



March 18, 2015
Company Report
Rating: BUY
TP: HK\$ 1.80

Share price (HK\$) 1.30
Est. share price return 38.5%
Est. dividend yield 8.4%
Est. total return 46.9%

Previous Rating & TP BUY; HK\$1.90
Previous Report Date Jan 23, 2015

Analyst : Kenneth Tung
Tel: (852) 2147 8311
Email: kennethtung@abci.com.hk

Key Data

52Wk H/L(HK\$) 1.52/1.10
Issued shares (mn) 2,784
Market cap (HK\$ mn) 3,702
3-mth avg daily turnover (HK\$ mn) 1.36
Major shareholder(s) (%):
Mr GUO Zi Wen 48.0

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Property development 97.5
Property investment 1.0
Others 1.5

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	6.4	8.8
3-mth	8.1	2.1
6-mth	3.1	4.0

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Aoyuan (3883 HK)

Slower growth ahead, but high yield still renders BUY

- Aoyuan's 2014 core profit rose 12% YoY to RMB 736mn
- Gross margin corrected by 1.1ppt YoY to 29.6%, but net gearing improved 2.2ppt to 62%; DPS of RMB 0.086 implies a 8.4% dividend yield
- Aoyuan's 2015 presales target implies a 10-15% growth rate; tourism and overseas projects will be two new key initiatives in 2015
- Maintain **BUY** with revised TP at HK\$ 1.80 (from HK\$ 1.90) based on a 60% discount to end- FY15E NAV

Core profit rose 12% YoY to RMB 736mn. Aoyuan announced its FY14 results. Core profit (excluding fair value gain of investment properties and one-off items) increased 12% YoY to RMB 736mn, which is 12% below consensus or 27% below our forecast on lower-than-expected GFA delivery. Gross margin declined slightly by 1.1ppt YoY to 29.6% as competition intensified on oversupply in the Chinese property market. However, net gearing improved 2.2ppt YoY to 62% (vs. the 70-80% range for small/mid-cap peers) as Aoyuan divested its 46% stake in its Aoyuan Plaza shopping mall to Huaxia Insurance for RMB 1bn. Effective interest rate also declined to 10.2% from 11.4% as trust loan amount declined from 28% of total loan in 2013 to 15% in 2014. Cash collection rate for presales remained healthy at 81% while recurring rental income surged 45% YoY to RMB 71mn. Overall, the Group's balance sheet and cash flow delivered upside surprises. Moreover, Aoyuan announced a generous DPS of RMB0.086, implying an 8.4% yield based on its current share price.

Outperform peers on presale. Despite the fact that Aoyuan missed its initial presales target of RMB 15bn for 2014 (actual: RMB12.2bn), the Group still outperformed with its presale, rising by 22% YoY, higher than the peer average at 18% YoY. In 2M15, Aoyuan presales remained strong and rose 28% YoY to RMB1.77bn, compared to a decline of 17% YoY among peers. In 2015, Aoyuan set its presales target at RMB 13.5-14.5bn, implying a growth rate of 10-15% YoY. This target assumes a sell-through rate of 55-60% (2014: 55%) based on the saleable resources amounting to RMB 24.5bn. Aoyuan's presales growth slowed from 91% YoY in 2013 and 22% YoY in 2014 to just 10-15% in 2015F. Management commented land acquisition amount will be similar to last year. Amid uncertainty, we believe prudent balance sheet and cash flow management through slower business expansion is a sound strategy.

New: tourism and overseas projects unveiled. After adopting a parallel development model in residential/commercial properties for years, the Group announced its plan to enter the tourism property and overseas markets. For its tourism property venture, Aoyuan will cooperate with Shanshui Scenery Culture, a company that operates and manages cultural tourism projects, to develop the Aoyuan Shaoguan Impression project starting from 2015. Enjoying a 3km panoramic river view and comprehensive facilities (e.g. high-speed rail station), the project involves the development of a world-class cultural tourism complex in southern China; (continue next page)

Results and Valuation

FY ended Dec 31	2013A	2014A	2015E	2016E	2017E
Revenue (RMB mn)	5,729	6,976	10,536	12,869	14,644
Chg (% YoY)	45.3	21.8	51.0	22.1	13.8
Underlying Net Income (RMB mn) ¹	657	736	873	1,047	1,314
Chg (% YoY)	170.3	12.1	18.6	19.9	25.5
Underlying EPS (RMB)	0.25	0.28	0.33	0.40	0.50
Chg (% YoY)	170.3	12.1	18.6	19.9	25.5
BVPS (RMB)	2.8	3.0	3.2	3.5	3.8
Chg (% YoY)	3.9	6.9	7.9	8.8	10.1
Underlying PE (x)	4.1	3.7	3.1	2.6	2.1
P/B (x)	0.4	0.4	0.3	0.3	0.3
ROE (%)	9.1	9.5	10.5	11.6	13.2
ROA (%)	2.2	2.0	2.1	2.2	2.5
DPS(RMB)	0.08	0.09	0.10	0.12	0.15
Yield (%)	7.7	8.4	9.6	11.5	14.5
Net gearing ² (%)	64.0	61.8	68.2	51.2	3.6

¹ Underlying net income = Net profit - revaluation gain of investment properties and one-off items

² Net gearing = Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates



For its overseas project, the Group formed a 70-30 JV with Ecove (an Australian developer) in Mar 2015 to acquire a prime site in Sydney, Australia (130 Elizabeth Street) for residential development. Initial approval has been granted by the Sydney government. Aoyuan expects the presales to start in 2H15. For the 148 units available for sale, total value is estimated to be AUD 400mn (RMB 2bn), with a gross margin of 25% based on an ASP of AUD 25-27k/sqm. However cash collection will be slower, given that a deposit equivalent to 10% of total transaction will be received upon contract-signing while the remaining amount will be collected upon project completion in 2017.

We believe the outlook of Aoyuan's overseas project would be favorable because: **1) the Group's access to low-cost debt** enabled by its partnership with Ecove in Australia. Management commented the borrowing cost could be even lower than that in HK; **2) Sales network in China.** Demand for overseas property investment in China is increasing, especially among families with children studying overseas. Australia is one of the popular destination choices for studying abroad among people in Southern China. Deep rooted in Guangzhou, we believe Aoyuan can utilize its sales network in China to capture such investment demand.

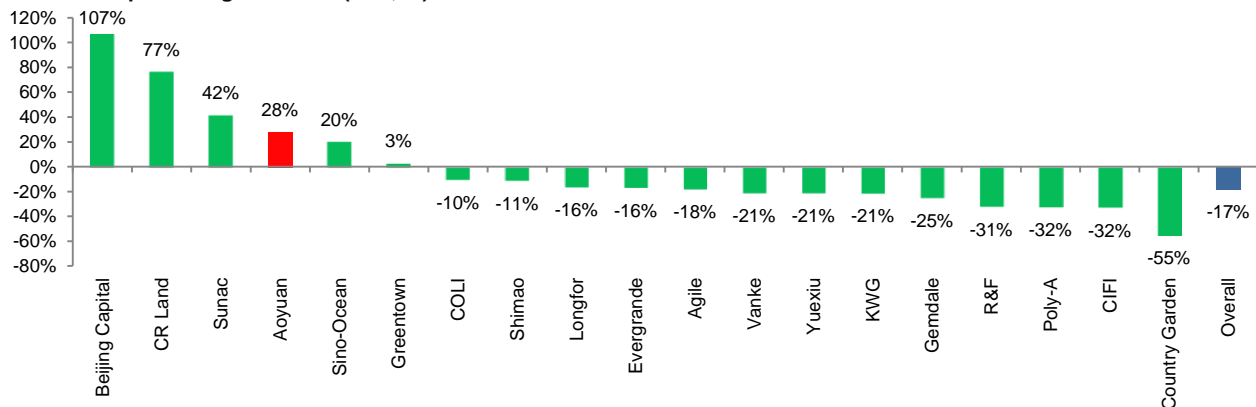
Maintain BUY with revised TP of HK\$ 1.80. We lower our FY15-16E core profit forecasts by 20-30% on lower-than-expected delivery and cut our end-FY15E NAV estimate to HK\$ 4.41/share (from HK\$ 4.75) to factor in the slower presales growth on more prudent balance sheet management. We revise down our TP to HK\$ 1.80 (from HK\$ 1.90) based on an unchanged NAV discount of 60%. Despite the slower growth expected, Aoyuan will likely outperform its peers with its sound balance sheet and generous dividend payout. The counter's current valuation is attractive with an 8.4% yield and 3.1x 2015E P/E. **Maintain BUY.**

Risk factors: 1) Guangdong-concentrated project portfolio; 2) Rising land cost may erode margins; 3) Increasing anti-corruption effort within the Chinese property sector; 4) negative operating and investing cashflow during 2011-14, possible fundraising activities from capital markets

Exhibit 1: Aoyuan's FY14 results

P&L	2014	2013	YoY Chg	Operating statistics	2014	2013	YoY Chg
	RMB mn	RMB mn	(%)				
Turnover	6,976	5,729	21.8	Booked GFA (mn sqm)	0.91	0.82	12.1
Cost of Sales & direct operating costs	(4,909)	(3,971)	23.6	Booked ASP (RMB/sqm)	7,441	6,866	8.4
Gross Profit	2,067	1,759	17.6	Booked Sales (RMB mn)	6,803	5,600	21.5
Gross Margin (%)	29.6	30.7	(1.1)	Contracted GFA (mn sqm)	1.34	1.07	25.3
Selling and distribution costs	(379)	(319)	18.8	Contracted ASP (RMB/sqm)	9,099	9,364	(2.8)
Administrative expense	(391)	(351)	11.3	Contracted Sales (RMB mn)	12,220	10,038	21.7
EBIT	1,297	1,088	19.2	Balance sheet	Dec-14	Dec-13	HoH %
EBIT Margin (%)	18.6	19.0	(0.4)		RMB	RMB	
Other income,	110	115	(4.7)		mn	mn	
Fair value gain of investment properties	98	85	14.8	Gross debt	11,497	9,524	20.7
One-off gains and losses	0	21	(100.0)	Cash	5,917	4,712	25.6
Share of profit from JCE/ Associates	9	(0)	NA	Net debt	5,580	4,812	16.0
Finance cost	(65)	(44)	47.9	Net gearing (%)	61.8	64.0	2.2ppt
Profit before tax	1,449	1,265	14.5				
Tax	(666)	(513)	29.8				
- LAT	(386)	(193)	100.4				
- Enterprise tax	(280)	(320)	(12.7)				
Profit after tax	783	752	4.1				
Minority Interest	26	(16)	NA				
Net profit	809	736	10.0				
Core profit	710	673	5.5				
Core profit (ex MI)	736	657	12.1				
Core net margin	10.6	11.5	(0.9)				

Source(s): Company, ABCI Securities

Exhibit 2: 2M15 presales growth rate (YoY, %)


Source(s): Company, ABCI Securities

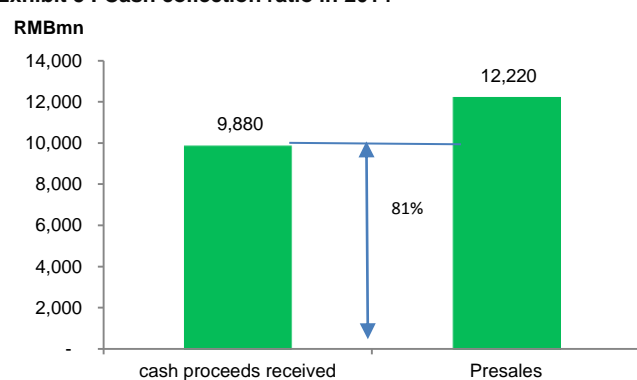
Exhibit 3: Land acquisitions in 2014

Month	Project	Location	Interest	Land capex RMBmn	Total GFA mn sqm	Avg land cost RMB/sqm
Jan-14	Yingde Aoyuan Wonderland	Guangdong	100%	219	0.76	290
Jan-14	Yunfu Aoyuan	Guangdong	100%	28	0.26	109
Apr-14	Chongqing Beyond Era Phase 1	Chongqing	100%	620	0.17	3,656
May-14	Chongqing Beyond Era Phase 2	Chongqing	100%	775	0.24	3,249
May-14	Guangzhou Luogang Aoyuan Plaza (Ph 2)	Guangzhou	51%	315	0.03	9,364
Jul-14	Aoyuan Shaoguan Impression	Shaoguan	100%	956	0.68	1,409
Aug-14	Jiaoling Aoyuan Plaza	Chongqing	100%	1,490	0.46	3,273
2014 total				4,403	2.59	1,702
Jan-15	Jiaxing project	Zhejiang	100%	221	0.20	1,105
Feb-15	Shanghai Yayuan Hotel- elder care project	Shanghai	67%	300	NA	
Mar-15	130 Elizabeth Street	Sydney, Australia	70%	600	NA	

Source(s): Company, ABCI Securities

Exhibit 4: Cash flow in 2014

RMBmn	2014
Presales	9,880
Others	220
Total cash inflow	10,100
Land	(2,730)
Construction	(5,880)
Tax	(1,040)
SG&A	(700)
Interest expenses	(1,110)
Others	(220)
Total cash outflow	(11,680)
Net cash flow	(1,580)

Exhibit 5: Cash collection ratio in 2014


Source(s): Company, ABCI Securities

Source(s): Company, ABCI Securities



Exhibit 6: Aoyuan's FY15E NAV

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Guangzhou	1.6	4,005	25%		2,455
Qingyuan	1.4	1,317	8%		913
Jiangmen	0.2	183	1%		900
Foshan	0.4	255	2%	DCF at WACC of 13.0%	698
Ganzhou	0.5	473	3%		919
Chongqing	1.8	2,911	18%		1,660
Shenyang	2.2	1,975	12%		917
Others	6.7	4,733	30%		704
Subtotal	10.9	15,851	99%		1,457
Investment Properties		172	1%	6.0% cap rate on 2015E attributable net rental income	
Total 2015E GAV		16,023	100%		
2015E Net debt		(6,803)	-42%		
Total 2015E NAV		9,220	58%		
No. of share outstanding (diluted)		2,616			
NAV per share (RMB)		3.53			
Ex rate		1.25			
NAV per share (HKD)		4.41			
Target discount (%)		60%			
Target Price (HKD)		1.80			
WACC					
Cost of debt		10.0%			
Cost of Equity		20.0%			
Debt/ (Debt + Equity)		56%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2013A-2017E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Revenue	5,729	6,976	10,536	12,869	14,644
Cost of sales	(3,971)	(4,909)	(7,733)	(9,511)	(10,495)
Gross Profit	1,759	2,067	2,804	3,357	4,149
SG&A expenses	(670)	(770)	(955)	(1,137)	(1,341)
EBIT	1,088	1,297	1,848	2,221	2,808
Finance cost	(44)	(65)	(61)	(60)	(64)
Share of profit of associates	(0)	9	-	-	-
Other income/ (expenses)	115	110	55	61	86
Fair value gain of investment properties	85	98	-	-	-
Disposal/one-off items	21	-	-	-	-
Profit before tax	1,265	1,449	1,842	2,222	2,830
Tax	(513)	(666)	(766)	(927)	(1,210)
Profit after tax	752	783	1,076	1,295	1,620
Minority interest	(16)	26	(203)	(248)	(307)
Reported net profit	736	809	873	1,047	1,314
<i>Less: exceptional items</i>	<i>(79)</i>	<i>(73)</i>	<i>-</i>	<i>-</i>	<i>-</i>
Underlying net profit	657	736	873	1,047	1,314
Per share					
Underlying EPS (RMB)	0.25	0.28	0.33	0.40	0.50
DPS (RMB)	0.08	0.09	0.10	0.12	0.15
Payout ratio (%)	32%	31%	30%	30%	30%
BVPS (RMB)	2.76	2.95	3.19	3.47	3.82
Growth %					
Revenue	45.3%	21.8%	51.0%	22.1%	13.8%
Gross Profit	48.2%	17.6%	35.6%	19.7%	23.6%
EBIT	87.7%	19.2%	42.5%	20.1%	26.5%
Underlying net profit	170.3%	12.1%	18.6%	19.9%	25.5%
Margin %					
Gross margin	30.7%	29.6%	26.6%	26.1%	28.3%
Gross margin (post-LAT)	28.0%	24.7%	23.2%	22.6%	24.1%
EBIT margin	19.0%	18.6%	17.5%	17.3%	19.2%
Core net margin	11.7%	10.0%	10.2%	10.1%	11.1%
Key assumptions					
Contracted Sales (RMBm)	10,038	12,220	13,626	16,217	18,913
GFA sold (m sqm)	1.07	1.34	1.95	2.05	2.29
ASP (RMB/sqm)	9,364	9,099	6,990	7,901	8,257
Booked Sales (RMB)	5,600	6,803	10,344	12,660	14,417
GFA delivered (m sqm)	0.82	0.91	1.25	1.64	1.83
Booked ASP (RMB/sqm)	6,866	7,441	8,249	7,723	7,859

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2017E)

As of Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
Current assets	26,781	33,150	37,339	41,764	47,352
Cash	2,812	1,989	1,766	3,988	10,138
Restricted cash	1,899	3,928	3,928	3,928	3,928
Trade & other receivables	1,064	1,849	1,849	1,849	1,849
Property under development	19,437	24,947	29,359	31,562	31,001
Other current assets	1,569	437	437	437	437
Non-current assets	3,150	3,636	4,381	4,925	5,470
Property, plant & equipment	415	501	546	591	635
Investment properties	2,419	2,728	3,228	3,728	4,228
Investment in Associate and JCE	5	63	263	263	263
Other non-current assets	311	344	344	344	344
Total Assets	29,932	36,786	41,720	46,689	52,822
Current Liabilities	14,963	20,378	24,378	28,417	33,374
Short term borrowings	2,411	4,464	5,464	6,464	7,464
Trade & other payables	2,953	3,501	3,501	3,501	3,501
Pre-sales deposits	6,463	8,772	11,772	14,811	18,768
Other current assets	3,136	3,641	3,641	3,641	3,641
Non-current liabilities	7,444	7,374	7,374	7,374	7,374
Long term borrowings	7,113	7,033	7,033	7,033	7,033
Other payables	0	0	0	0	0
Other non-current assets	332	341	341	341	341
Total Liabilities	22,408	27,752	31,752	35,791	40,748
Net Assets	7,524	9,034	9,968	10,898	12,074
Shareholders Equity	7,219	7,719	8,331	9,063	9,983
Minority Interest	305	1,315	1,646	1,843	2,100
Total Equity	7,524	9,034	9,976	10,907	12,083
Key ratio					
Gross debt (RMBm)	9,524	11,497	12,497	13,497	14,497
Net debt (RMBm)	4,812	5,580	6,803	5,581	431
Net gearing (%)	64%	62%	68%	51%	4%
Contracted sales/ Total assets (x)	0.34	0.33	0.33	0.35	0.36

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2013A-2017E)

FY ended Dec 31 (RMB mn)	2013A	2014A	2015E	2016E	2017E
EBITDA	1,122	1,323	1,874	2,246	2,834
Change in Working Capital	(4,740)	(2,620)	(273)	1,946	5,714
Tax payment	(496)	(666)	(766)	(927)	(1,210)
Operating Cashflow	(4,114)	(1,963)	835	3,265	7,338
Purchase of PP&E	(70)	(70)	(70)	(70)	(70)
Addition of Investment Properties	(500)	(500)	(500)	(500)	(500)
Proceeds from disposal/ (acquisition)	115	110	(145)	61	86
Investing Cashflow	(455)	(460)	(715)	(509)	(484)
Debt raised	7,137	5,000	5,000	5,000	5,000
Debt repaid	(1,064)	(2,820)	(4,000)	(4,000)	(4,000)
Interest expenses	(848)	(1,276)	(1,200)	(1,170)	(1,260)
Equity raised	0	0	0	0	0
Dividend to shareholders	(209)	(228)	(262)	(314)	(394)
Others	(50)	950	128	(50)	(50)
Financing Cashflow	4,965	1,626	(334)	(534)	(704)
Net cash inflow/ (outflow)	396	(797)	(214)	2,222	6,150
Cash- beginning	2,381	2,777	1,981	1,766	3,988
Cash- year-end	2,777	1,981	1,766	3,988	10,138

Source(s): Company, ABCI Securities estimates



Disclosures

Analyst Certification

I, Kenneth Tung, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do no

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return – 6% \leq Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is



determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2015 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183**