

KE Holdings

Well positioned for housing market's structural changes, wait for turning point

Reiterate Rating: NEUTRAL | PO: 19.00 USD | Price: 14.38 USD

Lower 1Qe on weak new home and high base

We reiterate our view that KE Holding is well positioned for the structural changes of the housing market – 1) from new home to existing home, 2) bargain power shift from home sellers to home buyers, 3) from home transaction to home living services, thanks to its strong market leadership in home brokerage industry, balanced exposure to existing home/new home/home renovation & rental. In this result, we continue to find support: 1) 2023 new home GTV grew 7% YoY – better than market's 6% decline, and existing home GTV up 29% YoY – better than market's 20+% YoY; 2) home renovation and emerging services ramped up fast to lift revenue contribution to 33% in 4Q; 3) total store count expanded to 43.8k as of end-2023. Company plans to add 5k+ stores in 2024, supporting its market share expansion this year. While we are optimistic on the long-term story and see catalyst from housing policies, we continue see near-term pressure and reiterate Neutral. In 2M 2024, top 100 developers' sales declined c50% YoY, existing home market recovered but sales declined due to high base. Therefore, we expect a weak 1Q24 for KE Holdings: topline to decline 21% YoY and adjusted net profit to decline to RMB1.1bn. We expect topline to resume YoY growth since 2Q. Due to lower estimates, our EV/EBITDA based PO is lowered to USD19/HKD49 from USD21/HKD54.

4Q results beat; attractive shareholder return

KE Holding's 4Q total revenue grew by 21% YoY to RMB20bn, above consensus' RMB19bn. New home GTV/revenue decreased by (10)%/(8.5)% YoY, better than nationwide new home market's 16% decline. Existing home GTV/revenue grew 30%/15% YoY. GTV/Revenues from home renovations and furnishing grow by 100%/74% YoY. The revenue beat offsets higher operating expenses, so that adjusted net income of RMB1.7bn (8.5% margin) beats consensus' RMB1.6bn. We like company's commitment to shareholder return: 1) it executed USD0.7bn share repurchase (c4% yield of market cap on March 14) in 2023, 2) it announced a final dividend of USD0.4bn/USD0.35 per ADS (2%+ yield of market cap on March 14).

Estimates (Dec) (CNY)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	2,295	2,854	9,731	8,058	9,166
EPS	1.92	2.38	8.21	6.80	7.73
EPS Change (YoY)	-82.9%	24.3%	244.3%	-17.2%	13.7%
Dividend / Share	0	0	2.49	0	0
Free Cash Flow / Share	1.83	6.45	8.87	2.40	9.04
Common EPS (CNY)	0.639	0.794	2.74	2.27	2.58
Common Dividend / Share (CNY)	0	0	0.831	0	0
Valuation (Dec)					
P/E	47.80x	41.94x	12.43x	15.22x	13.38x
Dividend Yield	0%	0%	2.44%	0%	0%
EV / EBITDA*	NM	166.42x	18.07x	15.76x	13.05x
Free Cash Flow Yield*	1.76%	6.24%	8.44%	2.24%	8.45%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

12670751

Timestamp: 14 March 2024 05:00PM EDT

15 March 2024

Equity

Key Changes

(CNY)	Previous	Current
Price Obj.	US\$21.00	US\$19.00
2023E EPS	8.03	8.21
2024E EPS	7.31	6.80
2025E EPS	7.78	7.73

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Stock Data

Price (ADR / Common)	14.38 USD / 37.95 HKD
Price Objective	19.00 USD / 49.00 HKD
Date Established	15-Mar-2024 / 15-Mar-2024
Investment Opinion	C-2-9 / C-2-9
52-Week Range	12.44 USD-19.74 USD
Market Value (mn)	17,099 USD
Shares Outstanding (mn)	1,189.1 / 3,567.6
Average Daily Value (mn)	102.76 USD
Free Float	0.6%
BofA Ticker / Exchange	BEKE / NYS
BofA Ticker / Exchange	XSQR / HKG
Bloomberg / Reuters	BEKE US / BEKE.N
ROE (2023E)	13.8%
Net Dbt to Eqty (Dec-2022A)	-17.7%

GTV: Gross transaction value

iQprofileSM KE Holdings

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(CNY Millions)					
Sales	80,752	60,669	77,777	85,386	94,325
Gross Profit	15,819	13,781	21,718	22,883	25,587
Sell General & Admin Expense	(13,234)	(11,920)	(14,891)	(15,198)	(16,326)
Operating Profit	(1,355)	(833)	4,797	5,690	7,167
Net Interest & Other Income	2,442	754	3,037	1,161	1,161
Associates	53	371	50	0	0
Pretax Income	1,141	292	7,884	6,851	8,327
Tax (expense) / Benefit	(1,665)	(1,690)	(1,994)	(2,686)	(3,055)
Net Income (Adjusted)	2,295	2,854	9,731	8,058	9,166
Average Fully Diluted Shares Outstanding	1,197	1,197	1,186	1,186	1,186

Key Cash Flow Statement Data

Net Income	(524)	(1,386)	5,883	4,165	5,272
Depreciation & Amortization	1,371	1,506	1,402	1,419	1,419
Change in Working Capital	32	5,036	6,876	(5,232)	1,385
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	2,716	3,304	(3,003)	3,258	3,258
Cash Flow from Operations	3,595	8,461	11,158	3,610	11,335
Capital Expenditure	(1,430)	(793)	(778)	(854)	(943)
(Acquisition) / Disposal of Investments	(18,792)	(6,233)	0	0	0
Other Cash Inflow / (Outflow)	(4,662)	(1,447)	(3,200)	0	0
Cash Flow from Investing	(24,884)	(8,472)	(3,977)	(854)	(943)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	0	0	(1,461)	(2,906)	0
Cash Flow from Financing	(1,074)	(1,155)	(6,962)	(2,906)	0
Free Cash Flow	2,165	7,668	10,380	2,756	10,391
Net Debt	(15,883)	(12,194)	(11,017)	(10,994)	(21,480)
Change in Net Debt	23,065	1,497	(592)	23	(10,485)

Key Balance Sheet Data

Property, Plant & Equipment	1,972	2,037	1,965	2,033	2,191
Other Non-Current Assets	28,421	36,886	48,613	48,613	48,613
Trade Receivables	9,325	4,163	3,176	7,222	7,253
Cash & Equivalents	20,446	19,413	19,635	19,612	30,097
Other Current Assets	40,155	46,848	46,943	44,619	44,629
Total Assets	100,319	109,347	120,332	122,099	132,783
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	24	352	280	280	280
Short-Term Debt	260	619	290	290	290
Other Current Liabilities	28,676	32,722	39,234	35,723	37,150
Total Liabilities	33,263	40,293	48,131	44,620	46,047
Total Equity	67,055	69,054	72,201	77,478	86,736
Total Equity & Liabilities	100,319	109,347	120,332	122,099	132,783

iQmethodSM - Bus Performance*

Return On Capital Employed	-0.7%	-0.1%	5.7%	5.0%	5.8%
Return On Equity	3.4%	4.2%	13.8%	10.8%	11.2%
Operating Margin	-1.7%	-1.4%	6.2%	6.7%	7.6%
EBITDA Margin	0%	1.1%	8.0%	8.3%	9.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.6x	3.0x	1.1x	0.4x	1.2x
Asset Replacement Ratio	1.6x	0.9x	1.0x	1.1x	1.2x
Tax Rate (Reported)	146.0%	578.0%	25.3%	39.2%	36.7%
Net Debt-to-Equity Ratio	-23.7%	-17.7%	-15.3%	-14.2%	-24.8%
Interest Cover	NA	NA	NA	NA	NA

Key Metrics

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Internet/e-Commerce

Company Description

KE Holdings is a leading integrated online and offline platform for housing transactions and services incl. existing home sales, home rentals, new home sales, home renovation and real estate financial solutions. The company is the largest housing transaction platform in China. It primarily monetizes from existing home and new home transaction commissions, as well as from service fees and other emerging services.

Investment Rationale

KE Holdings is a leader in China's housing market with solid quality in terms of higher efficiency, pricing power, and resilience. It achieves higher efficiency with its unique Agent Collaboration Network and advanced tech incl. SaaS and data and AI applications. We expect company to outperform housing market growth, but the recovery may be of uncertainties and volatilities.

Stock Data

Shares / Common	0.33
Price to Book Value	1.7x

Key Changes

(CNY)	Previous	Current
Price Obj.	HK\$54.00	HK\$49.00
2023E EPS	2.68	2.74
2024E EPS	2.44	2.27
2025E EPS	2.59	2.58

Price objective basis & risk

KE Holdings (BEKE / XSQRF)

Our PO of USD19 (HKD49) is based on EV/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.

APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	XWJF	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
	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
	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
	NetEase	NETTF	9999 HK	Lei Zhang
	NetEase, Inc	NTES	NTES US	Lei Zhang
	Nine Entertainment Company	NNMTF	NEC AU	Ware Kuo
	Pinduoduo Inc.	PDD	PDD US	Joyce Ju
	Plan B Media PCL	XMKTF	PLANB TB	Thititthep Nophaket
	PVR-Inox Ltd	PVRLF	PVRINOX IN	Sachin Salgaonkar
	REA Group	RPGRF	REA AU	Sriharsh Singh



APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	YY	YY	YY US	Lei Zhang
	Zomato Limited	XMWRF	ZOMATO IN	Sachin Salgaonkar

NEUTRAL

	Autohome	ATHM	ATHM US	Miranda Zhuang, CFA
	Autohome	XXYZF	2518 HK	Miranda Zhuang, CFA
	Baozun	BZUN	BZUN US	Joyce Ju
	Glodon Company	XGCOF	002410 CH	Daley Li, CFA
	GoTo Group	GTOFF	GOTO IJ	Sachin Salgaonkar
	Huya	HUYA	HUYA US	Lei Zhang
	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
	Nykaa	XQQGF	NYKAA IN	Sachin Salgaonkar
	PB Fintech	XPFXF	POLICYBZ IN	Sachin Salgaonkar
	PT Bukalapak.com	BKLPF	BUKA IJ	Sachin Salgaonkar
	Sea Limited	SE	SE US	Sachin Salgaonkar
	Seek Limited	SKLTF	SEK AU	Sriharsh Singh
	Seven West Media	WANHF	SWM AU	Ware Kuo
	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
	Yonyou Network	XYNIF	600588 CH	Daley Li, CFA

UNDERPERFORM

	Appen Ltd	APPEF	APX AU	Ware Kuo
	BEC World	XBJHF	BEC TB	Thititthep Nophaket
	Douyu	DOYU	DOYU US	Lei Zhang
	Indiamart InterMesh Limited	XEITF	INMART IN	Sachin Salgaonkar
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Kingsoft Office	XBKOF	688111 CH	Daley Li, CFA
	Ming Yuan Cloud	XWTAF	909 HK	Daley Li, CFA
	NavInfo	XWLHF	002405 CH	Daley Li, CFA
	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	XSTSF	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

RVW

	AfreecaTV	WNTHF	067160 KS	Susie Lee
	CJ ENM	CJHOF	035760 KS	Susie Lee
	Coupang	CPNG	CPNG US	Susie Lee
	Dada Nexus	DADA	DADA US	Lei Zhang
	HYBE	XBGOF	352820 KS	Susie Lee
	JYP Entertainment	ALNNF	035900 KS	Susie Lee
	Kakao Corp.	DAUCF	035720 KS	Susie Lee
	Kakao Games	XKKGf	293490 KS	Susie Lee
	Krafton	XKINF	259960 KS	Susie Lee
	Naver Corporation	NHNCF	035420 KS	Susie Lee
	NCSOFT	NCSCF	036570 KS	Susie Lee

APR - Internet, Media and Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Netmarble	XLGHF	251270 KS	Susie Lee
	Paytm	XUXBF	PAYTM IN	Sachin Salgaonkar
	PearlAbyss Corp	XEPAF	263750 KS	Susie Lee
	YG Entertainment	XYEIF	122870 KS	Susie Lee

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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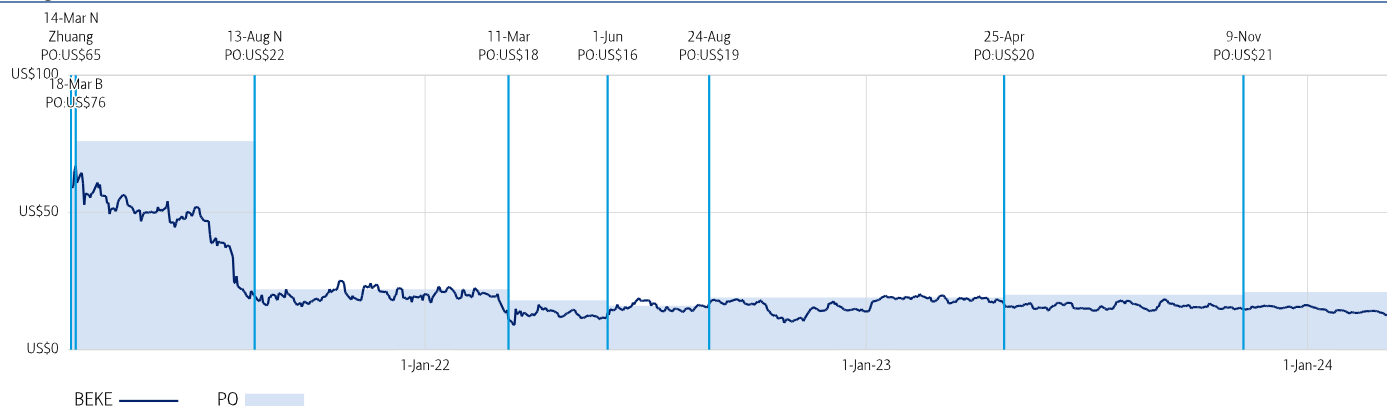
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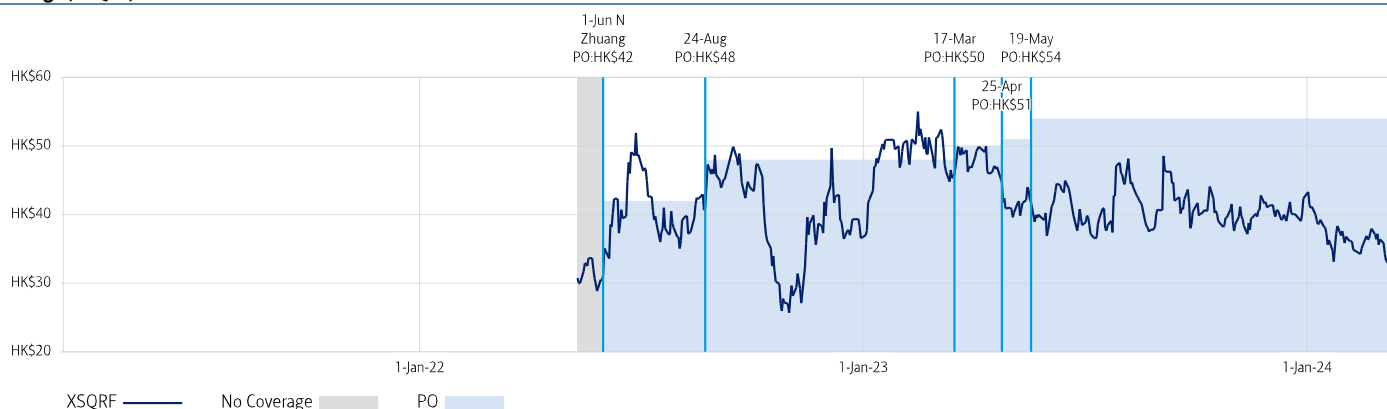
KE Holdings (BEKE) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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