CMB International Securities | Equity Research | Company Update

Vanke - A (000002 CH)

Forerunner

Revenue and net profit grew by 5.0% to RMB146.4bn and 5.6% to RMB12.5bn in 1H20, respectively. We maintained earnings forecast unchanged but cut TP from RMB31.6 to RMB31.36. Maintain BUY recommendation.

- **Mild growth in 1H20.** Revenue gained by 5.0% to RMB146.4bn in 1H20. Delivery GFA surged 24% to 10.5mn sq m. But a 19% decline of recognized ASP (RMB12,668 per sq m) dragged down growth for revenue of property development. On the other hand, other businesses grew robustly. Revenue of construction, property services, rental and other jumped 65%, 27%, 25% and 53% in 1H20, respectively. Gross margin retreated 4.4 ppts to 31.8% but declining reduction from minority interests pushed net profit to grow 5.6% to RMB12.5bn in 1H20.
- **Contracted sales down 4% in 1H20.** Contracted sales amount and area tumbled by 4.0% to RMB320.5bn and 3.4% to 20.77mn sq m in 1H20, respectively. Shanghai Region is the largest contributor and accounted for 41.3% of contracted sales in 1H20. Contracted sales in Hangzhou, Shanghai, Ningbo, Suzhou and Nanjing exceeded RMB10bn in 1H20. Sales pace started to accelerate in Jul. Contracted sales increased by 22.5% YoY to RMB59.02bn in Jul 2020. We maintain our sales forecast of RMB650bn in 2020, up 3% YoY.
- **Attributable land bank of 94mn sq m as at Jun 2020.** In 1H20, Vanke acquired 55 projects with attributable GFA of 5.05mn sq m. Average land cost was RMB6,368 per sq m. As at Jun 2020, attributable land bank under construction and for future planning were 65.95mn sq m and 28.03mn sq m, respectively. Vanke plans to have new start of 29.21mn sq m in 2020. Construction work was affected by COVID-19 but now returns to normal.
- **Ample property management space.** Vanke services had 680mn sq m contracted GFA and 520mn sq m managed GFA as at Jun 2020. It signed 53mn sq m new contracted GFA in the period.
- **Trim TP to RMB31.36.** Presold and unbooked properties amounted to RMB695.3bn as at Jun 2020. Completion GFA was 10.75mn sq m in 1H20 and expected to be 22.44mn sq m in 2H20. So earnings growth will be accelerated in 2H20. We maintain earnings forecast unchanged but cut end-20 NAV forecast from HK$52.42 to HK$48.46. Based on 8x 20E P/E, we change TP from RMB31.6 to RMB31.36.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	297,083	367,894	442,402	497,475	521,397
YoY growth (%)	25.2	23.8	20.3	12.4	4.8
Net income (RMB mn)	33,773	38,872	44,742	51,212	53,879
EPS (RMB)	3.06	3.47	3.92	4.41	4.64
YoY growth (%)	20.4	13.3	13.1	12.5	5.2
Consensus EPS (RMB)	N.A.	N.A.	3.88	4.38	4.77
P/E (x)	9.0	8.0	7.0	6.3	5.9
P/B (x)	2.0	1.7	1.4	1.2	1.1
Yield (%)	3.8	3.8	4.6	5.3	5.7
ROE (%)	21.7	20.7	19.6	19.3	17.8
Net gearing (%)	30.9	34.3	28.1	23.2	30.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**RMB31.36**
(Previous TP	RMB31.60)
Up/downside	**+13.7%**
Current Price	**RMB27.57**

China Property Sector

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Stock Data

Mkt Cap (HK$ mn)	309,779
Avg 3 mths t/o (HK$ mn)	2,749
52w High/Low (HK$)	33.6/24.18
Total Issued Shares (mn)	1,894(H)
	9,724(A)

Source: Bloomberg

Shareholding Structure

Shenzhen Metro	27.91%

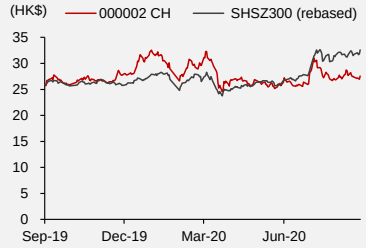
Source: Company data, CMBIS

Share Performance

	Absolute	Relative
1-mth	2.6%	-1.4%
3-mth	7.3%	-14.4%
6-mth	-6.8%	-24.2%
12-mth	6.9%	-16.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Related Reports

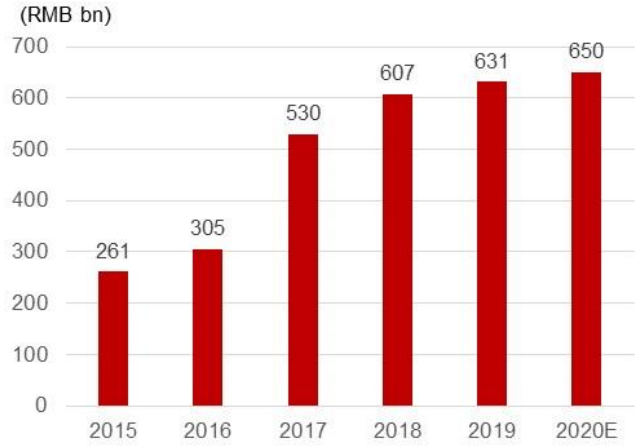
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3. Steady sales growth – 10 Jun 2019
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Figure 1: 2020 interim results

	1H20 (Rmb mn)	1H19 (Rmb mn)	Change (%)	Remark
Turnover	**146,350**	**139,320**	**5.0%**	
Property development	131,404	128,472	2.3%	Delivery GFA soared 24% to 10.5mn sq m in 1H20
Construction	4,407	2,672	64.9%	
Property services	6,698	5,283	26.8%	Newly added managed GFA 530mn sq m in 1H20
Rental	2,621	2,094	25.2%	
Other business	1,220	800	52.5%	
Cost of Sales	(99,798)	(88,833)	12.3%	
Gross Profit	**46,552**	**50,487**	**-7.8%**	GM declined from 36.2% in 1H19 to 31.8% in 1H20
Other operating income	2,722	2,411	12.9%	
Distribution Cost	(3,185)	(3,187)	-0.1%	
Administrative Expenses	(6,308)	(7,040)	-10.4%	Better cost control
Other Expenses	(583)	(894)	-34.8%	
EBIT	**39,198**	**41,778**	**-6.2%**	
Interest Expense	(4,520)	(4,860)	-7.0%	
Associated	1,712	907	88.7%	
Pre-tax Profit	36,391	37,825	-3.8%	
Taxation	(17,762)	(18,540)	-4.2%	Effective tax rate declined by 0.2ppts to 48.8% in 1H20
Profit after Tax	18,629	19,286	-3.4%	
Minority	(6,122)	(7,444)	-17.8%	
Net Profit	**12,508**	**11,842**	**5.6%**	

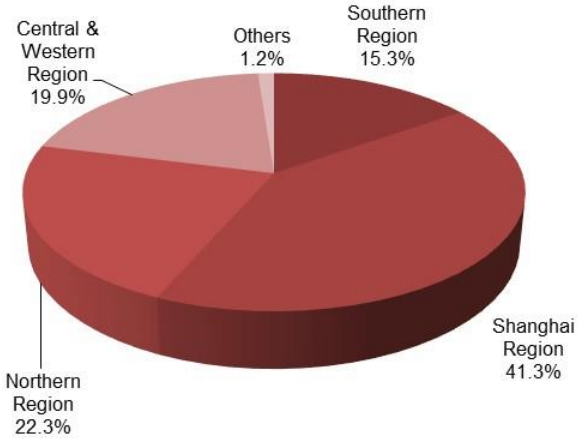
Source: Company data, CMBIS

Figure 2: Contracted sales



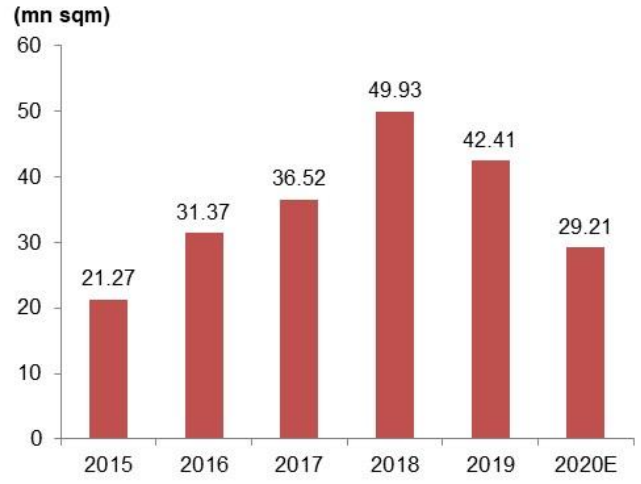
Source: Company data, CMBIS estimates

Figure 3: Contracted sales breakdown in 1H20



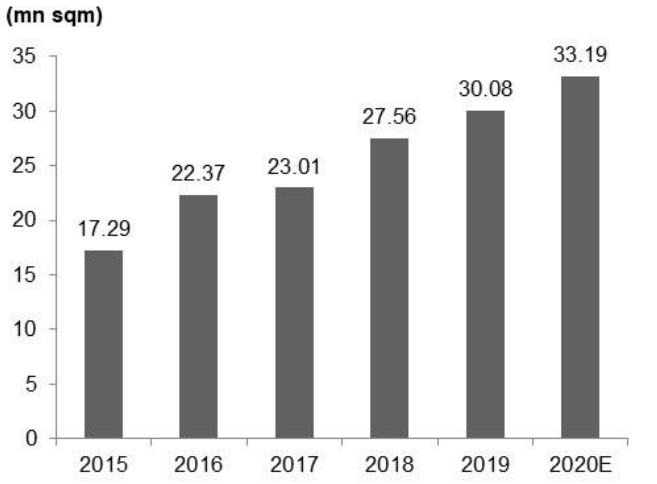
Source: Company data, CMBIS

Figure 4: New start area



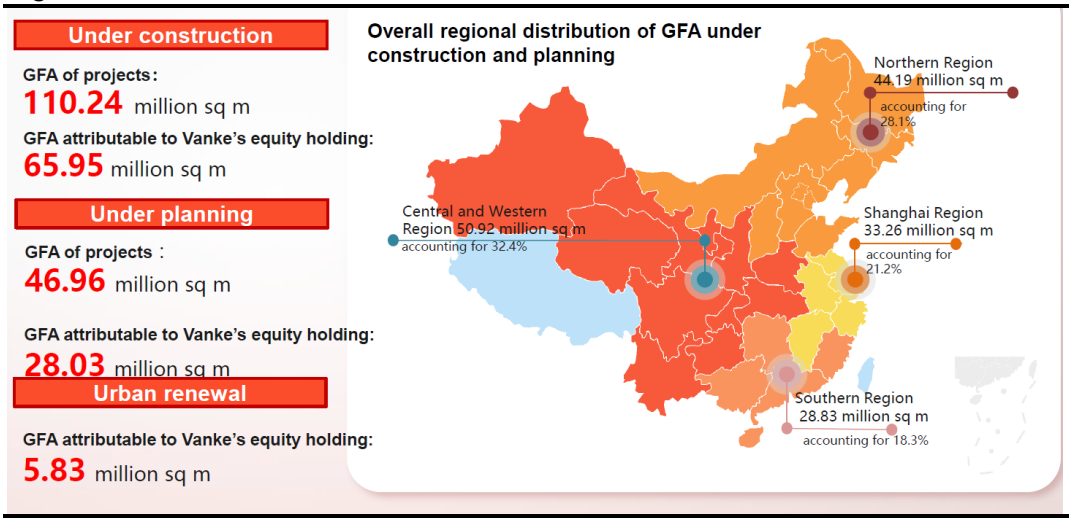
Source: Company data, CMBIS

Figure 5: Completion area



Source: Company data, CMBIS

Figure 6: Land bank



Source: Company data

Figure 7: Earnings revision

	New			Old			Diff (%)		
(RMB mn)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	442,402	497,475	521,397	442,402	497,475	521,397	0.0%	0.0%	0.0%
Gross Profit	140,825	158,044	165,171	140,825	158,044	165,171	0.0%	0.0%	0.0%
EBIT	116,052	132,345	138,134	115,987	132,216	137,782	0.1%	0.1%	0.3%
Net profit	44,742	51,212	53,879	44,691	51,111	53,604	0.1%	0.2%	0.5%
EPS (RMB)	3.92	4.41	4.64	3.95	4.52	4.74	-0.9%	-2.5%	-2.2%
Gross Margin	31.8%	31.8%	31.7%	31.8%	31.8%	31.7%	0 ppt	0 ppt	0 ppt
EBIT Margin	26.2%	26.6%	26.5%	26.2%	26.6%	26.4%	0 ppt	0 ppt	0.1 ppt
Net Margin	10.1%	10.3%	10.3%	10.1%	10.3%	10.3%	0 ppt	0 ppt	0.1 ppt

Source: CMBIS estimates

Figure 8: CMBIS estimates vs consensus

	CMBIS			Consensus			Diff (%)		
(RMB mn)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	442,402	497,475	521,397	432,157	492,694	509,275	2.4%	1.0%	2.4%
Gross Profit	140,825	158,044	165,171	140,991	156,923	158,766	-0.1%	0.7%	4.0%
EBIT	116,052	132,345	138,134	113,021	122,754	124,785	2.7%	7.8%	10.7%
Net profit	44,742	51,212	53,879	44,126	49,524	52,748	1.4%	3.4%	2.1%
EPS (RMB)	3.92	4.41	4.64	3.88	4.38	4.77	1.0%	0.6%	-2.8%
Gross Margin	31.8%	31.8%	31.7%	32.6%	31.9%	31.2%	-0.8 ppt	-0.1 ppt	0.5 ppt
EBIT Margin	26.2%	26.6%	26.5%	26.2%	24.9%	24.9%	0.1 ppt	1.7 ppt	1.6 ppt
Net Margin	10.1%	10.3%	10.3%	10.2%	10.1%	10.1%	-0.1 ppt	0.2 ppt	0.3 ppt

Source: Bloomberg, CMBIS estimates

Figure 9: End-20 NAV estimate

	(Rmb mn)	NAV/share (Rmb)	NAV/share (HK$)	% of NAV	Remark
Completed projects	8,139	0.70	0.78	2%	WACC of 11.3%
Under construction	228,275	19.65	21.91	*45%*	
Future development	262,992	22.64	25.24	*52%*	
Investment properties	87,500	7.53	8.40	*17%*	6% cap rate
Listed securities	4,605	0.40	0.44	*1%*	Market value
Gross amount	591,511	50.91	56.76	117%	
Net debt	(86,554)	(7.45)	(8.31)	-17%	Dec 2020
NAV	504,957	43.46	48.46	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	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	FY20E	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	FY20E	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	FY20E	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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