

Vanke [000002.SZ]

Insights Fudan University, School of Management

Part I: Company Overview

China Vanke Co., Ltd. was established in 1984. After 30 years of development, it has become a leading urban and rural development and living services provider in China.

Vanke was formerly known as Shenzhen Modern Science and Education Equipment Exhibition Center. In 1988, the company officially entered the real estate industry. On January 29, 1991, Vanke became a listed company, traded on the Shenzhen stock exchange, with a stock code of 000002.SZ. The company's sales exceeded 10 billion yuan in 2005 and exceeded 50 billion yuan in 2007. In 2010, it became the first Chinese real estate company with sales exceeding 100 billion yuan. In 2017, its sales exceeded 500 billion yuan. In July 2016, the Group was first listed on Fortune Global 500, ranking 356th. In 2017, the Group ranked 307th. In 2018, the Group further enhanced its positioning to “urban and rural development and living services provider”.

The Group centers on the three most vibrant economic circles nationwide and hub cities in Midwest China. In 2014, Vanke had extended its position as a company offering “good houses, good services, good community” to an “integrated urban services provider” in its fourth ten-year development plan. In 2018, Vanke will further upgrade such position to “urban and rural development and living services provider” and refine it into four roles: a solution provider of better life, a contributor to real economy, an innovator for future development and a creator of harmonious ecosystem.

The core business of the Group includes property development, property service and rental housing. The ecological system formed had already taken its shape. On the basis of consolidating the inherent advantages of residential properties development and property services, Vanke's businesses were extended to areas such as commercial development and operations, logistics and warehousing services, rental housing, industrial towns, skiing resort business, elderly care and education.

Vanke's Top 10 Shareholders from FY2018Q3 Report

	Shareholder's Name	shareholding ratio
1	Shenzhen Metro Group	29.38%
2	Hong Kong Securities Clearing Company Ltd. (HKSCC)	11.91%
3	Shenzhen jushenghua Limited by Share Ltd	8.39%
4	A product of Guoxin Security Co.	4.14%
5	A product of Anbang Life Insurance Co.	3.21%
6	A product of Qianhai Life Insurance Co.	3.11%
7	A product of China Merchants Bank	2.98%
8	A product of Anbang Property & Casualty Insurance Co.	2.34%
9	UBS AG	1.90%
10	China Investment Corporation	1.72%

Part II: Introduction to Chinese real estate industry

1. Industrial Chain

The real estate industry includes upstream, midstream and downstream sub-industries. The following picture shows some more details:

Industrial Chain for the Real Estate Industry



2. Business Model

The business models of real estate companies is 'B to B to C'. The first 'B' represents suppliers. The second 'B' represents the real estate companies. The last 'C' represents the households. Therefore, the real estate companies' bargaining power depends on two sides: bargaining power against the upstream as well as the downstream. For the part of upstream, the real estate companies' bargaining power is positively related to its purchase amount, the relative scale of the brand, the degree of the partnership with suppliers. For the part of downstream, since the real estate companies face the masses, they naturally have a good bargaining power.

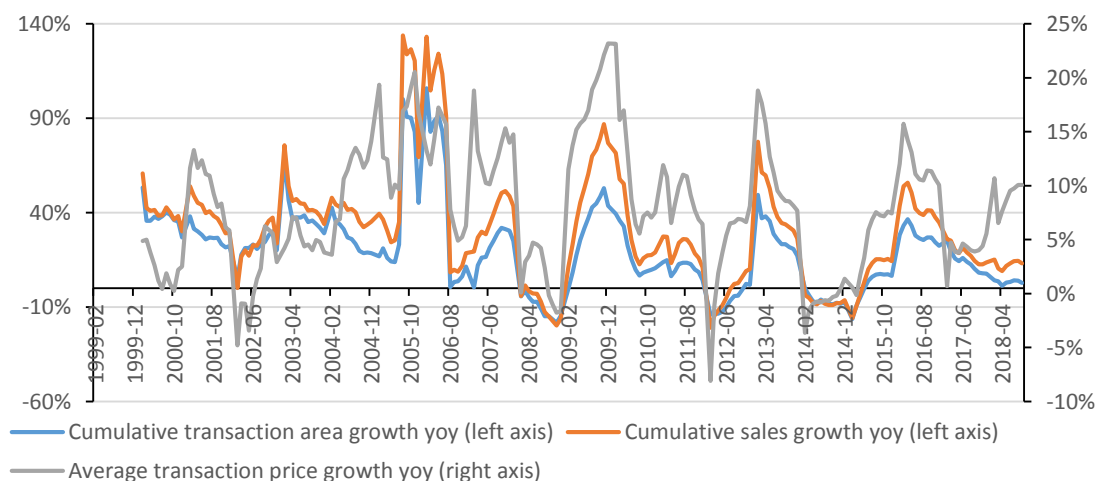
3. Relationship between Supply and Demand

A. Historical Life Cycle

By looking at the historical selling data of Chinese newly-built commercial houses, we can divide the past into 4 cycles.

	First cycle	Second cycle	Third cycle	Fourth cycle
Years	2005.01-2009.02	2009.03-2012.10	2012.11-2015.05	2015.06-2018

Chinese Real Estate Industry 1999-2018



B. Stages in a Life Cycle

Usually for a cyclical industry, a complete cycle may consist of four stages. When it comes to real estate industry, the story is as following:

Stages	Features	Real Estate Market Condition
Stage I	The price rises and the volume drops.	The industry is in recovery. People's confidence is gradually building. Examples include 2004Q2-Q4, 2014Q2-Q3 and 2018Q1-Q2.
Stage II	Both price and volume rise.	The whole industry is in prosperity.
Stage III	The price drops and the volume rises.	There is no such a stage because once the price falls, the developers will stop selling.
Stage IV	Both price and volume drop.	This is a sign of recession in the real estate industry.

By looking at the transaction volume and price, we can conclude from history that the transaction volume and price usually change in the same direction, while in few cases they move in different ways.

4. Historical Review of Chinese Real Estate Industry and Vanke's Strategy

Years	Industry Overview	Vanke's strategy
1985-1994	The development of Chinese real estate industry began in this period. Shenzhen is the earliest city in China to develop the real estate market. At that time, most companies were operating within a specific geographical area.	Vanke was the first company to operate its business in a nationwide spread.
1994-2003	The government implemented policy regulation and control on the real estate industry. The rapid development started to slow down and so did the development speed of enterprises.	Vanke began to focus on the first-tier cities in China.
2003-2008	The real estate industry entered into another fast growing period, many companies began to implement strategies in a national sphere.	Vanke began to take the strategy called 'city circle'.
2009-2014	Chinese government has greatly increased supplying the amount of money, which led to a soar in the whole industry. Other real estate enterprises just begun to implement the strategy of 'city circle'.	Vanke initiated its enhancement strategy of city circle.
2015-2018	The real estate market in Chinese first-tier, second-tier and third-tier cities burst out one after another, and the real estate industry entered into the "diamond era". Companies like Evergrande Group, Country Garden and other enterprises grew rapidly.	Vanke chose to continue implementing the full enhancement strategy of city circle and also started to seek more exposure in new areas.

5. Competition Pattern

Viewpoint	Competitors
City Type	<ul style="list-style-type: none"> ✓ Vanke, Poly, Gemdale, China Overseas Property (COP, COB), Greenland Group, Sunny World Group and other companies are focusing on the first and second-tier city market. At present, these companies are expanding to the third and fourth-tier cities. ✓ Evergrande Group, Country Garden are currently focusing on the third, fourth and fifth-tier city markets. These companies are now expanding to second-tier cities.

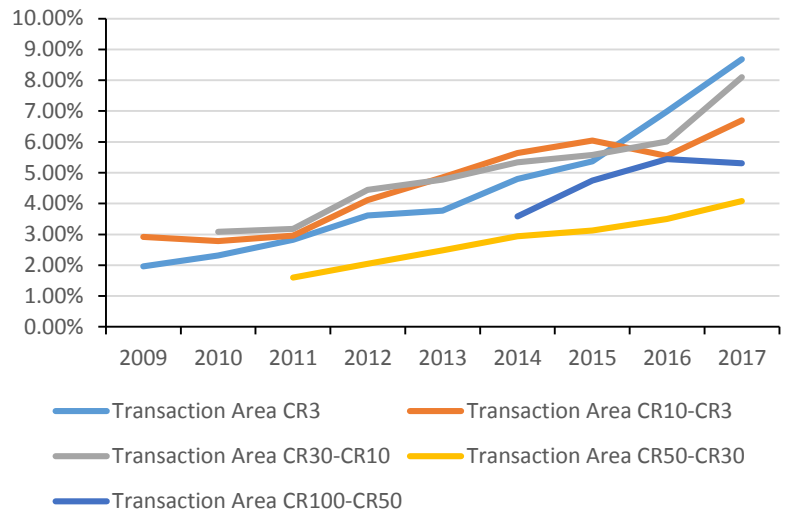
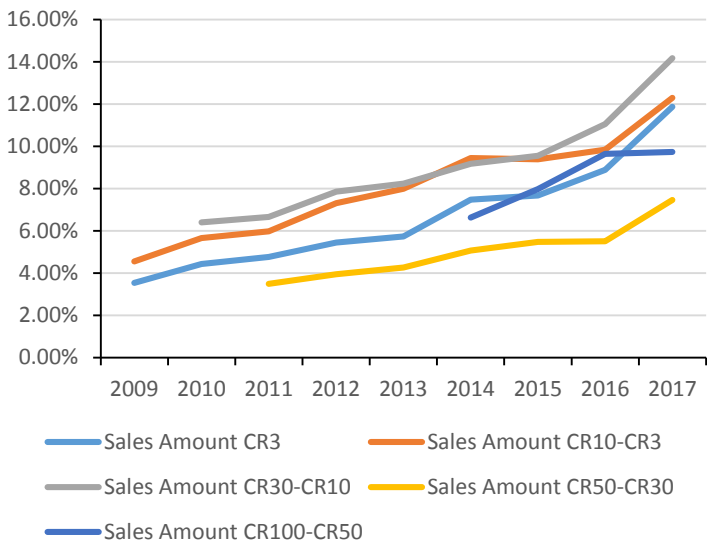
Level of Consumption	<ul style="list-style-type: none"> ✓ Greenland Group and Sunac mainly develop high-grade housing. ✓ Local small real estate companies mainly develop low-grade housing. ✓ Other large national companies mainly develop the middle-grade housing, which is the largest market, and sometimes high-grade housing.
Geographical Area of Business	<ul style="list-style-type: none"> ✓ Vanke, Poly, China Overseas Property, Evergrande Group, Country Garden, etc. are national-operating enterprises. ✓ Greenland Group mainly operates in Yangtze River Delta. ✓ China Fortune Land Development mainly operates in Beijing, Tianjin and Hebei. ✓ China Merchants Shekou (CMS, CMPD) mainly operates in Pearl River Delta.

6. Market Concentration

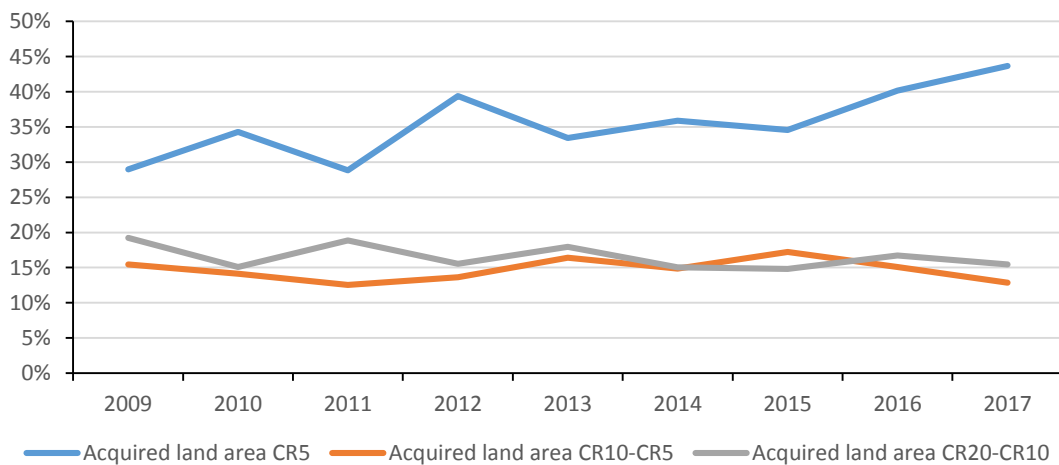
The past 9 years has seen an increasing market concentration in Chinese real estate industry. This suggests the comparative advantage of big companies is growing, and Vanke is also one of them.

Market Concentration by Sales Amount

Market Concentration by Transaction Area



Market Concentration by Acquired Land Area

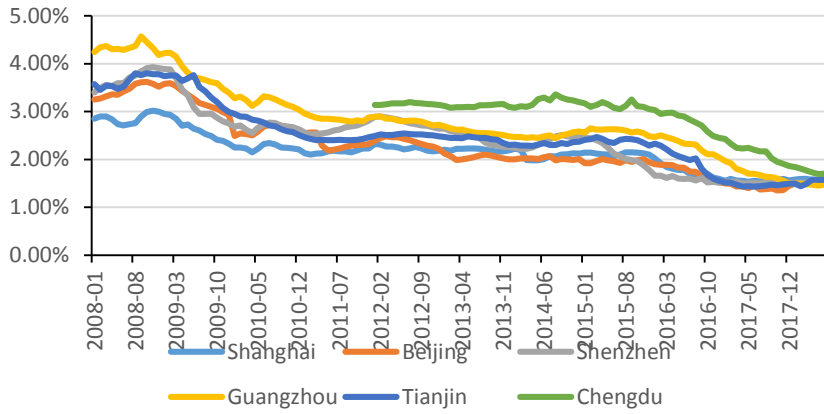


7. Market Space

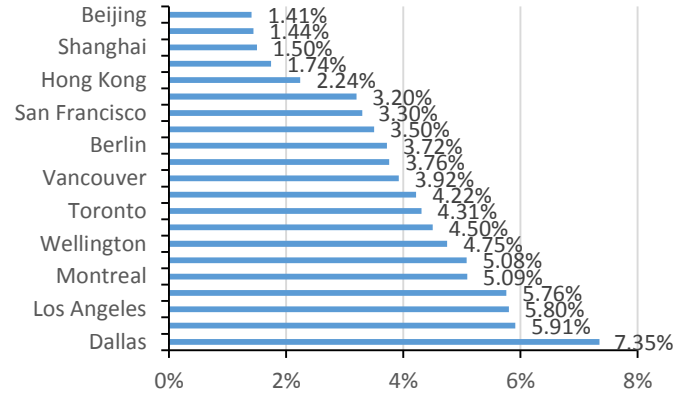
A. Relative Value

The following graph shows the house price grows faster than the rent in China.

Rental Yield



Rental Yield in Different Cities 2017

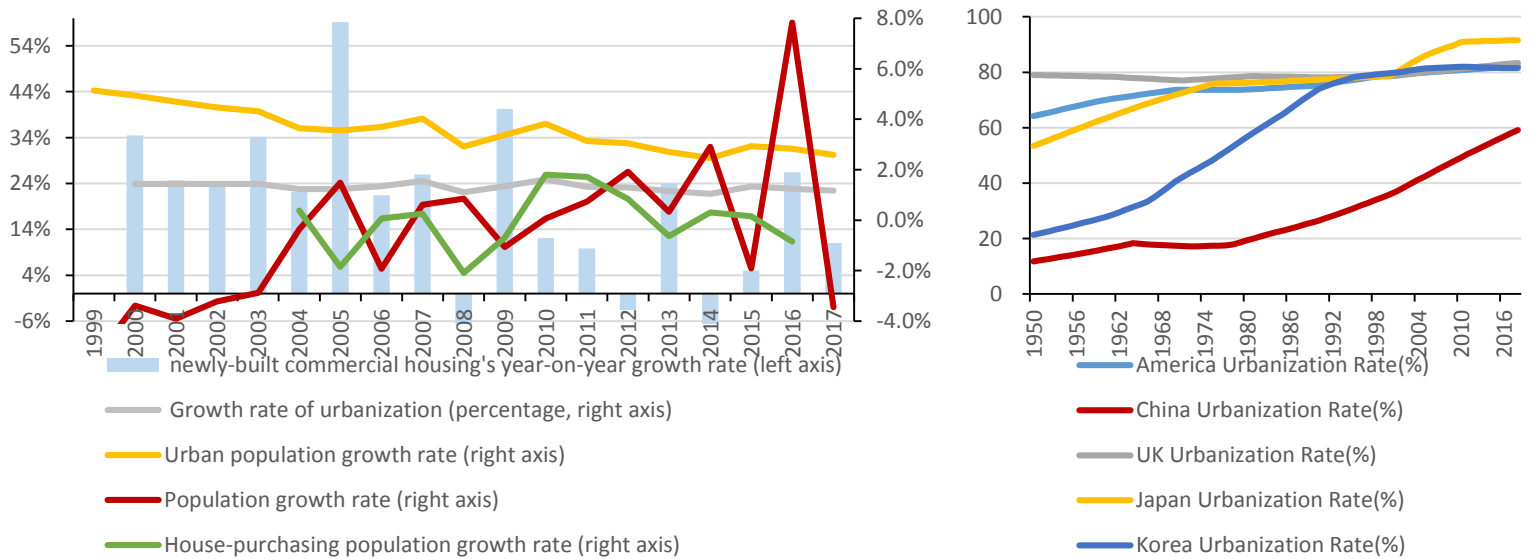


Compared with other global cities, Chinese first-tier cities has a relatively low rental yield, implying current house price in China is high.

B. Population

Chinese real estate industry is positively related to its urban population growth. The following numbers show the correlation coefficient between each indicator and the transaction volume of newly-built commercial housing's year-on-year growth rate:

Item	Correlation Coefficient
Growth rate of urbanization (percentage)	0.351
Urban population growth rate	0.502
Population growth rate	-0.156
House-purchasing population growth rate	-0.305



Compared with other developed countries, Chinese urbanization rate still has a big development space. Before reaching the level of 80%, urbanization rate usually keeps growing and this trend is irreversible. Therefore, Chinese real estate market still has a potential.

Part III: Competitiveness

1. DuPont analysis overview

We used DuPont analysis to dig more about company's situation. Vanke's net interest rate and net debt ratio is relatively low among leading companies, while its turnover rate Always stays ahead of the industry.

What is worth mentioning is we didn't use the classical DuPont equation. Instead, we use the fund turnover rate = Received cash / (equity + debt with interest), and Net debt ratio = (debt with interest - cash) / Equity. These two ratio are more useful and suitable in the real estate industry.

Figure 1 Net margin: lower than most leading companies

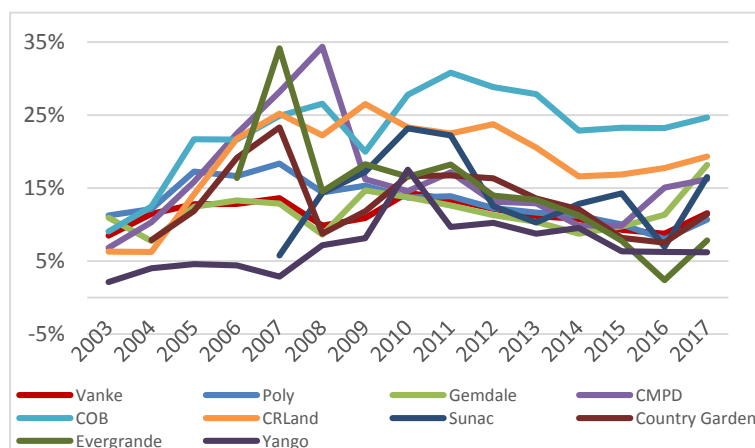


Figure 2 Net debt ratio: Remain low in the industry

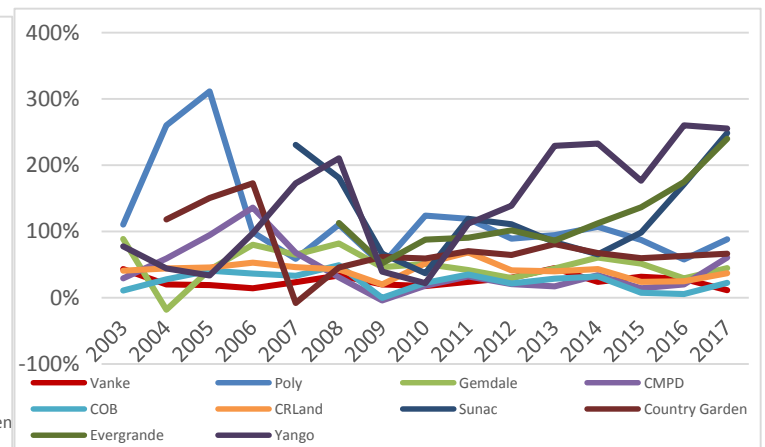
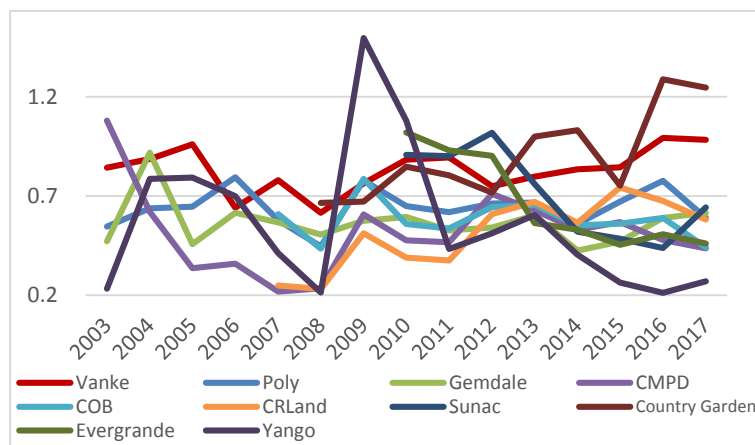


Figure 3 Fund turnover rate: Remain lead in the industry



2. Profitability

As for profitability, we thoroughly analyzed the influencing factors of gross margin, Sales expense ratio, Management expense ratio and Financial expense ratio by comparing competitors. Companies' gross margins have obvious different, which is mainly decided by business model and cost control. Sales expense ratio is affected by marketing strategy. Management expense ratio is determined by company culture, efficiency and management model. And financial expense ratio is influence by leverage. In general, business model (how to deal with turnover, leverage) is the main factor affecting the structure of profit margin.

Figure 4: Gross margin

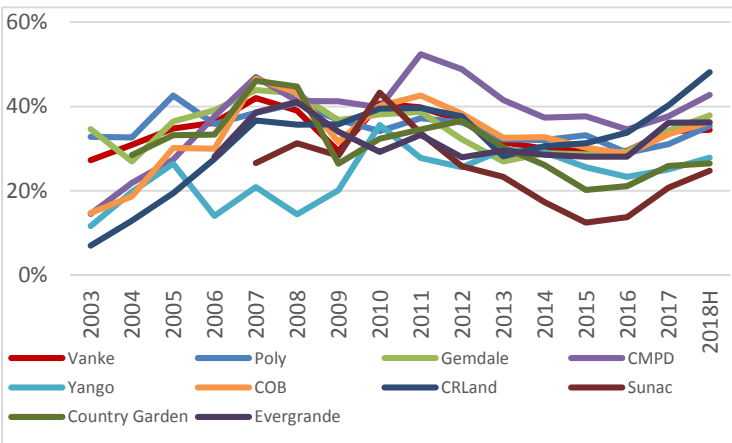


Figure 5 Sales expense ratio

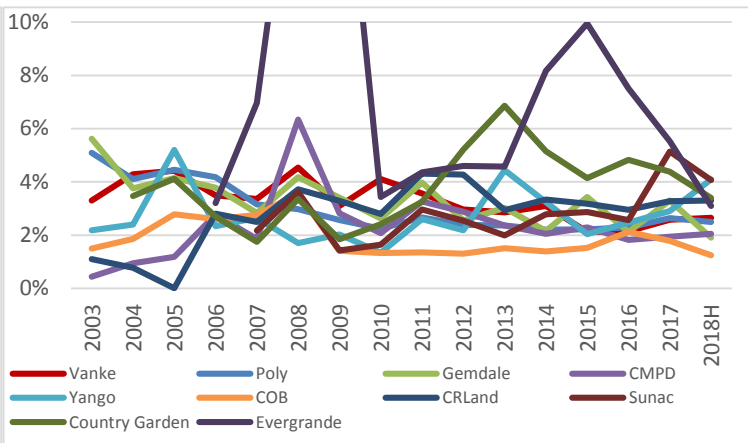


Figure 6 Management expense ratio

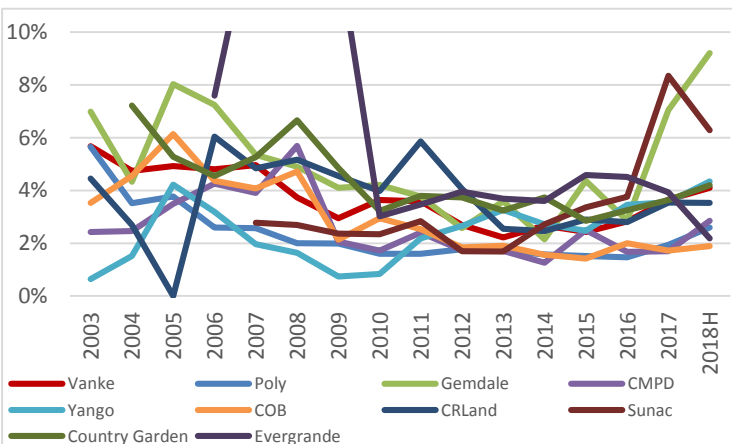
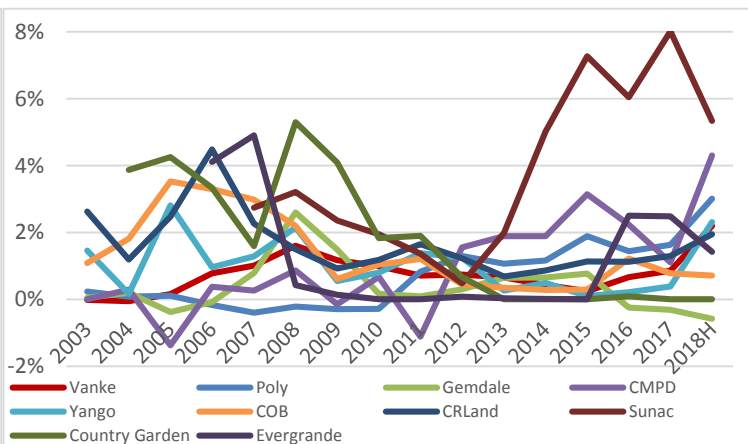
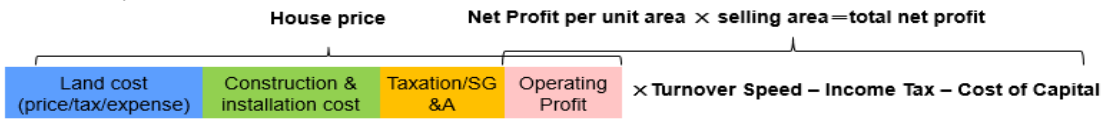


Figure 7 Financial expense ratio



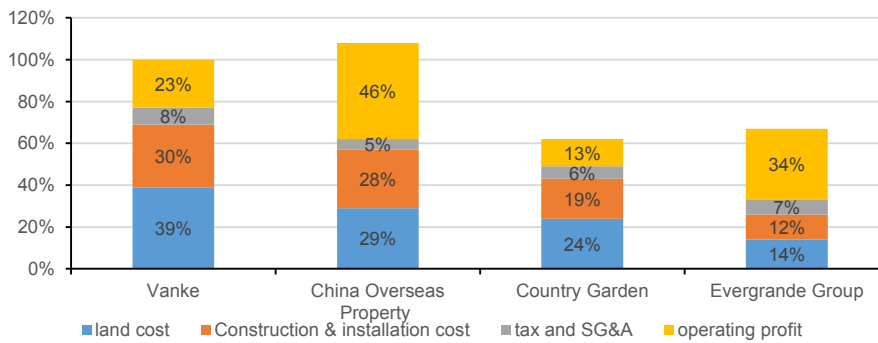
We further breakdown profitability into several factors: high sale price, ability to purchase land at a low price, management of construction and installation cost, cost control ability, capital turnover rate and capital cost.



Unit area profit splitting table (RMB)		Vanke	China Overseas Property	Country Garden	Evergrande Group
a	House Price	14739	16045	9080	9960
b	Land Cost	5803	4344	3550	1996
c	Construction & installation cost	4400	4200	2800	1800
d	Business Taxes and Surcharges	248	200	146	151
e	SG&A	918	563	732	941
f	Operating Profit	3370	6738	1852	5073
g	Capital turnover speed	0.96	0.42	1.22	0.44
h	Annual operating profit	3235	2830	2259	2232
i	income tax	809	708	565	558
j	cost of capital	275	398	276	1178
k	net profit	2151	1725	1418	496
l	Annual income per square meter	14149	6739	11078	4382
k/l	net profit margin	15.21%	25.60%	12.80%	11.31%
	actual net profit margin of FY2017	15.32%	25.49%	12.61%	11.90%

Among these six factors, the first two factors (a, b) are most decided by the market, which means it's hard to beat competitors in these two aspects. However, the last four factors (c, e, g, j) are different between different companies.

Figure 8 Comparison between Vanke and Competitors (Denominator is Vanke's sales in FY2017)



As for Vanke, its average selling price is lower than most comparable company due to high turnover rate. Its expense rate is the average level in the industry and its floor area price has no advantaged compared with China Overseas Property. So, basically the main advantages in profitability of Vanke are its high turnover rate and money.

Figure 9 Average selling price

Figure 10 Expense rate

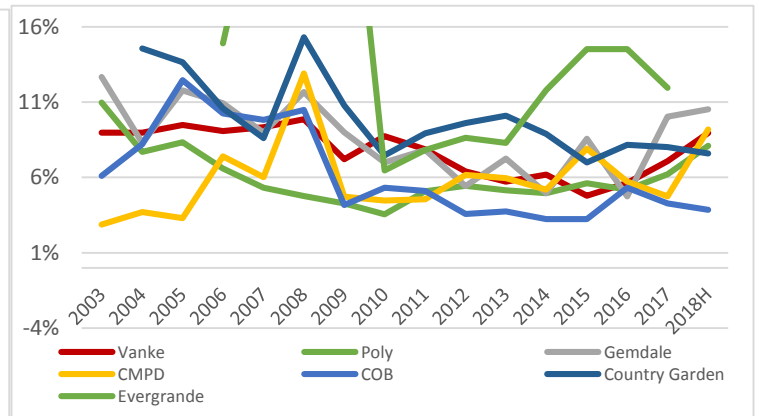
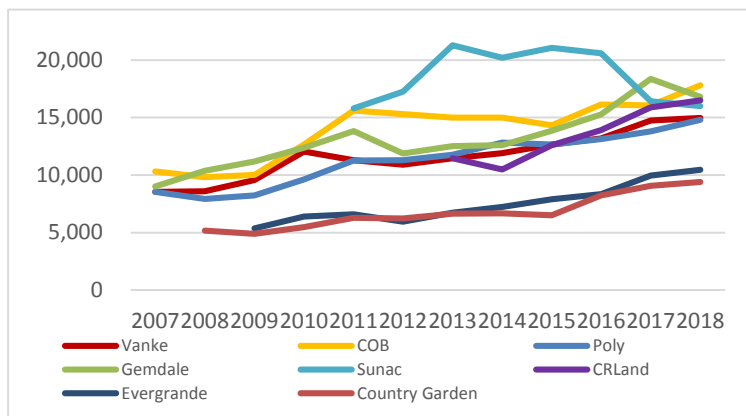
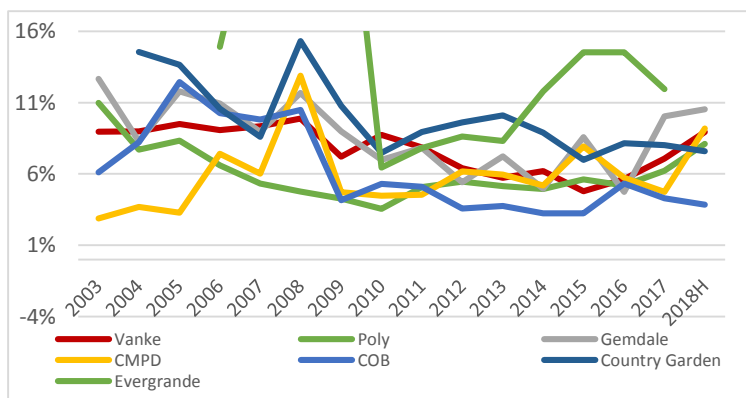


Figure 11 Floor area price



Advantages in profitability						
	Price	Land	Construction and installation	Cost	Turnover rate	Money
Vanke					☆☆☆	☆☆
COB	☆☆	☆	☆☆	☆☆☆		☆☆☆
Country Garden	☆☆				☆☆☆	☆☆
Evergrande	☆☆	☆	☆			
Source	Brand	Back-ground	Operation	Operation	Management	Brand

3、Turnover capacity

(1) Analysis from financial perspective

So why is Vanke's turnover rate higher than its opponents? We tried to explain it from financial perspective and company operation perspective.

As for financial perspective, we studied several core indicators related to turnover rates. Those who can get the most cash flow (cash received) with the least internal fund (equity) and debt with

interest can perform better than other companies. Vanke's cash received / revenue is among the average, while its asset-liability ratio is one of the highest in the industry and debt with interest / assets is significantly lower than opponents. So Vanke's high turnover rate is due to its high asset-liability ratio and low debt with interest / assets, which means the ability to obtain huge number of interest-free debt. In conclude, interest- free debt is the core indicator of turnover rate.

Figure 12 Cash received / Revenue

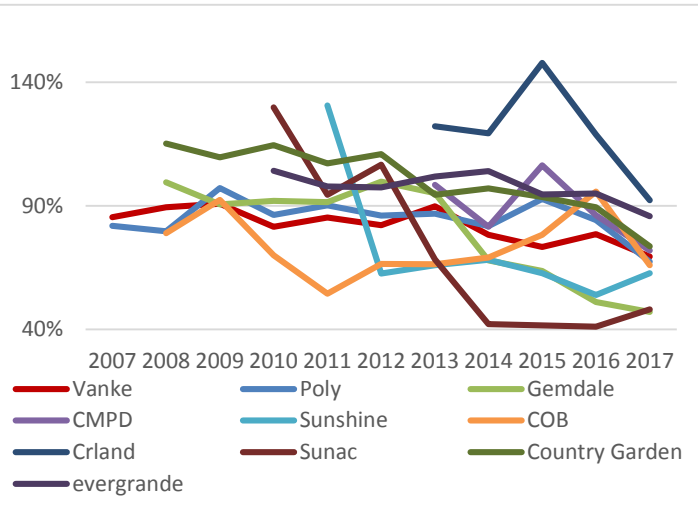


Figure 13 Equity / Assets

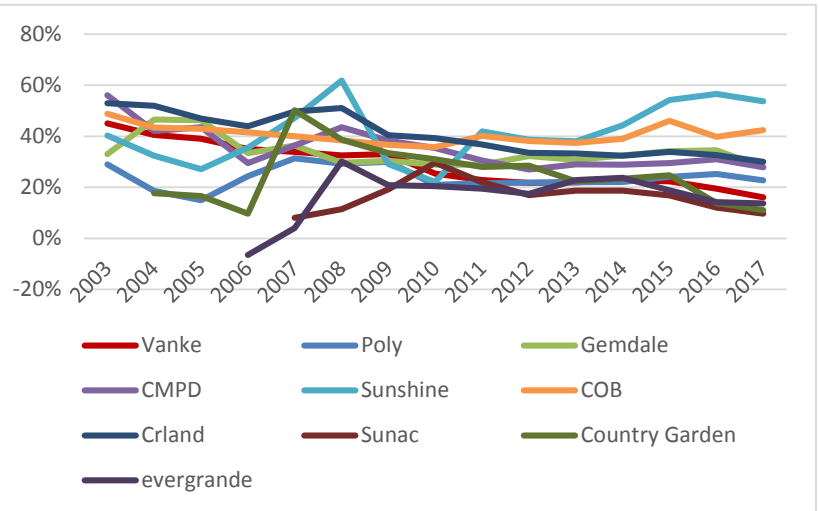


Figure 14 Debt with interest / Assets

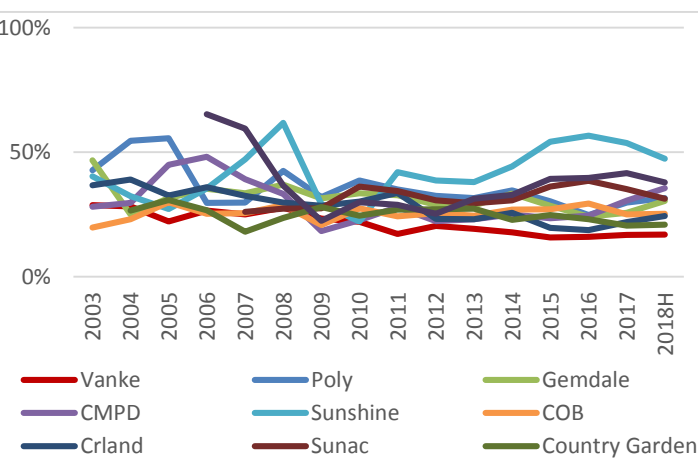
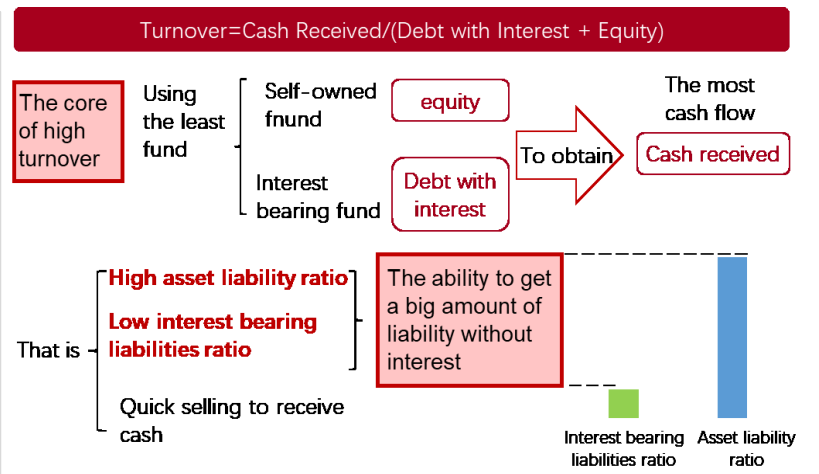


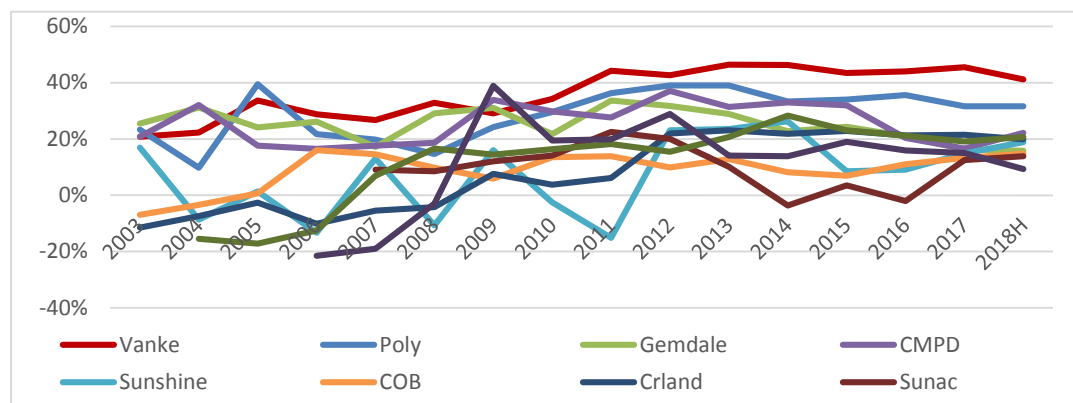
Figure 15 Reasons for High Turnover Rate



We further analyzed determinant of ability to obtain huge number of interest-free debt. The ability is most determined by power among the industry chain. Considering the business model of real estate enterprise, they naturally have high power over their costumers and the bargaining power over upstream companies is determined by amount purchased, brand and symbiosis.

We defined a factor called funds from occupying upstream and downstream capital, which equals to funds occupying minus fund occupied and can separately break down to the sum of bills payable, accounts payable, advance receipt and other payables minus the sum of Notes receivable, accounts receivable, prepayments and other receivables. Comparing the funds from occupying upstream and downstream capital to asset ratio, it's obvious that Vanke's funds from occupying upstream and downstream capital take up more proportion than other competitors, indicating that Vanke has a high bargaining power over the whole industry chain.

Figure 16 Funds from occupying upstream and downstream capital/Assets



(2) Analysis from operating perspective

Vanke's high-turnover operation is a competitive advantage. The turnover process of a real estate enterprise includes steps of land acquisition, start-up, opening sales, first month selling, capital return, and re-turnover. Since 2010, Vanke has achieved high turnover in the areas of reserve design and sales, and the high-turnover operation model has led the industry for many years.

Vanke's high turnover is mainly due to its high capital turnover rate, standardization model and high management efficiency, rather than shortening the construction period by cutting corners like Country Garden. Specifically, Vanke's high-turn operation model requires the following conditions. In the reserve design process, Vanke achieves pre-position decision-making, fully conducts market research, and makes detailed plans for design, approval, and bidding to achieve standardization. In the sales process, Vanke thinks highly of sales rate. In other respects, Vanke implements incentive mechanisms, distinguishes rewards and punishments, clarifies the internal responsibilities of various employees, and improves management efficiency. In contrast, Country Garden only takes 20 days and 3 months in the reserve design phase and construction phase, but Country Garden's turnover method to shorten the construction period by cutting corners is not desirable and sustainable.

Figure 17 Typical Turnover Rate of Real Estate Companies

	Acquire land	Start building	Start selling	1 st month selling rate	Recover investment	Turnover again	Beginning year
Country Garden	20 days	3 months		90%	2 months	2 months	2015
Zhongnan	2.5 months	3-4 months		80%		half year	2016
Vanke	3-4 months	5-6 months		80%→40%			2010
Gemdale	4-5 months	6-8 months					2017

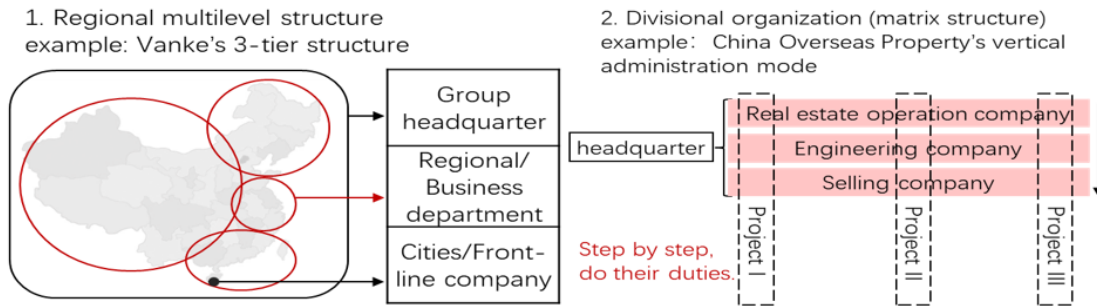
Vanke's high management efficiency is one of its main competitive advantages. The core of management efficiency lies in a reasonable organizational structure and maximum exploitation of human resources.

From the perspective of organizational structure, Vanke is a three-level structure, which is a typical structure of the regional multi-level structure. The structure hierarchy is divided into group headquarters, regional companies or business units, city companies or first-line companies. The group headquarters is responsible for formulating strategies and systems, regional companies or businesses are responsible for professional issues, and city companies or first-line companies are responsible for implementing programs. Compared with companies such as China Overseas Property, the organizational structure of China Overseas Property is a vertical management model, which is a typical structure of the business unit system (matrix structure). The company

headquarters includes real estate operation companies, engineering companies, sales companies, etc. Each company has its own functions, and gradually assigns tasks to complete projects. A reasonable organizational structure can clarify the individual division of labor, reduce friction, and achieve precise control from top to bottom.

As of human resources, Vanke has motivated employees' potential by maximizing rewards and punishments and implementing corporate culture to improve management efficiency.

Figure 18 Management Structure of Typical Enterprises



4. Leverage

Comparing Vanke's leverage related factors with other companies, we had a few discoveries. As for short term debt / Equity, Vanke is among the lowest in the industry, suggesting that Vanke has abundant cash. What's more, Vanke's long term debt / equity is lower than most competitors and has a relatively high leverage. After dig into debt structure, we came into a conclusion: Vanke's leverage structure is pretty good with high interest-free debt/ debt with interest and the company has large amount of cash.

Figure 19 short term debt / Equity

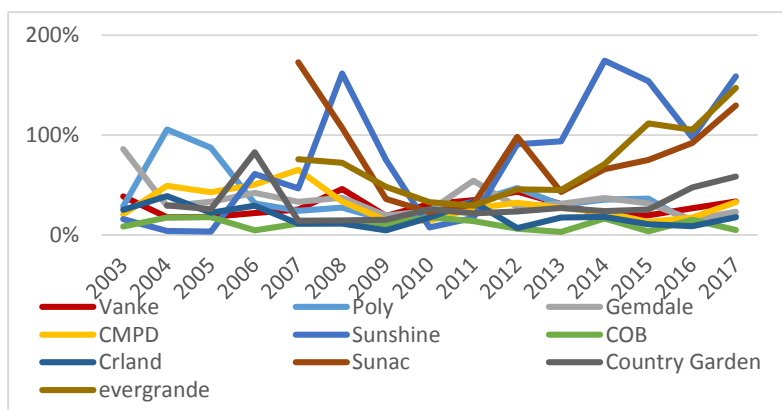


Figure 20 long term debt / Equity

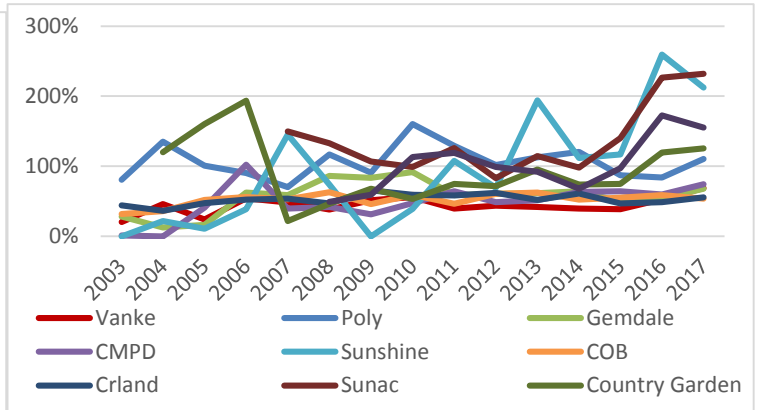


Figure 21 Cash / Equity

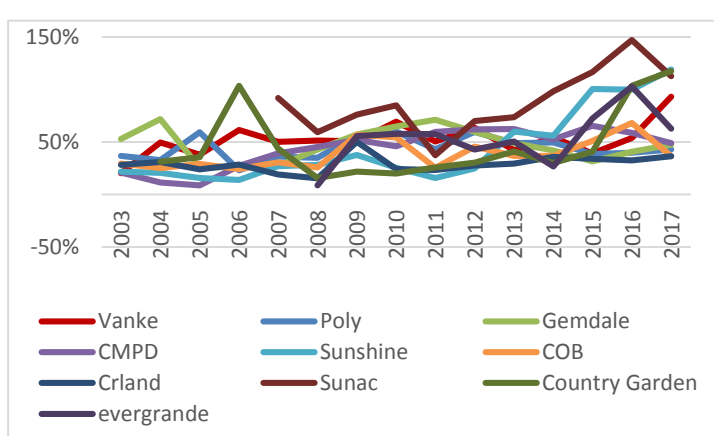
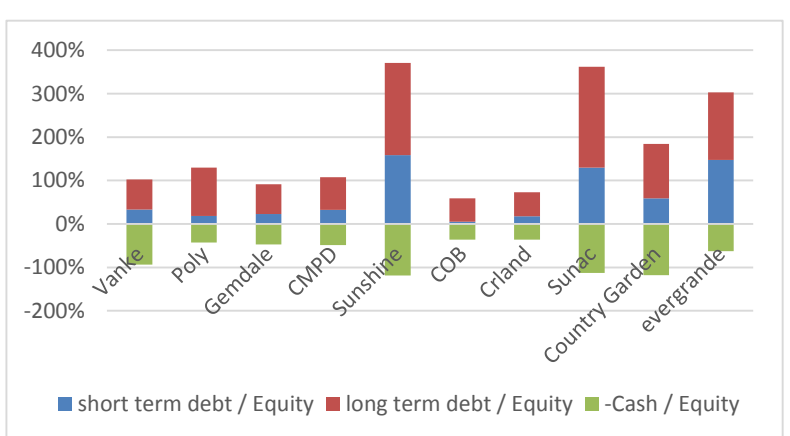


Figure 22 Debt structure (2017)



5. Products

A. Target Consumers

Vanke is a customer-oriented and family-oriented company. It pays attention to the customer's lifetime purchase plans, which include first-time home purchase, replacement of existing house and house for retirement. Vanke accurately identifies target consumers and discovers the value of products that customers care about, which is reflected in the products. Meanwhile Vanke continuously improves products through customers' feedback.

Consumers who buy houses for the first time: The ability to pay is weak, buying a house is just for the necessity.

Consumers who buy houses for the second or third time: Mostly middle-class consumers, either buying houses in areas with good schools or buying houses for retirement.

Consumers who buy houses for many times: Mostly rich, mostly buying houses for investment.

Figure 23 Different Products Series of Vanke

Series of Products	Positioning	Category	Target Consumers
GOLDEN	Urban area, high-rise building, high-density building	Business residence	Middle class
		City improvement	Middle class
		City dwelling	White collar
CITY	Suburban, medium density building	Suburban improvement	White collar, Gold collar
TOWN	Suburban, low-density building	Suburb dwelling	White collar
		Suburban enjoyment	Middle class
TOP	High-end building	City mansion	High-end customers
		Suburban luxury mansion	High-end customers

B. Product Models

In 2005, Vanke's product model changed from empiricism model to standardization model. Each model has corresponding advantages. After the model changed, Vanke had many outstanding advantages and developed rapidly.

Figure 24 Different Product Models

Different Models	Feature	Influences	Advantages
Empiricism model	The type, scale, product type and grade of each item are quite different	Cost, schedule, and standards are difficult to control effectively; There are new problems that need to be faced	First-mover advantage, cultural advantage, product advantage
Standardization model	Standard unification, chain development, rapid and large-scale replication	Concentrate on procurement, bidding, and achieve scale effect	Management advantage, turnover advantage, resource advantage

Figure 25 Comparison with Other Companies in the Industry

Companies	Founding Time	Advantages			Changing Time	Advantages		
		First-mover	cultural	product		Management	turnover	resource
Vanke	1988	✓	✓		2005	✓	✓	
COFCO Property	1981	✓		✓	2012			✓
China Overseas Property	1984	✓	✓	✓	2009			✓
China Merchants Shekou	1984	✓			2016			✓
Greenland	1992		✓		2010			✓
Country Garden	1992			✓	2008	✓	✓	
Poly Real Estate	1992				2007		✓	✓
Gemdale	1993		✓		2009		✓	
China Resources Land	1994				2008			✓
Yango	1995				2013		✓	
EvergrandReal Estate	1996				2007		✓	✓
Longfor Properties	1997				2008	✓		
Sunac China Holdings	2003		✓		2011	✓	✓	

Part IV Financial and Valuation

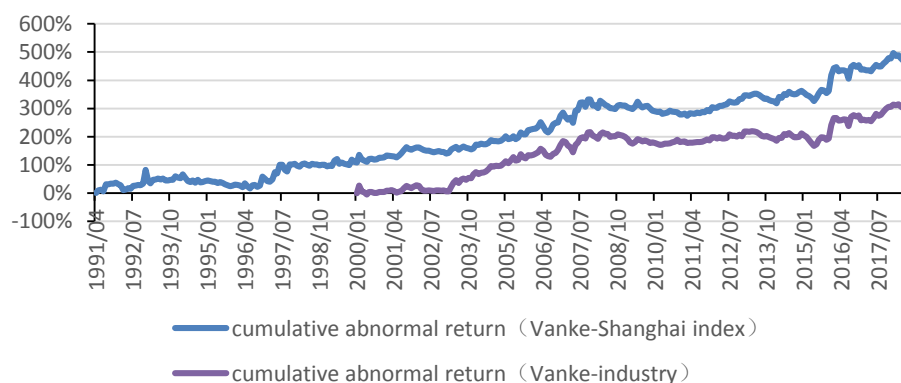
Based on the rapid development of the industry and the leading position of the company, Vanke has achieved excellent financial performance in the past 15 years. ROE continues to rise. Profitability continues to rise. Business scale rapidly expands. Cash flow is stable. Cost rate gradually reduces. Interest-bearing liability rate continues to decline.

Vanke's Key Financial Indicators (2003-2017)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ROE	11.5%	14.2%	16.3%	15.4%	16.5%	12.6%	14.3%	16.5%	18.2%	19.7%	19.7%	17.9%	18.1%	18.5%	21.1%
ROA	5.4%	5.9%	6.5%	4.9%	5.3%	3.9%	4.7%	4.1%	3.9%	4.1%	3.8%	3.8%	4.2%	3.4%	3.2%
Gross Profit Margin	27.3%	30.9%	34.8%	36.1%	42.0%	39.0%	29.4%	40.7%	39.8%	36.6%	31.5%	29.9%	29.4%	29.4%	34.1%
Net Profit Margin	8.9%	11.9%	13.6%	13.5%	15.0%	11.3%	13.2%	17.4%	16.2%	15.2%	13.5%	13.2%	13.3%	11.8%	15.3%
Income	64	77	106	179	355	410	489	507	718	1,031	1,354	1,464	1,955	2,405	2,429
YoY	39.5%	20.2%	37.7%	69.7%	98.3%	15.4%	19.2%	3.7%	41.5%	43.7%	31.3%	8.1%	33.6%	23.0%	1.0%
Net Income Attributed to Shareholders	5	9	14	23	48	40	53	73	96	126	151	157	181	210	281
YoY	41.8%	61.9%	53.8%	70.2%	110.8%	-16.7%	32.1%	36.7%	32.2%	30.4%	20.5%	4.1%	15.1%	16.0%	33.4%
Net CFO	-15	10	8	-30	-104	0	93	22	34	37	19	417	160	396	823
Net CFO/Net Profit	(2.61)	1.15	0.59	(1.25)	(1.96)	(0.01)	1.44	0.25	0.29	0.24	0.11	2.16	0.62	1.40	2.21
Total Assets	106	155	220	499	1,001	1,192	1,376	2,156	2,962	3,788	4,792	5,084	6,113	8,307	11,653
Net assets attributable to equity holders of the parent	47	62	83	149	293	319	374	442	530	638	769	882	1,002	1,134	1,327
Selling expense rate	3.3%	4.3%	4.4%	3.5%	3.4%	4.5%	3.1%	4.1%	3.6%	3.0%	2.9%	3.1%	2.1%	2.1%	2.6%
General and administrative expenses rate	5.7%	4.7%	4.9%	4.8%	5.0%	3.7%	2.9%	3.6%	3.6%	2.7%	2.2%	2.7%	2.4%	2.8%	3.6%
Finance costs rate	0.0%	-0.1%	0.2%	0.8%	1.0%	1.6%	1.2%	1.0%	0.7%	0.7%	0.7%	0.4%	0.2%	0.7%	0.9%
Income tax rate	31.9%	27.6%	27.5%	30.0%	30.9%	27.5%	27.1%	26.6%	27.7%	26.8%	25.7%	25.5%	25.0%	31.8%	29.9%
Cash/total assets	9.2%	20.2%	14.8%	21.5%	17.0%	16.8%	16.7%	17.5%	11.6%	13.8%	9.3%	13.1%	10.0%	11.5%	15.0%
Inventory/total assets	82.1%	67.9%	67.5%	68.4%	66.4%	72.0%	65.5%	61.8%	70.3%	67.4%	69.1%	62.5%	60.2%	56.3%	51.3%
AR/total assets	3.5%	5.4%	4.9%	2.1%	3.6%	3.7%	6.2%	7.7%	6.7%	5.8%	7.9%	10.0%	12.8%	12.9%	14.1%
AP/total assets	19.9%	15.6%	15.1%	11.9%	11.1%	10.8%	11.9%	7.8%	10.1%	13.2%	16.4%	17.4%	17.7%	17.1%	15.2%
Deposit received/total assets	4.4%	13.9%	21.2%	17.7%	21.6%	20.1%	23.1%	34.5%	37.5%	34.6%	32.5%	35.7%	34.8%	33.1%	35.0%
Funds from occupying upstream and downstream capital/total assets	20.8%	22.3%	33.7%	28.7%	26.7%	32.9%	29.1%	34.2%	44.2%	42.7%	46.4%	46.3%	43.4%	44.0%	45.5%
PP&E/total assets	2.5%	1.5%	1.1%	1.0%	1.1%	1.4%	1.6%	1.2%	1.3%	1.4%	3.2%	2.6%	2.8%	3.7%	3.3%
Debt ratio	54.9%	59.4%	61.0%	65.0%	66.1%	67.4%	67.0%	74.7%	77.1%	78.3%	78.0%	77.2%	77.7%	80.5%	84.0%
Interest bearing debt ratio	26.6%	25.8%	16.6%	26.6%	25.0%	27.5%	23.2%	22.0%	17.0%	18.9%	16.0%	13.6%	13.0%	15.5%	16.4%
Leverage ratio	2.22	2.46	2.56	2.86	2.95	3.07	3.03	3.95	4.37	4.61	4.54	4.39	4.48	5.14	6.24
Days sales of inventory	576	662	673	782	891	1,112	931	1,356	1,442	1,293	1,153	1,155	906	898	1,215
Days sales outstanding	16	15	13	8	6	8	6	8	8	6	7	6	4	3	3
Fixed asset turnover	20.69	30.70	47.12	50.00	66.08	44.54	37.30	39.38	50.99	64.28	72.38	65.97	54.13	41.01	34.93
Total asset turnover	0.68	0.59	0.56	0.50	0.47	0.37	0.38	0.29	0.28	0.31	0.32	0.30	0.35	0.33	0.24
Employees	7,025	9,627	10,961	13,402	16,464	16,515	17,616	22,850	27,951	31,019	35,330	40,647	42,300	58,280	77,708
Per capita sales income (10 thousand yuan)	90.8	79.6	96.3	133.7	215.8	248.2	277.5	221.9	256.8	332.4	383.3	360.1	462.3	412.6	312.6
Per capita net profit(10 thousand yuan)	8.1	9.5	13.1	18.1	32.3	28.1	36.5	38.7	41.5	50.5	51.8	47.5	61.3	48.6	47.9
Per capita wages(10 thousand yuan)	4.2	3.7	4.1	5.6	6.7	14.0	6.8	8.1	8.9	9.4	9.8	12.6	11.9	11.5	11.9

Vanke's stock has outperformed the industry in the long run, and basically has not big withdrawn. The following is Vanke's cumulative abnormal return relative to the whole industry as well as Shanghai Index.

Vanke's Cumulative Abnormal Return (1991-2017)



Considering the following points, we believe Vanke's revenue and net profit will present a double-digit growth. Besides, indicators like ROA and ROE shall continuously improve.

(1) 2017 and 2018 has seen a very good selling condition in Chinese real estate market. Especially the market in the third and fourth-tier cities in China develops prosperously. Therefore, in the next 2-3 years, we expect an attractive financial performance.

(2) Concentration in Chinese real estate market will keep on increasing. Big enterprises like Vanke will benefit during this process.

unit: Million	2015A	2016A	2017A	2018E	2019E	2020E
Revenue	195,549	240,477	242,897	310,105	394,025	488,714
yoy	33.6%	23.0%	1.0%	27.7%	27.1%	24.0%
Net Profit to Shareholders	18,119	21,023	28,052	35,578	44,228	54,398
yoy	15.1%	16.0%	33.4%	26.8%	24.3%	23.0%
EPS	1.64	1.9	2.54	3.22	4.01	4.93
Stock issued	11,052	11,039	11,039	11,039	11,039	11,039
ROE	18.1%	18.5%	21.1%	22.8%	23.4%	23.6%
ROA	4.2%	3.4%	3.2%	3.4%	3.5%	3.8%
P/E	14.9	10.79	12.22	7.64	6.15	5

We use RNAV (Revaluated Net Assets Value) to value Vanke. $RNAV = (\text{Property area} \times \text{Average market price} - \text{net liabilities}) / \text{Total stock issued}$, which means how much the company's existing property should be sold at the market price. It is a useful and suitable valuation method for a real estate company and companies which own a lot of properties themselves.

Our target price is 35.50 RMB which implies a 19% potential upside and a forward P/B ratio of 2.44x from 2.05x, and a forward P/E ratio of 23.16x from 19.44x.

Unit: Billion RMB		Equity(2017)	132.68
RNAV of Real estate business	340.28	Net Income(2017)	13.98
Net liabilities	-16.50	P/B ratio	
Total Value	323.78	Present	2.05
Total stock issued	11.04	Target	2.44
Stock Price		P/E ratio	
Valued Price	29.33	Present	19.44
Present Price	24.62	Target	23.16
Present price discount	-16%		
Potential upside	19%		

To measure Vanke's RNAV exactly. We use the database of Vanke's all 750 available projects around China. We demonstrate part of the database and our calculating:

Unit: area(10 thousand square meter), cost of land(100 million RMB), investment(100 million RMB), other costs(million RMB), Construction and installation cost is assumed																					
Project	City	City tier	Cost of land			Area				Other costs					Present Market Price	Total unit cost + expenses	added value	Value-added proportio	Added value tax	RNAV	
			Proportion of Interest	Total cost of land	Interest cost of land	Building area	balanced building area	unbalanced building area	Interest unbalanced building area	Land cost/Unit	Total investment	Construction and installation cost/Unit	Total unit cost	Margin							
5	深圳车公庙项目	ShenZhen	1	90%	12	11	5.8	0.0	5	5	20568	25	6000	43255	27%	59000	55742	3258	6%	0	662
6	深圳藤山道	ShenZhen	1	40%	20	8	7.8	0.0	7	3	25782		6000	31782	60%	80000	46026	33974	74%	11288	724
7	深圳深南道68号	ShenZhen	1	60%	26	16	14.6	0.0	13	8	17876	41	6000	27760	53%	59000	38697	20303	52%	6186	1378
8	深圳圣海城	ShenZhen	1	50%	59	30	35.5	19.3	15	7	16690		6000	22690	24%	30000	29109	891	3%	0	725
9	深圳绿山府	ShenZhen	1	100%	23	23	23.3	0.0	21	21	10041	86	6000	37015	62%	97000	54133	42867	79%	14440	4444
10	深圳云城	ShenZhen	1	78%	69	54	133.6	20.5	102	80	5163	31	6000	2339	97%	90000	15022	74978	499%	39729	16274
11	深圳绿湾汇	ShenZhen	1	24%	189	45	41.9	0.0	38	9	45048		6000	51048	73%	190000	82434	107566	130%	41418	5284
12	深圳翡丽郡	ShenZhen	1	100%	27	27	26.4	26.4	0	0	10041		6000	16041	60%	40000	23178	16822	73%	5570	0
13	深圳天誉	ShenZhen	1	100%	59	59	58.8	35.4	21	21	10041	29	6000	4984	88%	40000	11016	28984	263%	13535	2743
14	深圳布吉水径项目	ShenZhen	1	60%	39	24	30.4	1.8	26	15	12993	52	6000	17086	57%	40000	24328	15672	64%	5052	1958
15	深圳公园里	ShenZhen	1	65%	20	13	47.8	47.8	0	0	4278		6000	10278	74%	40000	16839	23161	138%	9055	0
745	乌鲁木齐金域华府	Wulumuqi	3	82%	7	6	24.6	23.9	1	1	2924		4000	6924	30%	9872	8982	890	10%	0	12
746	乌鲁木齐南山郡	Wulumuqi	3	100%	0	0	1.6	0.0	1	1	2508	2	4000	14678	-17%	12500	17875	(5375)	-30%	0	(10)
747	乌鲁木齐金域缙香	Wulumuqi	3	100%	1	1	4.9	4.9	0	0	2924		4000	6924	-3%	6698	8543	(1845)	-22%	0	0
748	乌鲁木齐兰乔圣菲	Wulumuqi	3	60%	6	4	20.9	14.8	5	3	2924	5	4000	2166	73%	8075	3500	4575	131%	1763	98
749	乌鲁木齐中央公园	Wulumuqi	3	80%	6	5	20.2	12.1	7	6	2794	6	4000	2906	72%	10200	4607	5593	121%	2105	192
750	乌鲁木齐四季花城	Wulumuqi	3	45%	11	5	56.6	16.6	36	16	1933		4000	5933	38%	9500	7840	1660	21%	498	298
751	乌鲁木齐中央公园	Wulumuqi	3	89%	2	2	11.7	0.0	11	9	2128	6	4000	5002	51%	10200	6913	3287	48%	986	232
752	乌鲁木齐都会传奇	Wulumuqi	3	90%	6	6	10.4	0.0	9	8	5860	12	4000	11164	-43%	7800	13360	(5560)	-42%	0	61
753	乌鲁木齐中央公园	Wulumuqi	3	81%	2	2	4.1	0.0	4	3	5426		4000	9426	27%	13000	12167	833	7%	0	109
754	兰州万科城	Lanzhou	2	47%	4	2	38.2	0.0	34	16	985	24	5000	6221	-52%	4102	7411	(3309)	-45%	0	(136)
755	Sum																				34027

756 Database Sources: Vanke company, Guotai Junan Security, Insights

Part V Risks

1. Further monetary policy will be greatly tightened. China's GDP growth rate exceeded expectations in 2017, inflected the better economic situation. In order to prevent economic overheating, China's monetary policy of 2018 is stable and a little tight. If GDP growth continues to exceed expectations, monetary policy may continue to be tighten.
2. The financing costs of real estate companies continue to rise. Under the China's new banking regulations in 2018, in order to ensure the stability of the financial environment, the central bank severely cracked down the non-standardized bonds, most of which flowed to the real estate industry. This regulation would continue to push up the financing costs of real estate companies.
3. The government limits the development of the real estate industry through administrative policy. In order to protect social stability, the government may adopt price-limiting or other administrative policies to limit the development of the real estate industry.