	107.7	121.8	90.7	100.1	111.2	0.3%	7.6%	9.5%
Gross Profit	22.9	27.2	30.9	23.5	26.1	29.1	-2.8%	4.2%	6.4%
Operating Profit	4.2	6.1	8.1	5.5	7.2	8.9	-24.1%	-14.5%	-9.4%
Non-GAAP net profit	8.1	9.4	10.9	9.0	9.8	11.1	-9.9%	-4.1%	-1.7%
Gross Margin	25.1%	25.2%	25.4%	25.9%	26.1%	26.2%	-0.8 ppt	-0.8 ppt	-0.7 ppt
Operating Margin	4.6%	5.7%	6.6%	6.0%	7.2%	8.0%	-1.5 ppt	-1.5 ppt	-1.4 ppt
Non-GAAP net margin	8.9%	8.7%	9.0%	9.9%	9.8%	10.0%	-1.0 ppt	-1.1 ppt	-1.0 ppt

Source: Wind, CMBIGM

Figure 3 : Beike: estimates vs consensus

RMB bn	Current			Consensus			Diff (%)		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Revenue	91.0	107.7	121.8	87.8	99.3	110.0	3.7%	8.5%	10.7%
Gross Profit	22.9	27.2	30.9	22.9	26.1	29.9	-0.3%	4.0%	3.5%
Non-GAAP net profit	8.1	9.4	10.9	8.4	9.8	11.3	-3.9%	-3.5%	-3.5%
Gross Margin	25.1%	25.2%	25.4%	26.1%	26.3%	27.2%	-1.0 ppt	-1.1 ppt	-1.8 ppt
Non-GAAP net margin	8.9%	8.7%	9.0%	9.6%	9.8%	10.3%	-0.7 ppt	-1.1 ppt	-1.3 ppt

Source: Wind, CMBIGM

Figure 4 : Beike core DCF valuation (RMB mn)

	2025E	2026E	2027E	2028E	2029E	2030E
NPV of FCF	49,554	49,406	46,331	44,524	39,919	35,646
Discounted terminal value	77,051	85,122	94,038	103,889	114,771	126,793
Enterprise value	126,604	134,527	140,369	148,413	154,690	162,439
Net cash	9,320	10,724	11,951	13,523	15,042	16,883
Equity value	193,710	211,738				
No. of ADS (diluted, mn)	1,204	1,204				
Valuation per ADS (USD)	22.3					

Source: CMBIGM estimate

Note: we assume USD:RMB exchange rate = 7.2:1;

Figure 5 : Beike: SOTP valuation (RMB mn)

	2025E
Beike Core	193,710
Shengdu	8,000
Total Beike valuation	201,710
Total Beike valuation (USD mn)	28,015
Valuation per ADS (USD)	23.3

Source: CMBIGM estimates

Note: Shengdu's valuation is based on acquisition value given by Beike

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	80,752	60,669	77,777	91,042	107,717	121,757
Cost of goods sold	(64,933)	(46,888)	(52,062)	(68,181)	(80,534)	(90,811)
Gross profit	15,819	13,781	25,715	22,861	27,183	30,947
Operating expenses	(17,174)	(14,614)	(16,921)	(18,696)	(21,043)	(22,873)
SG&A expense	(13,234)	(11,920)	(14,891)	(16,429)	(18,469)	(20,024)
R&D expense	(3,194)	(2,546)	(1,937)	(2,267)	(2,575)	(2,849)
Others	(747)	(148)	(93)	0	0	0
Operating profit	(1,355)	(833)	8,794	4,165	6,140	8,074
Other income	1,702	1,569	1,869	1,869	1,869	1,682
Other expense	(163)	(719)	(133)	(36)	0	0
Investment gain/loss	565	(512)	78	187	0	0
Share of (losses)/profits of associates/JV	37	45	9	4	0	0
Interest income	355	743	1,263	1,351	1,484	1,637
Pre-tax profit	1,141	292	11,881	7,541	9,493	11,393
Income tax	(1,665)	(1,690)	(1,994)	(2,340)	(2,729)	(3,180)
After tax profit	(525)	(1,397)	9,887	5,202	6,765	8,212
Minority interest	1	11	(6)	(12)	(12)	(12)
Net profit	(524)	(1,386)	9,880	5,190	6,753	8,200
Core net profit	(524)	(1,386)	9,880	5,190	6,753	8,200
Adjusted net profit	2,294	2,843	13,795	8,083	9,435	10,948
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	69,926	70,425	69,754	78,604	88,434	98,875
Cash & equivalents	20,446	19,413	19,635	25,663	33,171	43,276
Restricted cash	6,286	6,181	6,223	6,534	6,861	7,204
Account receivables	9,325	4,163	3,176	6,428	8,202	8,108
Other current assets	33,869	40,667	40,720	39,980	40,201	40,287
Non-current assets	30,393	38,923	50,578	54,463	58,398	62,437
PP&E	1,972	2,037	1,965	2,192	2,448	2,808
Right-of-use assets	7,244	11,284	17,618	21,618	25,618	29,618
Intangibles	1,141	1,687	1,067	725	404	84
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	133,067	146,832	161,312
Current liabilities	28,936	33,341	39,524	44,344	48,974	52,807
Short-term borrowings	260	619	290	290	290	290
Account payables	6,009	5,843	6,329	8,288	9,790	11,039
Other current liabilities	15,361	14,528	13,175	14,477	16,291	17,781
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	7,255	8,569	9,663
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	52,951	57,581	61,413
Share capital	0	0	0	0	0	0
Retained earnings	(9,843)	(11,406)	(5,673)	(483)	6,270	14,470
Other reserves	76,817	80,326	77,773	80,486	82,856	85,291
Total shareholders equity	66,974	68,920	72,100	80,003	89,126	99,761
Minority interest	82	134	101	113	125	137
Total equity and liabilities	100,319	109,347	120,332	133,067	146,832	161,312

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,141	292	11,881	7,541	9,493	11,393
Depreciation & amortization	1,158	1,089	932	1,128	1,166	1,204
Tax paid	1,665	1,690	1,994	2,340	2,729	3,180
Change in working capital	32	5,036	1,818	(2,323)	(1,314)	(121)
Others	(402)	354	(5,468)	(2,048)	(3,087)	(3,926)
Net cash from operations	3,595	8,461	11,158	6,638	8,986	11,731
Investing						
Capital expenditure	(1,430)	(793)	(874)	(930)	(1,100)	(1,244)
Acquisition of subsidiaries/ investments	(9,876)	5,420	(5,595)	0	0	0
Others	(13,578)	(13,099)	2,492	602	(54)	(40)
Net cash from investing	(24,884)	(8,472)	(3,977)	(328)	(1,154)	(1,284)
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	32,197	40,031
Exchange difference	(442)	29	45	0	0	0
Cash at the end of the year	26,732	25,594	25,857	32,197	40,031	50,480
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	14.6%	(24.9%)	28.2%	17.1%	18.3%	13.0%
Gross profit	(6.2%)	(12.9%)	86.6%	(11.1%)	18.9%	13.8%
Operating profit	na	na	na	(52.6%)	47.4%	31.5%
Net profit	na	na	na	(47.5%)	30.1%	21.4%
Adj. net profit	(59.9%)	23.9%	385.3%	(41.4%)	16.7%	16.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	19.6%	22.7%	33.1%	25.1%	25.2%	25.4%
Operating margin	(1.7%)	(1.4%)	11.3%	4.6%	5.7%	6.6%
Adj. net profit margin	2.8%	4.7%	17.7%	8.9%	8.8%	9.0%
Return on equity (ROE)	(0.8%)	(2.0%)	14.0%	6.8%	8.0%	8.7%
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)	(0.4)	(0.4)
Current ratio (x)	2.4	2.1	1.8	1.8	1.8	1.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	17.4	33.1	25.5	21.0
P/E (diluted)	ns	ns	17.9	34.0	26.1	21.5
P/B	1.7	2.5	2.4	2.2	2.0	1.8
P/CFPS	80.1	22.6	16.9	30.4	22.0	16.5

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

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