

Vanke - H (2202 HK)

Takeaway from July sales conference call

Vanke just hosted its July sales conference and talked about the latest trend on policy, sales and land markets. For policy, it confirms rumored regulatory requirement that land acquisition cannot exceed 40% of sales. For sales, management has seen some momentum decline in those previously over-heated cities but Vanke's sell-through rate remained healthy at 62% in July (vs. 60% in June). Land market seems less crowded coming into the second batch of supply, which is good for margins in the longer term.

- **Land acquisition cannot exceed 40% of sales?** Vanke has always followed a disciplined land acquisition strategy and replenished land banks based on sales. In the first seven months, land acquisition expenses only accounted for 33% of sales, well below the restriction.
- **Latest sales momentum?** Based on the data we have, the sell-through rate of new projects was 62% in July vs. 60% in June and 57% in May, which looks resilient. However, there was some sales momentum drop in those previously over-heated cities mainly because 1) mortgage cycle has prolonged to two months or above by some banks together with rising mortgage rates. 2) Some cities followed Shenzhen to announce the price index of secondary homes. This would cap the maximal loan amount and impact the upgrade demand.
- **On 2nd batch of land supply?** We observed more thresholds have been added to limit the competition in second batch of land supply such as source of funding, only allowing one identity and so on. Also, land premiums have been capped for reasonable margins. Together with liquidity tightening, In Wuxi, some lots have not reached highest premiums and even one plot went unwanted. This indicates a more rational land market but the market consolidation may slow down as many lots will be decided by lottery.
- **Any impacts from some developers' price cuts?** We do see some competitors applying price discounts, however, mainly in lower tier cities. The impacts on those markets could be relatively significant. Vanke focuses on battlefields in 1st and 2nd tier cities and has not seen any material impacts so far.
- **Other business?** For property management, Vanke just acquired a top-20 PM firm using its shares and this would continue to help it gain market share and create better synergy. For commercial business, it is Vanke's new focus and that's why it appointed Mr. Wang Haiwu to lead SCP.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	297,083	367,894	419,112	497,475	521,397
YoY growth (%)	25.2	23.8	13.9	18.7	4.8
Net income (RMB mn)	33,773	38,872	41,516	51,212	53,879
EPS (RMB)	3.06	3.47	3.92	4.41	4.64
YoY growth (%)	20.4	13.3	4.3	12.8	5.2
Consensus EPS (RMB)	N.A.	N.A.	N.A.	3.76	4.05
P/E (x)	8.3	7.3	6.5	5.8	5.5
P/B (x)	1.8	1.5	1.3	1.1	1.0
Yield (%)	3.3	3.3	4.1	4.6	4.9
ROE (%)	21.7	20.7	19.6	19.3	17.8
Net gearing (%)	30.9	42.2	28.1	23.2	30.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$33.92**
 Up/downside **+60.4%**
 Current Price **HK\$21.15**

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	286,736
Avg 3 mths t/o (HK\$ mn)	178.48
52w High/Low (HK\$)	35.00/19.20
Total Issued Shares (mn)	1,894(H)
	9,724(A)

Source: Bloomberg

Shareholding Structure

Shenzhen Metro	33.35%
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Source: Company data, CMBIS

Share Performance

	Absolute	Relative
1-mth	-12.1%	-5.6%
3-mth	-21.7%	-15.1%
6-mth	-27.4%	-18.8%
12-mth	-14.9%	-18.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

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Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	297,083	367,894	442,402	497,475	521,397
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)
Gross profit	109,952	132,197	140,825	158,044	165,171
Other income and gains	3,585	5,687	5,753	6,637	6,854
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)
Operating profit	88,966	111,581	116,052	132,345	138,134
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
Pre-tax profit	87,065	106,116	114,494	130,411	135,225
Profits tax	(37,793)	(50,985)	(51,253)	(57,948)	(60,096)
Minority interest	(15,500)	(16,260)	(18,500)	(21,250)	(21,250)
Perpetual	0	0	0	0	0
Net profit	33,773	38,872	44,742	51,212	53,879
Core profit	33,773	38,872	44,742	51,212	53,879

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
EBIT	88,966	111,581	116,052	132,345	138,134
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)	(97,000)
Income tax paid	(36,592)	(42,868)	(64,465)	(56,318)	(59,926)
Others	(493)	(3,106)	15,797	33,458	6,234
Net cash from operating	33,618	45,687	22,479	29,285	(6,698)
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	3,844	4,061	0
Net cash from investing	(67,364)	(28,627)	(11,477)	(9,839)	(15,260)
Equity raised	0	6,643	7,165	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
Net cash from financing	44,798	(33,338)	23,303	6,533	19,612
Net change in cash	11,051	(16,278)	34,305	25,980	(2,346)
Cash at the beginning	164,326	175,668	159,739	194,294	220,524
Exchange difference	291	349	250	250	250
Cash at the end	175,668	159,739	194,294	220,524	218,428
Pledged deposit	12,749	6,456	6,152	6,152	6,152
Cash at BS	188,417	166,195	200,446	226,676	224,580

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	233,508	290,940	301,500	314,400	330,100
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
Current assets	1,295,156	1,439,063	1,532,446	1,676,476	1,793,580
Cash	188,417	166,195	200,446	226,676	224,580
Account receivable	331,839	351,617	362,000	388,000	420,000
Inventories	754,310	901,807	950,000	1,040,000	1,125,000
Other current assets	20,590	19,445	20,000	21,800	24,000
Current liabilities	1,121,914	1,272,610	1,308,000	1,402,500	1,461,500
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
Non-current liabilities	171,129	186,814	217,700	237,130	272,300
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
Shareholders' equity	155,764	188,058	228,246	264,846	301,880
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	308,246	351,246	389,880

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
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
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.0	35.9	31.8	31.8	31.7
Pre-tax margin	29.9	30.3	26.2	26.6	26.5
Net margin	11.4	10.6	10.1	10.3	10.3
Effective tax rate	43.4	48.0	44.8	44.4	44.4
Balance sheet ratios					
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	1152.7
Net gearing ratio (%)	30.9	42.2	28.1	23.2	30.6
Returns (%)					
ROE	21.7	20.7	19.6	19.3	17.8
ROA	3.2	3.2	3.4	3.6	3.5
Per share data					
EPS (RMB)	3.06	3.47	3.92	4.41	4.64
DPS (RMB)	1.05	1.05	1.28	1.45	1.56
BVPS (RMB)	14.11	16.64	19.65	22.80	25.98

Source: Company data, CMBIS estimates

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