

China / Hong Kong Company Update

China Vanke

Bloomberg: 2202 HK Equity | 000002 CH Equity | Reuters: 2202.HK | 000002.SZ

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DBS Group Research . Equity

7 Sep 2022

H: BUY

Last Traded Price (H) (7 Sep 2022): HK\$15.80 (HSI : 19,044)

Price Target 12-mth (H): HK\$21.54 (36% upside) (Prev HK\$34.45)

A: BUY

Last Traded Price (A) (7 Sep 2022): RMB17.52 (CSI300 Index : 4,055)

Price Target 12-mth (A): RMB19.06 (9% upside) (Prev RMB29.28)

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What's New

- Property management spin-off and potential listing of assets as CREITs to drive share price and valuation re-rating
- Margins should be bottoming, with earnings en-route to regain stability
- Cutting FY22 earnings to reflect lower margin assumptions and impact from COVID-19 restrictions
- Maintain BUY; cut TP to HK\$21.54 for H-shares and Rmb19.06 for A-share

Re-rating catalysts on the horizon

Investment Thesis

Value unlocking of new businesses to drive re-rating. On one hand, Vanke's sector-leading property management (PM) arm ONEW has recently passed the listing hearing of HKEx. The IPO should be launched soon and is reported to raise c.USD1-1.5bn (c.14x-20x FY22F PE). On another, the company should be able to benefit from the rapidly developing CREIT initiative and unlock the value of its scalable warehouse and rental housing assets. Gradual realisation of these asset value-unlocking activities should help stimulate Vanke's share price and valuation performance.

Stabilising margins and earnings outlook. While development margins may still see some downward pressure (with average GPM of unbooked sales at slightly below 20% vs 1H22 recognised margin of c.21.9% and FY21's 23%), the impact can be partially offset by a robust pickup in its higher margin new businesses. We believe Vanke's profitability should stabilise at c.19% in 2022E to 2024E and the days of sizeable earnings declines led by margin deterioration should be behind us.

Valuation:

Our TPs are derived from SOTP valuation based on FY23F earnings: (1) 20x PE for PM (2) 15x EV/EBITDA on its IP business and (3) 6.5x PE for property development and others (Vanke's 5-year average 1-year forward PE).

Where we differ:

A key beneficiary of the expanding C-REIT market. We believe the accelerating development pace of the C-REIT initiative will help Vanke to unlock its sizeable warehouse and rental housing portfolio and drive share price and valuation re-rating.

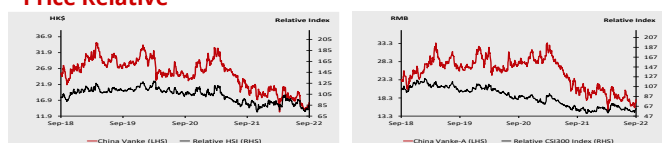
Key Risks to Our View:

Weaker than expected presales outlook; completion slippage and worse-than-expected margins; longer-than-expected delays in asset spin-offs.

At A Glance

Issued Capital - H shares (m shs)	1,907
- Non H shrs (m shs)	9,724
H shs as a % of Total	16
Total Mkt Cap (HK\$m/US\$m)	226,841 / 28,898
Major Shareholders (%)	
Shenzhen Metro Group Co., Ltd.	33.3
Major H Shareholders (As % of H shares)	
GIC Private Limited	9.0
H Shares-Free Float (%)	91.0
3m Avg. Daily Val. (US\$m)	19.40
GICS Industry: Real Estate / Real Estate Management & Development	

Price Relative



Forecasts and Valuation (H Shares)

	2021A	2022F	2023F	2024F
FY Dec (RMB m)				
Turnover	452,798	452,354	439,136	440,800
EBITDA	82,458	75,883	73,796	76,466
Pre-tax Profit	70,353	64,016	61,499	64,461
Net Profit	22,524	22,968	22,398	23,346
Core Profit	20,346	22,968	22,398	23,346
Core Profit Gth (%)	(47.0)	12.9	(2.5)	4.2
Core EPS (RMB)	1.75	1.98	1.93	2.01
Core EPS (HK\$)	1.98	2.23	2.18	2.27
Core EPS Gth (%)	(47.7)	12.9	(2.5)	4.2
Core PE (X)	8.0	7.1	7.3	7.0
P/Cash Flow (X)	39.5	28.5	4.4	8.3
EV/EBITDA (X)	5.3	6.3	6.4	6.4
DPS (HK\$)	1.10	0.78	0.76	0.79
Div Yield (%)	6.9	4.9	4.8	5.0
Net Gearing (%)	30.1	34.2	29.5	28.1
ROE (%)	9.8	9.4	8.7	8.6
Book Value (HK\$)	22.92	24.37	25.78	27.26
P/Book Value (X)	0.7	0.6	0.6	0.6
EPS Rev (%)		(48)	New	New
Consensus EPS (RMB)		2.13	2.24	2.47
Other Broker Recs:		B:23	S:0	H:3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters



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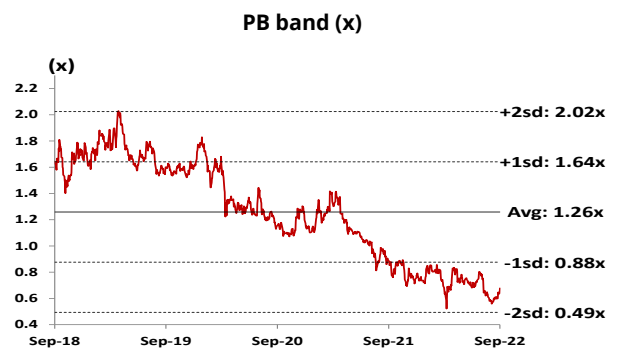
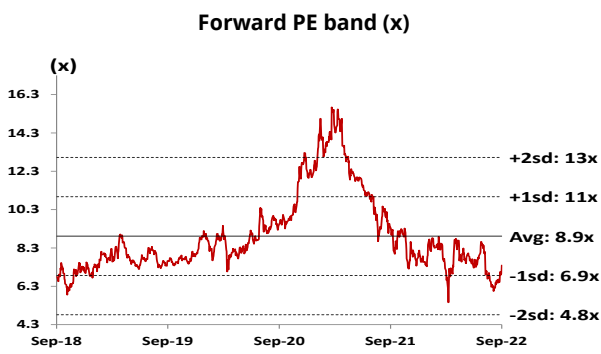


China Vanke

Company Background

China Vanke (Vanke) was founded in 1984. It is now the largest residential developer in China, with extensive exposure in 65 cities across the nation. Sales exceeded Rmb530bn in 2017, again one of the highest in the real estate industry. Vanke completed its B-share to H-share conversion on 25 June 2014, enabling the company to enjoy better funding channels and trading liquidity.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Vanke

Segmental Breakdown (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (RMB m)					
Property development	382,990	407,692	399,411	377,221	367,791
Property investment	15,432	19,831	25,780	32,225	40,281
Property management	12,164	15,232	15,994	16,794	17,633
Urban redevelopment	2,856	2,535	2,535	2,535	2,662
Others	5,669	7,508	8,634	10,361	12,434
Total	419,112	452,798	452,354	439,136	440,800

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Turnover	419,112	452,798	452,354	439,136	440,800
Cost of Goods Sold	(298,531)	(357,106)	(366,008)	(355,808)	(355,746)
Gross Profit	120,580	95,691	86,346	83,328	85,055
Other Opg (Exp)/Inc	(22,487)	(26,186)	(23,316)	(23,254)	(22,169)
Operating Profit	98,093	69,506	63,030	60,074	62,886
Associates Inc	9,740	4,889	4,789	5,658	5,517
Net Interest (Exp)/Inc	(4,077)	(4,042)	(3,804)	(4,233)	(3,942)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	103,756	70,353	64,016	61,499	64,461
Tax	(44,457)	(32,283)	(28,681)	(27,041)	(28,544)
Minority Interest	(17,783)	(15,545)	(12,367)	(12,060)	(12,571)
Net Profit	41,516	22,524	22,968	22,398	23,346
Core Profit	38,394	20,346	22,968	22,398	23,346
Sales Gth (%)	13.9	8.0	(0.1)	(2.9)	0.4
Net Profit Gth (%)	6.8	(45.7)	2.0	(2.5)	4.2
Core Profit Gth (%)	3.1	(47.0)	12.9	(2.5)	4.2
Gross Mgn (%)	28.8	21.1	19.1	19.0	19.3
Core Profit Margin (%)	9.2	4.5	5.1	5.1	5.3
Tax Rate	42.8	45.9	44.8	44.0	44.3

Source: Company, DBS HK

China Vanke

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Fixed Assets	31,842	32,632	24,568	16,505	8,442
Invt in Assocs & JVs	141,895	144,449	164,012	177,705	187,291
Other LT Assets	289,948	305,738	324,653	337,698	346,636
Cash & ST Invt	195,231	149,352	114,306	116,131	104,584
Other Current Assets	1,352,220	1,450,971	1,475,180	1,452,474	1,421,397
Total Assets	1,869,241	1,938,693	1,938,708	1,922,808	1,881,058
ST Debt	83,989	60,418	60,418	60,418	60,418
Creditors	1,176,962	1,184,494	1,167,212	1,134,694	1,075,198
Other Current Liab	56,542	66,534	66,534	66,534	66,534
LT Debt	175,613	207,343	197,343	187,343	177,343
Other LT Liabilities	26,291	27,131	27,131	27,131	27,131
Minority Interests	125,334	156,820	169,187	181,248	193,819
Shareholder's Equity	224,511	235,953	250,882	265,441	280,616
Total Capital	1,869,241	1,938,693	1,938,708	1,922,808	1,881,058
Share Capital (m)	11,460	11,620	11,620	11,620	11,620
Net Cash/(Debt)	(64,371)	(118,409)	(143,455)	(131,630)	(133,177)
Working Capital	118,717	199,943	241,434	251,246	279,665
Net Gearing (%)	18.4	30.1	34.2	29.5	28.1

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Profit Before Tax	103,756	70,353	64,016	61,499	64,461
Assoc. & JV Inc/(loss)	(9,740)	(4,889)	0	0	0
Tax Paid	(41,699)	(36,959)	(28,681)	(27,041)	(28,544)
Depr/Amort	6,985	8,063	8,063	8,063	8,063
Chg in Wkg.Cap.	(9,234)	(38,535)	(41,492)	(9,812)	(28,419)
Other Non-Cash	3,120	6,079	3,804	4,233	3,942
Operating CF	53,188	4,113	5,711	36,943	19,503
Net chg in inv.	4,482	648	648	648	648
Assoc, MI, Invsmt	1,315	(26,929)	(16,640)	(11,457)	(7,313)
Investing CF	5,797	(26,281)	(15,992)	(10,809)	(6,665)
Net Chg in Debt	4,645	7,619	(10,000)	(10,000)	(10,000)
New Capital	7,165	0	0	0	0
Dividend	(34,716)	(41,564)	(14,765)	(14,309)	(14,385)
Other Financing CF	(9,598)	10,841	0	0	0
Financing CF	(32,504)	(23,104)	(24,765)	(24,309)	(24,385)
Chg in Cash	25,924	(44,954)	(35,046)	1,825	(11,547)
Chg in Net Cash	28,485	(54,037)	(25,046)	11,825	(1,547)

Source: Company, DBS HK

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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China Vanke

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INDONESIA

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