



China Vanke Co., Ltd

Senior Unsecured BBB FR 3.15% 05/12/25

Position: Overweight



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GIS looks to invest in Vanke’s BBB Senior Unsecured Semi-Annual FR 3.15% bond 05/12/25 (37.90% YTW). Base case looks to hold to maturity for a total return of 67.56%. GIS views this opportunity as unique to the company and specific bond, emphasizing that it does not reflect the broader Chinese homebuilding market

Valuation Summary

Target Bond Price:	94.6 USD
Total Debt:	347,420mm CNY
Interest Coverage Ratio:	7.8x
Leverage Ratio:	8.0x
Expected YTM:	43.92%

Key Statistics

Entry Bond Price:	62.5 USD
Entry Yield-to-Worst:	37.90%
Spread-to-Worst(bps):	1319
Duration:	1.13
Cash and ST Investments:	101,244mm CNY
Enterprise Value:	500,343mm CNY
LTM Revenue:	456,474mm CNY
LTM EBITDA:	41,085mm CNY
Market Capitalization:	135,271mm CNY
Current Stock Price:	12.12 CNY

3 Yr. Historical Bond Price



Key Drivers

- Key Driver 1: State-enterprise backing:** “Vanke is an important member of SASAC” and it will “fully support Vanke when it faces risks at an extreme situation,” by Ye of the SZMC
- Key Driver 2: Strong sales:** Vanke excels in adversity: resilient sales, diversified revenue, positive cash flow, and strategic segment triumphs set them apart in a challenging market
- Key Driver 3: Robust risk-adjusted return:** Vanke’s strategic foresight shines through as it secures funding for 2024 debts, maintains a solid credit profile with ample cash coverage, and presents the May '25 bonds as an attractive proposition amidst a backdrop of sound risk-adjusted returns

Recently, China Vanke's bonds were brutally sold off. The 3.15% 5/12/2025 bond sold off by more than 25% going from 83.5 to 62.5; representing a YTW of 40% from 16%. GIS believes fundamentals remain robust

GIS believes the market is overreacting to headwinds the Chinese Property Market. GIS believes the broader sector wide panic is affecting Vanke due to three key considerations:

Investors have lost faith in China's high-churn real estate model

- Chinese property builders heavily rely on pre-sales, where apartments are bought 18-24 mos before purchase
- As of Sep, Vanke has about 408Bn yuan in contract liabilities (consumer deposits for unfinished homes), representing 1/3 of total liabilities. Meanwhile, now defaulted, Country Garden was at ~50%. Vanke currently has ~104Bn yuan of cash
- Mitigant: Vanke represents best in class homebuilding; although there have been decreases in property sales, they have decreased less than peers

Consumers are fleeing to state-owned developers

- Consumers prefer the safer hands of state-owned builders; and at the same time, investors do too
- Mitigant: Vanke's corp. history is intertwined with the rise on Shenzhen. State-owned Shenzhen Metro Group Co. is it's largest shareholder at a 27% stake

Pending (?) downgrade to fallen angel status

- As of Nov '23, Moody's cut Vanke's issuer rating by steps to Baa3; the lowest level of IG and one step away from "junk" status
- Investors are worried that this will cause concern for longer-term unsecured funding for refinancing needs
- Mitigant: Local-government-owned Shenzhen Metro group pledged 10+Bn yuan (\$1.4Bn USD) for support

[1] Source: Bloomberg

Investment Cases

China Vanke Co., Ltd (SZSE: 000002)

Base Case assumes to hold bonds to maturity to redeem at par on May 12th, 2025 representing a total return of 67.56% consisting of 60% price appreciation and 7.56% yield return

Investment Cases	Sale Date 11/21/2024		Maturity 5/12/2025					
VANKE 3.15/25	Downside 2	Comment	Downside 1	Comment	Base	Comment	1Y Hold Case	Comment
Entry Price	62.5		62.5		62.5		62.5	
Entry Yield	37.90%		37.90%		37.90%		37.90%	
Exit Price	59.3	Assumes 1 year hold	83.8	Assumes 1 year hold	100.0	Held to maturity	94.6	Assumes 1 year hold
Exit YTW / IRR	145.46%	Breakeven YTW	43.69%	Highest YTW for the bond (Oct 30th, 2023)			15.00%	Comparables trading at ~10% (representing a 5% cushion)
Price Return	-5.04%		34.03%		60.00%		51.42%	
Plus: Current Yield	5.04%	Assumes two interest payments	5.04%	Assumes two interest payments	7.56%	Assumes three interest payments	5.04%	Assumes two interest payments
Total Return	0.00%		39.07%		67.56%		56.46%	

Recent investor panic has provided a discount to the intrinsic value of Vanke's short-term '25 bond

Variant Thesis



Unjustified Investor Fear:

- While the recent crash in China's real estate sector has crushed major developers, China's development sector is being revamped by the government with Vanke positioned to lead

Government Support:

- China's central bank has cut mortgage rates by 20-30%, reduced minimum down payments, eased home purchasing rules, and has provided over 178 billion yuan to developers

Strong Financials:

- The company has a large cash balance, no liquidity problems, and has effectively managed short-term debt to only 14.8% of total debt, reduced from 20% in Q1 23'

Institutional Mandates:

- The selloff by investors may be due to a change in their risk appetite due to recent bankruptcies of major developers, and headwinds in the development sector in the long-term rather than based on a short-term intrinsic value analysis

The Street View



Negative in the Long-Run:

- The recent crash in China's real estate sector is a sign of a long-term weakness in the housing sector that will continue to manifest through weakening housing demand and a slowdown in the developer business

Slowing Growth:

- Many institutions may begin to opt out of Chinese markets due to slower Chinese GDP growth, recessionary fears, and better opportunities in other emerging markets

Low Liquidity:

- Minimum investment is \$200,000, and therefore it may be difficult to time an exit given a news of further deterioration in the Chinese economy

Dependence on the Government:

- The government may begin to favor other developers or begin reversing its liberalizing decisions as it perceives that the sector is improving which could be detrimental to Vanke's long-term prospects

Industry Overview

Government intervention through monetary support and the liberalization of housing market policies should lead to small, steady long-term growth in the Chinese residential real estate industry.

Chinese Real Estate Industry

Interest Rates on Mortgages:

- China's central bank has cut mortgage rates by 20-30%, have made credit policies to enable first-time buyers to get a cheaper housing loan, and stimulated second-time buyers by offering a limit of the mortgage to not exceed 20 bps over the loan prime rate (LPR)

Improved Home Affordability:

- The Chinese government set a lower fixed minimum down payment rate of 20% to stimulate housing demand. Lower housing prices also aid affordability in the long-term

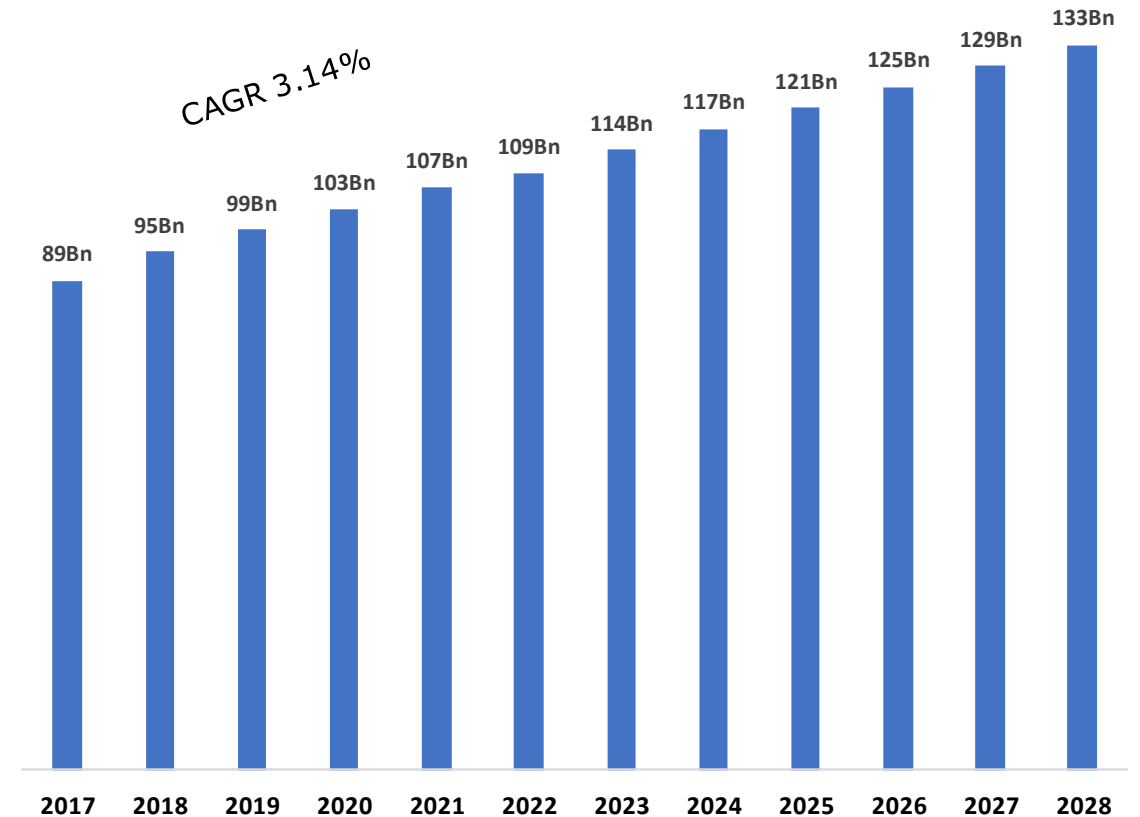
Increasing Urban Population and Demand:

- China's urbanization level of ~64% is predicted to slowly increase y-o-y such that the urbanization level is expected to surpass 75% by 2035

Government Support:

- The Government has indicated that it will further support major developers as the real estate industry makes up 30% of the national GDP and 80% of household wealth. Recently, they plan to allow banks to make short-term unsecured loans to around 50 of the country's largest developers

Industry Market Size Projection



The Chinese development industry has heightened focus on the following three considerations:

Regulatory Support

- Monetary Support: China's central bank and local authorities have proactively cut mortgage rates by 20-30% and lowered minimum down payments, with the household mortgage benchmark now at 3.45%
- Stabilize Housing Prices: Several cities have curtailed drastic price cuts by developers to stabilize home prices and ensure debt servicing
- Stimulate Demand: Additionally, previous tight home purchase rules have been relaxed to boost the housing sector

Market Opportunities

- Fall of Evergrande & Country Garden: Beijing directed local entities to oversee unfinished Evergrande projects and facilitated partnerships with other developers. The avoidance of a direct Evergrande bailout was strategic to prevent further housing bubble inflation. This presents potential acquisition opportunities for companies like Vanke.

Financial Institution Backing

- Monetary Support: Last year, major Chinese banks committed over \$178 billion in yuan support to specific property developers, with options for loan repayment extensions.
- More recently the Chinese Government compiled a list of 50 large developers to boost by allowing them access to cheap funding. There are specific requirements to be on this list and state-owned developers are most likely on top of this list.



China Resources Land

Market Capitalization: 221,925.7 mm HKD
LTM Revenue: 225, 816.3 mm HKD
LTM Revenue Growth: -2%
Gross Margin: 25.8%

Segments: Development Properties for Sale; Property Investments and Management; Hotel Operations; Construction, Decoration Services and Others

Company Description:

China Resources Land Limited is an investment holding company that invests in, develops, manages, and sells properties in the People's Republic of China. The company engages in the development and sale of residential and commercial properties; leases investment properties (hotel accommodation and catering services); property management, and related services for residential and commercial properties.

China Resources Land Limited was founded in 1994 and is headquartered in Wan Chai, Hong Kong.



Longfor Group

Market Capitalization: 100,326.5 mm HKD
LTM Revenue: 237,444.5 mm HKD
LTM Revenue Growth: -15.4%
Gross Margin: 21.5%

Segments: Property Development; Investment Property Operations; Services and Others

Company Description:

Longfor Group Holdings Limited is an investment holding company that engages in the property development, investment, and management businesses in the People's Republic of China. The company develops and sells commercial and residential properties, leases investment properties (including shopping malls and rental housing), provides property management and related services (hotel operation and other services). It also offers commercial investment and smart construction services.

Longfor Group Holdings Limited was founded in 1993 and is headquartered in Beijing, the People's Republic of China.



Gemdale Corporation

Market Capitalization: 25,778.3 mm CNY
LTM Revenue: 119,378.9 mm CNY
LTM Revenue Growth: 21.5%
Gross Margin: 16.2%

Key Products: Property Development; Property Investments and Management

Company Description:

Gemdale Corporation engages in the real estate development business in China and internationally. The company is also involved in commercial real estate and industrial park town development and operation, real estate finance, intelligent services, sports industry operation, home decoration, agent construction, education, property management, and other businesses.

Gemdale Corporation was founded in 1988 and is headquartered in Shenzhen, China.

Company Overview



Business Model Overview

China Vanke Co., Ltd., is a leading real estate developer in China, known for its diverse property portfolio, including residential, retail, and commercial spaces, and a significant market influencer with over \$64 billion in LTM revenue.

Founded in 1984 and headquartered in Shenzhen, China Vanke has grown into a global real estate powerhouse with projects in over 60 cities, including international expansions in the U.S., Singapore, and London. The company operates primarily through Property Development and Property Management segments, focusing on constructing and managing high-quality residential buildings, commercial offices, and retail properties. By the end of 2019, Vanke had developed over 550 million square feet in 639 projects, showcasing its vast reach and impact in the real estate sector. Beyond traditional real estate, Vanke diversifies into logistics, hospitality, agriculture, education, and the housing rental market, reflecting its multifaceted business approach. The company's commitment to ethical business practices and professional competence has not only driven its growth but also earned it international accolades in corporate governance and investor relations.

Key Statistics

Valuation

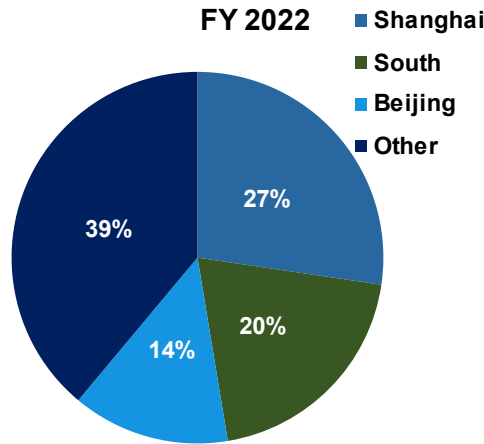
Market Capitalization:	128.59bn CNY
EV / Sales:	1.2x
P / E:	7.35x

Income

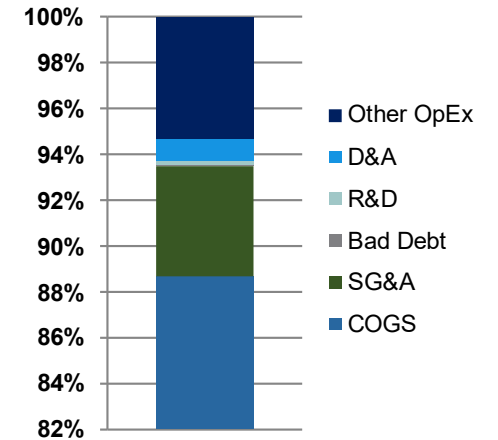
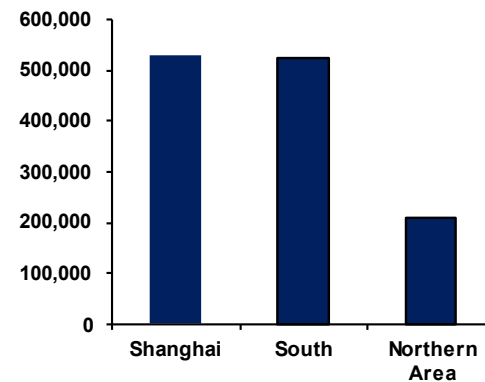
LTM Revenue:	456,474mm CNY
2024E Revenue:	429,799mm CNY
LTM Revenue Growth:	-9.4%
LTM EBITDA:	41,085mm CNY
2024E EBITDA:	59,897mm CNY
LTM EBITDA Growth:	-25.7%
LTM Net Income:	19,146
LTM NI Growth:	-15.35%

Profitability

Gross Margin:	18.1%
EBITDA Margin:	9.0%
Net Income Margin:	4.19%



Top 3 Segments over the L5Y





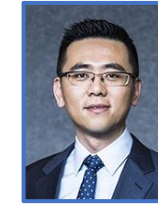
Jiusheng Zhu
President

As the President and CEO of China Vanke Co., Ltd. since 2018, Jiusheng Zhu has been instrumental in steering the company's expansive growth in the real estate sector, leveraging his expertise in finance and corporate management. His educational background includes an MBA and a Doctorate from Zhongnan University of Economics and Law.



Huiha Han
Executive VP & Head of Finance

Huihua Han, Executive Vice President of China Vanke Co., Ltd since March 2020, plays a key role in financial management, backed by her CPA and degrees in Administration and Accounting. Her career includes significant experience from the local tax bureau of Xiushui County and Onewo Inc.



Xiao Liu
Executive VP & COO

Xiao Liu, EVP and Chief Operating Officer of China Vanke Co. as of 2021 and has influenced the company's operations and strategy, with a background in world economics and an MBA from Harvard Business School. Joining in 2009, Lui provides roles in investment, sales management, and regional leadership, after a tenure at McKinsey & Company.



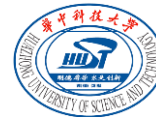
Changfeng Ding
Partner of Hotels & Resorts

Changfeng Ding, serving as Executive Director at Vanke Overseas Investment Holding Company Limited since May 2022, has played a pivotal role in shaping Vanke's Hotels & Resorts Business Unit. With a career at Vanke starting in 1992, he has a Master's in Global Economics and a Bachelor's in International Politics from Peking University.



Varjak Huajie
Partner of Food Business Unit

Varjak Huajie has significantly contributed to Vanke since joining in 2001, currently leading as Group Partner and Chief Partner of the Food Business Unit since March 2020. His diverse roles at Vanke, including Senior Vice President and Secretary of the Board, are backed by a mechanical engineering degree at Huazhong University.



Xu Zhang
Partner of Logistics Business Unit

Xu Zhang, with a background in Industrial and Civil Architecture from Hefei and an MBA from Illinois University, has shaped Vanke through COO and Executive Vice President. His career spans from China Overseas Group to GLP Pte Ltd., where he currently serves as Director



Key Drivers

While broader market headwinds cause concern, GIS believes in three key investment drivers for the bond:

State enterprise backing

- Vanke receives pledging by State-Owned Enterprise and its largest shareholder
- Shenzhen Metro Group pledges capital to boost the finances of the company by purchasing some of Vanke's urban renewal projects in Shenzhen worth an estimated amount of more than 10Bn yuan (US\$1.37Bn)

Strong sales to comps

- Resilient sales performance
- Diversification of revenue streams
- Operating cash flow positivity
- Outperformance in specific segments

Robust risk-adjusted return

- May 2025 bonds represent the earliest USD unsecured notes due after 2024 maturities
- Strong credit profile
- Robust land bank

“Vanke is an important member of SASAC” and it will “fully support Vanke when it faces risks at an extreme situation,” by Ye of the SZMC

Vanke receives pledging by State-Owned Enterprise and its largest shareholder:

China Vanke’s largest shareholder Shenzhen Metro Group (SZMC), holds a 27.9 per cent stake, and is a mos. wholly-owned subsidiary of Shenzhen SASAC (State-owned Assets Supervision and Administration Commission of the State Council)

- 1) SZMC pledges capital to boost the finances of the company by purchasing some of its urban renewal projects in Shenzhen worth an estimated amount of more than 10Bn yuan (US\$1.37 Bn)
 - 2) SZMC declares that they have no plan to reduce its stake in Vanke
 - 3) Shenzhen SASAC will coordinate with financial institutions to provide financing for Vanke
 - 4) SZMC could potentially purchase Vanke’s bonds in the open markets
- “With the local government’s explicit endorsement, we believe Vanke will be treated more as a state-owned enterprise but not as a mixed-ownership company, as it used to be,” by Nomura analyst, Jizhou

Vanke excels in adversity: resilient sales, diversified revenue, positive cash flow, and strategic segment triumphs set them apart in a challenging market

Resilient sales performance:

- Despite a challenging market, Vanke achieved a total contracted sales of around RMB 312.4 billion in the first ten months of the year
- The 10% YoY decrease in total contracted sales is slightly better than the industry average of a 12% YoY decline among the top 100 peers
- Despite a 17.4% YoY revenue decrease in the property development segment, the decline rate is moderated, indicating a degree of stability in the face of challenging market conditions

Diversification of revenue streams:

- Vanke demonstrated resilience through diversified revenue streams
- Revenues from non-property development segments increased by 8.3% to around RMB 12.1 billion in the first three quarters of 2023
- Strong performances in the logistics segment and rental housing contributed to this growth

Operating cash flow positivity:

- Despite challenges in the property development segment, Vanke managed to generate a slightly positive operating cash flow of RMB 0.23 million
- This contrasts with the majority of developers who recorded negative operating cash flows, indicating Vanke's ability to sustain its development business without burning cash
- Despite revenue challenges, Vanke's gross margin remained at 18.5%, which, while lower than the previous year, indicates a level of strategic management to maintain profitability

Outperformance in specific segments:

- Vanke's had made an effort since 2013 to expand and find success in the logistics segment and rental housing which contributed to the overall revenue growth in non-property development segments

Vanke's strategic foresight shines through as it secures funding for 2024 debts, maintains a solid credit profile with ample cash coverage, and presents the May '25 bonds as an attractive proposition amidst a backdrop of sound risk-adjusted returns

May 2025 bonds represent the earliest USD unsecured notes due after 2024 maturities:

- Vanke has publicly stated that funding has been arranged for the repayment for all debts maturing in 2024
- The May '25 bonds are the earliest USD bonds in the waterfall for repayment after 2024 debts have been exhausted representing a strong risk-adjusted return
- 2024 bonds trade at a W/A ~30% YTW compared to 37.90% for 5/25

Strong credit profile:

- China Vanke's short-term debt fell to 14% of total debt in 1H23, from above 20% in 2021-2022, which helped to maintain an average debt tenor of around five years
- Current cash is 101Bn yuan compared to 51Bn yuan in ST Debt representing a 2x coverage, and allowing for breathing room as Vanke refinances longer-term debt
- Vanke has no more overseas debt coming due in 2023
- Vanke raised more than 85Bn yuan in the L10 months of 2023 at an average interest rate of only 3.64%

Robust land bank:

- Fitch estimates that Vanke's existing land bank can support three to four years of sales at the current pace and that the company had sufficient liquidity to meet its debt obligations until the end of 2024

Financials

China Vanke Co., Ltd's income statement showcases a consistent revenue increase over the past five years, caused by strategic growth initiatives and market expansion

Income Statement Highlights

- Revenue:** Growing from CNY 297.679 billion in FY 2018 to CNY 503.838 billion in FY 2022, despite a slight downturn in the last twelve months (LTM) of 2023. Reflects the company's ability to enhance its market presence and revenue-generating activities.
- Gross Profit:** Peaking at 37.1% in FY 2018 and adjusting to market conditions, with a noted decrease to 19.5% in FY 2022, which aligns with varying cost of goods sold and revenue percentages.
- EBITDA:** The company's EBITDA reflects a strong financial control, with an initial increase from CNY 71.161 billion in FY 2018 to CNY 82.257 billion in FY 2019, followed by a more variable trend, settling at CNY 55.294 billion in FY 2022.
- Net Income:** Net income has seen a general upward trend, rising from CNY 33.773 billion in FY 2018 to CNY 22.618 billion in FY 2022, though not without facing challenges that have led to variability in profitability.

Overall, China Vanke's income statement suggests a company that has navigated market challenges while maintaining growth and managing profitability, with a focus on sustaining its financial health in the long term.

China Vanke Co., Ltd (SZSE: 000002)		Income Statement				
¥ CNY in Millions		Historical				
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	LTM 2023
Revenue	297,679	367,894	419,112	452,798	503,838	456,474
% YoY Growth		23.6%	13.9%	8.0%	11.3%	-9.4%
Cost of Goods Sold	187,123	235,687	298,522	357,097	405,769	373,651
% of Revenue	62.9%	64.1%	71.2%	78.9%	80.5%	81.9%
Gross Profit	110,557	132,207	120,590	95,701	98,069	82,823
% Margin	37.1%	35.9%	28.8%	21.1%	19.5%	18.1%
SG&A Expense	18,209	20,063	20,925	23,051	21,997	19,303
Other Operating Expense	24,109	34,007	27,938	21,743	25,226	26,107
EBIT	68,239	78,137	71,727	50,907	50,847	37,413
% Growth		14.5%	-8.2%	-29.0%	-0.1%	-26.4%
Operating Margin	22.9%	21.2%	17.1%	11.2%	10.1%	8.2%
Net Interest Income	2,447	-741	9,435	2,573	1,779	2,095
Other Non-Operating Income/(Expense)	1,934	193	1,257	563	636	-438
Unusual Items	1,291	664	229	694	-397	-397
Pre-Tax Income	67,460	76,539	79,676	52,223	52,386	40,343
% Growth		-34.2%	99.3%	-42.0%	2.5%	2.5%
% Tax Rate	27.0%	28.0%	25.6%	27.1%	28.3%	22.4%
Income Tax Expense	18,188	21,408	20,378	14,153	14,835	9,051
Equity in Earnings of Affiliates	-15,500	-16,260	-17,783	-15,546	-14,933	-12,146
Net Income	33,773	38,872	41,515	22,524	22,618	19,146
EBITDA	71,161	82,257	76,588	56,389	55,294	41,085
EBIT	68,239	78,137	71,727	50,907	50,846	37,413
D&A Expense	2,922	4,120	4,861	5,482	4,448	3,672
% EBITDA Margin	23.9%	22.4%	18.3%	12.5%	11.0%	9.0%

China Vanke Co., Ltd's balance sheet indicates financial health with steady growth in assets and balance between liabilities and equity

Balance Sheet Highlights

- Total Assets:** There has been a progressive increase in total assets from CNY 1.528 trillion in FY 2018 to CNY 1.757 trillion in FY 2022, showing the company's ability to expand its asset base. The decrease to CNY 1.647 trillion in LTM 2023 may reflect recent market conditions or strategic asset realignments.
- Current Assets:** The company's current assets reached CNY 1.600 trillion in FY 2021, demonstrating strong liquidity, before adjusting to CNY 1.415 trillion in FY 2022. This suggests a strategic shift in resource allocation while maintaining sufficient liquidity.
- Liabilities Management:** While total liabilities have climbed steadily, they remain well-managed in proportion to assets, increasing from CNY 1.293 trillion in FY 2018 to CNY 1.352 trillion in FY 2022. The handling of short-term and long-term obligations shows fiscal prudence.

In summary, China Vanke's balance sheet for FY 2022, with total assets of CNY 1.415 trillion, reflects a company that is effectively managing its assets and liabilities. The company's financial structure suggests it is well-positioned to navigate future market dynamics, with solid liquidity and a strengthened equity base.

China Vanke Co., Ltd (SZSE: 000002)		Balance Sheet				
¥ CNY in Millions		Historical				
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	LTM 2023
Current Assets						
Cash & Short Term Investments	187,580	171,479	185,833	140,729	134,443	101,244
Accounts Receivable	226,534	214,677	237,149	261,102	274,530	364,660
Inventory	750,303	897,019	1,002,063	1,075,617	907,057	821,207
Restricted Cash	12,749	6,456	9,568	8,644	2,783	-
Other Current Assets	117,906	149,358	112,774	114,176	96,544	2,450
Total Current Assets	1,295,072	1,438,989	1,547,387	1,600,268	1,415,356	1,289,561
Investments - Long-Term	132,217	133,400	144,194	147,324	134,618	138,537
Property Plant & Equipment	13,447	38,715	41,024	40,461	40,772	36,239
Other Non-Current Assets - Total	82,674	113,335	130,277	136,317	149,428	172,531
Intangible Assets - Total - Net	5,170	5,491	6,294	14,267	16,950	9,856
Total Assets	1,528,579	1,729,929	1,869,177	1,938,638	1,757,124	1,646,724
Liabilities						
Current Liabilities						
Trade Accounts Payable & Accruals - ST	42,985	63,571	80,777	63,498	59,705	424,814
Short Term Debt & Current Port. of LTD	94,539	96,511	85,573	62,344	68,055	51,137
Income Taxes Payable	9,435	13,016	14,114	12,800	14,298	56,978
Other Current Liabilities - Total	974,954	1,099,511	1,137,028	1,172,805	935,743	407,542
Total Current Liabilities	1,121,914	1,272,610	1,317,493	1,311,446	1,077,802	940,470
Long Term Debt	168,024	163,965	175,613	207,343	249,589	275,285
Long Term Leases	-	21,277	24,590	24,310	22,066	20,998
Deferred Tax Liabilities	538.9	282.3	231.5	1,289.9	1,140.3	1,135.0
Other Non-Current Liabilities	2482	1215	1406	1477	1536	1708
Total Liabilities	1,292,959	1,459,350	1,519,333	1,545,865	1,352,133	1,239,596
Shareholder's Equity						
Common Equity	155,764	188,058	224,511	235,953	242,691	252,908
Accumulated Minority Interest	79,857	82,521	125,334	156,820	162,300	154,220
Total Shareholder's Equity	235,621	270,579	349,844	392,773	404,992	407,127
Total Liabilities & Shareholder's Equity	1,528,579	1,729,929	1,869,177	1,938,638	1,757,124	1,646,724

Credit Analysis

Credit – Current Capital Structure

China Vanke Co., Ltd (SZSE: 000002)

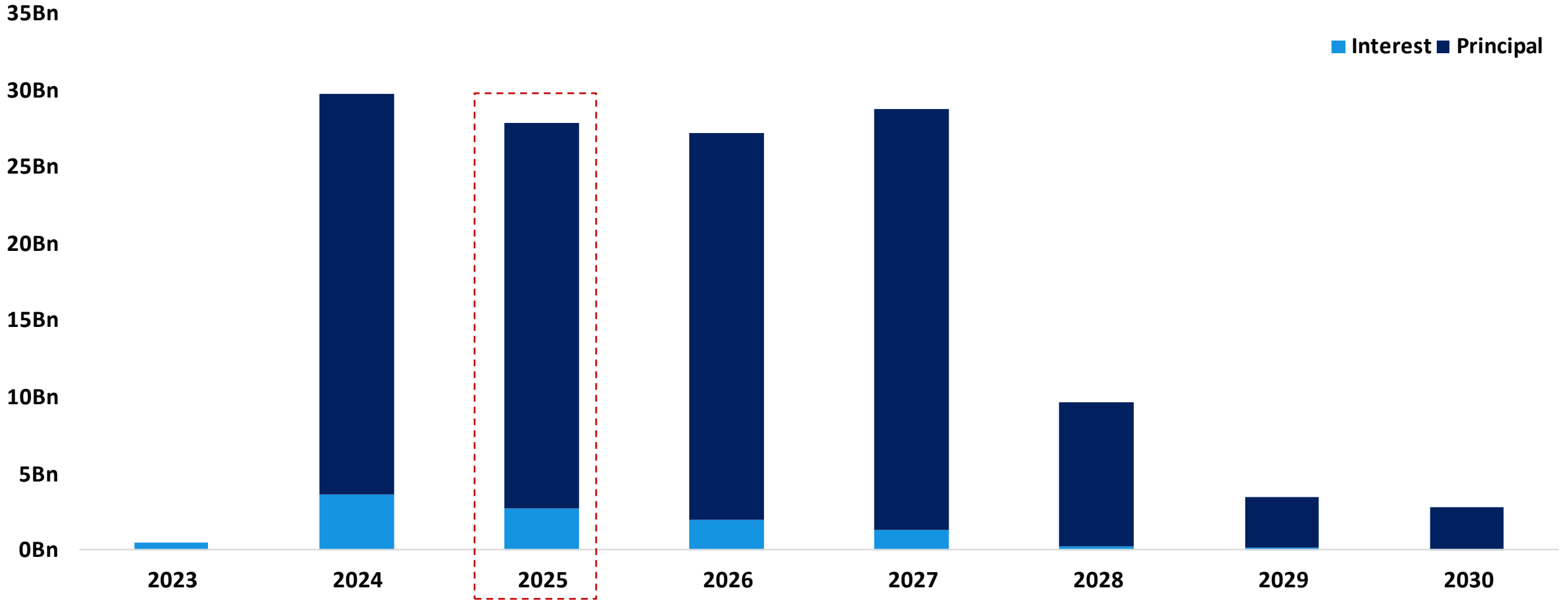
Vanke's de-leveraging and effective management of short-term debt illustrate an improving maturity schedule in the short-run, indicating a high likelihood of achieving our target bond price

Sep-30-2023 Capital Structure Summary									
Description	Principle Amount	Market Value	Coupon	Principal Leverage	Market Leverage	Maturity	Interest Payment	Trading Price	Yield
Senior Secured Term Loans									
Short Term Mortgage Loan from Bank - HKD *	1,734		NA			30-Jun-24			
Mortgage Loan from Bank *	9,156		LPR + 2.880%			-			
Pledge Loan from Bank *	8,849		HIBOR + 3.150%			-			
Total Senior Secured Term Loans	19,740			.48x					
Senior Unsecured Term Loans									
Credit Loan from Bank *	180,719		HIBOR + 3.250%			-			
Other Credit Loans *	43,962		3.500% - 4.600%			-			
Total Senior Secured Term Loans	224,681			5.47x					
Sr. Unsecured Bonds & Notes									
USD Bond *	2,162	1,146	3.50%	.05x	.03x	12-Nov-29	76	53.00	16.01%
22 Vanke 06 - Bond *	499	499	3.70%	.01x	.01x	8-Jul-29	18	0.00	0.00%
22 Vanke 04 - Bond *	649	616	3.53%	.02x	.02x	6-Jun-29	23	94.98	4.57%
21 Vanke 06 - Bond *	699	673	3.49%	.02x	.02x	26-Jul-28	24	96.22	4.40%
21 Vanke 04 - Bond *	565	548	3.70%	.01x	.01x	20-May-28	21	96.96	4.45%
21 Vanke 02 - Note *	1,099	1,099	3.98%	.03x	.03x	22-Jan-28	44	0.00	0.00%
20 Vanke 08 - Bond *	1,598	1,573	4.11%	.04x	.04x	13-Nov-27	66	98.44	4.55%
USD Bond *	7,246	4,239	3.98%	.18x	.1x	9-Nov-27	288	58.50	19.47%
22 Vanke 07 - Bond *	2,496	2,428	3.45%	.06x	.06x	31-Oct-27	86	97.28	4.95%
22 Vanke 05 - Bond *	2,896	2,821	3.21%	.07x	.07x	8-Jul-27	93	97.40	3.99%
20 Vanke 06 - Bond *	1,199	1,199	3.90%	.03x	.03x	19-Jun-27	47	0.00	0.00%
22 Vanke 03 - Bond *	350	339	2.90%	.01x	.01x	6-Jun-27	10	97.10	3.79%
20 Vanke 04 - Bond *	1,498	1,498	3.45%	.04x	.04x	19-May-27	52	0.00	0.00%
20 Vanke 02 - Bond *	999	981	3.42%	.02x	.02x	16-Mar-27	34	98.21	4.84%
22 Vanke 02 - Bond *	1,098	1,067	3.64%	.03x	.03x	4-Mar-27	40	97.11	4.60%
21 Vanke 05 - Bond *	2,297	2,222	3.19%	.06x	.05x	26-Jul-26	73	96.71	4.52%
21 Vanke 03 - Bond *	999	996	3.40%	.02x	.02x	20-May-26	34	99.69	3.52%
22 Vanke MTN005 - Note *	3,693	3,551	3.00%	.09x	.09x	27-Dec-25	111	96.13	4.98%
22 Vanke MTN004 - Note *	1,997	1,921	3.00%	.05x	.05x	14-Dec-25	60	96.20	4.97%
20 Vanke 07 - Bond *	381	381	3.50%	.01x	.01x	13-Nov-25	13	0.00	0.00%
22 Vanke GN003 - Note *	1,997	1,937	3.20%	.05x	.05x	20-Sep-25	64	97.02	4.93%
22 Vanke GN002 - Note *	1,997	1,932	2.90%	.05x	.05x	11-Aug-25	58	96.72	4.92%
22 Vanke GN001 - Note *	2,996	2,906	3.00%	.07x	.07x	20-Jul-25	90	97.02	4.90%
RMB Bond *	510	388	3.55%	.01x	.01x	8-Jun-25	18	76.08	22.72%
USD Bond *	3,069	2,425	3.15%	.07x	.06x	12-May-25	97	79.00	20.33%
22 Vanke 01 - Bond *	889	813	3.14%	.02x	.02x	4-Mar-25	28	91.43	10.59%
22 Vanke MTN003 - Note *	1,998	1,953	3.00%	.05x	.05x	24-Feb-25	60	97.79	4.83%
22 Vanke MTN002 - Note *	2,997	2,931	2.98%	.07x	.07x	15-Feb-25	89	97.82	4.82%
22 Vanke MTN001 - Note *	2,997	2,933	2.95%	.07x	.07x	26-Jan-25	88	97.88	4.82%
21 Vanke MTN003 - Note *	1,998	1,985	3.08%	.05x	.05x	3-Sep-24	62	99.32	3.94%
USD Bond *	4,356	3,996	4.20%	.11x	.1x	7-Jun-24	183	91.75	21.00%
RMB Bond *	1,444	1,317	3.45%	.04x	.03x	25-May-24	50	91.25	22.62%
21 Vanke MTN002 - Note *	1,999	1,997	3.52%	.05x	.05x	29-Apr-24	70	99.89	3.70%
USD Bond *	4,575	4,397	5.35%	.11x	.11x	11-Mar-24	245	96.13	18.56%
21 Vanke MTN001 - Note *	1,999	1,999	3.76%	.05x	.05x	29-Jan-24	75	100.00	3.63%
Total Bonds & Notes	47,282	45,026		1.15x	1.1x				
Lease Liabilities									
Lease Liabilities	22,947		NA			-			
Total Lease Liabilities	22,947			.56x					
Debt Adjustments	9,816								
Total Debt	324,465								

Credit – Debt Maturity Schedule

China Vanke Co., Ltd (SZSE: 000002)

Vanke has pledged to pay off all 2024 debt; 5/25 is the earliest USD bond for repayment allowing for strong risk-adjusted returns. Vanke is currently identifying (w/ the support of SZMC) solutions to refinance longer-term debt



Credit – Company Credit Comparables

China Vanke Co., Ltd (SZSE: 000002)

China Vanke holds a strong 7.8x ICR ratio (above peers), and 8.0x Debt-to-EBITDA (below peers); while only 15% of debt is short-term

Company Name:	China Vanke Co.,	Poly Development	Longfor Group	Greenland	China Resources
EBITDAR	41,127.5	34,268.9	36,193.2	10,981.9	42,464.8
<i>EBITDAR Margin</i>	<i>9.0%</i>	<i>10.8%</i>	<i>16.6%</i>	<i>2.9%</i>	<i>20.5%</i>
Interest Expense	5,569.7	5,857.9	997.6	2,306.8	1,507.9
Capital Expenditures	10,852.7	(299.9)	276.8	1,885.3	1,358.4
Free Cash Flow	(15,215.2)	50,382.9	20,798.9	10,995.4	(21,083.4)
Cash & St. Investments	101,244.4	143,089.5	71,295.9	50,164.2	131,706.5
ST Debt	51,136.6	68,739.6	55,365.7	89,148.6	114,975.1
LT Debt	296,283.4	284,032.1	184,175.8	119,009.3	185,126.0
Total Debt	347,420.0	352,771.7	239,541.5	208,157.9	300,101.1
Long-Term Rating Date	NA	9/22/2017	11/4/2022	NA	NA
Long-Term Rating	BBB+	BBB	BBB-	NA	BBB+
ST Debt / Total Debt (%)	14.72%	19.49%	23.11%	42.83%	38.31%
EBITDA/Interest Expense (ICR)	7.8x	5.8x	36.2x	4.6x	28.1x
EBITDA-CapEx/Interest Expense	5.9x	5.9x	35.9x	3.8x	27.2x
Net Debt/EBITDA	5.7x	6.1x	4.7x	14.8x	4.0x
Total Debt/EBITDA	8.0x	10.3x	6.6x	19.5x	7.1x
Total Debt/Book Capitalization	46.0%	51.3%	50.4%	55.9%	45.7%
Total Debt/Market Capitalization	258.3%	263.4%	260.3%	565.3%	151.7%

Credit – Fixed Income Comparables

China Vanke Co., Ltd (SZSE: 000002)

The market is currently undervaluing Vanke bonds (larger YTW vs. comps) due to uncorrelated market headwinds. Upon realization of Vanke's strong fundamentals; we believe the bonds will trade up and in line

Coupon	Rating	Amt (USD)	Bid Price	YTW	YTM	Coupon
Vanke Real Estate						
5.35% Senior Unsecured Note due Mar 2024	BBB/BBB	630,000,000	91.47	24.02%	29.98%	5.35%
3.45% Senior Unsecured Note due May 2024	BBB/BBB	1,445,000,000	82.75	34.88%	37.43%	3.45%
4.20% Senior Unsecured Note due June 2024	BBB/BBB+	600,000,000	81.13	33.44%	37.77%	4.20%
3.15% Senior Unsecured Note due May 2025	BBB/BBB	423,000,000	62.50	37.90%	37.90%	3.15%
3.975% Senior Unsecured Note due Nov 2027	BBB/BBB	1,000,000,000	51.19	24.41%	25.48%	3.98%
3.50% Senior Unsecured Note due Nov 2029	BBB/BBB	300,000,000	38.93	20.65%	21.61%	3.50%
Total:	BBB/BBB	4,398,000,000	Averages:	29.22%	31.69%	3.94%
Longfor Group Holdings						
3.375% Senior Unsecured Note due Apr 2027	BB+/BBB-	250,000,000	45.14	29.25%	31.78%	
4.50% Senior Unsecured Note due Jan 2028	BBB-/BBB-	500,000,000	42.97	28.77%	30.18%	
3.95% Senior Unsecured Note due Sep 2029	BB+/BBB-	850,000,000	37.00	24.98%	26.13%	
3.85% Senior Unsecured Note due Jan 2032	BB+/BBB-	400,000,000	32.57	21.84%	23.13%	
Total:	BB+/BBB-	2,000,000,000	Averages:	26.21%	27.81%	
China Resources Land						
6.00% Senior Unsecured Note due Feb 2024	BBB+/BBB+	700,000,000	99.82	6.42%	6.61%	
3.75% Senior Unsecured Note due Aug 2024	BBB+/BBB+	300,000,000	97.91	6.40%	6.58%	
4.125% Senior Unsecured Note due Feb 2029	BBB+/BBB+	500,000,000	89.89	6.23%	6.42%	
3.75% Subordinated Note Perpetual	BBB+/BBB+	1,050,000,000	96.36	7.00%	7.42%	
Total:	BBB+/BBB+	2,550,000,000	Averages:	6.51%	6.76%	
Poly Developments and Holdings Group Co., Ltd.						
3.875% Senior Unsecured Note due Mar 2024	BBB-/BBB	500,000,000	98.65	7.46%	8.42%	
Total:	BBB+/BBB+	500,000,000	Averages:	7.46%	8.42%	

Credit – Credit Health Panel

China Vanke Co., Ltd (SZSE: 000002)

Per the S&P Global Credit Health Panel, Vanke is rated as above average when compared to peers. ICR is rated as below average solely due to some comps having minimal interest expense

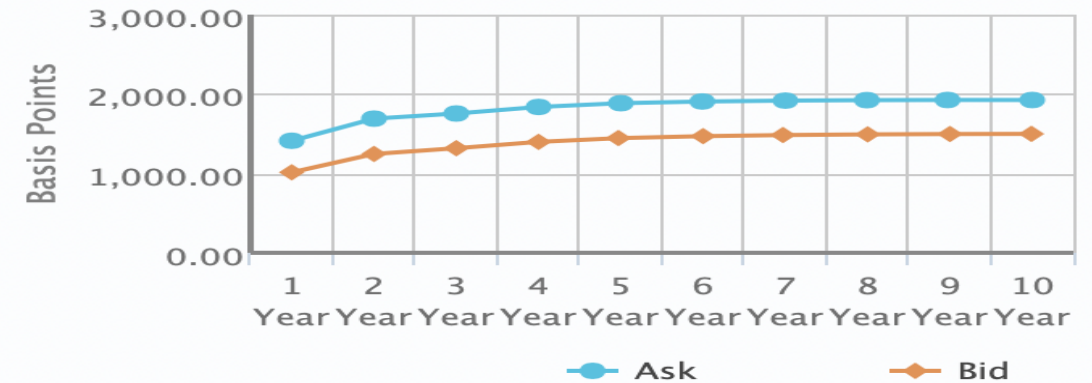
Overall Score	Financial Category		Score
Above Average	Operational		Above Average
	Solvency		Below Average
	Liquidity		Above Average
Operational			
Revenue Score	1		Top
Total Equity Score	1		Top
Return on Capital Score	2		Above Average
Recurring Earnings / Total Assets Score	2		Above Average
Net Working Capital / Revenue Score	3		Below Average
Asset Turnover Score	3		Below Average
Net Working Capital/ Total Assets Score	2		Above Average
Gross Margin % Score	2		Above Average
EBITDA Margin % Score	2		Above Average
Solvency			
EBITDA / Interest Exp. Score	3		Below Average
Net Debt / EBITDA Score	2		Above Average
Total Debt / Capital Score	2		Above Average
Total Debt / Total Liabilities Score	3		Below Average
Total Debt / Revenue Score	1		Top
Liquidity			
Current Ratio Score	2		Above Average
Quick Ratio Score	2		Above Average

Short-term CDS spread volatility indicates that the market has overreacted to recent lower-than-expected earnings and we believe has not completely accounted for the government and Shenzhen Metro Group's support

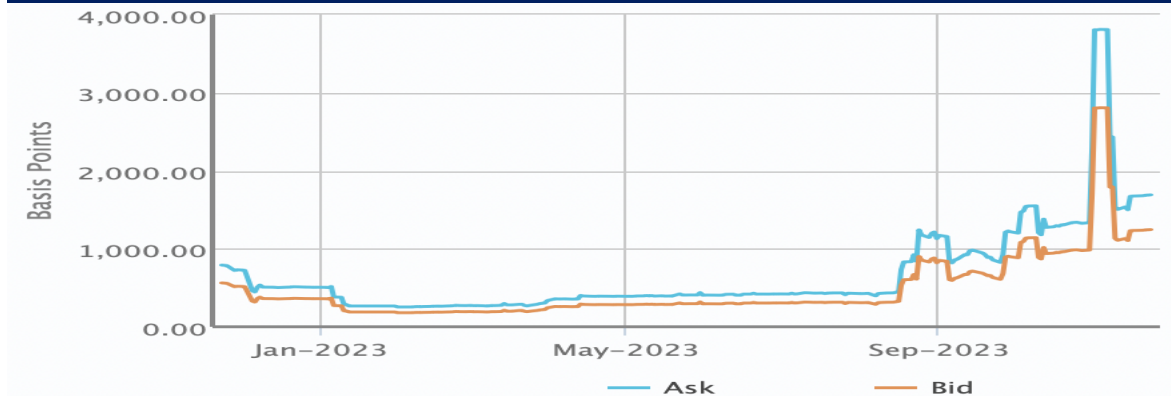
Commentary on the CDS Spread

- 1. Long-Term Pessimism:** Bids of over a 1000 basis points even for a short-term CDS with Vanke's high cash balance indicates a largely negative sentiment on the company's debt
- 2. Volatility in the CDS curve:** Market seems to have over-corrected in late September due to Vanke's earnings being lower than expected, peer companies like Longfor Holdings losing value on their bonds, etc
- 3. Industry Headwinds:** An industry-wide decline makes all companies seem more risky and raise CDS spreads. However, Vanke's financials specifically and their higher credit rating indicate much lower default risk
- 4. Shenzhen Metro Group:** Vanke's largest shareholder has only recently publicly pledged support and promised to provide cheaper funding access to Vanke. Thus, this is not yet completely accounted for in the CDS spread
- 5. Debt Maturity:** Fitch's analysis provides evidence that Vanke's deleveraging efforts have improved its debt maturity in Q1 23'

CDS 10-Yr Curve



2-Yr CDS Chart

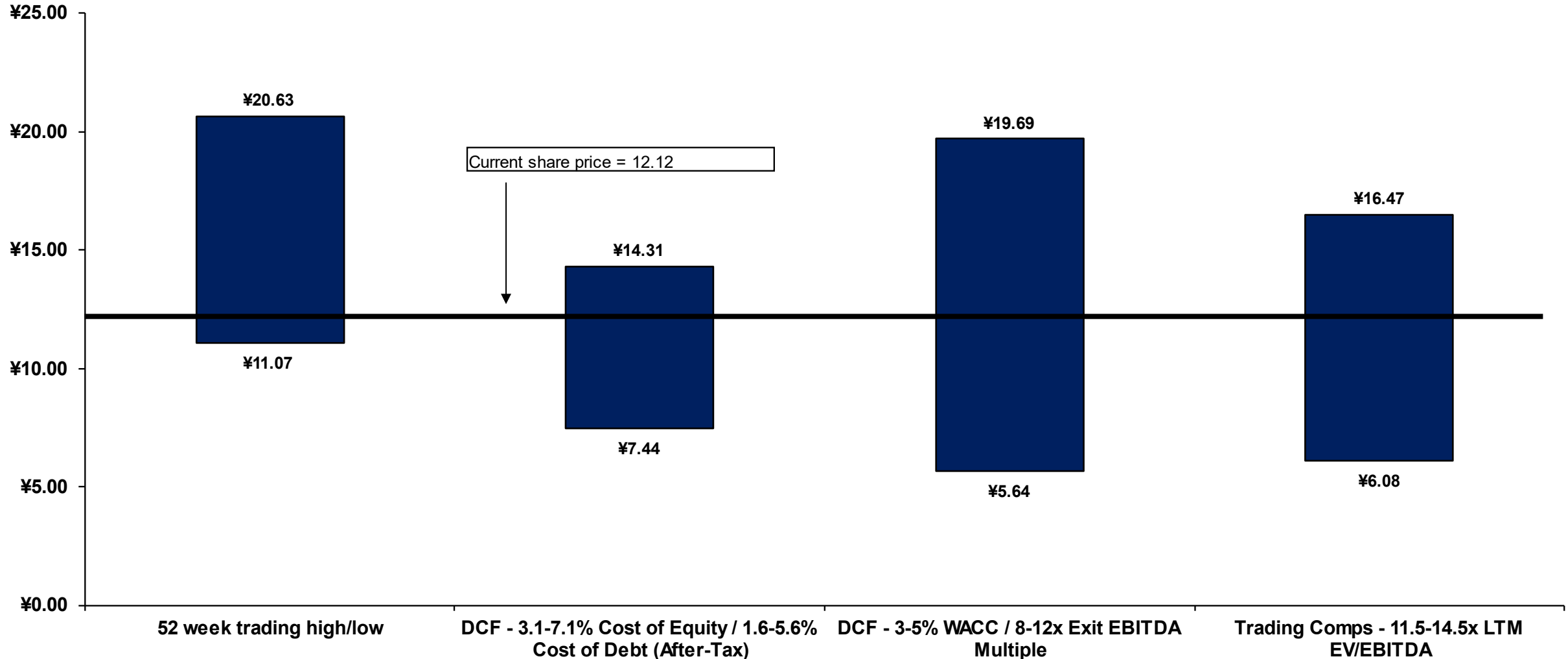


Valuation

Valuation Summary (Football Field)

China Vanke Co., Ltd (SZSE: 000002)

Vanke is currently trading at ¥12.12, the bottom of its 52-week range. Analyst targets range from ¥11.16 to ¥21.00 with the mean at ¥14.81 and median at ¥14.70; representing a 18% upside to mean



Valuation – Public Comparables

China Vanke Co., Ltd (SZSE: 000002)

At a chosen range of 11.5x – 14.5x EV/EBITDA (LTM) multiple, Vanke's share price is ¥6.08 – ¥16.47 with ¥12.12 in the middle

Comparables Company Analysis													¥ CNY in Millions			
Name	Market		Revenue	EBITDA	TEV/Revenue		TEV/EBITDA		PE	Gross	EBITDA	Debt/LTM	Net Debt	ICR	ICR	
	Cap	TEV	LTM	LTM	LTM	CY+1	LTM	CY+1	LTM	Margin	Margin	EBITDA	EBITDA	Ratio	- CapEx	
Poly Developments	133,949	477,504	317,196	34,263	1.5x	1.5x	13.7x	11.4x	7.3x	18.9	10.8	10.1x	6.0x	6.0x	6.0x	
Longfor Group	92,028	348,884	217,805	36,085	1.6x	1.6x	9.1x	9.4x	3.5x	21.5	16.6	6.6x	4.7x	36.2x	35.9x	
China Resources Land	197,869	474,316	207,139	42,342	2.3x	2.1x	10.1x	9.6x	6.4x	25.8	20.4	7.0x	3.9x	28.3x	27.4x	
China Overseas Land	153,807	312,526	165,692	26,698	1.9x	1.6x	10.9x	9.3x	7.8x	19.7	16.1	9.4x	5.1x	25.0x	24.4x	
Gemdale Corporation	25,778	145,828	119,379	8,911	1.2x	1.3x	15.8x	12.4x	11.1x	16.2	7.5	11.2x	7.6x	10.2x	9.5x	
Hangzhou Binjiang RE	26,727	99,403	68,027	7,581	1.5x	1.8x	13.1x	12.2x	6.5x	15.0	11.1	8.8x	4.8x	7.8x	7.7x	
Max	197,869	477,504	317,196	42,342	2.3x	2.1x	15.8x	12.4x	11.1x	25.8	20.4	11.2x	7.6x	36.2x	35.9x	
Median	112,989	330,705	186,415	30,480	1.6	1.6	12.0	10.5	6.9	19.3	13.6	9.1	5.0	17.6	16.9	
Min	25,778	99,403	68,027	7,581	1.2	1.3	9.1	9.3	3.5	15.0	7.5	6.6	3.9	6.0	6.0	
Mean	105,026	309,743	182,540	25,980	1.7	1.7	12.1	10.7	7.1	19.5	13.8	8.9	5.4	18.9	18.5	
China Vanke Co., Ltd.	143,716	544,111	456,474	41,085	1.2x	1.1x	12.0x	9.0x	7.4x	18.1	9.0	8.0x	5.7x	7.8x	5.9x	

EV/EBITDA (LTM)	25th	Median	75th	Chosen Range	Implied TEV	Implied EqV	Implied Share Price
China Vanke Co., Ltd.	9.8x	12.0x	14.2x	11.5x - 14.5x	472 - 596 Bn	72 - 195 Bn	6.08 - 16.47

Valuation – DCF Analysis

China Vanke Co., Ltd (SZSE: 000002)

Assuming a 4.0% WACC (5.1% cost of equity / 3.6% after-tax cost of debt) and 10.0x exit EV/EBITDA multiple, Vanke's implied price per share is ¥12.90 vs. the current trading price of ¥12.12 representing a 6.4% premium

Discounted Cash Flow Projections

	Fiscal Year Ending December										CAGR 2023-2027	
	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E		
Total Revenue	297,679.3	367,893.9	419,111.7	452,797.8	503,838.4	418,819.0	395,530.7	420,760.0	447,598.6	476,149.1	3.3%	
Annual Growth		23.6%	13.9%	8.0%	11.3%	(16.9%)	(5.6%)	6.4%	6.4%	6.4%		
Cost of Revenue	187,122.6	235,687.0	298,521.5	357,097.3	405,769.1	337,298.3	318,542.9	338,861.4	360,476.1	383,469.4		
Margin	62.9%	64.1%	71.2%	78.9%	80.5%	80.5%	80.5%	80.5%	80.5%	80.5%		
EBITDA	71,161.0	82,256.7	76,587.5	56,389.0	55,294.5	54,027.6	49,441.3	54,278.0	57,740.2	61,423.2	3.3%	
Annual Growth		15.6%	(6.9%)	(26.4%)	(1.9%)	(2.3%)	(8.5%)	9.8%	6.4%	6.4%		
Margin	23.9%	22.4%	18.3%	12.5%	11.0%	12.9%	12.5%	12.9%	12.9%	12.9%		
Less: Depreciation and Amortization	2,921.9	6,305.6	6,984.9	8,063.3	6,803.4	6,758.7	6,921.9	7,936.8	9,053.0	10,279.3	11.1%	
% of Capital Expenditure	16.8%	92.5%	94.9%	82.4%	52.0%	56.8%	61.6%	66.4%	71.2%	76.0%		
EBIT	68,239.0	75,951.1	69,602.6	48,325.7	48,491.1	47,269.0	42,519.5	46,341.3	48,687.3	51,144.0	2.0%	
Annual Growth		11.3%	(8.4%)	(30.6%)	0.3%	(2.5%)	(10.0%)	9.0%	5.1%	5.0%		
Margin	22.9%	20.6%	16.6%	10.7%	9.6%	11.3%	10.7%	11.0%	10.9%	10.7%		
Less: Income Taxes	27.2%	(18,551.0)	(20,647.5)	(18,921.7)	(13,137.5)	(13,182.4)	(12,850.2)	(11,559.0)	(12,598.0)	(13,235.8)	(13,903.6)	
Unlevered Net Income	49,688.0	55,303.6	50,681.0	35,188.2	35,308.6	34,418.8	30,960.4	33,743.3	35,451.5	37,240.3	2.0%	
Plus: Depreciation and Amortization	2,921.9	6,305.6	6,984.9	8,063.3	6,803.4	6,758.7	6,921.9	7,936.8	9,053.0	10,279.3		
Less: Capital Expenditure	(17,366.4)	(6,817.5)	(7,363.2)	(9,786.4)	(13,078.3)	(11,895.3)	(11,233.8)	(11,950.4)	(12,712.7)	(13,523.6)	3.3%	
Margin	(5.8%)	(1.9%)	(1.8%)	(2.2%)	(2.6%)	(2.8%)	(2.8%)	(2.8%)	(2.8%)	(2.8%)		
Less: Additions to Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Less: Increase in Working Capital	(20,321.5)	(18,446.0)	(6,879.8)	(43,560.2)	(43,536.0)	(21,271.5)	(20,088.7)	(21,370.0)	(22,733.1)	(24,183.2)	3.3%	
Margin	(6.8%)	(5.0%)	(1.6%)	(9.6%)	(8.6%)	(5.1%)	(5.1%)	(5.1%)	(5.1%)	(5.1%)		
Unlevered Free Cash Flow	14,922.0	36,345.7	43,422.8	-10,095.0	-14,502.3	8,010.7	6,559.8	8,359.6	9,058.6	9,812.8	5.2%	
Annual Growth		143.6%	19.5%	(123.2%)	43.7%	(155.2%)	(18.1%)	27.4%	8.4%	8.3%		

Valuation – DCF Analysis: Sensitivity

China Vanke Co., Ltd (SZSE: 000002)

At a 10.0x exit EV/EBITDA multiple, Enterprise Value is 553Bn yuan, Equity Value is 153Bn yuan, and ¥12.90 equity value per share implies 2.4% perpetual UFCF growth

SZSE:000002		Present Value of Terminal Value							Present Value of Enterprise Value				
WACC		EBITDA Exit Multiple							EBITDA Exit Multiple				
		8.0x	9.0x	10.0x	11.0x	12.0x			8.0x	9.0x	10.0x	11.0x	12.0x
2.04%		452,397.8	508,947.5	565,497.2	622,046.9	678,596.7		485,159.5	541,709.3	598,259.0	654,808.7	711,358.4	
3.04%		434,671.0	489,004.9	543,338.8	597,672.7	652,006.5		466,594.0	520,927.9	575,261.8	629,595.6	683,929.5	
4.04%	+	417,800.1	470,025.2	522,250.2	574,475.2	626,700.2	=	448,917.5	501,142.5	553,367.5	605,592.6	657,817.6	
5.04%		401,736.2	451,953.2	502,170.2	552,387.3	602,604.3		432,079.4	482,296.4	532,513.4	582,730.5	632,947.5	
6.04%		386,433.4	434,737.6	483,041.7	531,345.9	579,650.1		416,032.4	464,336.6	512,640.7	560,944.9	609,249.1	
SZSE:000002		Present Value of Equity							Equity Value per Share				
WACC		EBITDA Exit Multiple							EBITDA Exit Multiple				
		8.0x	9.0x	10.0x	11.0x	12.0x			8.0x	9.0x	10.0x	11.0x	12.0x
2.04%		84,764.4	141,314.1	197,863.8	254,413.5	310,963.3	Divided By 11,857.8 Shrs =	7.15	11.92	16.69	21.46	26.22	
3.04%		66,198.8	120,532.7	174,866.6	229,200.5	283,534.3		5.58	10.16	14.75	19.33	23.91	
4.04%	=	48,522.3	100,747.3	152,972.4	205,197.4	257,422.4		4.09	8.50	12.90	17.30	21.71	
5.04%		31,684.2	81,901.2	132,118.3	182,335.3	232,552.3		2.67	6.91	11.14	15.38	19.61	
6.04%		15,637.2	63,941.4	112,245.6	160,549.7	208,853.9		1.32	5.39	9.47	13.54	17.61	
SZSE:000002		Implied Perpetual Growth Rate of FCF							Premium/(Discount) to Current Price per Share				
WACC		EBITDA Exit Multiple							EBITDA Exit Multiple				
		8.0x	9.0x	10.0x	11.0x	12.0x			8.0x	9.0x	10.0x	11.0x	12.0x
2.04%		0.0%	0.3%	0.4%	0.6%	0.7%		(41.0%)	(1.7%)	37.7%	77.0%	116.4%	
3.04%		1.0%	1.2%	1.4%	1.6%	1.7%		(53.9%)	(16.1%)	21.7%	59.5%	97.3%	
4.04%	=>	2.0%	2.2%	2.4%	2.5%	2.7%		(66.2%)	(29.9%)	6.4%	42.8%	79.1%	
5.04%		3.0%	3.2%	3.4%	3.5%	3.7%		(78.0%)	(43.0%)	(8.1%)	26.9%	61.8%	
6.04%		4.0%	4.2%	4.4%	4.5%	4.6%		(89.1%)	(55.5%)	(21.9%)	11.7%	45.3%	

Cost of debt took the higher of the last 3 bonds issued (W/A 3.08%) or the Chinese Corporate Yield Curve (4.96%) allowing for some built-in cushion. Assuming L3 bonds, implied share price increases to ¥14.75

WACC SENSITIVITY ANALYSIS

D/(D+P+E)	Pre-Tax Cost of Debt								
	4.96%	5.46%	5.96%	6.46%	6.96%	7.46%	7.96%	8.46%	8.96%
57.1%	4.2%	4.4%	4.6%	4.9%	5.1%	5.3%	5.5%	5.7%	5.9%
62.1%	4.2%	4.4%	4.6%	4.8%	5.1%	5.3%	5.5%	5.7%	6.0%
67.1%	4.1%	4.3%	4.6%	4.8%	5.1%	5.3%	5.6%	5.8%	6.0%
72.1%	4.0%	4.3%	4.5%	4.8%	5.1%	5.3%	5.6%	5.9%	6.1%
77.1%	3.9%	4.2%	4.5%	4.8%	5.1%	5.3%	5.6%	5.9%	6.2%
82.1%	3.9%	4.2%	4.5%	4.8%	5.1%	5.4%	5.7%	6.0%	6.3%
87.1%	3.8%	4.1%	4.4%	4.7%	5.1%	5.4%	5.7%	6.0%	6.3%

E/(D+P+E)	Cost of Equity								
	2.06%	2.81%	3.56%	4.31%	5.06%	5.81%	6.56%	7.31%	8.06%
12.9%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%
17.9%	3.0%	3.1%	3.3%	3.4%	3.5%	3.7%	3.8%	3.9%	4.1%
22.9%	3.1%	3.3%	3.4%	3.6%	3.8%	4.0%	4.1%	4.3%	4.5%
27.9%	3.2%	3.4%	3.6%	3.8%	4.0%	4.2%	4.5%	4.7%	4.9%
32.9%	3.3%	3.6%	3.8%	4.0%	4.3%	4.5%	4.8%	5.0%	5.3%
37.9%	3.4%	3.7%	4.0%	4.3%	4.5%	4.8%	5.1%	5.4%	5.7%
42.9%	3.5%	3.8%	4.2%	4.5%	4.8%	5.1%	5.4%	5.8%	6.1%

Liquidation Valuation

China Vanke Co., Ltd (SZSE: 000002)

Based on the liquidation analysis, Vanke will have between 711Bn to 990Bn yuan after the sale of current and other assets post wind down costs depending on asset recovery rates

China Vanke Co., Ltd (SZSE: 000002) Liquidation Valuation						
¥ CNY in Millions	Book Value (Sep-30-2023)	Asset Recovery Percentage		Hypothetical Liquidation Values		
		Low	High	Low	High	
Current Assets:						
Cash and Cash Equivalents	¥101,244	95%	100%	¥96,182	¥101,244	
Merchandise Inventories	¥821,207	40%	60%	¥328,483	¥492,724	
Accounts Receivable	¥364,660	65%	85%	¥237,029	¥309,961	
Other Current Assets	¥2,450	0%	0%	¥0	¥0	
Total Current Assets	¥1,289,561	50%	61%	¥661,694	¥903,930	
Investments - Long-Term	¥138,537	60%	75%	¥83,122	¥103,903	
Property Plant & Equipment	¥36,239	10%	25%	¥3,624	¥9,060	
Other Non-Current Assets - Total	¥172,531	10%	20%	¥17,253	¥34,506	
Intangible Assets - Total - Net	¥9,856	0%	0%	¥0	¥0	
Other Assets	¥357,162	20%	30%	¥103,999	¥147,469	
Total Net Proceeds Available for Distribution				¥765,693	¥1,051,398	
Wind Down Costs						
Wind Down Costs During Chapter 7 Liquidation				¥10,000	¥120	
Trustee & Reciever Fees @ 2.75%			(2.8%)	¥21,057	¥28,913	
Professional Fees @ 3.00%			(3.0%)	¥22,971	¥31,542	
Total Wind Down Costs				¥54,027	¥60,575	
Net Proceeds Available after Costs for Distribution				¥711,666	¥990,823	

Waterfall Analysis

China Vanke Co., Ltd (SZSE: 000002)

Based on the waterfall, in both the low and high recovery cases, 1L debt along with senior unsecured loans and lease liabilities will be paid in full; assuming no bankruptcy protection

Description	Low Range		High Range	
¥ CNY in Millions	¥711,666	% Recovery	¥990,823	% Recovery
1st Lien Debt				
Short Term Mortgage Loan from Bank - HKD *	¥1,734	100%	¥1,734	100%
Mortgage Loan from Bank *	¥9,156	100%	¥9,156	100%
Pledge Loan from Bank *	¥8,849	100%	¥8,849	100%
Credit Loan from Bank *	¥180,719	100%	¥180,719	100%
Other Credit Loans *	¥43,962	100%	¥43,962	100%
	¥467,245		¥746,402	
Sr. Unsecured Loans				
Total Sr. Unsecured Loans	¥70,237	100%	¥70,237	100%
	¥397,008		¥676,165	
Lease Liabilities				
Lease Liabilities	¥22,947	100%	¥22,947	100%
	¥374,062		¥653,219	
General Unsecured Claims				
Trade Accounts Payable & Accruals - Short-Term	¥424,814	88%	¥424,814	100%
Income Taxes Payable	¥56,978	0%	¥56,978	100%
Other Current Liabilities - Total	¥407,542	0%	¥407,542	42%
	¥0		¥0	
Market Capitalization				
Equity Value	¥128,590	0%	¥128,590	0%
	¥0		¥0	

Negative news sentiment and inability to realize true value in the short-term represent the risks in this situation

Additional Market Downturn

- The Chinese residential real estate market is predicted to have a CAGR of 3.1% over the next ten years. However, another market downturn would mean lower consumer demand, lower property prices, and a declining long-term outlook for Vanke
- Mitigant: as we hope to exit within 18 months at par and have strong downside protection

Continued Investor Pessimism

- The Chinese government has been proactive in supporting developers and lowering regulation to stimulate demand
- However, with continued investor pessimism, given the short period of our opportunity, it could be difficult to realize intrinsic value and exit until just before maturity
- Mitigant: SZMC (a state-owned enterprise and its largest shareholder) has pledged 10Bn yuan along with supporting its upcoming debt refinancing

Negative News Update

- The bond is very actively tracked by financial journalists and credit industry specialists. Any extremely negative news or update about the Chinese real estate sector could devalue the bond and make an exit more difficult
- A major institutional selloff could provide a negative signal to the other risk-averse institutions which may then pre-emptively exit, further driving the price of the bond down
- Mitigant: CCP is providing Vanke special financing; and GIS believes current negative sentiment is overblown

Appendix

Revenue	Units	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total Revenue	CNY M	¥237,345	¥297,083	¥367,894	¥419,112	¥452,798	¥503,838	¥418,819	¥395,531	¥420,760	¥447,599	¥476,149
	GR %		25.17	23.84	13.92	8.04	11.27	-16.87	-5.56	6.38	6.38	6.38
Property Revenues		¥225,761	¥278,083	¥340,582	¥382,990	¥407,692	¥450,601	¥385,313	¥363,888	¥387,099	¥411,791	¥438,057
			23.18	22.47	12.45	6.45	10.52	-14.49	-5.56	6.38	6.38	6.38
Property Revenue Share /		0.95	0.94	0.93	0.91	0.90	0.89	0.92	0.92	0.92	0.92	0.92
Inventories												
Net Inventory	CNY M	¥597,487	¥754,310	¥901,807	¥1,008,434	¥1,083,598	¥907,057	¥881,444	¥856,587	¥883,484	¥911,225	¥939,838
	GR %		26.25	19.55	11.82	7.45	-16.29	-2.82	-2.82	3.14	3.14	3.14
Total Inventory		¥823,249	¥1,032,393	¥1,242,389	¥1,391,424	¥1,491,290	¥1,357,658	¥1,286,985	¥1,250,692	¥1,289,964	¥1,330,468	¥1,372,245
			25.40	20.34	12.00	7.18	-8.96	-5.21	-2.82	3.14	3.14	3.14
Work in Process												
Net Work in Process	CNY M	¥546,804	¥685,374	¥829,902	¥926,828	¥987,709	¥806,967	¥784,211	¥762,096	¥786,026	¥810,707	¥836,163
	GR %		25.34	21.09	11.68	6.57	-18.30	-2.82	-2.82	3.14	3.14	3.14
Total Work in Process				¥894,473	¥977,246	¥1,025,318	¥860,995	¥715,557	¥748,559	¥800,673	¥825,814	¥851,745
				9.25	4.92	-16.03	-16.89	4.61	6.96	3.14	3.14	3.14
Finished Goods												
Net Finished Goods	CNY M	¥49,981	¥63,962	¥66,035	¥74,044	¥86,952	¥98,070	¥74,477	¥72,377	¥74,649	¥76,993	¥79,411
	GR %		27.97	3.24	12.13	17.43	12.79	-24.06	-2.82	3.14	3.14	3.14
Total Finished Goods			¥342,045	¥406,617	¥457,034	¥494,644	¥548,672	¥480,018	¥466,481	¥481,129	¥496,236	¥511,818
				18.88	12.40	8.23	10.92	-12.51	-2.82	3.14	3.14	3.14
Sales of Finished Goods			¥278,083	¥340,582	¥382,990	¥407,692	¥450,601	¥385,313	¥363,888	¥387,099	¥411,791	¥438,057
				22.47	12.45	6.45	10.52	-14.49	-5.56	6.38	6.38	6.38
Sales Ratio /			0.81	0.84	0.84	0.82	0.82	0.80	0.78	0.80	0.83	0.86
	GR %			3.03	0.05	-1.64	-0.36	-2.11	-2.82	3.14	3.14	3.14

Total Revenue

Formula: Properties Revenue/Property Revenue Share

Property Revenues

Property Revenues = Sales of Finished Goods

Property Revenue Share

- Based on historical average of 0.92

Total Inventory

Formula: Property Revenues + Net Inventory

Total Work in Process

Formula: Net Work in Process + Change in Total Finished Goods

Net Finished Goods

- Slowdown in Finished Goods for Year 2022 – 2024
- Starts recovering in Year 2025 and fully recovers by 2027

Total Finished Goods

Formula: Total Finished Goods + Sales of Finished Goods

Sales Ratio

- Slight decrease from Year 2022 – 2024, and starts slowly recovering

Sales of Finished Goods

Formula: Sales Ratio * Total Finished Goods

- Property sales are predicted to decrease from Year 2022 – 2024
- From Year 2025 anticipating a slow recovery (higher credit conditions and higher inflation)

Discounted Cash Flow

China Vanke Co., Ltd (SZSE: 000002)

	(CNY in millions, except per share data)										
	Fiscal Year Ending December										CAGR
	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2023-2027
Total Revenue	297,679.3	367,893.9	419,111.7	452,797.8	503,838.4	418,819.0	395,530.7	420,760.0	447,598.6	476,149.1	3.3%
Annual Growth		23.6%	13.9%	8.0%	11.3%	(16.9%)	(5.6%)	6.4%	6.4%	6.4%	
Cost of Revenue	187,122.6	235,687.0	298,521.5	357,097.3	405,769.1	337,298.3	318,542.9	338,861.4	360,476.1	383,469.4	
Margin	62.9%	64.1%	71.2%	78.9%	80.5%	80.5%	80.5%	80.5%	80.5%	80.5%	
EBITDA	71,161.0	82,256.7	76,587.5	56,389.0	55,294.5	54,027.6	49,441.3	54,278.0	57,740.2	61,423.2	3.3%
Annual Growth		15.6%	(6.9%)	(26.4%)	(1.9%)	(2.3%)	(8.5%)	9.8%	6.4%	6.4%	
Margin	23.9%	22.4%	18.3%	12.5%	11.0%	12.9%	12.5%	12.9%	12.9%	12.9%	
Less: Depreciation and Amortization	2,921.9	6,305.6	6,984.9	8,063.3	6,803.4	6,758.7	6,921.9	7,936.8	9,053.0	10,279.3	11.1%
% of Capital Expenditure	16.8%	92.5%	94.9%	82.4%	52.0%	56.8%	61.6%	66.4%	71.2%	76.0%	
EBIT	68,239.0	75,951.1	69,602.6	48,325.7	48,491.1	47,269.0	42,519.5	46,341.3	48,687.3	51,144.0	2.0%
Annual Growth		11.3%	(8.4%)	(30.6%)	0.3%	(2.5%)	(10.0%)	9.0%	5.1%	5.0%	
Margin	22.9%	20.6%	16.6%	10.7%	9.6%	11.3%	10.7%	11.0%	10.9%	10.7%	
Less: Income Taxes	27.2%	(18,551.0)	(20,647.5)	(18,921.7)	(13,137.5)	(13,182.4)	(12,850.2)	(11,559.0)	(12,598.0)	(13,235.8)	(13,903.6)
Unlevered Net Income	49,688.0	55,303.6	50,681.0	35,188.2	35,308.6	34,418.8	30,960.4	33,743.3	35,451.5	37,240.3	2.0%
Plus: Depreciation and Amortization	2,921.9	6,305.6	6,984.9	8,063.3	6,803.4	6,758.7	6,921.9	7,936.8	9,053.0	10,279.3	
Less: Capital Expenditure	(17,366.4)	(6,817.5)	(7,363.2)	(9,786.4)	(13,078.3)	(11,895.3)	(11,233.8)	(11,950.4)	(12,712.7)	(13,523.6)	3.3%
Margin	(5.8%)	(1.9%)	(1.8%)	(2.2%)	(2.6%)	(2.8%)	(2.8%)	(2.8%)	(2.8%)	(2.8%)	
Less: Additions to Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Less: Increase in Working Capital	(20,321.5)	(18,446.0)	(6,879.8)	(43,560.2)	(43,536.0)	(21,271.5)	(20,088.7)	(21,370.0)	(22,733.1)	(24,183.2)	3.3%
Margin	(6.8%)	(5.0%)	(1.6%)	(9.6%)	(8.6%)	(5.1%)	(5.1%)	(5.1%)	(5.1%)	(5.1%)	
Unlevered Free Cash Flow	14,922.0	36,345.7	43,422.8	-10,095.0	-14,502.3	8,010.7	6,559.8	8,359.6	9,058.6	9,812.8	5.2%
Annual Growth		143.6%	19.5%	(123.2%)	43.7%	(155.2%)	(18.1%)	27.4%	8.4%	8.3%	
Discount Factor - End-of-Period Convention						0.10	1.10	2.10	3.10	4.10	
PV of Yearly Cash Flows						787.0	6,280.7	7,693.3	8,013.1	8,343.4	

WACC	
Market Risk Premium (Rm - Rf)	2.8%
Multiplied by: SZSE:000002 Bottom-Up Beta	0.889
Adjusted Market Risk Premium	2.5%
Add: Risk-Free Rate of Return (Rf)(1)	2.6%
Add: Size Premium	0.0%
Cost of Equity	5.1%
Multiplied by: SZSE:000002 E/(D+P+E)	27.9%
Cost of Equity Portion	1.4%
Comparable Corporate Yield Curve Rate	5.0%
Tax Rate (5 Year Average)	27.2%
After-Tax Cost of Debt	3.6%
Multiplied by: SZSE:000002 D/(D+P+E)	72.1%
Cost of Debt Portion	2.6%
SZSE:000002 Cost of Preferred (Rp)	0.0%
Multiplied by: SZSE:000002 P/(D+P+E)	0.0%
Cost of Preferred Portion	0.0%
WACC	4.0%

#NAME?			
PV of 2023 Free Cash Flow Stub(1)	787.0	0.1%	0.5%
PV of 2024-2027 Free Cash Flows(1)	30,330.3	5.5%	19.8%
PV of Terminal Value(1)	522,250.2	94.4%	341.4%
Enterprise Value	553,367.5	100.0%	361.7%
Less:			
Total Debt	(347,420.0)		(227.1%)
Preferred Stock	0.0		0.0%
Minority Interest	(154,219.5)		(100.8%)
Plus:			
Cash and Equivalents	101,244.4		66.2%
Equity Value	152,972.4		100.0%
Shares Outstanding	11,857.8		
Implied Per Share Value	12.90		
Current Price	12.12		
Premium/(Discount) to Current Price	6.4%		

DCF Assumptions	
Weighted Average Cost of Capital	4.04%
Terminal EBITDA Multiple	10.0x
Implied Perp. Growth Rate of Unlevered Free Cash Flow(2)	2.4%
Tax Rate	27.2%