

I am not optimistic about the stock.

On the 9th morning, KE Holdings Inc. (NYSE: BEKE) jumped 17 percent after the real estate giant posted better-than-expected unaudited financial results for the third quarter of fiscal 2021. Still, in comparison to a few months ago, KE Holdings' shares are now being offered at a discount. KE Holding was the top gainer in 2020. It was listed on NYSE with an offering price of \$20 per share and jumped 87.2% on the IPO day. The highest share price closed at \$80, which has gained 87.2% in three months. While KE Holdings' growth falls off a cliff within only one year.

KE Holding was the top gainer in 2020. Found in 2001, KE Holdings, Inc. (BEKE) offers support with property transactions and related services. The company owns the brand Lianjia that operates real estate brokerage businesses. KE Holding, Inc. (BEKE) was listed on NYSE with an offering price of \$20 per share and jumped 87.2% on the IPO day, and was a top performer in 2020. Its highest share price closed at \$80, which has gained 87.2% in three months. While KE Holdings, Inc. (BEKE) growth falls off a cliff within only one year, although the stock jumped amid China's property market crisis, I am not optimistic about the stock because of the following risks.

Before the Housing Bubble Burst

Found in 2001, KE Holdings, Inc. (BEKE) offers support with property transactions and related services. The company owns the brand Lianjia that operates real estate brokerage businesses.

Government's policy

Market's attention is still following government policies and regulations. China's property market is headed for a prolonged period of slow growth from 2021. This July, the Ministry of Housing and Urban-Rural Development, and the other eight government departments issued the guideline, which emphasized that order in the real estate market needs to be improved significantly in the next three years. This influence, the shares plunged by 10.94%, wiping more than \$50 billion off its market capitalization. Some existing home prices have fallen below the government guide price in Shenzhen and Guangzhou in late November. The policy implications can be seen in BEKE Q3 2021 unaudited financial results, which said the net revenues from existing home transaction services were \$0.9 billion, compared to RMB8.8 billion in the same period of 2020. Moreover, the policy strongly influences the existing housing turnover in most cities, due to existing house and new house transactions contributed 97% of income in BEKE.

Why is Profit Growth unsustainable ?

KE Holdings, Inc Q1 2021 net income is displayed below:

KE Holdings Inc.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(All amounts in thousands, except for share, per share data, ADS and per ADS data)

Income (loss) before income tax expense	(1,380,248)	1,482,442	226,264
Income tax benefit (expense)	148,861	(423,671)	(64,665)
Net income (loss)	(1,231,387)	1,058,771	161,599

We see a dramatic step up from the \$192,401 net loss reported in Q1 2020 to \$165,430 net income in Q1 2021. But it is an irreproducible model for the future and mainly attributable to the three reasons:

1. The 2020s performed a low base. The prospectus said the net income was down nearly 12.7%.
2. The increase of housing prices. In 2021, the housing price soared more than 10% in China's top-tier cities. While the 50% revenue growth is due to the increase in the number of existing transactions completed through Lianjia brand.

Year/	New Housing Price Inflation Year-on-year in Top-tier Cities	Existing House Price Inflation Year-on-year in Top-tier Cities	New Housing Price Inflation Year-on-year in Second-tier Cities	Existing House Price Inflation Year-on-year in Second-tier Cities
Jan. 2021	4.2%	9.6%	4.1%	2.9%
Feb. 2021	4.8%	10.8%	4.5%	2.5%
Mar. 2021	5.2%	11.4%	4.8%	3.3%
Jan. 2020	3.8%	2.2%	6.9%	3.4%
Feb. 2020	3.5%	2.2%	6.2%	3%
Mar. 2020	3.3%	2.4%	5.8%	2.5%
Source from: National Bureau of Statistic				

Obviously, the housing price increase results in the increase in house transactions and commissions.

3. Building traded climbs. House price is strongly linked to the trading volume.

However, the three causes are not qualified for continuous development in the next quarters.

	The Existing-home Pricing Growth in 70 Cities	The Existing-home Pricing Growth in Top-tier Cities	The New-home Pricing Growth in 70 Cities	The New-home Pricing Growth in Top-tier Cities
Jan. 2021	0.4%	1.3%	0.3%	0.6%
Feb. 2021	0.3%	1.1%	0.4%	0.6%
Mar. 2021	0.4%	1.1%	0.4%	0.4%
Apr. 2021	0.4%	0.8%	0.5%	0.6%
May. 2021	0.3%	0.7%	0.5%	0.7%
Source from: National Bureau of Statistic				

As shown above, a new trend has emerged: the rate of increase is slowing in top-tier cities. As a result, BEKE's primary concern has been how to achieve long-term profit growth.

The Controversy of Transactions Charges

For KE Holdings, Inc. (BEKE), the latest piece of bearish news comes from the above-average transactions charges. Chongqin BEKE stated on February 8, 2021, that the property transaction and services charge had been reduced to 1% on the seller and 2% on the buyer (Previously 0 percent on seller, 1 percent on buyer). In earlier, KE Holdings, Inc. has applied a 3% broker's fee in Zhengzhou, Shanghai, Shenzhen, Guangzhou, Chengdu, and so on. According to Zuohui, the founder of KE Holding, Inc., broker service fees in China are approximately 2.5 percent, although they are around 6 percent in the United States and Japan, 5 percent in Taiwan, and 8 percent in South Africa. BEKE cites the China Investment Corporation research, which claims that the existing home transaction commission rate levied in the United States is 5% in 2019 and that there is still room for commission improvement. Increasing the broker charge is advantageous for glorifying financial statements, its transaction fees are greater than the market average in China, and the expenses are likely to be passed on to customers.

If the broker's charge is regulated, the revenue rationale would be immediately influenced.

Feast or Famine ?

From 1998 to 2018, that was the golden twenties of China's real estate industry. The Urban Housing System Reform of 1998 fueled urbanization, economic boost, and living standards improvement. As a pillar of national economy, real estate industry has a great impact on economic development and social stability. While the real estate business is booming, risks are mounting. "China's property market is the biggest 'gray rhino', a very obvious yet ignored threat, in terms of financial risks, given it is so deeply intertwined with the financial industry, and it is necessary to keep real estate loan risks under control for the stable development of the property market," Guo Shuqing, chairman of the China Banking and Insurance Regulatory Commission, said in this March. Evergrande Group was once China's most prolific developer, its cranes dotting China's skylines. But now it is buckling under the weight of more than \$300 billion in debt. After 2018, the party shut down.

The Bottom Line

In my opinion, BEKE's stock market performance in Q3 2021 will be hard to reproduce in the future. KE Holdings said it expects to generate up to \$2.4 billion in revenue in the fourth quarter and witness a decrease of up to 36% year-over-year, and the forecast takes into account "the potential impact of the recent real estate-related policies and measures and the Company's current and preliminary view on the business situation and market condition." I just don't see it.

KE Holding's commission rates have risen far above those of its competitors, as KE Holding's largest competitor, 5i5j.com charges only 2.16% in transaction commissions.

Refs:

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