KE Holdings Inc (2423 HK)

3Q26: Strong Earnings Beat On Margin Expansion And Lower Opex

Highlights

- Beike's 3Q26 operating profit beat expectations. Revenue declined 8.9% yoy to Rmb21.0b, in line with our estimate, while total GTV rose 4.5% yoy. Non-GAAP operating profit rose 145.9% yoy to Rmb2.9b, 29.3% above our estimate, as operating margin expanded 8.6ppt yoy to 13.7%. Management guided for 4Q26 revenue of around Rmb20b (down 9-10% yoy) and an operating margin of around 10%, implying operating profit of approximately Rmb2.0b. Maintain BUY with a higher target price of HK$65.00 (US$25.00).

3Q26 Results

Year to 31 Dec (Rmbm)	3Q25	2Q26	3Q26	QoQ	YoY	UOBKH	Var	Cons	Var
Total Net revenue	23,052	24,539	20,990	-14.5%	-8.9%	20,627	1.8%	20,739	1.2%
Existing home transaction	5,991	7,023	6,097	-13.2%	1.8%	5,870	3.9%		
New home transaction services	6,639	8,947	6,835	-23.6%	2.9%	6,673	2.4%		
Home renovation and furnishing	4,300	3,191	3,314	3.9%	-22.9%	3,126	6.0%		
Home rental services	5,727	4,833	4,270	-11.6%	-25.4%	4,581	-6.8%		
Emerging and other services	396	546	474	-13.2%	19.8%	376	26.0%		
COGS	(18,117)	(17,526)	(15,168)	13.5%	16.3%	(15,247)	-0.5%		
Gross profits	4,935	7,014	5,822	-17.0%	18.0%	5,380	8.2%	5,515	5.6%
GPM	21.4%	28.6%	27.7%	-1 ppt	6 ppt	26.1%	2 ppt	26.6%	1 ppt
Operating expenses	(4,327)	(3,988)	(3,360)	15.7%	22.4%	(3,693)	-9.0%		
Non-GAAP operating income	1,173	3,592	2,883	-19.7%	145.9%	2,229	29.3%		
Non-GAAP OPM	5.1%	14.6%	13.7%	-1 ppt	9 ppt	10.81%	3 ppt		
Non-GAAP net income	1,286	3,185	2,605	-18.2%	102.6%	1,940	34.3%	2,010	29.6%
Non-GAAP Net Margin	5.6%	13.0%	12.4%	-1 ppt	7 ppt	9.4%	3 ppt	9.7%	3 ppt

Source: Beike, UOB Kay Hian

Analysis

- **Revenue declined, but underlying transaction businesses remained resilient.** KE Holdings' (Beike) 3Q26 revenue declined 8.9% yoy to Rmb21.0b (2Q26: -5.7% yoy), while total GTV increased 4.5% yoy. Revenue from existing-home transaction services grew 1.8% yoy (2Q26: +4.5% yoy) to Rmb6.1b, as existing-home GTV grew 3.0% yoy to Rmb520.9b. Commission revenue fell 4.6% yoy to Rmb4.6b on a 7.3% yoy decline in Lianjia-served GTV, while platform, franchise and other value-added service revenue rose 27.2% yoy to Rmb1.5b on a 9.3% yoy rise in GTV served by connected agents. Revenue from new-home transaction services rose 2.9% yoy to Rmb6.8b on 5.3% yoy GTV growth to Rmb206.8b, with Lianjia-served new home GTV up 11.2% yoy.
- **New initiatives.** Home renovation and furnishing revenue fell 22.9% yoy to Rmb3.3b, 6.0% above our estimate, which the company attributed to the deferred revenue impact of lower GTV in prior periods as it optimised its customer acquisition channel mix. Home rental services revenue fell 25.4% yoy to Rmb4.3b, 6.8% below our estimate, as a rising share of the Carefree Rent business shifts to net service fee recognition, partly offset by growth in rental units. Emerging and other services revenue rose 19.8% yoy to Rmb474m, driven by financial services.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	93,457	94,580	84,725	90,945	94,937
EBITDA	4,777	3,183	9,644	10,360	10,560
Operating profit	3,765	2,111	8,805	9,487	9,672
Net profit (rep./act.)	4,065	2,994	7,714	7,778	8,040
Net profit (adj.)	7,198	5,019	9,888	10,022	10,266
EPS	204.3	144.5	284.9	289.1	296.4
PE	19.0	26.8	13.6	13.4	13.1
P/B	1.8	1.9	1.9	1.4	1.3
EV/EBITDA	23.9	35.8	11.8	11.0	10.8
Dividend yield	0.0	0.0	0.0	0.0	0.0
Net margin	4.3	3.2	9.1	8.6	8.5
Net debt/(cash) to equity	(28.1)	(23.7)	(28.2)	(50.7)	(55.5)
ROE	5.7	4.3	11.6	9.9	8.5
Consensus net profit	-	-	8,376.3	9,141.1	10,201.3
UOBKH/Consensus (x)	-	-	1.18	1.10	1.01

Source: Beike, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	HK$45.60
Target Price	HK$65.00
Upside	42.5%
Previous TP	HK$60.00

Stock Data

Sector	Real Estate
Bloomberg ticker	2423 HK
Shares issued (m)	3,282.4
Market cap (US$m)	156,307.8
Market cap (US$m)	19,920.7
3-mth avg daily t'over (US$m)	59.6

Price Performance (%)

52-week high/low				HK$52.60/HK$35.38
1mth	3mth	6mth	1yr	YTD
(3.9)	3.9	(4.2)	2.9	9.9

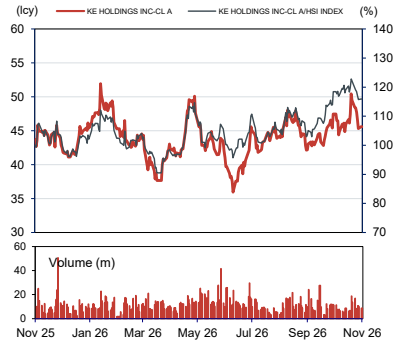
Major Shareholders (%)

Propitious Global	25.74

Balance Sheet Metrics

FY26 NAV/Share (Rmb$)	20.07
FY26 Net Debt/Share (Rmb$)	5.66

Price Chart



Source: Bloomberg

Company Description

KE Holdings Inc. operates as an integrated online and offline platform for housing transactions and services. The company offers existing and new home sales, home rentals, home renovation, real estate financial solutions, and other services. KE Holdings conducts businesses in China.

- **Profitability significantly exceeded expectations.** Gross profit rose 18.0% yoy to Rmb5.8b, 8.2% above our estimate, with gross margin expanding 6.3ppt yoy to 27.7% on higher contribution margins across all major segments: Existing home margins reached 42.5% (+3.5ppt yoy), new home 27.9% (+3.8ppt yoy), home renovation and furnishing 40.2% (+8.2ppt yoy) and home rental 16.6% (+7.9ppt yoy). Total operating expenses fell 22.4% yoy to Rmb3.4b on earlier cost optimisation initiatives. Non-GAAP operating income rose 145.9% yoy to Rmb2.9b, 29.3% above our estimate, with non-GAAP operating margin expanding 8.6ppt yoy to 13.7%.
- **Platform operating metrics.** The number of stores was 60,533 as of end-Sep 26, down 1.4% yoy, of which 57,545 were active (-2.5% yoy). The agent count was flat yoy at 545,816, with active agents down 4.4% yoy to 450,724. Average mobile MAU fell 9.7% yoy and 2.6% qoq to 44.5m in 3Q26.
- **4Q26 guidance implies a strong yoy operating profit recovery.** Management guided for revenue of around Rmb20b (down 9-10% yoy), mainly reflecting the shift to net revenue recognition in rental services. The guided operating margin of around 10% implies operating profit of approximately Rmb2.0b, with management indicating around 500% yoy growth. Existing-home revenue is expected to rise more than 10% yoy, supported by potential transaction volume growth of more than 20% yoy versus 5-10% for the market. New-home revenue is expected to be flat to slightly lower yoy, while the decline in renovation revenue is expected to narrow to 10-15% yoy. Reported rental services revenue is expected to reach around Rmb3.3b, factoring in the ongoing shift from gross to net revenue recognition. Operating expenses are expected to decline around 20% yoy but rise qoq due to year-end expenses and higher marketing spend.
- **2027 outlook points to double-digit EPS growth.** For 2027, management expects stronger existing-home transaction volume growth and a 15-20% yoy decline in the new-home market. Beike aims to offset at least half of the market decline in its own new-home GTV through market share gains, with growth in existing-home transactions expected to absorb most of the remaining impact. Management preliminarily expects double-digit EPS growth in 2027, supported by profit growth and share buybacks. a heading for this.
- **Strong balance sheet and shareholder returns.** In 3Q26, Beike repurchased approximately US$162m of its shares, bringing ytd repurchases to approximately US$609m, or about 3.2% of total issued shares as of end-25. Net cash stood at approximately US$8.8b, equivalent to 44% of market cap, providing substantial capacity for further shareholder returns.

Valuation/Recommendation

- **Maintain BUY with a higher target price of HK$65.00 (US$25.00),** based on 20x PE 2027F PE. Beike is trading at 13.3x 2027F PE. We are cautious in view of the weaker market sentiment in 2H26.

Earnings Revision/Risk

- We cut our 4Q26/2026 revenue forecasts by 7.3%/1.4%, while revising earnings forecasts by +32%/+15%, respectively. We now forecast Beike's 2026 revenue to decline 10% yoy to Rmb85b, while adjusted net profit rises 97% yoy to Rmb10b, implying an adjusted net margin of 12%, up from 5.3% in 2025.
- **Risks:** a) real estate sector cyclicality and lower growth in brokerage penetration in China's housing market, b) pressure and strict regulations on brokerage commission rates, and c) poor execution of new initiatives.

Share Price Catalyst

- a) Higher monetisation rates, b) less competition, c) positive policies issued by the government to stimulate housing transactions and a better funding environment for property developers, and d) strong growth prospects for new businesses.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	94,580.2	84,725.4	90,944.9	94,937.4
EBITDA	3,183.2	9,644.5	10,359.9	10,560.2
Deprec. & amort.	1,072.4	839.6	872.8	888.7
EBIT	2,110.9	8,804.9	9,487.2	9,671.5
Total other non-operating income	1,386.0	1,098.9	1,089.5	1,089.5
Associate contributions	372.7	304.4	(14.8)	(14.8)
Net interest income/(expense)	807.5	574.0	686.4	849.6
Pre-tax profit	4,677.1	10,782.2	11,248.3	11,595.8
Tax	(1,686.1)	(3,070.5)	(3,480.2)	(3,566.0)
Minorities	2.5	2.5	10.0	10.0
Net profit	2,993.5	7,714.2	7,778.1	8,039.8
Net profit (adj.)	5,019.5	9,888.1	10,022.0	10,266.0

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	2,069.6	1,805.4	2,602.9	2,850.1
Other LT assets	46,478.4	33,560.4	35,154.8	36,444.7
Cash/ST investment	15,943.8	19,499.5	46,198.1	56,094.7
Other current assets	52,176.4	56,297.0	52,550.0	52,078.8
Total assets	116,668.2	111,162.4	136,505.7	147,468.4
ST debt	207.7	693.4	693.4	693.4
Other current liabilities	42,199.5	38,853.9	41,207.4	42,020.7
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	7,731.1	4,827.1	4,827.1	4,827.1
Shareholders' equity	66,441.3	66,735.7	89,735.6	99,894.9
Minority interest	88.5	52.3	42.3	32.3
Total liabilities & equity	116,668.2	111,162.4	136,505.7	147,468.4

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	(376.2)	14,145.9	15,753.1	11,126.5
Profit fo the year	4,677.1	10,782.2	11,248.3	11,595.8
Tax	(1,686.1)	(3,070.5)	(3,480.2)	(3,566.0)
Deprec. & amort.	1,072.4	839.6	872.8	888.7
Associates	(372.7)	(304.4)	14.8	14.8
Working capital changes	6,914.0	2,297.2	2,957.2	(238.6)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(10,980.8)	3,601.8	4,140.2	2,431.7
Investing	5,894.3	214.7	(1,188.3)	(1,231.9)
Capex (growth)	1,725.2	1,726.2	1,726.2	1,726.2
Investment	0.0	0.0	0.0	0.0
Others	4,169.2	(1,511.4)	(2,914.4)	(2,958.1)
Financing	(9,793.2)	192.2	(3.9)	2.1
Dividend payments	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(9,793.2)	192.2	(3.9)	2.1
Net cash inflow (outflow)	(4,275.0)	14,552.8	14,561.0	9,896.7
Beginning cash & cash equivalent	21,441.9	17,084.3	31,637.1	46,198.1
Changes due to forex impact	(82.6)	0.0	0.0	0.0
Ending cash & cash equivalent	17,084.3	31,637.1	46,198.1	56,094.7

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	3.4	11.4	11.4	11.1
Pre-tax margin	4.9	12.7	12.4	12.2
Net margin	3.2	9.1	8.6	8.5
ROA	2.4	6.8	6.3	5.7
ROE	4.3	11.6	9.9	8.5
Growth				
Turnover	1.2	(10.4)	7.3	4.4
EBITDA	(33.4)	203.0	7.4	1.9
Pre-tax profit	(31.9)	130.5	4.3	3.1
Net profit	(26.4)	157.7	0.8	3.4
Net profit (adj.)	(30.3)	97.0	1.4	2.4
EPS	(29.3)	97.2	1.5	2.5
Leverage				
Debt to total capital	0.3	1.0	0.8	0.7
Debt to equity	0.3	1.0	0.8	0.7
Net debt/(cash) to equity	(23.7)	(28.2)	(50.7)	(55.5)

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