

China / Hong Kong Company Update

China Vanke

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DBS Group Research . Equity

24 Jul 2023

H: BUY

Last Traded Price (H) (21 Jul 2023):HK\$9.79(HSI : 19,075)
Price Target 12-mth (H):HK\$16.80 (71.6% upside) (Prev HK\$22.32)

A: BUY

Last Traded Price (A) (21 Jul 2023):RMB13.98(CSI300 Index : 3,822)
Price Target 12-mth (A):RMB18.42 (31.8% upside) (Prev RMB20.94)

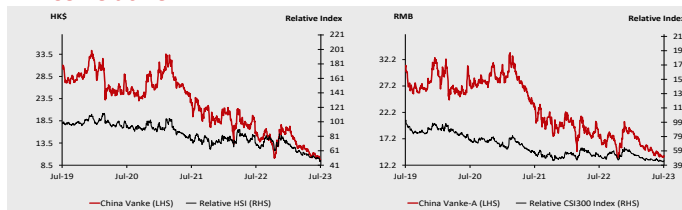
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What's New

- Key beneficiary of likely acceleration of CREIT initiative's development
- Margins and earnings should improve from FY25F when it starts to recognize development earnings from lower cost projects acquired in FY22-23
- A-share placement application in progress and may its cap near-term share price performance
- Maintain BUY with revised HK\$16.80 TP for H-share and Rmb18.42 for A-share

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMB m)	2022F	2023F	2024F	2025F
Turnover	503,838	460,107	455,434	458,926
EBITDA	85,011	67,612	69,058	73,314
Pre-tax Profit	73,396	56,743	57,895	62,076
Net Profit	22,618	19,716	20,305	21,736
Core Profit	19,762	19,716	20,305	21,736
Core Profit Gth (%)	(11.7)	(0.2)	3.0	7.0
Core EPS (RMB)	1.70	1.70	1.75	1.87
Core EPS (HK\$)	1.85	1.85	1.90	2.04
Core EPS Gth (%)	(11.5)	(0.2)	3.0	7.0
Core PE (X)	5.3	5.3	5.1	4.8
P/Cash Flow (X)	37.9	21.6	9.9	nm
EV/EBITDA (X)	5.2	6.9	6.9	6.9
DPS (HK\$)	0.76	0.65	0.67	0.71
Div Yield (%)	7.7	6.6	6.8	7.3
Net Gearing (%)	44.1	43.3	40.7	40.6
ROE (%)	9.5	7.9	7.7	7.9
Book Value (HK\$)	22.77	23.97	25.21	26.53
P/Book Value (X)	0.4	0.4	0.4	0.4

EPS Rev (%): (8) (5) New
Consensus EPS (RMB) 1.88 1.93 2.08
Other Broker Recs: B:18 S:1 H:5

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

Multiple catalysts ahead

Investment Thesis

Well-rounded industry leader with multiple engines. Established over 30 years ago, Vanke is among the front-runners in the property space that have branched out and established a sizeable presence in multiple asset classes and business lines. Aside from its consistent top 3 positioning in the residential space, Vanke also has an industry leading property and facility management arm (Onewo (2602 HK)), one of the largest rental housing and sizeable warehouse and retail mall portfolios in China.

Bottoming margins and earnings. Vanke's near-term earnings outlook may remain challenging with its development revenue likely to fall as a result of weaker presales and GPM under pressure as it starts to recognize lower margin projects that were sold in FY21-22. Having said that, a gradual pickup of its higher margin new businesses would serve to partially cushion the impact. Signs of recovery should start to show from FY25 as earnings from projects acquired at lower costs in FY22-YTD-23 start to be recognized.

Key beneficiary of the accelerating CREIT initiative's development. Vanke has a scalable logistic asset base (c.Rmb1bn of gross revenue in 3M23 incl. unconsolidated businesses), sizeable rental housing portfolio (c.81,400 units qualified for subsidized rental residences) and a good mix of shopping malls under its associate company SCP Group. These place Vanke well to benefit from the accelerating C-REIT development. The company is awaiting national NDRC approval for its logistics CREIT application (initial scale of c.Rmb1.2-1.3bn) as early as 2H23. They have also filed applications to spin-off its shopping malls (potentially be included in the first batch) and rental housing assets. These should help to catalyse Vanke's share price performance.

Maintain BUY with a lower HK\$16.80 TP for H-share and Rmb18.42 for A-share.

We trim FY23/24F earnings by 5-8% to reflect slower development recognition and booking GPM. Our TPs are derived from SOTP valuation based on FY23F earnings: (1) 15x PE for PM (prior: 20x), 1-yr average forward PE (2) unchanged 15x EV/EBITDA on IP business and (3) 6x/8x PE for property development and others (Vanke's average 1-yr forward PE in H-share and A-share, respectively).

Key Risks

Weaker than expected presales outlook; worse-than-expected margin; longer than expected delays in asset spin-offs

At A Glance

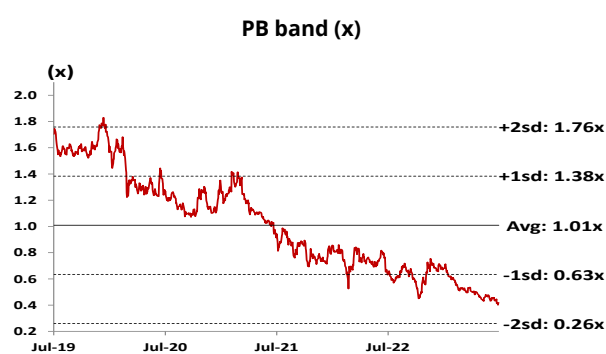
Issued Capital - H shares (m shs)	2,207
- Non H shrs (m shs)	9,724
H shs as a % of Total	18
Total Mkt Cap (HK\$/US\$m)	169,449 / 21,677
Major Shareholders (%)	
Shenzhen Metro Group Co., Ltd.	33.3
Major H Shareholders (As % of H shares)	
H Shares-Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	17.6
GICS Industry: Real Estate / Real Estate Management & Development	

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

Key Assumptions

FY Dec	2023F	2024F	2025F
Property price growth	0.0%	0.0%	0.0%
Rental for office	0.0%	0.0%	0.0%
Rental for retail	0.0%	0.0%	0.0%
ADR growth for hotel	0.0%	0.0%	0.0%

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022F	2023F	2024F	2025F
Revenues (RMB m)					
Property development	407,692	450,601	399,494	386,178	379,520
Property investment	19,831	25,774	30,929	37,114	44,537
Property management	15,232	12,172	12,780	13,419	14,090
Urban redevelopment	2,535	6,821	7,162	7,520	7,896
Others	7,508	8,471	9,741	11,203	12,883
Total	452,798	503,838	460,107	455,434	458,926

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022F	2023F	2024F	2025F
Turnover	452,798	503,838	460,107	455,434	458,926
Cost of Goods Sold	(357,106)	(405,785)	(377,510)	(372,238)	(372,256)
Gross Profit	95,691	98,054	82,597	83,197	86,670
Other Opg (Exp)/Inc	(26,186)	(21,544)	(25,084)	(24,983)	(24,174)
Operating Profit	69,506	76,510	57,514	58,213	62,496
Associates Inc	4,889	(799)	799	1,545	1,518
Net Interest (Exp)/Inc	(4,042)	(2,315)	(1,569)	(1,864)	(1,937)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	70,353	73,396	56,743	57,895	62,076
Tax	(32,283)	(35,845)	(24,010)	(24,184)	(25,990)
Minority Interest	(15,545)	(14,933)	(13,017)	(13,406)	(14,351)
Net Profit	22,524	22,618	19,716	20,305	21,736
Core Profit	22,382	19,762	19,716	20,305	21,736
Sales Gth (%)	8.0	11.3	(8.7)	(1.0)	0.8
Net Profit Gth (%)	(45.7)	0.4	(12.8)	3.0	7.0
Core Profit Gth (%)	(44.4)	(11.7)	(0.2)	3.0	7.0
Gross Mgn (%)	21.1	19.5	18.0	18.3	18.9
Core Profit Margin (%)	4.9	3.9	4.3	4.5	4.7
Tax Rate	45.9	48.8	42.3	41.8	41.9

Source: Company, DBS HK

China Vanke

Balance Sheet (RMB m)

FY Dec	2021A	2022F	2023F	2024F	2025F
Fixed Assets	32,632	35,134	25,834	16,534	7,234
Invts in Assocs & JVs	144,449	129,486	141,449	149,822	155,684
Other LT Assets	305,738	306,634	311,207	312,191	310,664
Cash & ST Invts	149,352	137,208	118,999	109,605	88,275
Other Current Assets	1,450,971	1,278,188	1,295,755	1,251,941	1,211,449
Total Assets	1,938,693	1,757,163	1,751,795	1,690,271	1,617,622
ST Debt	60,418	66,097	66,097	66,097	66,097
Creditors	1,184,494	956,604	935,402	857,274	766,146
Other Current Liab	66,534	55,101	55,101	55,101	55,101
LT Debt	207,343	249,589	239,589	229,589	219,589
Other LT Liabilities	27,131	24,782	24,782	24,782	24,782
Minority Interests	156,820	162,300	175,318	188,724	203,075
Shareholder's Equity	235,953	242,691	255,507	268,705	282,833
Total Capital	1,938,693	1,757,163	1,751,795	1,690,271	1,617,622
Share Capital (m)	11,620	11,594	11,594	11,594	11,594
Net Cash/(Debt)	(118,409)	(178,478)	(186,687)	(186,081)	(197,410)
Working Capital	199,943	266,483	305,252	339,566	390,203
Net Gearing (%)	30.1	44.1	43.3	40.7	40.6

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2021A	2022F	2023F	2024F	2025F
Profit Before Tax	70,353	73,396	56,743	57,895	62,076
Assoc. & JV Inc/(loss)	(4,889)	799	0	0	0
Tax Paid	(36,959)	(37,340)	(24,010)	(24,184)	(25,990)
Depr/Amort	8,063	9,300	9,300	9,300	9,300
Chg in Wkg.Cap.	(38,535)	(66,536)	(38,769)	(34,314)	(50,637)
Other Non-Cash	6,079	23,131	1,569	1,864	1,937
Operating CF	4,113	2,750	4,834	10,561	(3,312)
Net chg in inv.	648	7,389	7,389	7,389	7,389
Assoc, MI, Invsmt	(26,929)	(20,420)	(8,532)	(5,399)	(3,121)
Investing CF	(26,281)	(13,030)	(1,143)	1,991	4,268
Net Chg in Debt	7,619	41,479	(10,000)	(10,000)	(10,000)
New Capital	0	0	0	0	0
Dividend	(41,564)	(33,168)	(11,900)	(11,945)	(12,285)
Other Financing CF	10,841	(4,872)	0	0	0
Financing CF	(23,104)	3,439	(21,900)	(21,945)	(22,285)
Chg in Cash	(44,954)	(6,284)	(18,209)	(9,394)	(21,330)
Chg in Net Cash	(54,037)	(60,069)	(8,209)	606	(11,330)

Source: Company, DBS HK

China Vanke

H Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	7-Sep-22	HK\$15.80	HK\$21.54	BUY
2	27-Jan-23	HK\$17.12	HK\$22.32	BUY

Source: DBS HK

Analyst: Jason Lam

Dexter Chun

Ben Wong

A Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	7-Sep-22	RMB17.52	RMB19.06	BUY
2	27-Jan-23	RMB18.58	RMB20.94	BUY

Source: DBS HK

Analyst: Jason Lam

Dexter Chun

Ben Wong

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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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