

China Property

Expert meeting takeaway: Shanghai market' ground check + C-REIT investment

Industry Overview

C-REIT investment opportunities outlook

On 23 Jan, we hosted a conference call with Ms. Helen Kong, CIO of Shenzhen Capital Group, the fund manager of two listed REIT. Ms. Kong is positive on the C-REIT market development but also stressed that over-stringent rules need to be relaxed. Key takeaways as follows: (1) she believes the C-REIT market size can grow to RMB300bn in the next three to five years from less than RMB100bn at this point; (2) while the market valuation is currently low, potential issuers generally are not very demanding on valuation; (3) C-REIT's turnover rate is actually higher than peers in other regions, but the liquidity is thin because the overall size is too small; (4) Ms. Kong hopes the regulator could relax over-stringent controls over C-REITs, such as leverage ratio, and usage of proceeds; (5) regulator is welcoming POE issuers, but many POE's projects may have missing paper work to be qualified.

Shanghai physical market ground check

On 24th Jan, we hosted a conference call with Mr. Tuo Lianbang, Senior Managing Director of Shanghai Centaline Property Agency. **Key takeaways for the physical market as below:** (1) Mr. Tuo expects the secondary home price in Shanghai to stabilize in 2024 after witnessing that the listing volume has peaked, and a lower % of fire-sales – currently around 20%; (2) however, he noted there could be several months of pricing volatility while digesting those fire-sale listings – in our view, based on 80k units of fire-sale listing estimated by Mr. Tuo, it may take about 6-12 months to digest (180k units of secondary home transacted in 2023) ; (3) among the sellers, currently, 20%-30% are speculators, 40%-50% are for upgrading, and around 30% are overseas investors/homeowners; (4) during 2023, secondary home price dropped by 20% in downtown Shanghai and by 30% in the suburbs (which seems larger than “-12%” indicated by the Centaline Shanghai Secondary home price index) – post the secondary home price correction, there is minimal pricing discount for the primary projects vs. secondary prices in core districts. **Key takeaways for trends of commission rates and Beike market share are as follows:** new home commission rate has been in an upward trend to around 2.5%. The expert believes the commission rate depends on project location rather than the developer type. The existing home commission rate is about 2.1% for the industry average level and may trend higher in a limited magnitude. The expert does not receive commission rate cut requests from regulators but notes the local industry association has a non-mandatory guidance rate of below 2.5%. Expert noted that Lianjia loosened commission rate requirement internally in late 2023 for market share. Expert estimates Lianjia gained market share significantly in 2023. In recent months, Lianjia has been growing its branches and agents, while other brands have not. We believe the expert's comments support our market share gain story for KE Holding in 2024, but we see the risk of a lower commission rate, therefore maintain Neutral rating.

29 January 2024

Equity
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Real Estate/Property

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Refer to important disclosures on page 4 to 8. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 28 January 2024 01:39PM EST

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BEKE	BEKE US	KE Holdings	US\$ 14.3	C-2-9
XSQRF	2423 HK	KE Holdings	HK\$ 36.95	C-2-9

Source: BofA Global Research

Price objective basis & risk**KE Holdings (BEKE / XSQRF)**

Our PO of USD21 (HKD54) is based on EV/adjusted EBITDA of 16x our 24E. Our target multiple is based on the average of online property vertical peers globally and online transaction based life services platforms in China. We use EV/EBITDA method to better factor in Beike's rich cash position.

Upside risks: 1) faster-than-expected home market recovery, 2) more policy easing,

Downside risks: 1) macro economy and weaker housing market recovery, 2) home transaction commission regulation and lower commission rates, 3) risk to profit due to spend for business growth

Analyst Certification

I, Miranda Zhuang, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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BUY	Agora	API	API US	Daley Li, CFA
	AiHuiShou	RERE	RERE US	Joyce Ju
	Alibaba Group	BABA	BABA US	Joyce Ju
	Alibaba Group	BABAF	9988 HK	Joyce Ju
	Alibaba Health	ALBHF	241 HK	Miranda Zhuang, CFA
	Baidu.com	BIDU	BIDU US	Miranda Zhuang, CFA
	Baidu.com	BAIDF	9888 HK	Miranda Zhuang, CFA
	Bilibili	BILI	BILI US	Lei Zhang
	Bilibili	BLBLF	9626 HK	Lei Zhang
	CAR Group	CRSLF	CAR AU	Sriharsh Singh
	Chinasoft International	CFTLF	354 HK	Daley Li, CFA
	Cloud Music	XVWJF	9899 HK	Lei Zhang
	Com2uS Corp	XOYAF	078340 KS	Jeehoon Jeong, CFA
	DBAPPSecurity	XDBAF	688023 CH	Daley Li, CFA
	Delhivery	XDVLf	DELHIVER IN	Sachin Salgaonkar
	Dingdong	DDL	DDL US	Joyce Ju
	East Money	XEQTF	300059 CH	Michael Li
	Grab Holdings	GRAB	GRAB US	Sachin Salgaonkar
	Hello Group	MOMO	MOMO US	Lei Zhang
	Hundsun Technologies	XYTGF	600570 CH	Daley Li, CFA
	HYBE	XBGOF	352820 KS	Susie Lee
	iQIYI	IQ	IQ US	Lei Zhang
	JD Health	JDHIF	6618 HK	Miranda Zhuang, CFA
	JD.com	JD	JD US	Joyce Ju
	JD.com	JDCMF	9618 HK	Joyce Ju
	JYP Entertainment	ALNNF	035900 KS	Susie Lee
	Kingdee International Software	KGDEF	268 HK	Daley Li, CFA
	Kingsoft Corporation	KSFTF	3888 HK	Daley Li, CFA
	Kuaishou	KUASF	1024 HK	Lei Zhang
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Meituan	MPNGF	3690 HK	Lei Zhang
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang
	Nine Entertainment Company	NNMTF	NEC AU	Alice Lei, CFA
	Paytm	XUXBF	PAYTM IN	Sachin Salgaonkar
	Pinduoduo Inc.	PDD	PDD US	Joyce Ju
	Plan B Media PCL	XMKTF	PLANB TB	Thititthep Nophaket
	PT Bukalapak.com	BKLPF	BUKA IJ	Sachin Salgaonkar
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh
	Tencent Holdings	TCTZF	700 HK	Miranda Zhuang, CFA
	Tencent Music	TME	TME US	Lei Zhang
	Tencent Music	XWFWF	1698 HK	Lei Zhang
	Tongcheng Travel	TNGCF	780 HK	Janet Yang
	Trip.com Group	TCOM	TCOM US	Joyce Ju
	Trip.com Group	TRPCF	9961 HK	Joyce Ju
	TUHU Car	XTCRF	9690 HK	Miranda Zhuang, CFA
	Venustech	XVCGF	002439 CH	Daley Li, CFA
	Vipshop Holdings	VIPS	VIPS US	Joyce Ju
	Xero Limited	XROLF	XRO AU	Sriharsh Singh
	YG Entertainment	XYEIF	122870 KS	Susie Lee
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA
	YY	YY	YY US	Lei Zhang
	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar
NEUTRAL	AfreecaTV	WNTHF	067160 KS	Susie Lee
	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Coupang	CPNG	CPNG US	Susie Lee
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA
	GoTo Group	GTOFF	GOTO IJ	Sachin Salgaonkar

APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Huya	HUYA	HUYA US	Lei Zhang
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	KE Holdings	BEKE	BEKE US	Miranda Zhuang, CFA
	KE Holdings	XSQRF	2423 HK	Miranda Zhuang, CFA
	Kingsoft Cloud	KC	KC US	Daley Li, CFA
	Kingsoft Cloud	KCLHF	3896 HK	Daley Li, CFA
	Krafton	XKINF	259960 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee
	Nykaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPFXF	POLICYBZ IN	Sachin Salgaonkar
	PropertyGuru	PGRU	PGRU US	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Alice Lei, CFA
	The ONE Enterprise	XUFCF	ONEE TB	Thititthep Nophaket
	VGI Public Company Limited	XZQHF	VGI TB	Thititthep Nophaket
	Weimob	WEMXF	2013 HK	Daley Li, CFA
	WiseTech Global Limited	WTCHF	WTC AU	Ware Kuo
	XD Inc.	XDNCF	2400 HK	Lei Zhang

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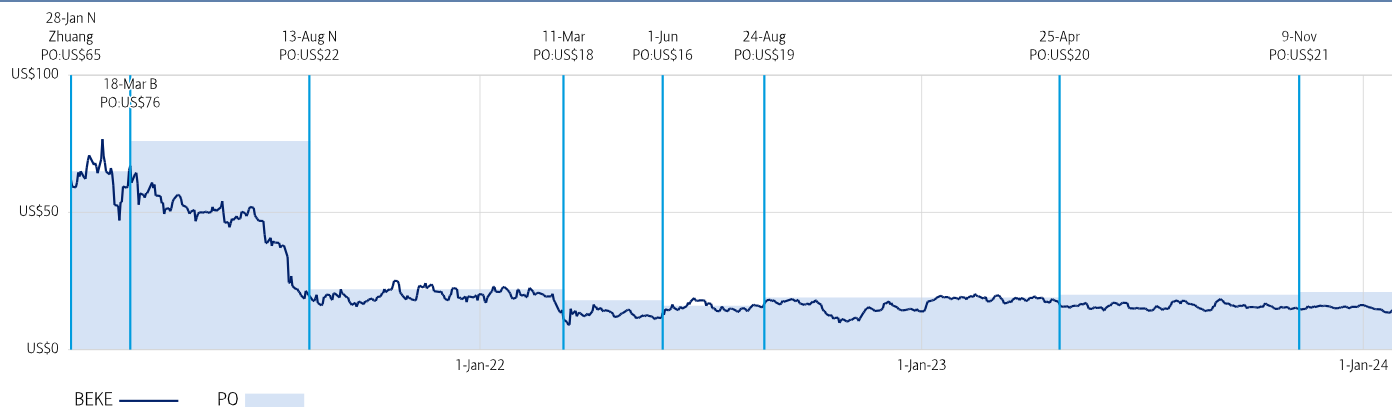
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	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBJHF	BEC TB	Thititthep Nophaket
	CJ ENM	CJHOF	035760 KS	Susie Lee
	Douyu	DOYU	DOYU US	Lei Zhang
	Indiamart InterMesh Limited	XEITF	INMART IN	Sachin Salgaonkar
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Kakao Games	XKKGF	293490 KS	Susie Lee
	Kingsoft Office	XBKOF	688111 CH	Daley Li, CFA
	Ming Yuan Cloud	XWTAF	909 HK	Daley Li, CFA
	NavInfo	XWLHF	002405 CH	Daley Li, CFA
	Netmarble	XLGHF	251270 KS	Susie Lee
	Pearl Abyss Corp	XEPAF	263750 KS	Susie Lee
	Ping An Healthcare and Technology	PANHF	1833 HK	Miranda Zhuang, CFA
	Qi An Xin	XQTFD	688561 CH	Daley Li, CFA
	Technology One Limited	THNOF	TNE AU	Ware Kuo
	ThunderSoft	XSTS F	300496 CH	Daley Li, CFA
	Weibo Corporation	WB	WB US	Miranda Zhuang, CFA
	Weibo Corporation	WEIBF	9898 HK	Miranda Zhuang, CFA
	Zee Entertainment Enterprises	XZETF	Z IN	Sachin Salgaonkar
	Zip Co Limited	ZIZTF	ZIP AU	Ware Kuo

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	Dada Nexus	DADA	DADA US	Lei Zhang
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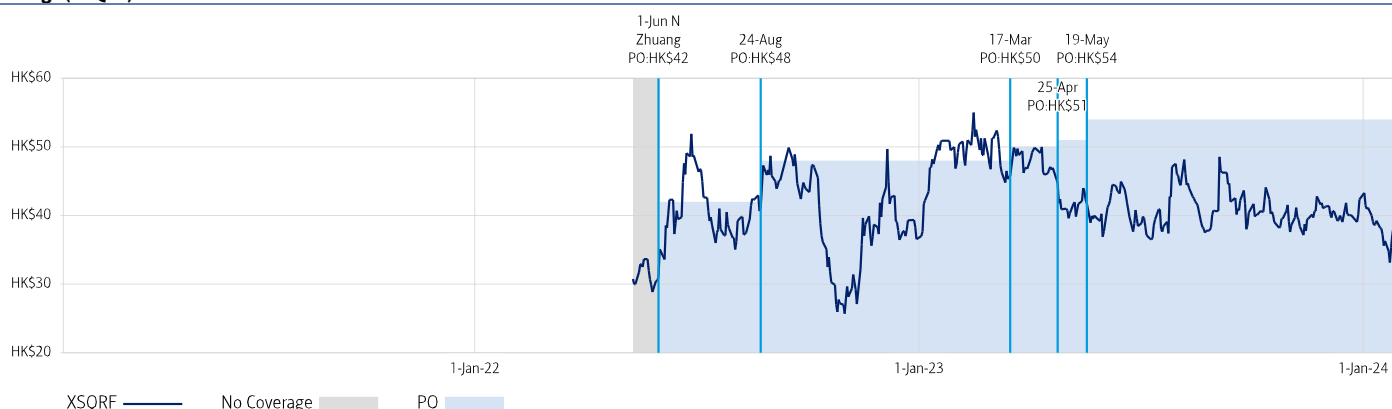
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KE Holdings (BEKE) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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KE Holdings (XSQRF) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Real Estate/Property Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	68	61.26%	Buy	22	32.35%
Hold	20	18.02%	Hold	6	30.00%
Sell	23	20.72%	Sell	7	30.43%

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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