

China Vanke

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DBS Group Research . Equity

11 Jan 2024

H: BUY

Last Traded Price (H) (10 Jan 2024):HK\$6.49(HSI : 16,097)
Price Target 12-mth (H):HK\$10.00 (54.1% upside) (Prev HK\$12.60)

A: BUY

Last Traded Price (A) (10 Jan 2024):RMB9.74(CSI300 Index : 3,277)
Price Target 12-mth (A):RMB11.30 (16.0% upside) (Prev RMB14.50)

Analysts

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What's New

- Updates on shareholder support or refinancing progress would serve as share price catalyst
- Margin and earnings stabilisation may come in slower than expected upon a continually weak physical market
- Cut FY23-25F earnings by c.19%-23% on lower revenue recognition and profit margin assumptions
- Undemanding valuation at c.5x FY24F PE and c.8% dividend yield; Maintain BUY with TPs of HK\$10.0/Rmb11.3 for H/A-shares

Eyes on refinancing progress

Investment Thesis

Well-rounded industry leader with multiple growth 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 consistently ranking within the top three in the residential space, Vanke also has an industry-leading property and facility management arm (Onewo [2602 HK]), one of the largest rental housing portfolios, and a sizeable warehouse and retail mall portfolio in China.

Margins and earnings may take longer to stabilise. Vanke's near-term earnings outlook may remain challenging with development revenue to remain on a downtrend as a result of weaker presales (-10% y-o-y in 2023) and lower unbooked sales (c.Rmb462bn as at Sep 23), whilst the margin outlook will also face pressure upon the recognition of high-cost projects sold in FY21-22 and continually suppressed presales margins under the ongoing physical market downturn. We have trimmed our FY23-25F earnings by 19%-23% in reflection of the delayed margins and earnings stabilisation path.

Concrete developments on refinancing would be share price catalyst. Vanke faced increased scrutiny from the capital market amid ongoing concerns surrounding the company, a continually subdued physical market, and a tighter onshore refinancing environment since 2H23. The chairman of SZ Metro (Vanke's major shareholder) and the chairman of SZ SASAC (owns 100% of SZ Metro), accordingly, held a call and voiced strong support to the developer (see [note](#) for details). The materialisation of liquidity support from its major shareholder or any updates on its refinancing progress should serve as a catalyst to Vanke's share price. The company has also been included in the first batch of retail C-REIT (involving an asset value of c.Rmb4bn) and is awaiting NDRC approval for its logistics C-REIT application (initial scale of c.Rmb1.2-1.3bn). The official landing of these asset spin-offs may help support its share price as well.

Maintain BUY with HK\$10.0 TP for H-share and Rmb11.3 for A-share. Our TPs are derived from SOTP valuations based on FY24F earnings: (1) Unchanged 10x one-year forward PE for PM; (2) 10x EV/EBITDA for IP business; and (3) 5x and 8x PE for property development and others (Vanke's average one-year forward PE in H-share and A-share in 2023, respectively).

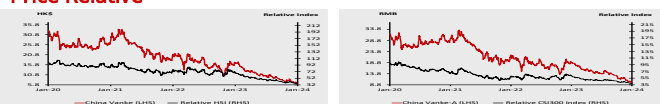
Key Risks

Further deterioration in cash-flow outlook; weaker-than-expected presales performance; worse-than-expected margins; and 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\$m/US\$m)	117,588 / 15,038
Major Shareholders (%)	
Shenzhen Metro Group Co., Ltd.	33.3
Major H Shareholders (As % of H shares)	
Shanghai Ningquan Asset Management Co., Ltd.	7.1
H Shares-Free Float (%)	92.9
3m Avg. Daily Val. (US\$m)	22.42
GICS Industry: Real Estate / Real Estate Management & Development	

Price Relative



Forecasts and Valuation (H Shares)

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Turnover	503,838	444,374	392,508	370,255
EBITDA	85,011	56,886	52,480	51,180
Pre-tax Profit	73,396	45,022	39,930	38,484
Net Profit	22,618	14,697	13,704	13,203
Core Profit	19,762	14,697	13,704	13,203
Core Profit Gth (%)	(11.7)	(25.6)	(6.8)	(3.7)
Core EPS (RMB)	1.70	1.27	1.18	1.14
Core EPS (HK\$)	1.86	1.38	1.29	1.24
Core EPS Gth (%)	(11.5)	(25.6)	(6.8)	(3.7)
Core PE (X)	3.5	4.7	5.0	5.2
P/Cash Flow (X)	25.1	nm	nm	143.2
EV/EBITDA (X)	4.8	8.0	8.8	9.1
DPS (HK\$)	0.76	0.48	0.45	0.43
Div Yield (%)	11.7	7.5	6.9	6.7
Net Gearing (%)	44.1	50.7	47.8	44.8
ROE (%)	9.5	5.9	5.3	5.0
Book Value (HK\$)	22.82	23.72	24.56	25.36
P/Book Value (X)	0.3	0.3	0.3	0.3
EPS Rev (%):		(19)	(20)	(23)
Consensus EPS (RMB)		1.64	1.58	1.53
Other Broker Recs:		B:16	S:0	H:6

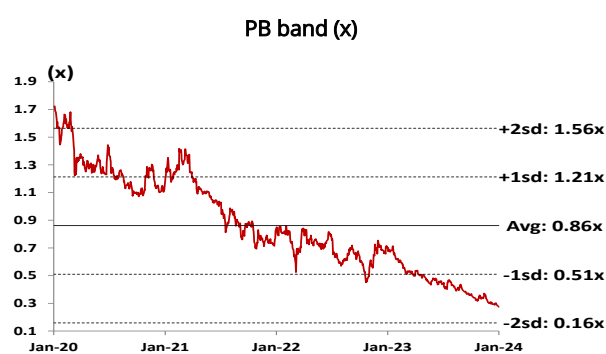
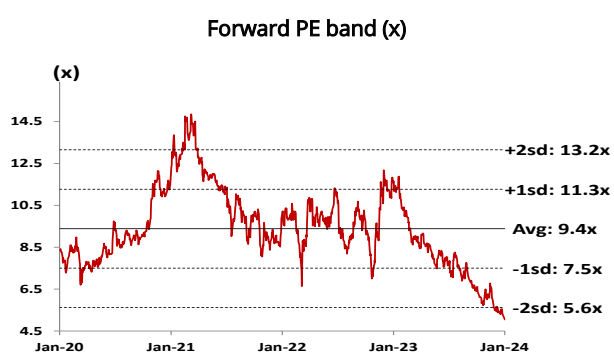
Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

China Vanke

Company Background

China Vanke (Vanke) was founded in 1984. It is now one of the largest residential developers in China, with extensive exposure in 65 cities across the nation. Sales exceeded Rmb376bn in 2023, ranking no.2 in the real estate industry as per data from CRIC. 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	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Property development	407,692	450,601	386,000	327,482	298,009
Property investment	19,831	25,774	29,640	34,086	39,199
Property management	15,232	12,172	12,172	12,780	13,419
Urban redevelopment	2,535	6,821	6,821	6,957	7,305
Others	7,508	8,471	9,741	11,203	12,323
Total	452,798	503,838	444,374	392,508	370,255

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	452,798	503,838	444,374	392,508	370,255
Cost of Goods Sold	(357,106)	(405,785)	(370,998)	(327,479)	(308,452)
Gross Profit	95,691	98,054	73,376	65,029	61,803
Other Opg (Exp)/Inc	(26,186)	(21,544)	(26,176)	(22,176)	(20,221)
Operating Profit	69,506	76,510	47,200	42,853	41,582
Associates Inc	4,889	(799)	386	327	298
Net Interest (Exp)/Inc	(4,042)	(2,315)	(2,564)	(3,251)	(3,396)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	70,353	73,396	45,022	39,930	38,484
Tax	(32,283)	(35,845)	(20,622)	(17,465)	(16,840)
Minority Interest	(15,545)	(14,933)	(9,703)	(8,761)	(8,441)
Net Profit	22,524	22,618	14,697	13,704	13,203
Core Profit	22,382	19,762	14,697	13,704	13,203
Sales Gth (%)	8.0	11.3	(11.8)	(11.7)	(5.7)
Net Profit Gth (%)	(45.7)	0.4	(35.0)	(6.8)	(3.7)
Core Profit Gth (%)	(44.4)	(11.7)	(25.6)	(6.8)	(3.7)
Gross Mgn (%)	21.1	19.5	16.5	16.6	16.7
Core Profit Margin (%)	4.9	3.9	3.3	3.5	3.6
Tax Rate	45.9	48.8	45.8	43.7	43.8

Source: Company, DBS HK

China Vanke

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	32,632	35,134	25,834	16,534	7,234
Invt in Assocs & JVs	144,449	129,486	123,012	116,862	111,018
Other LT Assets	305,738	306,634	292,771	279,231	265,998
Cash & ST Invt	149,352	137,208	100,786	99,260	99,958
Other Current Assets	1,450,971	1,278,188	1,291,566	1,256,953	1,318,999
Total Assets	1,938,693	1,757,163	1,710,957	1,651,977	1,692,189
ST Debt	60,418	66,097	66,097	61,097	56,097
Creditors	1,184,494	956,604	887,391	811,795	835,828
Other Current Liab	66,534	55,101	58,851	62,799	66,955
LT Debt	207,343	249,589	249,589	249,589	249,589
Other LT Liabilities	27,131	24,782	24,782	24,782	24,782
Minority Interests	156,820	162,300	172,003	180,765	189,206
Shareholder's Equity	235,953	242,691	252,244	261,152	269,733
Total Capital	1,938,693	1,757,163	1,710,957	1,651,977	1,692,189
Share Capital (m)	11,620	11,594	11,594	11,594	11,594
Net Cash/(Debt)	(118,409)	(178,478)	(214,900)	(211,425)	(205,728)
Working Capital	199,943	266,483	345,324	382,359	416,217
Net Gearing (%)	30.1	44.1	50.7	47.8	44.8

Source: Company, DBS HK

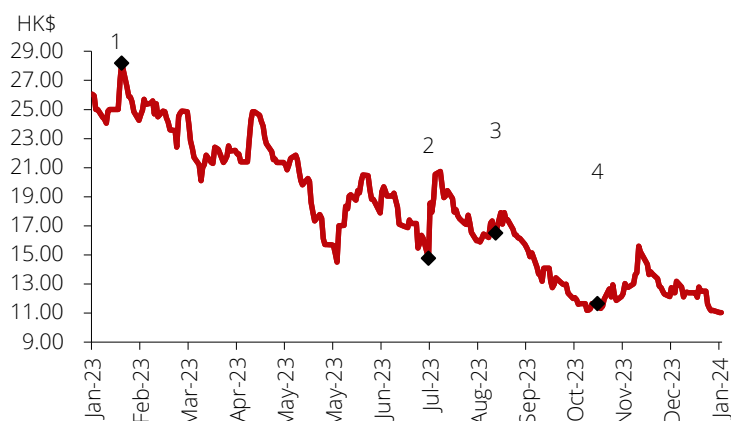
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Profit Before Tax	70,353	73,396	45,022	39,930	38,484
Assoc. & JV Inc/(loss)	(4,889)	799	0	0	0
Tax Paid	(36,959)	(37,340)	(20,622)	(17,465)	(16,840)
Depr/Amort	8,063	9,300	9,300	9,300	9,300
Chg in Wkg.Cap.	(38,535)	(66,536)	(78,841)	(37,034)	(33,858)
Other Non-Cash	6,079	23,131	2,564	3,251	3,396
Operating CF	4,113	2,750	(42,577)	(2,019)	482
Net chg in inv.	648	7,389	7,389	7,389	7,389
Assoc, MI, Invsmt	(26,929)	(20,420)	9,218	8,166	7,630
Investing CF	(26,281)	(13,030)	16,608	15,556	15,019
Net Chg in Debt	7,619	41,479	0	(5,000)	(5,000)
New Capital	0	0	0	0	0
Dividend	(41,564)	(33,168)	(10,452)	(10,063)	(9,803)
Other Financing CF	10,841	(4,872)	0	0	0
Financing CF	(23,104)	3,439	(10,452)	(15,063)	(14,803)
Chg in Cash	(44,954)	(6,284)	(36,422)	(1,526)	698
Chg in Net Cash	(54,037)	(60,069)	(36,422)	3,474	5,698

Source: Company, DBS HK

China Vanke

H Share - Target Price & Ratings 12-mth History

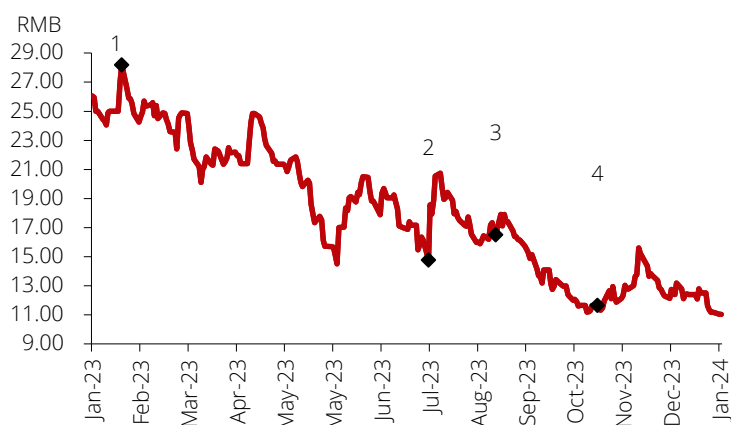


S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Jan-23	HK\$17.12	HK\$22.32	Buy
2:	24-Jul-23	HK\$9.79	HK\$16.80	Buy
3:	1-Sep-23	HK\$9.15	HK\$15.20	Buy
4:	30-Oct-23	HK\$7.53	HK\$12.60	Buy

Source: DBS HK

Analyst: Jason Lam
 Dexter Chun
 Ben Wong

A Share - Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	27-Jan-23	RMB18.58	RMB20.94	Buy
2:	24-Jul-23	RMB13.98	RMB18.42	Buy
3:	1-Sep-23	RMB13.64	RMB16.90	Buy
4:	30-Oct-23	RMB11.63	RMB14.50	Buy

Source: DBS HK

Analyst: Jason Lam
 Dexter Chun
 Ben Wong

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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