



Company Report: China Aoyuan (03883 HK)

公司报告：中国奥园(03883 HK)

Van Liu 刘斐凡
+86 755 23976672
liufeifan@gtjas.com

30 October 2015

A Complex Developer with Rapid Growth, Initiate with 'Accumulate'

快速发展的综合体开发商，首予“收集”评级

- **China Aoyuan Property Group Limited (referred to as Aoyuan, 3883.HK) has been developing property projects with innovative concept of composite real estate, incorporating healthy living concepts of sports and regimen into residential communities.** The real estate projects currently held by Aoyuan are mainly located in Guangdong, Chongqing, Liaoning, Hunan, Guangxi and Jiangxi.
- The Company's commercial and residential paralleled development tactic has been effective since 2010. Commercial projects will enhance its GPM in the next three years. Projects in Guangdong will be main contributors in 2015-2017, which will boost revenues. Driven by the loosening environment and more salable resources with product quality promotion, **we estimate underlying net profit to strongly grow at a rate of 29.8% in 2015**, and to maintain robust growth at rates of 10.3% and 10.5% in 2016-2017, representing 19.6% CAGR in 2014-2017.
- **Initiate with 'Accumulate' investment rating for Aoyuan.** The Company's share price is undervalued. Therefore, We rate Aoyuan 'Accumulate' and set the target price at HK\$2.09, which implies a 60% discount to its 2015E NAV of HK\$5.22 per share, 4.5x underlying 2015PER and 0.5x 2015PBR. The 60% discount on NAV reflects risks as follow: 1) possible operation failure of commercial projects; 2) commercial property sales might miss our expectation.
- **奥园地产股份有限公司 (简称奥园, 3883.HK) 一直发展创新概念的复合型地产项目, 包括养生、运动的健康生活概念。** 现时项目主要分布在广东、重庆、辽宁、湖南、广西和江西。
- 公司商住双线发展的策略自 2010 年以来是有效的。商业地产项目将会在未来三年增强其毛利率。广东地区的项目将会在 2015 至 2017 年成为主要的贡献者, 推动收入增长。得益于宽松环境, 更多可售资源及产品品质提高, **我们预测公司 2015 年的核心净利润将会强劲增长 29.8%**, 在 2016 年至 2017 年将稳健增长 10.3% 和 10.5%, 即在 2014-2017 年以 19.6% 的年复合增长率增长。
- **首予奥园“收集”评级。** 公司的股价被低估。因此我们给予奥园“收集”评级并设定目标价 2.09 港元, 较 2015 年 NAV5.22 港元有 60% 的折让, 相当于 4.5 倍 2015 年核心市盈率 and 0.5 倍 2015 年市净率。60% 的 NAV 折让反映了如下风险: 1) 商业项目可能的运营失败; 2) 商业物业销售可能不及我们预期。

Rating: **Accumulate**
Initial

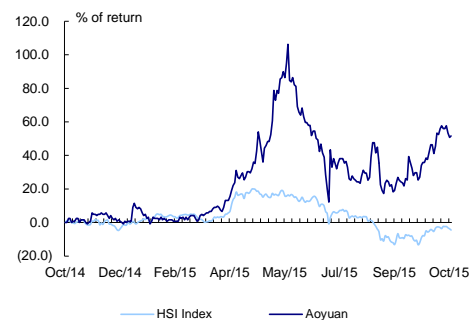
评级: **收集(首次研究)**

6-18m TP目标价: **HK\$2.09**

Share price 股价: **HK\$1.730**

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	19.3	20.3	44.0
Rel. % to HS index 相对恒指变动 %	10.7	27.9	48.5
Avg. share price(HK\$) 平均股价 (港元)	1.7	1.5	1.4

Source: Bloomberg, Guotai Junan International

Year End 年结	Turnover 收入	Underlying Net Profit 股东净利	Underlying EPS 每股净利	Underlying EPS 每股净利变动	Underlying PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2013A	5,729	670	0.250	(20.0)	5.5	2.688	0.5	0.256	18.6	10.1
2014A	6,976	782	0.281	12.5	4.9	2.773	0.5	0.080	5.8	9.8
2015F	9,745	1,016	0.365	29.8	3.8	3.166	0.4	0.109	7.9	11.4
2016F	11,248	1,120	0.402	10.3	3.4	3.490	0.4	0.120	8.7	11.3
2017F	13,258	1,338	0.481	19.5	2.9	3.886	0.4	0.140	10.2	12.3

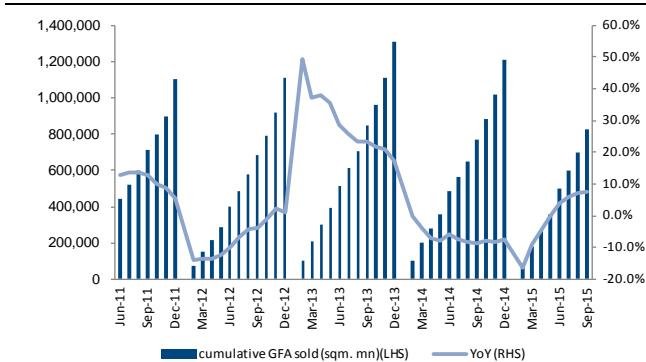
Shares in issue (m) 总股数 (m)	2,783.8	Major shareholder 大股东	Ace Rise Profits 50.0%
Market cap. (HK\$ m) 市值(HK\$ m)	4,816.1	Free float (%) 自由流通比率(%)	37.9
3 month average vol. 3 个月平均成交股数('000)	4,005.2	FY15Net gearing (%) FY15 净负债/股东资金(%)	57.7
52 Weeks high/low (HK\$) 52 周高/低	2.413/ 1.123	FY15Est. NAV (HK\$) FY15 每股估值 (港元)	5.2

Source: the Company, Guotai Junan International.

Industry

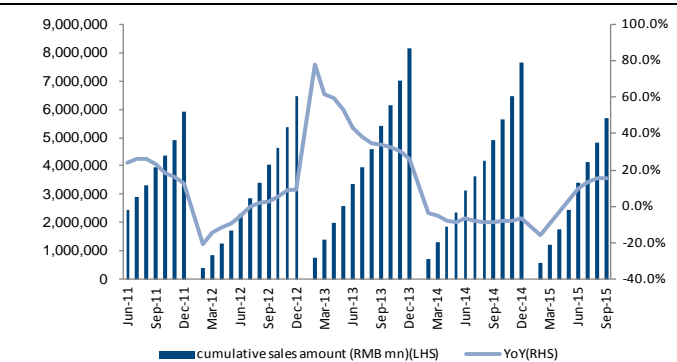
Loosening measures started working and China's commodity houses sales rapidly grew. According to the new property policies published on 30th Mar 2015, the downpayment on mortgage of second housing decreased from 60% to 40%. On 19 April 2015, the PBOC announced RRR cuts after the first cut in Nov. 2014. In addition, local governments have introduced various favorable housing funding policies since April 2015. On 27 June 2015, the PBOC announced RRR cuts for target financial institutions while one-year deposit and lending rate were cut again by 25bps. We see a strong pickup in China property market, according to the national real estate development and sales data provided by the National Bureau of Statistics of China ("NBS") in Sep. 2015. During Jan. to Sep. 2015, the cumulative GFA sold of commodity houses amounted to 829.1 mn sq.m, up 7.5% YoY, which increased by 0.3ppts than that of Jan. to Aug. 2015. The cumulative sales amount of commodity houses amounted to RMB5,674.5 bn, up 15.3% YoY, which equaled to that of Jan. to Aug. 2015. We have seen a robust growth in property sales since April 2015. Looking forward, the downpayment on mortgage of second housing decreased from 40% to 20% since 1 September 2015, which can help release the demand of improvement. Besides, the downpayment decline on business loan of first housing on 30 Sep. 2015 can release rigid demand, especially in lower tier cities. Double cuts of benchmark rate and RRR on 23 Oct. 2015 should be a strong catalyst for home sales momentum. We expect that the home sales robust growth is likely to last amid this loosening environment.

Figure 1: China Commodity House Cumulative GFA Sold



Source: NBS, Guotai Junan International.

Figure 2: China Commodity House Cumulative Sales Amount

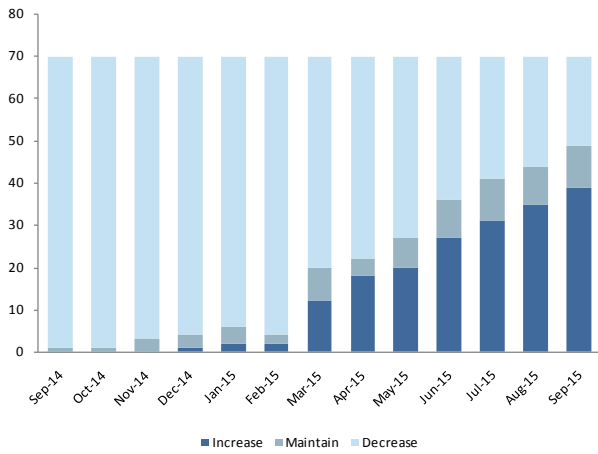


Source: NBS, Guotai Junan International.

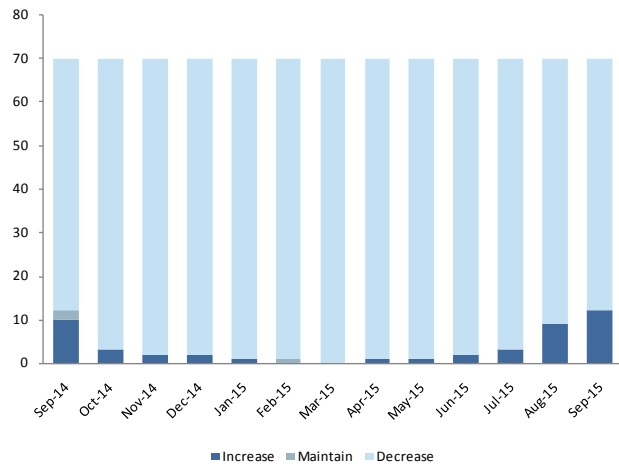
Sales prices continuously improve. NBS released sales prices of commercial residential buildings on 23 Sep. 2015 among 70 medium and large-sized cities. No matter for newly constructed or second-hand commercial residential buildings, the number of ASP increased cities rose. We see an obvious improvement of sales price. However, high-level stock and turning point of population are likely to restrict the surge of sales price.

Table 1: Sales Prices of Commercial Residential Buildings in Sep. 2015

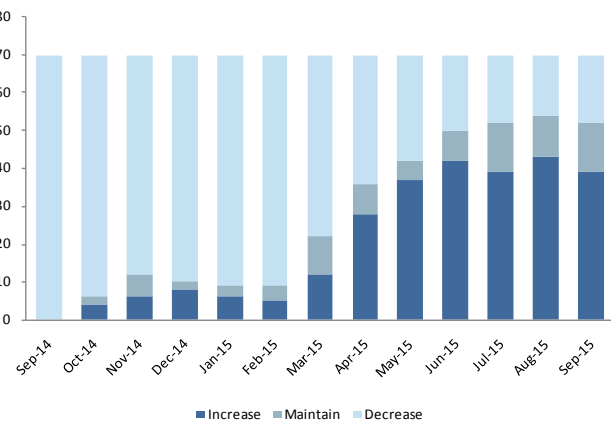
	MoM ASP of Newly Commercial Residential Buildings	YoY ASP of Newly Commercial Residential Buildings	MoM ASP of Second-hand Commercial Residential Buildings	YoY ASP of Second-hand Commercial Residential Buildings
Increase	39	12	39	15
Maintain	10	0	13	1
Decrease	21	58	18	54
Highest Growth (%)	4.0	38.3	3.3	35.5
Lowest Growth (%)	-0.7	-7.4	-0.6	-10.2

Figure 3: MoM Sales Price of Newly Constructed Commercial Residential Buildings


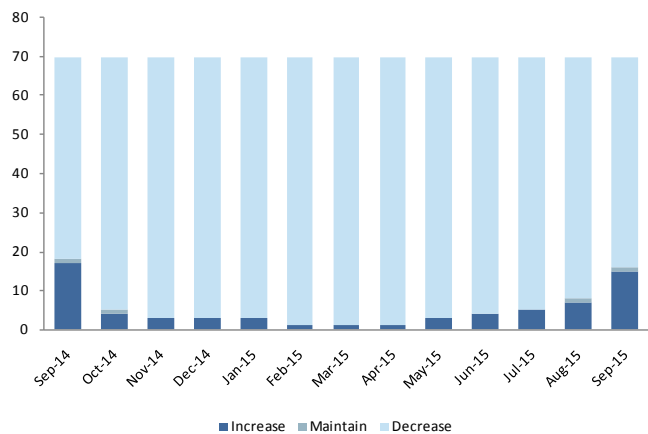
Source: NBS, Guotai Junan International.

Figure 4: YoY Sales Price of Newly Constructed Commercial Residential Buildings


Source: NBS, Guotai Junan International.

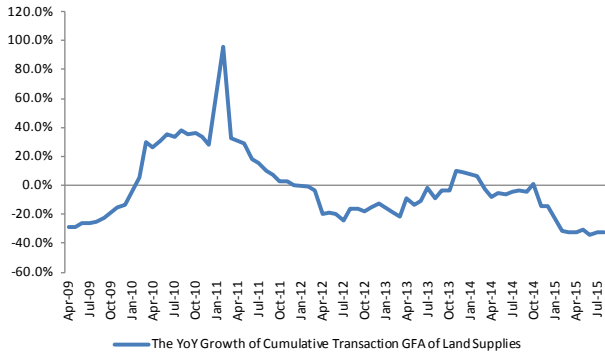
Figure 5: MoM Sales Price of Second-hand Constructed Commercial Residential Buildings


Source: NBS, Guotai Junan International.

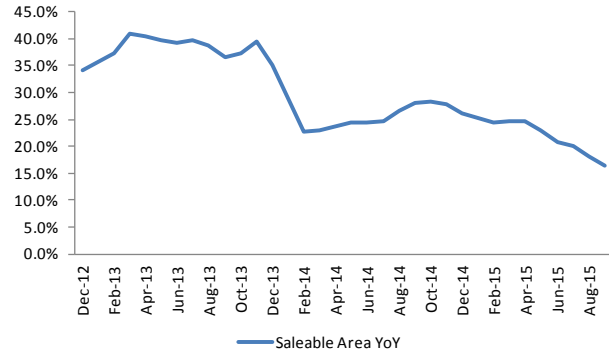
Figure 6: YoY Sales Price of Second-hand Constructed Commercial Residential Buildings


Source: NBS, Guotai Junan International.

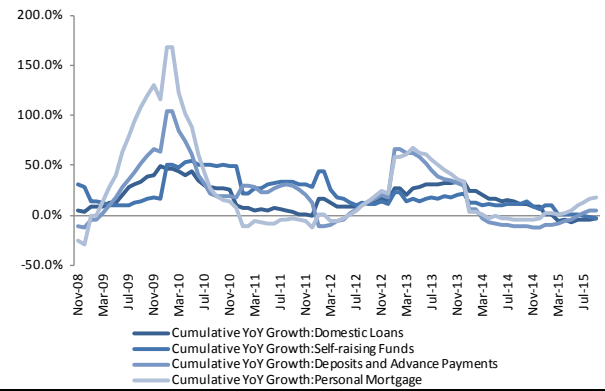
We think that the government will maintain the loosening environment. The cumulative real estate investment growth in Jan.-Sep. 2015 still declined by 0.9ppts, compared with the growth in Jan.-Aug. 2015. The cumulative floor space started was 1,148.14 million sq.m. down by 12.6%, which contracted by 4.2ppts than that of Jan.-Aug. 2015. Land purchased by the property enterprises amounted to 158.90 mn sq.m, down 33.8% YoY. In addition, floor space of commercial housing for sales amounted to 665.10 mn sq.m, up 16.4% YoY. Therefore, business climate index of the China's property industry was still low and the destocking pressure remains unchanged. Meanwhile, we see that the growth of GDP and investment in real estate development are positively correlated. Looking forward, to stabilize the Chinese economy and alleviate the destocking pressure, we believe that more loosening measures, such as rate cuts, RRR cuts, favorable housing funding policies and REITs, will continue to be introduced in the future. The government is likely to continue to maintain the loosening environment, thus supporting home sales.

Figure 7: The YoY Growth of Cumulative Transaction GFA of Land Supplies


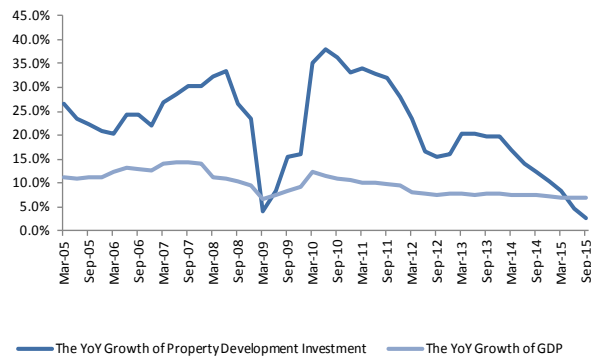
Source: NBS, Guotai Junan International.

Figure 8: The YoY Growth of Saleable Area


Source: NBS, Guotai Junan International.

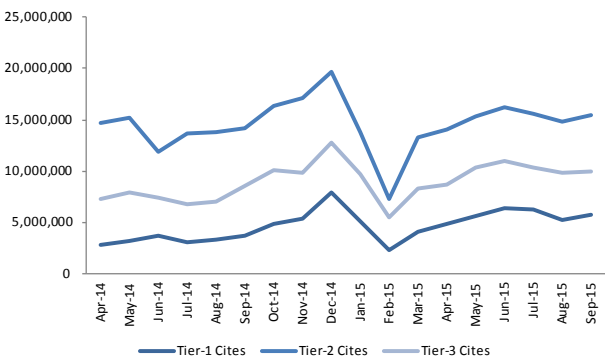
Figure 9: Main Sources of Funds for Property Companies


Source: NBS, Guotai Junan International.

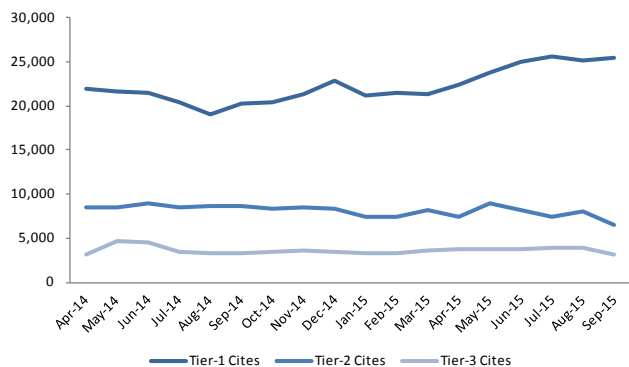
Figure 10: The YoY Growth of GDP and Property Development Investment


Source: NBS, Guotai Junan International.

The real estate market has entered the era of consolidation and divergence. Due to the imbalanced structure of economic development, population mobility, industry development and stimulus policies under the high-level stocks condition, the performance of the property market exhibits divergence. Destocking pressure is alleviating and ASP has consolidated in tier-1 cities and partial tier-2 cities, but not the similar condition in tier-3/tier-4 cities. Therefore, this divergent market is more favorable to property companies with main land exposures in tier-1/tier-2 cities. With increased land costs but stable ASP, the property market is experiencing margin squeezing. To keep profitability and promote operating efficiency, the whole industry has entered into a consolidation era.

Figure 11: Monthly GFA Sold in Main Cities (sq.m.)


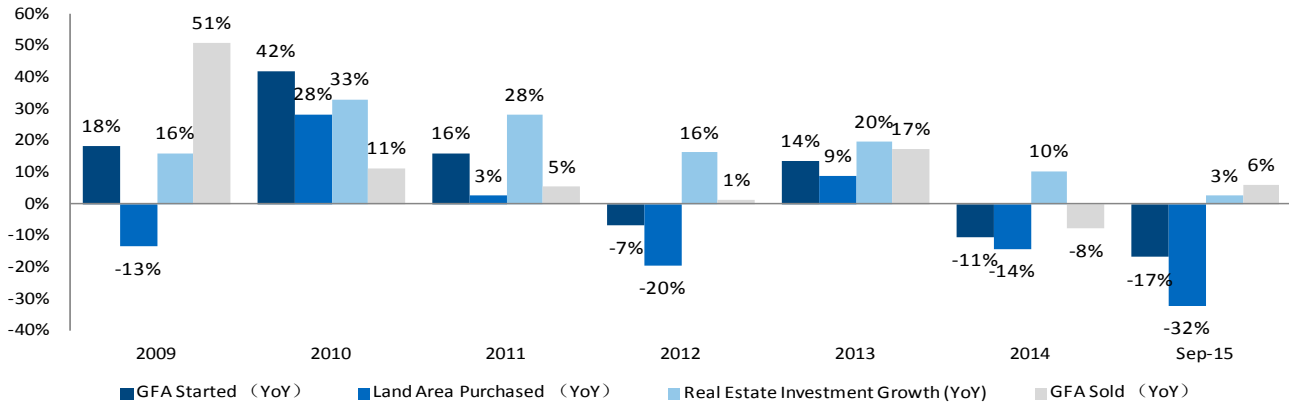
Source: CRIC, Guotai Junan International.

Figure 12: Monthly ASP in Main Cities (RMB/sq.m.)


Source: CRIC, Guotai Junan International.

The supply-demand trade-off is expected to improve. Land transaction decline, GFA starts drops and real estate investment growth decreases are leading indicators of market supply to contract in the next 2-3 years, considering the average construction period of 2-3 years. On the other hand, the loosening environment will last for the same time. The urbanization is likely to continue. Rigid and improvement demand will be gradually released with benign policies supporting. Therefore, we expect market supply to gradually decline while demand remains steadiness, especially given favorable policies. The property market is likely to become healthy with destocking pressure alleviating in the next two years.

Figure 13: Supply Leading Indicators and GFA Sold during 2009 to Sep. 2015



Source: NBS, Guotai Junan International.

Company Overview and Updates

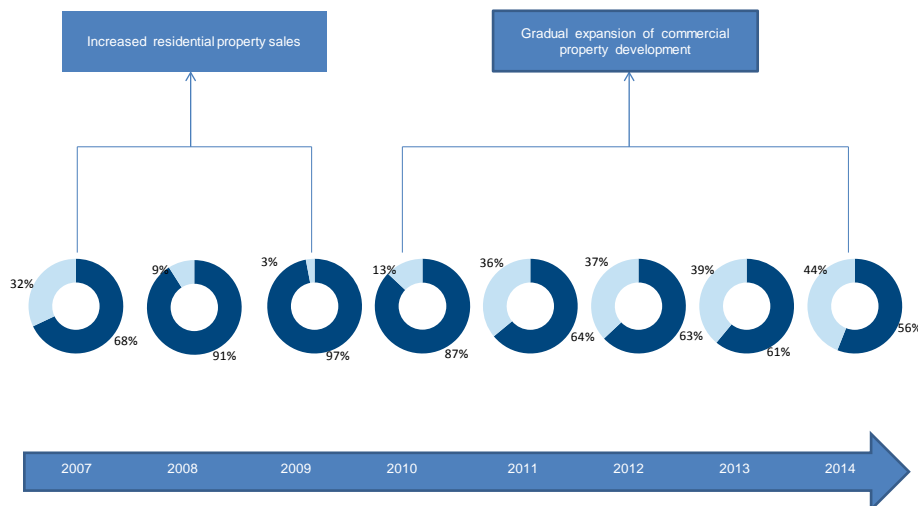
Company Profile

China Aoyuan Property Group Limited (referred to as Aoyuan, 3883.HK) has been developing property projects for over a decade with innovative concept of composite real estate, incorporating healthy living concepts of sports and regimen into residential communities. The Company was listed on the Main Board of Stock Exchange of Hong Kong in 2007. The real estate projects currently held by Aoyuan are mainly located in Guangdong, Chongqing, Liaoning, Hunan, Guangxi and Jiangxi.

Business

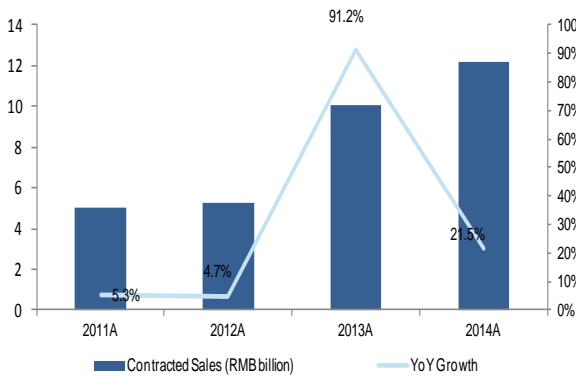
Commercial and residential properties paralleled development boosted sales growth during 2010-2014. The Company originally concentrated on residential property sales during 2008-2009. In order to mitigate impact on ASP amid tightened macro policy on residential properties since 2010, the Company started its new strategy that holding small portion of commercial properties for leasing and sales most of the commercial properties to generate more cash quickly. In addition, this strategy helped the Company's GPM maintain above 26%. But the most important thing is the commercial real estate are community facilities for most of projects, which boosts sales of residence and make the residence more attractive and more mature than surrounding projects. Therefore, in 2010, the Company expanded its sales of commercial properties from 3% in 2009 to 13% in 2010 of total contracted sales. Then, the proportion of commercial property development gradually increased during 2010-2014. In 2014, the Company's contracted sales of commercial property accounted for 44% of total contracted sales and the GPM reached 29.6% from 26.9% in 2010. As the Company's strategy, the sales of commercial properties will account for over 30% of total contracted sales in the next three years.

Figure 14: Aoyuan's Contracted Sales Breakdown by Product Types During 2007-2014

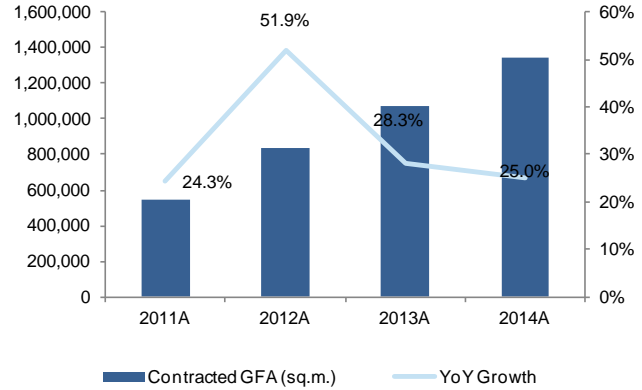


Source: the Company, Guotai Junan International.

The Company's contracted sales experienced rapid growth during 2011-2014. Contracted sales amounted to RMB5.02 bn, RMB5.25 bn, RMB10.04 bn and RMB12.20 bn during 2011 to 2014, respectively, which represents CAGR of 34.5%. The contracted GFA amounted to 550,100sq.m, 835,800sq.m, 1,072,000 sq.m and 1,340,000sq.m during 2011 to 2014, respectively, which represents CAGR of 34.6%.

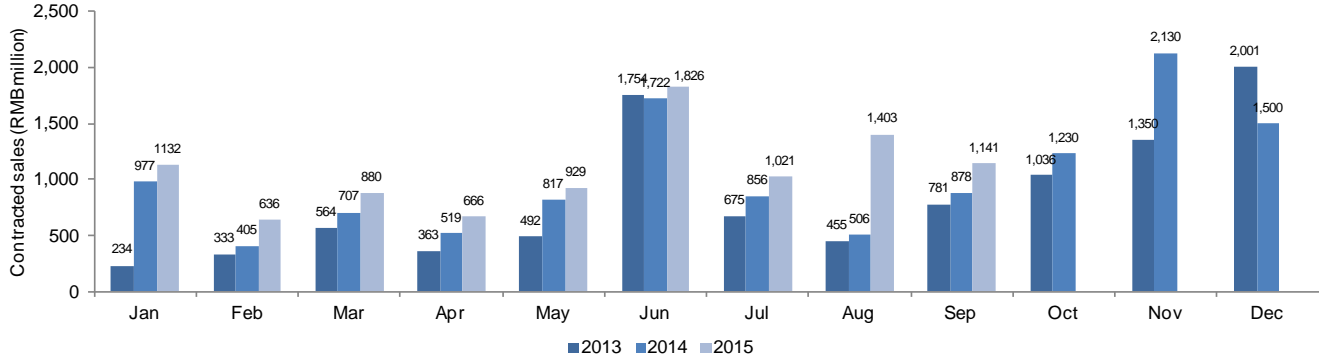
Figure 15: Aoyuan Contracted Sales and YoY Growth


Source: the Company, Guotai Junan International.

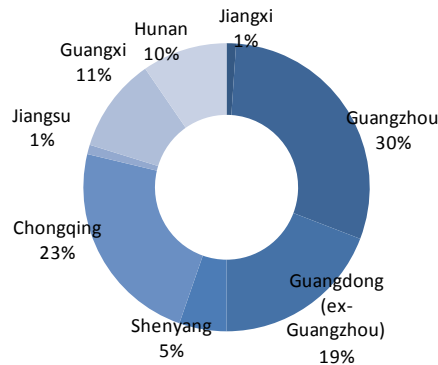
Figure 16: Aoyuan Contracted GFA and YoY Growth


Source: the Company, Guotai Junan International.

The Company achieved YoY growth of contracted sales in every single month during Jan.-Sept. 2015. The management expects the 2015 contracted sales to record 10%-15% YoY growth. In Jan. to Sept. 2015, the Company achieved RMB9.6 bn of contracted sales, which achieved 68.7% of the upper limit of its 2015 sales target. The recent downpayment decrease on mortgage of second housing and business loan of first housing will release improving and rigid demand, respectively. We think this will boost sales in Q42015 and the total contracted sales in 2015 are likely to record over 15% growth. 1H2015, 30%/19%/23%/11%/10% of total contracted sales were contributed from Guangdong (Ex-Guangzhou)/ Guangzhou Chongqing/ Guangxi/ Hunan, respectively. Guangdong (In-Guangzhou) was still the main contributor of contracted sales in 1H2015, which contributed 49% of total contracted sales.

Figure 17: Aoyuan Contracted Sales Comparison During 2013-Sep. 2015


Source: the Company.

Figure 18: Aoyuan Contracted Sales Breakdown by Regions in 1H2015


Source: the Company.

The commercial attributable rental GFA will increase by 542% with 341,272sq.m in terms of GFA. The Company will

increase 4 projects in Guangzhou, 3 projects in Chongqing and one commercial project in Shenyang, Yangjiang and Meizhou, respectively. The rental GFA increase will be a driver for rental income growth in the future. The Company has a mature model of commercial projects: Shopping mall+, Themed Shopping street+ and Service Apartments. The Company will replicate this model to all commercial projects for quick expansion. The Company also tried to operate asset-light model through inviting Huaxia Insurance as a strategic investor of Guangzhou Aoyuan Plaza.

Table 2: Aoyuan1H2015 Operating Shopping Mall and Opening Plan

Project name	Location	Status	Product type	GFA (sqm)	Interest %
Guangzhou Aoyuan Plaza	Panyu, Guangzhou	Leased	C, S	80,500	54%
Guangzhou Aoyuan	Panyu, Guangzhou	Leased	C, S	8,600	100%
Shenyang Aoyuan The Metropolis	Shenyang, Liaoning	Leased	H	6,900	100%
Guangzhou Aoyuan City Plaza	Panyu, Guangzhou	Leasing	C, CH	31,300	100%
Guangzhou Luogang Aoyuan Plaza	Huangpu, Guangzhou	Leasing	C	26,100	60%
Guangzhou Aoyuan Kangwei Plaza	Zengcheng, Guangzhou	Leasing	C, S	60,000	51%
Shenyang Aoyuan Convention Plaza	Shenyang, Liaoning	Leasing	C, S	114,200	100%
Chongqing Aoyuan The Metropolis	Chongqing	Leasing	C	21,400	100%
Chongqing Aoyuan City Plaza	Chongqing	Leasing	C	57,300	100%
Chongqing Aoyuan PanlongYihao	Chongqing	Leasing	C, S	51,000	100%
Others	Guangzhou, Meizhou and Yangjiang	Leasing	C, S	58,600	97%
Total				515,900	

Source: the Company.

Note: C = Commercial; S = Retail shop; CH = Club house; H = Hotel

The Company promoted product quality by means of incorporating cultural tourism, regimen and senior care into residential communities. The Company has invested Shanshui Scenery Culture in 2011, laying a foundation for developing composite real estate with a cultural tourism theme. Shanshui Scenery Culture has produced the first scenic performance and drama, Impression- Liu Sanjie. With a total GFA of near 700,000 sq.m, Aoyuan Shaoguan Impression will be developed into the commercial complex, comprising cultural tourism, commercial and residential mix. Leveraging on rich Zen cultural atmosphere in Shaoguan, the Company will develop a scenic performance and help attract tourists, further boosting sales of properties. Aoyuan has over a decade experience in developing, operating and managing regimen-themed properties. It acquired 67% shares of Shanghai Yayuan Garden Resort Hotel in Feb. 2015. This project occupies an area of 30mu, and an area of 150 mu is expected to be changed for use by a senior care project. By providing services related to cultural tourism, regimen and senior care, Aoyuan enhances its asset quality.

Figure 19: Image of Shaoguan Scenic Performance



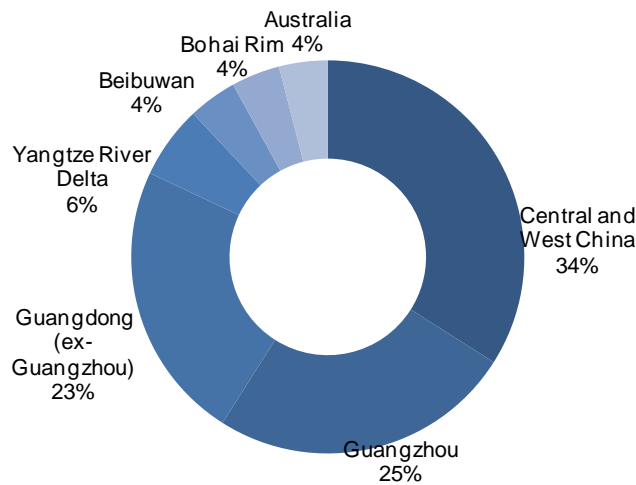
Source: the Company.

Figure 20: Shanghai Yayuan Garden Resort Hotel



Source: the Company.

At the end of June 2015, The Company had a total GFA of 12.76 million sq.m. 23%/25%/34% of total land banks are located in Guangdong (Ex-Guangzhou)/ Guangzhou/ Central and West China, respectively. 52% of total land banks are located in Pearl River Delta.

Figure 21: Aoyuan Land Bank Exposure (As of 30 June 2015)


Source: The Company

Table 3: Land Bank Breakdowns by Projects (As of the end of June 2015)

Regions	Project name	GFA (sq.m)
Guangzhou	Guangzhou Nanguo Aoyuan	149,500
	Guangzhou Aoyuan	22,200
	Guangzhou Panyu Aoyuan	52,000
	Investment Development Centre	49,400
	Guangzhou Nansha Aoyuan	44,000
	Guangzhou Aoyuan Hai Jing Cheng	73,900
	Guangzhou Aoyuan Plaza	158,400
	Guangzhou Aoyuan Health Plaza	10,000
	Guangzhou Aoyuan Beyond Era	97,400
	Guangzhou Aoyuan International Center	248,100
	Guangzhou Aoyuan Spring Garden	15,200
	Guangzhou Aoyuan City Plaza	144,300
	Guangzhou Aoyuan Kangwei Plaza	360,300
	Guangzhou Luogang Aoyuan Plaza	333,700
	Sub-total	1,758,400
Guangdong (ex-Guangzhou)	Fogang Aoyuan	747,900
	Qingyuan Aoyuan	143,800
	Jiangmen Aoyuan	9,800
	Jiangmen Aoyuan Waitan	175,900
	Jiangmen Aoyuan Yicheng International Plaza	105,700
	Zhongshan Aoyuan	241,400
	Zhongshan Aoyuan Jinyu	97,800
	Nanhai Aoyuan	182,400
	Foshan Aoyuan Central Parkview	285,600
	Yangjiang Aoyuan Central Parkview	362,100
	Meizhou Aoyuan Peninsula View	389,400
	Yingde Aoyuan Wonderland	756,500
	Yunfu Aoyuan	255,300
	Aoyuan Shaoguan Impression	678,700
	Jiaoling Aoyuan Plaza	70,000
	Wuhua Aoyuan Plaza	135,800
	Sub-total	4,638,100
Guangxi	Yulin Aoyuan	396,700
	Yulin Aoyuan City of Health	752,500
	Hanlin Shangzhu	74,300
	Hanlin Mingmen	142,900
Sub-total	1,366,400	
Liaoning	Shenyang Aoyuan The Metropolis	1,120,400
	Shenyang Aoyuan Convention Plaza	656,000
Sub-total	1,776,400	

Hunan	Zhuzhou Aoyuan Edinburgh	50,300
	Zhuzhou Aoyuan Shennong Health City	393,300
	Zhuzhou Aoyuan Plaza	429,700
	Sub-total	873,300
Jiangsu	Kunshan Aoyuan	128,300
	Sub-total	128,300
Zhejiang	Jiaxing Aoyuan	202,300
	Sub-total	202,300
Anhui	Anhui	325,600
	Sub-total	325,600
Chongqing	Chongqing Aoyuan City of Health	57,600
	Chongqing Aoyuan Jinyu	3,700
	Chongqing Aoyuan The Metropolis	129,400
	Chongqing Aoyuan Shuiyunjian	87,700
	Chongqing Aoyuan City Plaza	313,500
	Chongqing Aoyuan Beyond Era	408,100
	Chongqing Aoyuan PanlongYihao	455,200
	Sub-total	1,455,200
Jiangxi	Jiangxi Aoyuan	219,600
	Sub-total	219,600
	Total	12,760,600

Source: the Company.

The Company acquired less land in 1H2015. The Company acquired 0.896 mn sq.m. in 1H2015, with total consideration of RMB2.041 bn. The GFA acquired decreased by -38.2%YoY in 1H2015. Aoyuan entered into Sydney market in 2015. The One 30 Hyde Park is estimated to provide approximately RMB 1.7 bn of salable resources with net profit margin over 20% in the next two years. We believe the abroad expansion will enlarge the channel of the development property business.

Table 4: Aoyuan1H2015 Land Acquisition (As of the end of June 2015)

Projects	City	Type	Acquired Date	Interest	Total GFA (sqm)	Total cost(RMB million)	Avg. land cost (RMB per sqm)
Jiaxing Aoyuan	Jiaxing	Commercial & Residential	Feb. 2015	100%	202,300	221	1,093
One 30 Hyde Park	Sydney	Commercial	Mar. 2015	70%	15,000	610	40,619
Wuhua Aoyuan Plaza	Meizhou	Commercial & Residential	Mar. 2015	100%	135,800	170	1,251
Hanlin Shangzhu	Nanning	Commercial & Residential	Apr. 2015	55%	74,300	225	3,033
Hanlin Mingmen	Nanning	Commercial & Residential	Apr. 2015	55%	142,900	396	2,775
Hanlin Huafu	Bengbu	Commercial	Apr. 2015	55%	325,600	419	1,287
Total					895,900	2,041	2,278

Source: the Company.

Updates

The Company issued non-public domestic corporate bonds on 23 Oct. 2015. The non-public corporate bonds will be of an aggregate amount of RMB1.5 bn, and in the form of three years and an annual coupon rate of 7.8%. We think the Company may use these capitals to repay the trust loans and senior notes with high financial costs, which help decrease the total financial costs of the Company.

Table 5: Main debt issuances during 2015-Oct. 2015

Time	Type	Amounts	Rates	Tenor
1-Apr	Senior Notes	USD0.10 bn	9.25%	3
18-May	Senior Notes	USD0.25 bn	10.88%	3
28-Jul	Corporate Bond	RMB2.4 bn	5.80%	3
15-Sep	Corporate Bond	RMB1.5 bn	7.80%	3

Source: the Company.

Financial Analysis

Revenue Analysis

Total revenue is expected to grow at a CAGR of 23.9% during 2014 to 2017. Aoyuan's revenues can be divided into three main categories: 1) sales of properties, 2) investment properties and 3) property management services. The Company's total revenue grew at a CAGR of 32.2% during 2011 to 2014, and reached RMB6,976million in 2014. The Company maintained strong growth in the last 3 years, which was attributable to three factors: 1) residential and commercial properties development in parallel, 2) stable launching schedules of property sales and 3) delivered GFA increased during 2011 to 2014. Aoyuan's part of contracted sales in 2013 and 2014 will be recognized in 2015. The Company will boost sales as more saleable GFA launched and GFA delivered in 2015. Therefore, we estimate the revenue for property sales in 2015-2017 to be RMB9,540 million, RMB11,007 million and RMB12,979 million, respectively, representing 40.2%, 15.4% and 17.9% YoY growth, respectively, and 2014-2017 CAGR of 24.0%. We expect the revenue of investment properties and property management service in FY15-FY17 to be RMB205 million, RMB240 million and RMB279 million, respectively, representing growth rates of 18.3%, 17.2% and 16.1% YoY, respectively, and 2014-2017 CAGR of 17.2%. Therefore, driven by the Company's expansion in Guangzhou and cities in Guangdong province, contracted sales growth and delivered GFA increase, we expect Aoyuan's total revenue will continue to grow fast in 2014-2017. We estimate the Company's total revenue in 2015-2017 to be RMB9,745 million, RMB11,248 million and RMB13,258 million, respectively, representing 39.7%, 15.4% and 17.9% YoY growth, respectively, and a CAGR of 23.9%. Among all segments, sales of properties will be the largest contributor to Aoyuan's revenues growth. We estimate this category's revenue contribution will amount to around 97.9% of the Company's total revenue in 2015-2017.

Table 6: Major Revenue Breakdown of Aoyuan in 2011-2017

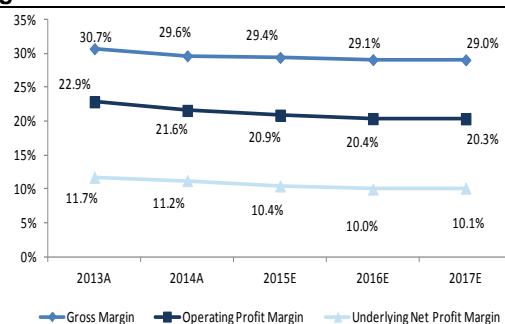
(RMB million)	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Sales of properties	3,004	3,865	5,600	6,803	9,540	11,007	12,979
Rental income of investment properties	6	31	49	71	78	86	94
Property management services	12	47	81	102	127	155	185
Total revenues	3,022	3,943	5,729	6,976	9,745	11,248	13,258
YoY Growth of Sales of properties	23.6%	28.7%	44.9%	21.5%	40.2%	15.4%	17.9%
YoY Growth of Rental income of investment properties	-23.5%	423.1%	56.1%	45.4%	10.0%	10.0%	10.0%
YoY Growth of Property management services	254.2%	293.7%	72.1%	26.8%	24.1%	21.7%	19.5%
YoY Growth of Total Revenues	23.7%	30.5%	45.3%	21.8%	39.7%	15.4%	17.9%

Source: the Company, Guotai Junan International.

Margins

Gross margin is expected to slightly decline during 2015-2017. As land cost increase and ASP cuts for sales growth, margins will decline during 2015-2017. Nevertheless, as the product quality promotion and large land exposure to tier-1/tier-2 cities, we think the margin decline to be limited and the Company's GPM can be stable over 29.0%. We estimate the gross margin in 2015/2016/2017 will be 29.4%/29.1%/29.0%. As the GPM gradually drop, we estimate the operating profit margin to slight decline as well, reaching 20.9%, 20.4% and 20.3% in 2015-2017. Underlying net margin in 2015/2016/2017 is expected to be 10.4%/10.0%/10.1%.

Figure 22: Aoyuan's Margins during 2013-2017



Source: the Company, Guotai Junan International.

Finance cost

We estimate finance cost amount to be RMB68.653 million, RMB68.543 million and RMB68.109 million during 2015-2017, respectively. The main reason of finance cost slight decrease is decrease of trust loans in 2015-2016 and lower finance cost of senior loans and banking borrowing in 2015-2017 due to rate cutting and domestic corporate bond issuing but larger scale of total debt since 2015.

Taxation

We estimate income tax expense amount to be RMB850.6 million, RMB993.8 million and RMB1,164.2 million in 2015-2017, respectively. The main reason of income tax expense increase in 2015-2017 is the fast growth of total revenue. In addition some commercial projects with high gross margins are expected to be delivered in 2015-2017, which causes LAT increase to RMB357.2 million, RMB436.0 million and RMB504.8 million in 2015-2017. We estimate effective tax rate amounts to 43.1%, 44.5% and 44.1% in 2015-2017, respectively.

Net Profit

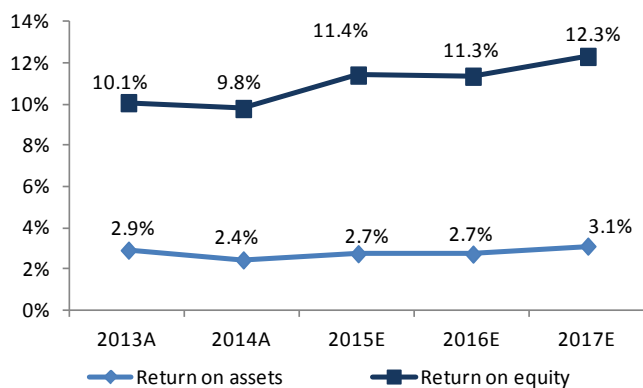
We estimate 2015 underlying net profit to soar by 29.8% YoY. During 2010-2012, the Company's underlying net profit amounted to RMB203.4 million, RMB351.0 million and RMB816.1 million, respectively, which represented 72.5% YoY and 132.5% YoY growth in 2011 and 2012. In 2013, due to other gains declined and selling expense increased, underlying net profit recorded 17.8% YoY decline. Underlying net profit rebound in 2014, thanks to more contracted sales in 2013 and GFA delivered in 2014. Amid loosening environment with interest cuts and favorable funding policies, we estimate the Company to maintain robust growth in 2015-2017, as salable resources and GFA delivered in 2015-2017 are expected to increase with stable margins. The underlying net profit amounts to RMB1,015.5 million, RMB1,120.5 million and RMB1,338.5 million, respectively, representing 29.8%, 10.3% and 19.5% YoY growth, respectively, and a CAGR of 19.6% in 2014-2017.

ROA and ROE

We estimate ROA to be 2.7%/2.7%/3.1% during 2015-2017. ROA of the Company was 2.9% in 2013. ROA slightly decreased in 2014 as the Company acquired more land parcels in 2014, which led to an increase in total assets in the 2014. We expect the growth of total asset will decrease in 2015-2017 while the total revenue will grow fast. Therefore, the total asset turnover will increase. We estimate the Company's ROA to increase to 2.7%, 2.7% and 3.1% in 2015-2017, respectively.

We estimate ROE to be 11.4%/11.3%/12.3% during 2015-2017. ROE of the Company was 10.1% and 9.8%, respectively, in 2013 and 2014. We see the decrease in 2014 ROE was mainly because of decrease in GPM. More GFA with stable GPM will be delivered in 2015-2017, which led to rebound in net profit in the 2015-2017. We estimate ROE to increase to 11.4%, 11.3% and 12.3%, respectively, in 2015-2017.

Figure 23: Aoyuan's ROA and ROE

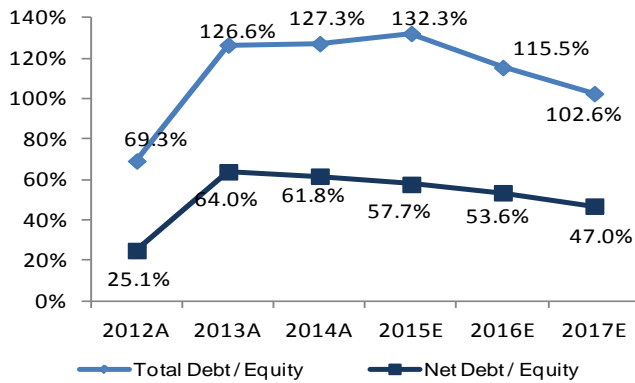


Source: the Company, Guotai Junan International.

Liquidity and Net gearing ratio

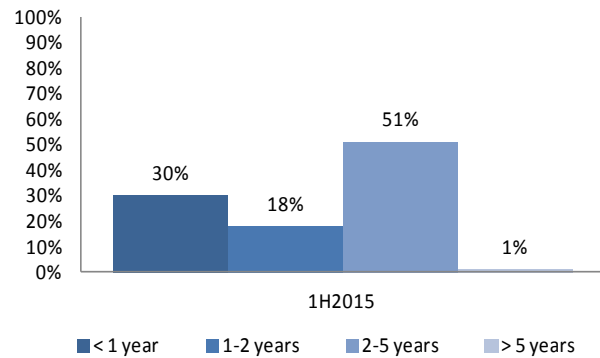
We expect net gearing ratio to reduce to 57.7% in 2015. During 1H2015, the Company issued 9.250% 5-year senior note of USD0.10 bn and 10.875% 5-year senior note of USD0.25 bn, which reduce its trust loan portion of total debt from 15% in 1H2014 to 10% in 1H2015 and effectively reduce the interest cost. In addition, the approval of 5.80% 3-year domestic corporate bond of RMB2.4 bn will help further decrease the Company's financial costs. As the expectation of stable growth of contracted sales but smaller scale of land acquisition in the future, we expect the operation cash flow will gradual increase in 2015-2017, which would reduce its net gearing ratio to 57.7%, 53.6% and 47.0% in 2015-2017.

Figure 24: Aoyuan's Total Debt to Equity and Net Gearing Ratio



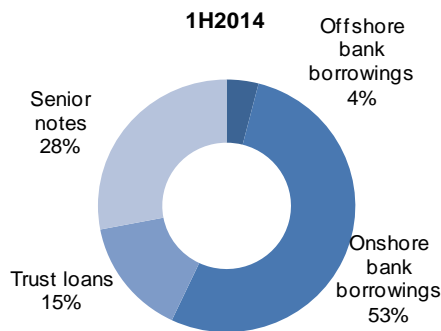
Source: the Company, Guotai Junan International.

Figure 25: Aoyuan's Debt Maturity in 1H2015



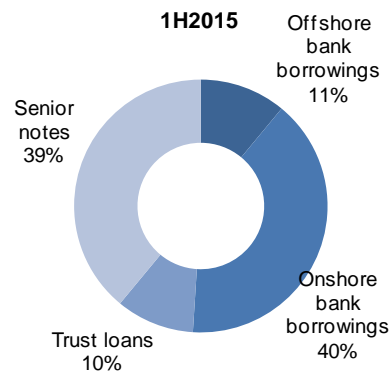
Source: the Company.

Figure 26: Aoyuan's 1H2014 Debt Breakdown by Type



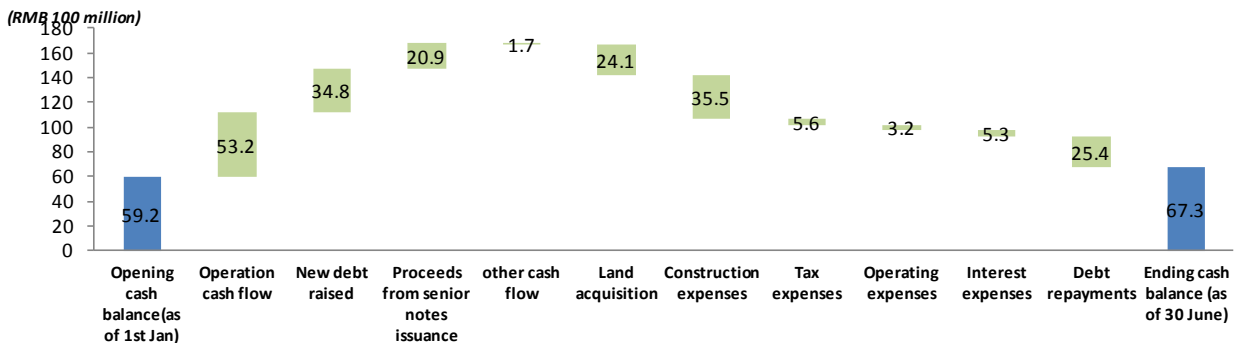
Source: the Company.

Figure 27: Aoyuan's 1H2015 Debt Breakdown by Type



Source: the Company.

Figure 28: Aoyuan's 1H2015 Cash Flow Details



Source: the Company.

Table 7: Key Ratios of Aoyuan

Key Ratios	Units	2013A	2014A	2015F	2016F	2017F
Total Debt	RMB '000	9,523,844	11,497,291	13,435,875	12,806,247	12,546,052
Cash (including-restriction cash)	RMB '000	4,711,565	5,917,308	7,573,504	6,861,105	6,799,145
Net Debt	RMB '000	4,812,279	5,579,983	5,862,371	5,945,142	5,746,907
ST Debt	RMB '000	2,411,281	4,464,125	4,330,201	4,200,295	4,074,286
Total Equity	RMB '000	7,523,856	9,034,088	10,157,136	11,091,837	12,231,744
Total capitalization	RMB '000	17,047,700	20,531,379	23,593,011	23,898,085	24,777,796
Total Debt / EBITDA	x	7.1x	7.5x	6.5x	5.5x	4.6x
Total Debt / Equity	%	127%	127%	132%	115%	103%
Total Debt / Capitalization	%	56%	56%	57%	54%	51%
Net Debt / EBITDA	x	3.6x	3.6x	2.8x	2.6x	2.1x
Net Debt / Equity	%	64.0%	61.8%	57.7%	53.6%	47.0%
Net Debt / Capitalization	%	28.2%	27.2%	24.8%	24.9%	23.2%
Current Ratio	%	1.79	1.63	1.65	1.60	1.60
Cash / Total Assets	%	9.4%	5.4%	9.3%	7.1%	6.6%
Total Inventory	RMB '000	19,437,238	24,946,828	28,857,701	31,042,686	31,993,655
Inventory / Total Assets	%	64.9%	67.8%	66.4%	68.1%	67.9%
Net debt / Net Inventory	%	24.8%	22.4%	20.3%	19.2%	18.0%
Quick Ratio	%	49.1%	40.3%	43.7%	38.3%	37.3%
Cash Ratio	%	31.5%	29.0%	31.7%	26.8%	26.0%
Interest Coverage	x	1.5x	1.2x	1.5x	1.7x	2.0x

Source: the Company, Guotai Junan International.

Aoyuan's 1H2015 net profit beat market expectation. Total revenues increased 48.05% YoY to RMB3,935 mn in 1H2015. The gross profit amounted to RMB1,156 mn, up 42.43% YoY. The GPM of development properties decreased by 1.1 ppts to 29.4% in 1H2015 due to more GFA delivered with low gross margin. The underlying net profit grew 52.39% YoY to RMB456 mn, which beat our expectation. Net gearing ratio increased 2.1 ppts to 72.6% in 1H2015. Cash increased 7.0% YoY to RMB6,731 mn. We expect GPM to be hard to increase in 2H2015, because of the property market slump in 2014 and price cut in lower tier cities lead to more projects delivered in 2H2015 with low GPM.

Table 8: Comparison of the Company's Income Statement and Balance Sheet in 1H2014 and 1H2015

RMB mn	1H 2014	1H 2015	Change
Total revenue	2,658	3,935	48.05%
Gross Profit	812	1,156	42.43%
GPM	30.50%	29.40%	- 1.1 ppts
Net Profit	309	538	73.97%
Net Profit (Ex. after-tax fair value gains on IP)	299	456	52.39%
Net Profit Margin	11.64%	13.68%	2.0 ppts
NPM (Ex. after-tax fair value gains on IP)	11.26%	11.59%	0.3 ppts
DPS (RMB cent)	N.A.	1.8	N.A.
Underlying EPS (HKD cent)	10.7	16.4	52.36%
Cash and Cash Equivalents	6,285	6,731	7.11%
Total Asset	33,092	40,315	21.82%
Properties for sale	21,036	26,205	24.57%
Total Liabilities	25,512	30,575	19.85%
Total equity	7,580	9,740	21.00%
Net Gearing Ratio	70.4%	72.6%	2.1 ppts

Source: The Company, Guotai Junan International.

Valuation

Initiate with 'Accumulate' investment rating for Aoyuan. The Company's commercial and residential paralleled development tactic is effective since 2010. Projects in Guangdong, especially in Guangzhou, will be main contributor in 2015-2017, which will boost revenues. Commercial projects will stabilize its GPM in next three years. By providing services related to cultural tourism, regimen and senior care, Aoyuan enhances its asset quality, helping promote its profitability. Moreover, the Company's share price is undervalued as the implied PBR in 2015, 2016 and 2017 are only 0.43x, 0.39x and 0.35x, respectively. Therefore, we rate Aoyuan 'Accumulate' and set the target price at HK\$2.09, which implies a 60% discount to its 2015E NAV of HK\$5.22 per share, 4.5x underlying 2015PER and 0.5x 2015PBR. The 60% discount on NAV reflects risks as follow, 1) possible operation failure of commercial projects; 2) commercial property sales might miss our

expectation.

Table 9: Breakdown of Aoyuan's 2015 NAV

NAV summary results	2015F
Development properties (HKD mn)	19,066
Investment properties (HKD mn)	2,827
Total gross asset value (HKD mn)	21,893
(Net debt)/net cash(HKD mn)	(7,374)
NAV (HKD mn)	14,519
NAV/share (HK\$)	5.22
TP discount to NAV	60%
Price target (HK\$)	2.09

Source: the Company, Guotai Junan International.

Risk factors

- Possible operation failure of commercial projects (e.g.: unfavorable rental portfolio, high vacancy rate and unprofitable rental rate) would affect rental income in the future.**
- Unexpected sales decline of commercial property would decrease Aoyuan's margins and sales growth in the future.** As we observe, commercial projects should be the profit contributors and main sales driver for Aoyuan. If the Company's commercial projects sales decline, we believe the contracted sales, GPM and NPM will be affected.

Peers Comparison

Company	Stock Code	Mkt Cap (HKD m)	Last Price HKD	PE			PB			D/Y%	ROE	EV/EBITDA
				2015F	2016F	2017F	2015F	2016F	2017F			
HK listed large developers with major revenue from mainland												
China Overseas Land & Invest	00688 HK	248,486.7	25.200	9.1	8.2	7.0	1.6	1.3	1.1	2.1	19.2	8.9
Evergrande Real Estate Group	03333 HK	86,483.6	5.960	7.6	10.7	9.2	1.1	0.9	0.9	4.2	15.9	9.7
China Resources Land Ltd	01109 HK	140,351.5	20,250	10.5	9.5	8.4	1.3	1.1	1.0	2.5	12.6	9.5
Bbmj Corporation-H	02009 HK	44,350.9	5.470	6.9	11.6	8.2	0.7	0.6	0.6	1.6	10.8	10.4
Country Garden Holdings Co	02007 HK	66,860.5	2,960	4.7	5.3	4.7	0.9	0.8	0.7	7.4	19.6	6.0
Longfor Properties	00960 HK	60,714.4	10,420	6.9	6.6	6.2	1.1	0.9	0.8	2.8	16.6	7.1
Agile Property Holdings Ltd	03383 HK	16,569.1	4,230	3.1	4.0	3.8	0.4	0.4	0.3	8.0	12.4	5.4
Soho China Ltd	00410 HK	20,798.1	4,000	7.7	22.5	23.0	0.4	0.4	0.4	7.8	6.4	7.1
Shimao Property Holdings Ltd	00813 HK	47,504.8	13,680	4.5	4.6	4.3	0.8	0.7	0.6	6.6	18.5	6.1
Guangzhou R&F Properties - H	02777 HK	24,876.7	7,720	3.9	3.7	3.3	0.5	0.5	0.4	8.3	14.5	6.8
Sino-Ocean Land Holdings	03377 HK	34,053.5	4,530	7.7	7.3	6.5	0.6	0.6	0.6	5.1	8.7	7.9
Poly Property Group Co Ltd	00119 HK	9,227.1	2,520	4.8	23.1	18.8	0.3	0.3	0.3	6.9	6.5	9.0
Franshion Properties	00817 HK	22,836.5	2,140	6.3	6.2	5.5	0.6	0.5	0.5	4.8	9.3	7.4
Shui On Land Ltd	00272 HK	17,177.0	2,140	21.8	6.4	13.5	0.3	0.3	0.3	2.4	1.7	18.6
New World China Land Ltd	00917 HK	44,750.4	5,150	11.4	14.9	13.4	0.8	0.7	0.7	1.4	7.7	11.0
Kwg Property Holding Ltd	01813 HK	16,840.2	5,620	4.6	4.4	3.7	0.7	0.6	0.5	6.5	15.1	7.9
Yuexiu Property Co Ltd	00123 HK	16,617.8	1,340	6.5	7.0	6.4	0.5	0.4	0.4	5.9	7.1	8.3
Shenzhen Investment Ltd	00604 HK	23,259.7	3,150	11.5	7.7	6.8	0.5	0.6	0.6	4.8	7.4	n.a.
Hopson Development Holdings	00754 HK	14,700.5	6,580	11.8	11.8	11.0	n.a.	0.3	0.3	n.a.	2.5	n.a.
Beijing North Star Co Ltd-H	00588 HK	18,321.8	2,520	6.8	9.8	8.1	n.a.	0.5	0.5	n.a.	n.a.	n.a.
Yuexiu Real Estate Investmen	00405 HK	11,598.4	4,100	27.9	23.2	21.2	0.7	0.7	0.8	6.9	2.8	20.9
Greentown China Holdings	03900 HK	14,724.4	6,810	3.6	4.3	3.9	0.4	0.4	0.4	5.6	12.7	8.9
China Vanke Co Ltd-H	02202 HK	187,112.7	18,180	9.4	9.2	7.9	1.8	1.6	1.4	3.2	20.6	6.5
Dalian Wanda Commercial Pr-H	03699 HK	234,969.3	51,900	12.1	10.6	8.5	1.2	1.1	1.0	1.7	13.9	6.8
Median				7.2	7.9	7.5	0.7	0.6	0.6	4.8	12.4	7.9
Simple Average				8.8	9.7	8.9	0.8	0.7	0.6	4.6	11.4	9.1
Weighted Average				9.1	9.2	8.0	1.2	1.0	0.9	3.3	14.9	7.8
HK listed mid-small developers with major revenue from mainland												
SH IND URBAN	00563 HK	7,265.0	1,510	n.a.	28.0	25.6	n.a.	0.6	0.6	n.a.	n.a.	n.a.
Modern Land China Co Ltd	01107 HK	3,265.6	1,570	n.a.	4.0	3.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Powerlong Real Estate Holdin	01238 HK	6,115.9	1,530	4.6	4.2	3.1	n.a.	n.a.	n.a.	4.2	8.1	n.a.
China Aoyuan Property Group	03883 HK	4,816.1	1,730	n.a.	4.3	3.5	n.a.	0.4	0.4	n.a.	n.a.	n.a.
C C Land Holdings Ltd	01224 HK	5,150.6	1,990	n.a.	4.5	22.1	n.a.	0.3	0.3	n.a.	5.1	n.a.
Fantasia Holdings Group Co	01777 HK	5,357.9	0,930	4.2	3.4	2.8	0.4	0.4	0.3	4.9	11.7	7.4
Yuzhou Properties Co	01628 HK	7,097.8	1,860	3.3	3.9	3.4	0.6	0.6	0.5	7.6	20.4	4.6
Central China Real Estate	00832 HK	3,809.9	1,560	2.8	3.1	2.5	0.4	0.4	0.4	10.8	16.9	2.6
China Sce Property Holdings	01966 HK	5,820.5	1,700	n.a.	4.8	3.9	n.a.	0.5	0.4	n.a.	n.a.	n.a.
Top Spring International Hld	03688 HK	3,824.6	3,240	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Redco Properties Group Ltd	01622 HK	8,448.0	5,280	17.9	n.a.	n.a.	n.a.	n.a.	n.a.	1.6	23.0	n.a.
Zhong An Real Estate Ltd	00672 HK	1,996.3	0,850	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Kaisa Group Holdings Ltd	01638 HK	8,011.3	1,560	2.4	2.2	1.8	0.3	0.3	0.2	3.9	18.4	6.1
Glorious Property Holdings	00845 HK	7,792.6	1,000	5.7	40.8	20.4	0.3	0.4	0.4	n.a.	n.a.	14.3
China Overseas Grand Oceans	00081 HK	5,637.1	2,470	3.0	3.7	2.9	0.4	0.4	0.4	3.1	14.7	4.8
Beijing Capital Land Ltd-H	02868 HK	7,584.6	3,740	4.0	4.0	3.2	n.a.	0.6	0.5	7.5	15.7	n.a.
Median				4.0	4.0	3.4	0.4	0.4	0.4	4.2	15.7	5.4
Simple Average				5.3	8.5	7.6	0.4	0.4	0.4	4.9	14.9	6.6
Weighted Average				3.8	8.2	6.9	0.2	0.3	0.3	2.9	9.7	2.9

Source: Bloomberg, Guotai Junan international. Note: Above earnings estimates are based on the market consensus as at 30.October 2015.

Financial Statements and Ratios

Income Statement					
Year End Dec (RMB mn)	2013A	2014A	2015F	2016F	2017F
Total revenue	5,729	6,976	9,745	11,248	13,258
yoy	45.3%	21.8%	39.7%	15.4%	17.9%
Sales of properties	5,600	6,803	9,540	11,007	12,979
Other Income	129	173	205	240	279
Cost of Sales	(3,971)	(4,909)	(6,879)	(7,978)	(9,407)
Gross Profit	1,759	2,067	2,865	3,270	3,850
yoy	48.2%	17.6%	38.6%	14.1%	17.8%
- Fair value gains on investment properties	85	98	90	99	109
- SG&A	(670)	(770)	(1,033)	(1,192)	(1,379)
- Other gains net	136	110	111	114	116
Operating profit	1,309	1,505	2,033	2,291	2,697
- Finance income/(costs), net	(44)	(65)	(69)	(69)	(68)
- Share of profit of investments	(0)	9	9	9	9
Profit before income tax	1,265	1,449	1,974	2,231	2,638
- Income tax expense	(513)	(666)	(851)	(994)	(1,164)
Profit for the period	752	783	1,123	1,237	1,473
Profit attributable to					
- Shareholders (Net income)	736	809	1,094	1,205	1,435
yoy	(20.9%)	10.0%	35.1%	10.2%	19.1%
- Shareholders (Underlying Profit)	670	782	1,016	1,120	1,338
- Minority interest	16	(26)	29	32	38
EPS (RMB)	0.27	0.29	0.39	0.43	0.52
Underlying EPS (RMB)	0.25	0.28	0.36	0.40	0.48
yoy	(20.0%)	12.5%	29.8%	10.3%	19.5%
DPS (RMB)	0.26	0.08	0.11	0.12	0.14
Dividend payout ratio	90.8%	27.5%	27.7%	27.7%	27.1%

Balance Sheet					
Year End Dec (RMB mn)	2013A	2014A	2015F	2016F	2017F
Investment Properties	2,419	2,728	3,092	3,520	3,991
Property, Plant and Equipment	415	501	621	768	931
Other current assets	316	407	424	436	447
Total non-current assets	3,150	3,636	4,138	4,724	5,369
Properties for Sale	19,437	24,947	28,858	31,043	31,994
Trade and other receivables	1,064	1,849	2,485	2,586	2,616
Restricted Cash	1,899	3,928	3,541	3,612	3,685
Bank Balances and Cash	2,812	1,989	4,032	3,249	3,115
Other non-current assets	1,569	437	379	366	352
Total current assets	26,781	33,150	39,295	40,856	41,761
Total assets	29,932	36,786	43,433	45,580	47,130
Trade and other payables	2,953	3,501	5,309	5,748	6,379
Deposits received on sale of properties	6,463	8,772	10,219	11,785	11,967
Short-term bank loans	2,411	4,464	4,330	4,200	4,074
Provision	1,394	1,577	1,602	1,618	1,634
Current income tax liabilities	1,488	1,790	1,611	1,450	1,305
Other current liabilities	254	273	793	806	819
Total current liabilities	14,963	20,378	23,864	25,607	26,178
Long-term bank loans	5,742	3,776	4,343	4,473	4,339
Senior notes	1,371	3,257	4,763	4,133	4,133
Deferred income tax liabilities	332	341	306	276	248
Total non-current liabilities	7,444	7,374	9,412	8,882	8,720
Total liabilities	22,408	27,752	33,276	34,488	34,898
Total common equity	7,219	7,719	8,813	9,716	10,817
Minority interest	305	1,315	1,344	1,376	1,414
Total equity & liabilities	29,932	36,786	43,433	45,580	47,130

Source: the Company, Guotai Junan International.

Cash Flow Statement					
Year End Dec (RMB mn)	2013A	2014A	2015F	2016F	2017F
Profit before taxation	1,265	1,449	1,974	2,231	2,638
- Adjustments for:					
- Finance costs	44	65	69	69	68
- Depreciation	34	25	26	27	27
- Fair value gain on IPs	(85)	(98)	(90)	(99)	(109)
- Others	(72)	(79)	(79)	(80)	(80)
After above adjustments:	1,186	1,363	1,873	2,120	2,516
Changes in working capital:	(1,822)	(1,430)	583	842	950
Net cash from operations	(636)	(67)	2,482	2,989	3,493
Income taxes and interest paid	(1,137)	(1,578)	(1,866)	(1,929)	(2,022)
Net cash from operating activities	(1,773)	(1,645)	616	1,060	1,472
Purchase of investment properties	(439)	(211)	(454)	(527)	(580)
Increase in restricted bank deposits	(1,137)	(2,121)	387	(71)	(72)
Other investing cash flow	(339)	704	(302)	(312)	(334)
Cash flow from investments	(1,915)	(1,628)	(370)	(909)	(986)
Debt raised/(repaid)	4,740	2,793	1,939	(630)	(260)
Dividend Paid	(473)	(223)	(303)	(334)	(389)
Other financing cash flow	(124)	(142)	140	8	8
Cash flow from financing	4,143	2,429	1,776	(955)	(641)
Net Increase (Decrease) in Cash	456	(844)	2,022	(804)	(155)
Beginning Cash Balance	2,381	2,812	1,989	4,032	3,249
Exchange losses on cash equivalents	(25)	21	21	21	21
Ending Cash Balance	2,812	1,989	4,032	3,249	3,115

Ratio					
	2013A	2014A	2015F	2016F	2017F
ROE	10.1%	9.8%	11.4%	11.3%	12.3%
ROCE	5.1%	4.3%	5.0%	5.1%	5.9%
ROA	2.9%	2.4%	2.7%	2.7%	3.1%
Net Gearing Ratio	64.0%	61.8%	57.7%	53.6%	47.0%
Debt to Equity Ratio	126.6%	127.3%	132.3%	115.5%	102.6%
Current Ratio	179.0%	162.7%	164.7%	159.6%	159.5%
Cash / Total Assets	9.4%	5.4%	9.3%	7.1%	6.6%

Valuation					
	2013A	2014A	2015F	2016F	2017F
Underlying PER (Diluted) (x)	5.51	4.89	3.77	3.42	2.86
PER (Basic) (x)	5.02	4.73	3.50	3.18	2.67
PER (Diluted) (x)	5.02	4.73	3.50	3.18	2.67
PBR (x)	0.51	0.50	0.43	0.39	0.35
Dividend Yield (%)	18.59	5.82	7.91	8.71	10.17

Margins					
	2013A	2014A	2015F	2016F	2017F
Gross Margin	30.7%	29.6%	29.4%	29.1%	29.0%
Operating Profit Margin	22.9%	21.6%	20.9%	20.4%	20.3%
Underlying Net Profit Margin	11.7%	11.2%	10.4%	10.0%	10.1%
EBIT Margin	22.9%	21.6%	20.9%	20.4%	20.3%

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance < -5%; or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for SMI Holdings Group Limited (00198), China Fire Safety Enterprise Group Limited (00445), Guangshen Railway Company Limited-H shares (00525), China All Access (Holdings) Limited (00633), Guotai Junan International Holdings Limited (01788) and Binhai Investment Company Limited (02886), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services and etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2015 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk