

**Fubon Research (HK)**

September 22, 2014

## China Aoyuan Property (3883 HK)

More catalysts yet to be discovered; Upgrade to BUY

**BUY**

Current Price	Target Price
<b>HKD 1.29</b>	<b>HKD 1.77</b>
○ Visit Notes	○ Initiate Coverage
● Company Update	● Earnings Revision
○ Earnings Preview	● Rating Change
Shares outstanding (m)	2,784
Mkt Cap (HKD/USDm)	3,591 / 463
3M avg dly Tnv (HKDm)	3.14
Major shareholder (%)	Guo Zi Wen, 48.03
Free float (%)	40.17
52-week high/low (HKD)	1.66 / 1.10

**Financial Summary** Year-end: Dec 31

In RMBm	2012	2013	2014F	2015F	2016F
Revenue	3,943	5,729	7,116	10,124	14,738
Gross profit	1,187	1,759	2,645	3,567	4,683
Operating profit	580	1,088	1,791	2,393	3,062
Net profit	930	736	890	1,233	1,653
Core net profit	172	570	836	1,167	1,569
Core EPS (RMB)	0.07	0.21	0.31	0.43	0.58
BVPS (RMB)	2.66	2.59	2.85	3.20	3.68
DPS (RMB)	0.05	0.08	0.06	0.09	0.12
PER (x)	15.5	4.8	3.3	2.3	1.7
PBR (x)	0.38	0.39	0.36	0.32	0.28
Div. Yield (%)	5.1	7.9	6.3	8.7	11.7
EV/EBITDA (x)	6.0	6.1	4.7	3.9	3.2
ROA (%)	0.9	0.9	2.2	2.5	2.8
ROE (%)	2.2	2.6	8.0	11.0	13.9
ROCE (%)	1.6	1.8	4.4	5.0	5.7

Source: Fubon Securities (HK)

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**We raise our TP to HKD1.77 (+HKD0.2 if dividend adjusted) to reflect NAV increase contributed by new projects acquired in 2014, and the confidence brought by Chairman's latest share purchases at avg cost of HKD1.55. We expect Aoyuan to achieve its 2014 full year pre-sales target of RMB15b, and future pre-sales growths are expected to remain high. Upgrade to BUY.**

→ **Tepid 1H14 but FY pre-sales target can be achieved:** Aoyuan's 1H14 results were a bit disappointing due to less completion/delivery. However the bright side is its pre-sales recorded robust growth of 38% YoY and we expect its full year target of RMB15b can be achieved.

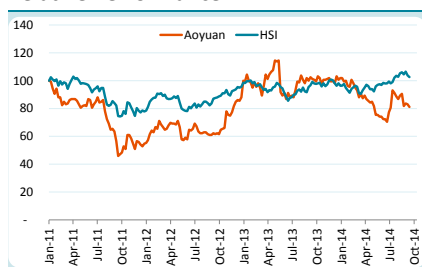
→ **Still cautious in low-cost land-banking strategy:** Aoyuan has acquired 7 land parcels so far this year, all at very reasonable prices. As at mid-2014, avg land cost was only RMB1,105/sm for total 12msm land bank.

→ **Chairman shows confidence in Aoyuan's LT development:** In Jul, Aoyuan's Chairman Mr. Guo Zi Wen purchased 56.2m shares from secondary market at an avg cost of HKD1.55, showing that he is confident in the company's long-term development and the stock is undervalued.

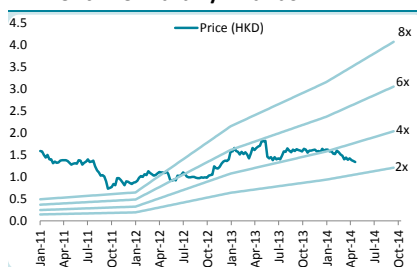
→ **More catalysts for Aoyuan the market needs to see:** We see several macro/micro catalysts for Aoyuan to grow its stock price should reflect these catalysts incl.: new urbanization, policy easing, credit easing, product mix modification, diversification with various theme properties and exploring overseas opportunity to mitigate domestic reliance.

→ **Valuation:** The HKD1.77 TP is based on 50% discount to estimated NAV, suggesting 4.5x 14F P/E and 0.5x 14F P/B respectively. The stock is trading at 64% discount to NAV, implying 37% upside.

→ **Key risks:** Macro: weaker economy, weaker property demands. Micro: failure to control financial healthiness and execution inefficiency.

**Relative Performance**


Source: Fubon Securities (HK)

**12-month Forward P/E Bands**


Source: Fubon Securities (HK)

**12-month Forward P/B Bands**


Source: Fubon Securities (HK)

## A tepid 1H14 but full year pre-sales target may be achieved

Aoyuan delivered tepid 1H14 results with revenue +24% YoY and core net profit -0.6% YoY. This will lead to slight miss of our original FY revenue forecast if delivery cannot catch up in 2H14 to account for ~70% of FY total. As 1H:2H revenue split has been stable at c. 4:6 for the past years, we therefore revised down our FY revenue forecast for 2014F.

### Interim results summary (RMBm)

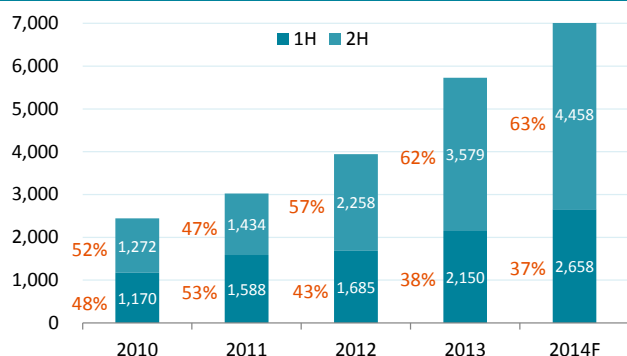
	1H13	2H13	1H14	2H14F	1H14 YoY	2H14F YoY
Revenue	2,150	3,579	2,658	4,458	24%	25%
Gross profit	665	1,093	812	1,833	22%	68%
Operating profit	512	577	569	1,221	11%	112%
Core net profit	285	285	284	552	-1%	94%
Gross margin	30.9%	30.6%	30.5%	41.1%	-0.4pp	+10.6pp
Operating margin	23.8%	16.1%	21.4%	27.4%	-2.4pp	+11.3pp
Core net margin	13.3%	8.0%	10.7%	12.4%	-2.6pp	+4.4pp
SG&A/Revenue	7.3%	14.6%	9.3%	13.8%	+2.0pp	-0.7pp
Effective Tax Rate	38%	43%	44%	52%	+5.8pp	-0.7pp
Current ratio	1.92	1.79	1.81	1.82	-0.11	+0.03
Net gearing	45%	64%	70%	72%	+26pp	+8pp

Source: Company, Fubon Securities (HK)

1H14 pre-sales +38% YoY to RMB5.15b and pre-sold GFA +16% YoY to 539ksm (ASP +19%). 1H pre-sales accounted for 34% of FY pre-sales target of RMB15b (1H13A: 37%).

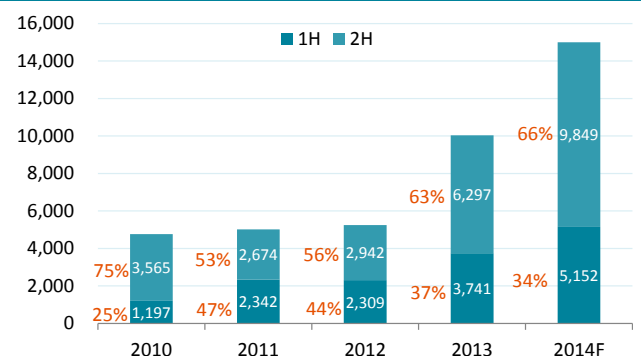
1H14 pre-sales achievement ratio fell slightly 3pp from 37% (to actual full year figure) in 1H13, mgmt. is still upbeat on achieving 2014 FY pre-sales target of RMB15b by faster project launch (2H14 new launches available for sale: RMB13b). Applying a guided sale-through rate of 70% for new launches and 35% for leftovers, it is no easy task but we still expect the FY target can be achieved with 2H14 pre-sales ~RMB10bn.

### Half-year revenue pattern (RMBm)



Source: Company, Fubon Securities (HK)

### Half-year pre-sales pattern (RMBm)\*



Source: Company, Fubon Securities (HK) \* 2014F based on company target

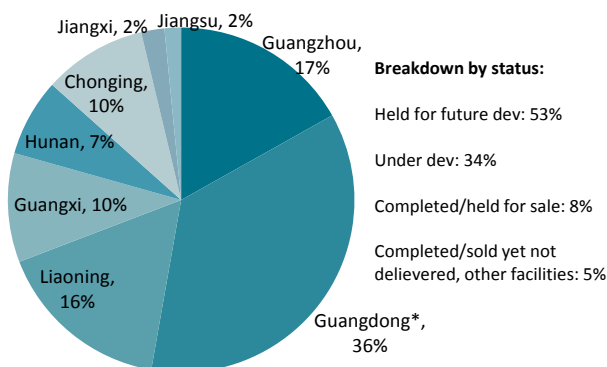
Some may worry that as Home Purchase Restriction (HPR) phasing out in most cities, Aoyuan's advantage in commercial apartments (CA) may be compromised. In our view, CAs account for only c.10% of total sales and most of them are in Guangzhou where HPR is not expected to be lifted soon. And CAs are more of investment function rather than for long-term family use, let alone the prime locations of Aoyuan's CAs, therefore we don't see material negative impact at the moment.

## Sticking to low cost land-banking strategy with cautiousness

Aoyuan is now very prudent in land acquisition. As at mid-2014, Aoyuan's total land bank was **11.96msm**, with **avg cost of only RMB1,105/sm**. In 1H14, 5 parcels were acquired at an avg cost of RMB1,347/sm. And during 8M14, 7 parcels at an avg cost of RMB1,702/sm.

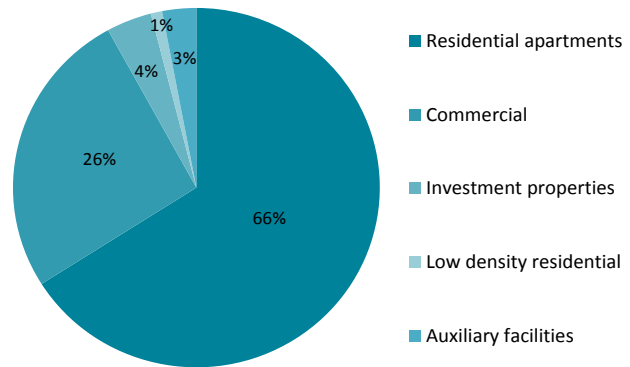
National land market (incl. Guangdong Province and Guangzhou City) has been weak since earlier this year. This is a **good opportunity for developers with healthy cash position to expand counter-cyclically at low costs**.

### Land bank breakdown by city & province (mid-2014)



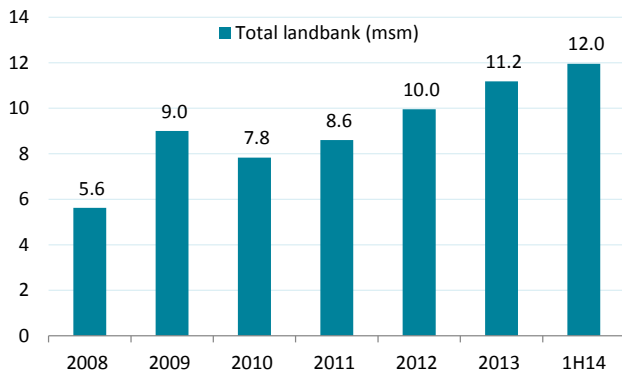
Source: Company, Fubon Securities (HK) \*Excluding Guangzhou

### Land bank breakdown by property type (mid-2014)



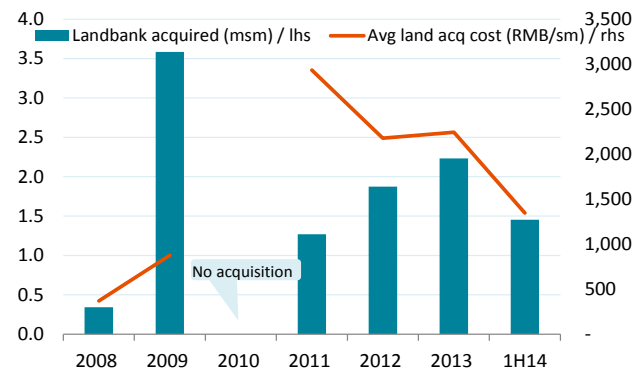
Source: Company, Fubon Securities (HK)

### Historical land bank



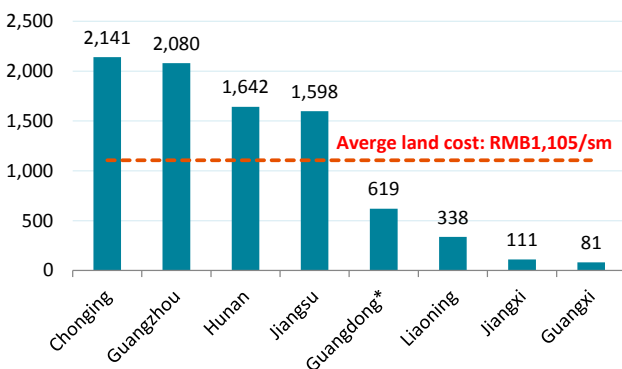
Source: Company, Fubon Securities (HK)

### Historical land bank acquisition



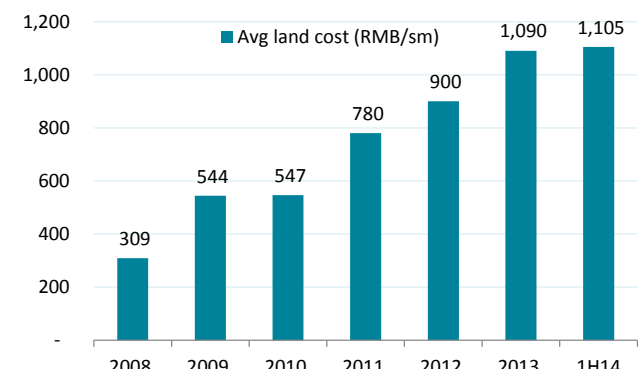
Source: Company, Fubon Securities (HK)

### Land bank cost breakdown by province (mid-2014)



Source: Company, Fubon Securities (HK) \*Excluding Guangzhou

### Historical average land cost



Source: Company, Fubon Securities (HK)

## Mgmt. increases long position with high confidence

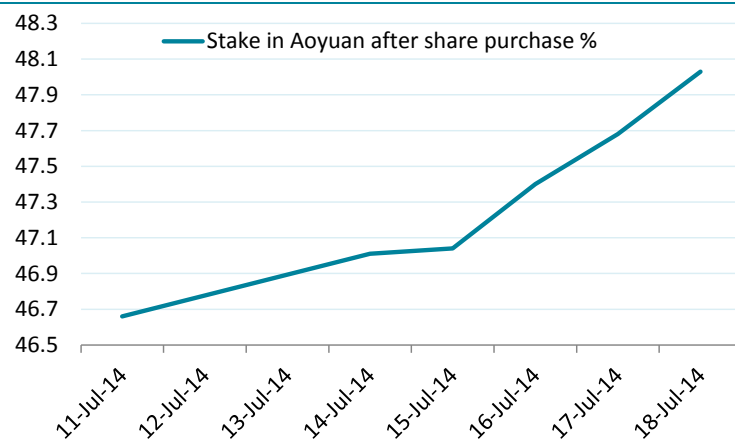
During Jul 11-18, Aoyuan's Chairman Guo Zi Wen bought a total of 56.2m shares from secondary market at an **avg price of HKD1.55**. His stake in Aoyuan increased from 46.66% to 48.03% after the share purchase (and as at this moment).

Chairman's share purchase was a strong dose for Aoyuan's share price. This represented **Mr. Guo's high confidence in Aoyuan's long term development and indicated that he believes Aoyuan is undervalued.**

Chairman's share purchase from secondary market					
Date	No. of shrs bought (m)	Avg price/shr (HKD)	Share purchase cost (HKDm)	Stake in Aoyuan after share purchase %	
11/7/2014	1.8	1.254	2.26	46.66	
14/7/2014	9.5	1.376	13.11	47.01	
15/7/2014	1.1	1.411	1.48	47.04	
16/7/2014	10.0	1.432	14.32	47.4	
17/7/2014	7.6	1.458	11.12	47.68	
18/7/2014	16.4	1.840	30.23	48.03	
18/7/2014	9.8	1.475	14.46	48.03	
<b>Total</b>	<b>56.2</b>	<b>1.547*</b>	<b>86.97</b>		

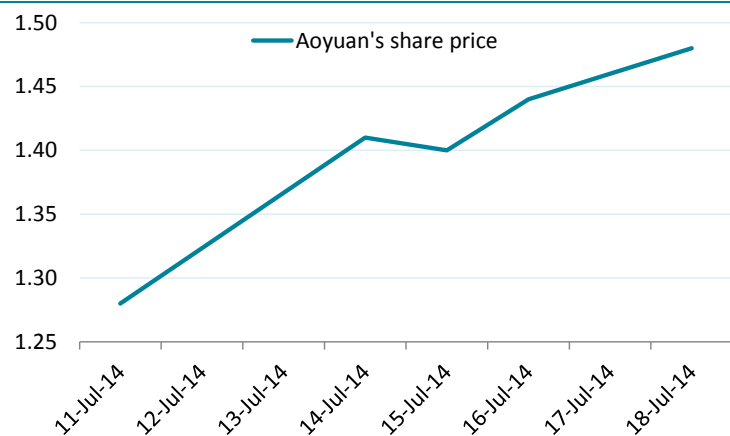
Source: HKEx, Fubon Securities (HK) \* Total purchase cost divided by total No. of shares bought

### Chairman Mr. Guo Zi Wen's stake in Aoyuan during Jul 11-18



Source: HKEx, Fubon Securities (HK)

### Aoyuan's share price during Jul 11-18



Source: Wind, Fubon Securities (HK)

## Catalyst! Catalyst! Catalyst!

### Macro catalysts

#### 1) Acceleration of the grand New Urbanization

New Urbanization pilot program is reported to launch soon with 62 pilot administrative regions incl. 2 provinces (省) and 2 counties (縣), the rest are cities (市) and towns (鎮). **Accelerated urbanization will definitely help developers focusing on affordable homes.** On Sep 3, Guangdong Province published draft for public review on New Urbanization Plan 2014-2020 (廣東省新型城鎮化規劃 (2014-2020 年) 公眾諮詢稿). The Plan advises to upgrade big towns to cities so that public service can be improved with more budgets. Guangdong (excl. Guangzhou) accounts for c.36% of Aoyuan's land bank and c.20% of its GAV, and **the province's aggressiveness in promoting urbanization may bring more opportunities for Guangdong-based developers such as Aoyuan.**

#### 2) Lifting Home Purchase Restriction and further policy easing

During the past months, most of the 40+ cities originally carrying out Home Purchase Restriction (HPR) have lifted the austerity measure. Now there are **only 6 cities left** (Beijing, Shanghai, Guangzhou, Shenzhen, Zhuhai, Sanya) still sticking to HPR. We have seen **some local govts launch various stimulus plans to promote property sales, and more will follow suite.**

#### 3) More lending for 1st home buyers at lower rates and further credit easing

In May 2014, the central bank urged commercial banks to put higher priority granting loans to 1st home buyers and offer favorable lending rates. Recently banks in Wenzhou City offer 10% lending rates discount to 1st home buyers. **We expect more cities to follow** but bigger discounts (~30%) are not likely anytime soon. Recently many local govts released a series of measures to **ease on Housing Provident Fund lending criteria, and require banks to lower down payment rate/lending rates or increase mortgage quota, and this trend is expected to become pervasive nationwide soon.**

### Micro catalysts

#### 1) Modification in product mix to adapt to policy and market changes

According to the strategy set in 2012, residential/commercial property sales are designed to account for 60%/40% of total. Of all commercial properties, 80% are sold and 20% are held as investment properties. But now **with HPR fading out**, Aoyuan will **modify its dual core model – increase % of residential and decrease % of commercial.** At the same time, Aoyuan will cut % of bigger commercial units and raise % of smaller ones to attract more buyers.

#### 2) Diversifications in complex property with focus on health/leisure themes

Aoyuan will **continue to focus on property development.** Aoyuan is a pioneer developing complex properties, especially with cultural, health, tourism and leisure themes. The company plans to explore more opportunities in these alternative property projects going forward, as well as enhancing property mgmt. services to better serve buyers.

#### 3) Exploring overseas opportunities to mitigate domestic systematic risk

Aoyuan is currently seeking to develop property projects in Sydney, Australia. This is not going to bring revenue immediately but shall **mitigate Aoyuan's dependence on domestic market**, let alone property is short of supply in Sydney.



## Financial summary

Revenue growth for 2014F may be slower than originally expected due to fewer completion and delivery, but we expect growth to pick up again in 2015-16F. Margin is expected to drop slightly due to competition, ASP cuts in 2H14 and product mix changes.

### Key Income Statement Items (RMBm)

	2011A	2012A	2013A	2014F	2015F	2016F
Revenue	3,022	3,943	5,729	7,116	10,124	14,738
YoY	24%	30%	45%	24%	42%	46%
Gross profit	818	1,187	1,759	2,645	3,567	4,683
YoY	25%	45%	48%	50%	35%	31%
Operating profit	405	580	1,088	1,791	2,393	3,062
YoY	6%	43%	88%	65%	34%	28%
Core net profit	133	172	570	836	1,167	1,569
YoY	98%	29%	232%	47%	40%	34%
Gross margin	27%	30%	31%	37%	35%	32%
Op. margin	13%	15%	19%	25%	24%	21%
Core net margin	4%	4%	10%	12%	12%	11%

Source: Company, Fubon Research (HK)

Net gearing at mid-2014 was 70.4% and is expected to remain <80% in 2014-16F. Cash collection rate in 1H14 was approx. 84%, at par with 80% in 2013, and is expected to remain similar as banks now put higher priority granting loans to 1st home buyers.

### Debt and Cash Items (RMBm)

	2011A	2012A	2013A	2014F	2015F	2016F
ST debt	2,616	1,675	2,411	3,673	3,806	4,709
LT debt	2,016	3,248	7,113	9,837	12,769	17,057
<b>Total debt</b>	<b>4,632</b>	<b>4,923</b>	<b>9,524</b>	<b>13,510</b>	<b>16,575</b>	<b>21,766</b>
Cash / deposits	3,823	3,143	4,712	7,547	10,117	14,445
<b>Net debt</b>	<b>808</b>	<b>1,779</b>	<b>4,812</b>	<b>5,963</b>	<b>6,458</b>	<b>7,321</b>
Total equity	6,229	7,104	7,524	8,257	9,263	10,658
<b>Net gearing</b>	<b>13%</b>	<b>25%</b>	<b>64%</b>	<b>72%</b>	<b>70%</b>	<b>69%</b>

Source: Company, Fubon Research (HK)

ROE looks quite attractive and the breakdown via DuPont Analysis shows the improvement is largely due to rise in asset turnover (revenue/total assets) and equity leverage (total assets/shareholders' equity).

### Other ratios / Assumptions

	2011A	2012A	2013A	2014F	2015F	2016F
Pay-out ratio	20%	14%	30%	20%	20%	20%
SG&A/Revenue	14%	16%	12%	12%	11%	11%
Effective Tax Rate	43%	39%	41%	50%	48%	43%
Current ratio	2.0	2.1	2.0	2.0	1.9	1.8
ROA	1%	1%	2%	3%	3%	3%
<b>ROE</b>	<b>2%</b>	<b>3%</b>	<b>8%</b>	<b>11%</b>	<b>14%</b>	<b>16%</b>
- Core net margin	4%	4%	10%	12%	12%	11%
- Asset turnover	0.20	0.21	0.23	0.21	0.24	0.27
- Equity leverage	2.5	2.9	3.6	4.4	5.0	5.7

Source: Company, Fubon Research (HK)

## NAV summary

After taking Aoyuan's operating history/scale/current situation into account, and a WACC of 10%, we arrived at an estimated NAV of HKD3.54. By applying **50% discount to NAV**, we reached a **TP of HKD1.77**, suggesting 4.5x 14F P/E and 0.5x 14F P/B respectively.

GAV breakdown by province	
Province	% of GAV
Guangzhou	39.0%
Guangdong	20.3%
Liaoning	16.5%
Chongqing	13.8%
Guangxi	4.5%
Hunan	2.3%
Jiangxi	2.6%
Jiangsu	1.0%

Source: Fubon Research (HK)

NAV Summary				
	HKDm	HKD/share	% of GAV	
GAV: Res & Com Properties	10,398	3.74	60%	
GAV: Investment Properties	6,472	2.32	37%	
GAV: Others assets	539	0.19	3%	
<b>Total GAV</b>	<b>17,409</b>	<b>6.25</b>		
- Net Debt	(7,548)	(2.71)		
<b>Estimated NAV</b>	<b>9,861</b>	<b>3.54</b>		
<b>TP Discount to NAV</b>		50%		
<b>Target Price</b>		<b>1.77</b>		
Current Price		1.29		
Current Discount to NAV		64%		
<b>Implied Upside</b>		<b>37%</b>		
TP suggested 14F P/E		4.49		
TP suggested 14F P/B		0.49		
Current 14F P/E		3.27		
Current 14F P/B		0.36		

Source: Fubon Research (HK)

We have conducted scenario analyses to see how changes in discount to NAV, ASP and construction cost may affect our target price, assuming other assumptions unchanged.

### TP scenario analysis on changes in discount to NAV (HKD)

	Discount to NAV				
	60%	55%	50%	45%	40%
Target Price	1.42	1.60	<b>1.77</b>	1.95	2.13

Source: Fubon Research (HK)

### TP scenario analysis on changes in ASP/construction cost (HKD)

		ASP Change				
		10%	5%	0%	-5%	-10%
<b>Construction</b>	-10%	2.97	2.55	2.10	1.65	1.19
	-5%	2.83	2.39	1.94	1.48	1.03
<b>Cost</b>	0%	2.68	2.23	<b>1.77</b>	1.32	0.85
<b>Change</b>	5%	2.52	2.06	1.61	1.15	0.67
	10%	2.35	1.89	1.44	0.97	0.48

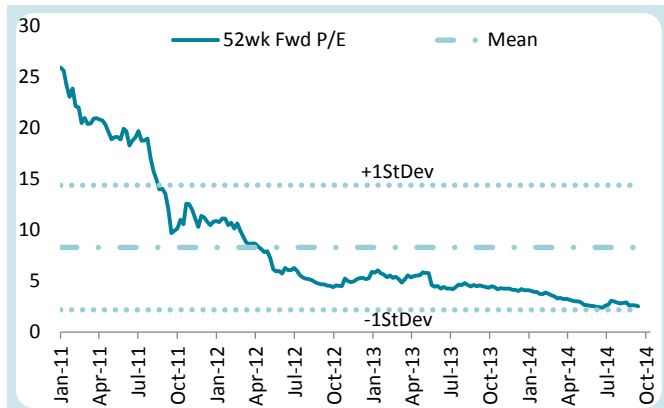
Source: Fubon Research (HK)

## Valuation and risks

Aoyuan is trading at 64% discount to our NAV, implying **37% upside potential**. If Aoyuan can deliver better-than-expected and consistent performance going forward, lower NAV discount should be justified, providing further upside potential.

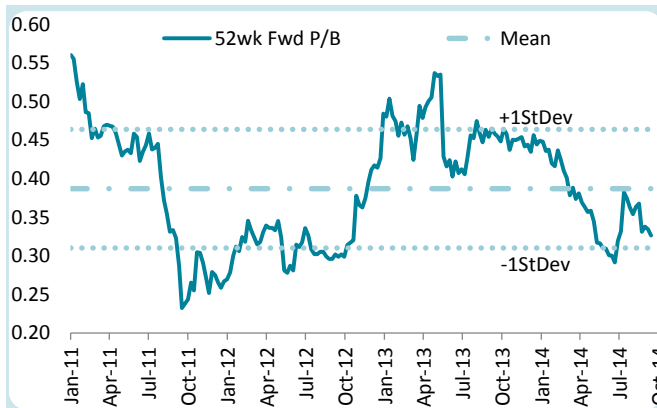
Alternatively, the stock's 3.27x 2014F P/E and 0.36x 2014F P/B are now near historical -1x standard deviation levels, suggesting need for mean reversion.

Historical 52-wk forward P/E (based on core net profit)



Source: Bloomberg, Company, Fubon Research (HK)

Historical 52-wk forward P/B



Source: Bloomberg, Company, Fubon Research (HK)

We also adopted various valuation metrics to see the mean suggested prices given historical  $\pm 1$  standard deviation (except for assumed NAV Discount). The average of mean/ $\pm 1$  standard deviation suggested prices are HKD1.64 and HKD2.33 respectively, and our TP lies between them.

Historical  $\pm 1$  standard deviation for various metrics

	-1StDev	+1StDev	Current
P/E	2.2	14.4	3.3
P/B	0.3	0.5	0.4
Div. Yield	4.6%	7.8%	6.3%
NAV Discount*	60%	40%	50%

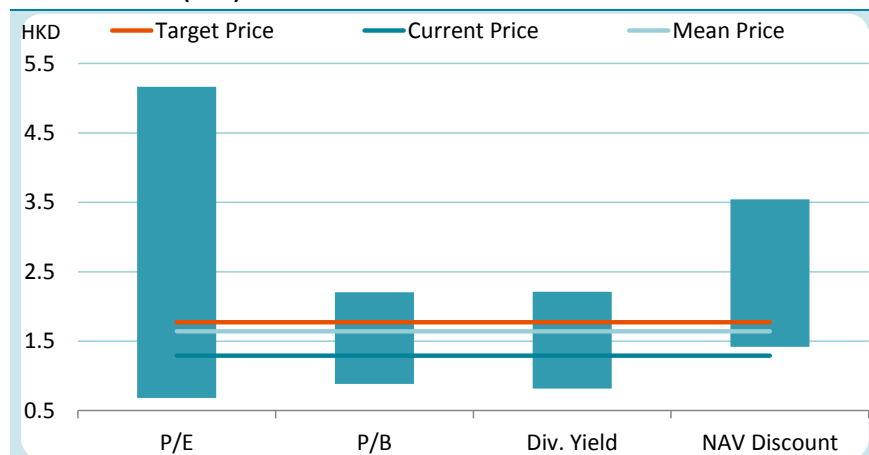
Source: Fubon Securities (HK) \* Assumed

Suggested prices by various metrics\*

	-1StDev	Mean	+1StDev
P/E	0.68	2.58	4.48
P/B	0.88	1.10	1.32
Div. Yield	0.82	1.11	1.40
NAV Discount	1.42	1.77	2.13
<b>Average</b>	<b>0.95</b>	<b>1.64</b>	<b>2.33</b>

Source: Fubon Securities (HK) \*Based on 14F EPS/BVPS/DPS

Valuation Matrix (HKD)



Source: Fubon Research (HK)

Key macro risks include weaker economy, weaker property demands. And key micro risks include failure to control financial healthiness and execution inefficiency.





## Financial statements & forecasts

### Income Statement (RMBm) – Full Year

	2011	2012	2013	2014F	2015F	2016F
<b>Revenue</b>	<b>3,022</b>	<b>3,943</b>	<b>5,729</b>	<b>7,116</b>	<b>10,124</b>	<b>14,738</b>
- Prop Dev	3,004	3,865	5,600	6,966	9,962	14,556
- Prop Inv/others	6	31	49	61	66	80
Cost of sales	(2,205)	(2,757)	(3,971)	(4,471)	(6,557)	(10,055)
<b>Gross profits</b>	<b>818</b>	<b>1,187</b>	<b>1,759</b>	<b>2,645</b>	<b>3,567</b>	<b>4,683</b>
SG&A	(413)	(607)	(670)	(854)	(1,174)	(1,621)
<b>Operating profit</b>	<b>405</b>	<b>580</b>	<b>1,088</b>	<b>1,791</b>	<b>2,393</b>	<b>3,062</b>
Finance cost	(26)	(66)	(44)	(53)	(78)	(120)
Exceptionals	400	1,011	221	73	87	112
<b>Pre-tax profit</b>	<b>779</b>	<b>1,525</b>	<b>1,265</b>	<b>1,810</b>	<b>2,402</b>	<b>3,054</b>
Income tax	(336)	(593)	(513)	(899)	(1,150)	(1,328)
Minority	(10)	(2)	(16)	(21)	(20)	(73)
<b>Net profit</b>	<b>433</b>	<b>930</b>	<b>736</b>	<b>890</b>	<b>1,233</b>	<b>1,653</b>
<b>Core profit</b>	<b>133</b>	<b>172</b>	<b>570</b>	<b>836</b>	<b>1,167</b>	<b>1,569</b>
Reported Basic EPS (RMB)	0.17	0.36	0.27	0.33	0.46	0.62
Core Basic EPS (RMB)	0.05	0.07	0.21	0.31	0.43	0.58
DPS (RMB)	0.03	0.05	0.08	0.06	0.09	0.12
<b>YoY (%)</b>						
Revenue	24	30	45	24	42	46
Gross profit	25	45	48	50	35	31
Operating profit	6	43	88	65	34	28
Core Net profit	98	29	232	47	40	34
<b>Margin (%)</b>						
Gross	27	30	31	37	35	32
Operating	13	15	19	25	24	21
Core net	4	4	10	12	12	11

### Income Statement (RMBm) – Half Year

	1H12	2H12	1H13	2H13	1H14	2H14F
<b>Revenue</b>	<b>1,685</b>	<b>2,258</b>	<b>2,150</b>	<b>3,579</b>	<b>2,658</b>	<b>4,458</b>
Gross profit	525	661	665	1,093	812	1,833
SG&A	(188)	(419)	(154)	(517)	(242)	(612)
<b>Operating profit</b>	<b>338</b>	<b>242</b>	<b>512</b>	<b>577</b>	<b>569</b>	<b>1,221</b>
Finance cost	(8)	(58)	(12)	(32)	(35)	(18)
Exceptionals	198	813	84	137	34	38
<b>Pre-tax profit</b>	<b>528</b>	<b>997</b>	<b>583</b>	<b>682</b>	<b>569</b>	<b>1,241</b>
Tax	(245)	(348)	(222)	(291)	(249)	(650)
Minority	1	(3)	(13)	(3)	(10)	(10)
<b>Net profit</b>	<b>284</b>	<b>647</b>	<b>348</b>	<b>388</b>	<b>309</b>	<b>581</b>
<b>Core net profit</b>	<b>135</b>	<b>37</b>	<b>285</b>	<b>285</b>	<b>284</b>	<b>552</b>
<b>YoY (%)</b>						
Revenue			6	57	28	58
Gross profit			5	109	27	65
Operating profit			5	192	52	138
Core Net profit			(23)	(187)	112	671
<b>Margin (%)</b>						
Gross	32	22	31	29	31	31
Operating	20	6	20	11	24	16
Core net	11	(3)	8	2	13	8

### Ratios & Valuations

Year-end: Dec 31

	2011	2012	2013	2014F	2015F	2016F
ROA (%)	0.9	0.9	2.2	2.5	2.8	2.9
ROE (%)	2.2	2.6	8.0	11.0	13.9	16.4
ROCE (%)	1.6	1.8	4.4	5.0	5.7	6.2
P/E (x)	19.0	13.4	5.9	3.3	2.3	1.7
P/S (x)	0.8	0.6	0.6	0.4	0.3	0.2
P/BV (x)	0.4	0.3	0.5	0.4	0.3	0.3
EV/EBITDA (x)	6.5	6.0	6.1	4.7	3.9	3.2
Dividend yield (%)	3.4	5.9	6.4	6.3	8.8	11.9

### Balance Sheet (RMBm)

Year-end: Dec 31

	2011	2012	2013	2014F	2015F	2016F
Properties for sale	8,336	11,548	19,437	22,689	27,299	34,762
Deposits for land acquisition	0	1,117	1,064	1,400	3,225	4,620
Trade and other receivables	611	735	1,064	1,321	1,879	2,736
Restricted bank deposits	2,946	762	1,899	3,753	5,920	9,069
Bank balances and cash	877	2,381	2,812	3,794	4,198	5,376
Other current assets	152	140	505	627	892	1,299
<b>Total current assets</b>	<b>12,922</b>	<b>16,684</b>	<b>26,781</b>	<b>33,584</b>	<b>43,413</b>	<b>57,862</b>
PP&E	492	376	415	426	443	463
Investment properties	1,383	1,949	2,419	2,492	2,793	3,625
Other non-current assets	2,118	1,804	316	391	554	804
<b>Total non-current assets</b>	<b>3,992</b>	<b>4,129</b>	<b>3,150</b>	<b>3,309</b>	<b>3,790</b>	<b>4,892</b>
<b>Total assets</b>	<b>16,914</b>	<b>20,813</b>	<b>29,932</b>	<b>36,893</b>	<b>47,202</b>	<b>62,754</b>
Trade and other payables	1,409	2,299	2,953	3,667	5,217	7,595
Sales deposits	3,289	4,244	6,463	7,505	11,839	18,139
Tax liabilities	1,117	1,206	1,488	1,875	2,125	2,304
Bank and other borrowings	2,616	1,675	2,411	3,673	3,806	4,709
Other current liabilities	89	681	1,648	1,730	1,817	1,908
<b>Total current liabilities</b>	<b>8,519</b>	<b>10,105</b>	<b>14,963</b>	<b>18,450</b>	<b>24,805</b>	<b>34,654</b>
Bank and other borrowings	2,016	2,498	5,742	8,459	12,162	17,057
Senior notes	0	750	1,371	1,379	607	0
Other non-current liabilities	151	356	332	348	366	384
<b>Total non-current liabilities</b>	<b>2,166</b>	<b>3,605</b>	<b>7,444</b>	<b>10,186</b>	<b>13,135</b>	<b>17,441</b>
<b>Total liabilities</b>	<b>10,686</b>	<b>13,709</b>	<b>22,408</b>	<b>28,636</b>	<b>37,940</b>	<b>52,095</b>
Shareholders' equity	6,159	6,951	7,219	7,931	8,917	10,240
Minority	70	152	305	325	345	419
<b>Total equity</b>	<b>6,229</b>	<b>7,104</b>	<b>7,524</b>	<b>8,257</b>	<b>9,263</b>	<b>10,658</b>
<b>Total liabilities &amp; equity</b>	<b>16,914</b>	<b>20,813</b>	<b>29,932</b>	<b>36,893</b>	<b>47,202</b>	<b>62,754</b>
BVPS (RMB)	2.35	2.66	2.59	2.85	3.20	3.68

### Cash Flow Statement (RMBm)

Year-end: Dec 31

	2011	2012	2013	2014F	2015F	2016F
Pre-tax profit	779	1,525	1,265	1,810	2,402	3,054
Dep. & Amort.	37	33	34	33	34	35
Changes in W/C	(88)	(2,917)	(1,822)	(2,088)	(1,109)	(1,038)
Others	(989)	(1,662)	(1,247)	(1,506)	(1,471)	(2,174)
<b>Cash flow - operations</b>	<b>(261)</b>	<b>(3,021)</b>	<b>(1,770)</b>	<b>(1,751)</b>	<b>(143)</b>	<b>(122)</b>
Purchases of PP&E	(75)	(25)	(37)	(44)	(51)	(56)
Decrease in restricted deposit	(1,310)	2,183	(1,137)	(1,853)	(2,167)	(3,150)
Others	(939)	2,325	(744)	822	(54)	(355)
<b>Cash flow - investment</b>	<b>(2,324)</b>	<b>4,483</b>	<b>(1,917)</b>	<b>(1,075)</b>	<b>(2,272)</b>	<b>(3,560)</b>
<b>Free cash flow</b>	<b>(2,584)</b>	<b>1,462</b>	<b>(3,687)</b>	<b>(2,826)</b>	<b>(2,415)</b>	<b>(3,682)</b>
Inc. (Dec.) debt	1,270	(588)	4,075	3,986	3,065	5,191
Proceeds from senior notes	0	739	666	0	0	0
Dividends paid	(86)	(135)	(473)	(178)	(247)	(331)
Others	78	37	(124)	0	0	0
<b>Cash flow - financing</b>	<b>1,262</b>	<b>53</b>	<b>4,143</b>	<b>3,808</b>	<b>2,819</b>	<b>4,860</b>
FX change effect	(4)	(11)	(25)	0	0	0
<b>Change in cash</b>	<b>(1,326)</b>	<b>1,504</b>	<b>431</b>	<b>982</b>	<b>404</b>	<b>1,178</b>
FCPS (RMB)	0.56	(1.41)	(1.02)	(0.87)	(1.32)	0.00
CPS (RMB)	(0.51)	0.58	0.16	0.35	0.15	0.42

## Appendix – contracted sales comparison

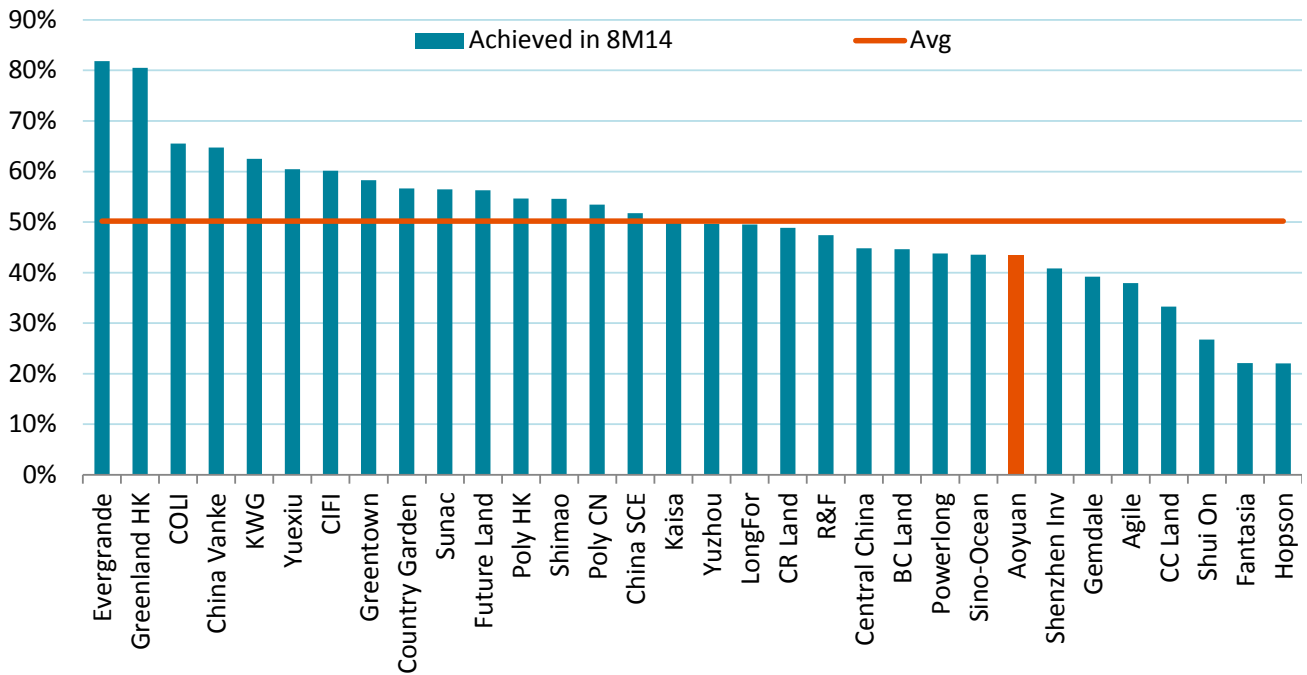
Among the 32 major developers we monitor, Aoyuan's contracted sales in 8M14 recorded **higher growth (34% YoY, ranked 6nd)** than both mean/median values. Full year target achievement in 8M14 was 43%, lower than mean/median of 50%.

YTD contracted sales performance of major developers (RMBm)										
Company	Ticker	8M13	2013 Target	Achieved in 8M13	8M14	2014 Target	Achieved in 8M14	YoY – 8M14	MoM - Aug 14	YoY – Aug 14
Agile	3383 HK	21,985	42,000	52%	26,546	70,000	38%	21%	6%	-24%
<b>Aoyuan</b>	<b>3883 HK</b>	<b>4,870</b>	<b>8,500</b>	<b>57%</b>	<b>6,509</b>	<b>15,000</b>	<b>43%</b>	<b>34%</b>	<b>-41%</b>	<b>11%</b>
BC Land	2868 HK	8,410	20,000	42%	12,490	28,000	45%	49%	155%	318%
CC Land	1224 HK	5,939	8,800	67%	3,660	11,000	33%	-38%	11%	-29%
Central China	832 HK	7,766	12,600	62%	7,617	17,000	45%	-2%	-4%	-35%
China SCE	1966 HK	6,967	7,500	93%	7,247	14,000	52%	4%	4%	8%
China Vanke	000002 CH	112,930	160,000	71%	129,470	200,000	65%	15%	14%	0%
CIFI	884 HK	9,260	14,000	66%	13,239	22,000	60%	43%	-1%	38%
COLI	688 HK	77,531	94,800	82%	72,499	110,600	66%	-6%	1%	23%
Country Garden	2007 HK	51,920	62,000	84%	72,510	128,000	57%	40%	13%	-37%
CR Land	1109 HK	43,830	57,000	77%	34,190	70,000	49%	-22%	3%	-21%
Evergrande	3333 HK	64,120	100,000	64%	90,014	110,000	82%	40%	-8%	-13%
Fantasia	1777 HK	4,742	10,000	47%	3,318	15,000	22%	-30%	120%	51%
Future Land	1030 HK	10,361	20,000	52%	13,512	24,000	56%	30%	13%	9%
Gemdale	600383 CH	26,430	42,000	63%	23,530	60,000	39%	-11%	51%	-2%
Greenland HK	337 HK	2,169	4,000	54%	8,050	10,000	81%	271%	-18%	285%
Greentown	3900 HK	38,300	55,000	70%	37,900	65,000	58%	-1%	45%	13%
Hopson	754 HK	7,580	15,000	51%	2,863	13,000	22%	-62%	107%	-46%
Kaisa	1638 HK	14,689	22,000	67%	15,046	30,000	50%	2%	10%	13%
KWG	1813 HK	10,393	16,000	65%	13,124	21,000	62%	26%	8%	33%
LongFor	960 HK	30,930	46,000	67%	28,220	57,000	50%	-9%	6%	-1%
Poly CN	600048 CH	79,053	120,000	66%	80,187	150,000	53%	1%	27%	-1%
Poly HK	119 HK	18,900	26,000	73%	15,300	28,000	55%	-19%	73%	-10%
Powerlong	1238 HK	4,033	8,000	50%	5,256	12,000	44%	30%	22%	51%
R&F	2777 HK	25,110	42,000	60%	33,195	70,000	47%	32%	15%	12%
Shenzhen Inv	604 HK	5,045	9,000	56%	4,287	10,500	41%	-15%	1%	43%
Shui On	272 HK	7,503	9,000	83%	3,477	13,000	27%	-54%	18%	-22%
Shimao	813 HK	41,046	55,000	75%	43,665	80,000	55%	6%	9%	36%
Sino-Ocean	3377 HK	24,620	35,000	70%	17,410	40,000	44%	-29%	24%	-23%
Sunac	1918 HK	27,540	45,000	61%	36,707	65,000	56%	33%	5%	32%
Yuexiu	123 HK	11,052	14,500	76%	13,301	22,000	60%	20%	4%	63%
Yuzhou	1628 HK	7,879	9,000	88%	6,452	13,000	50%	-18%	13%	-34%
<b>Mean</b>				<b>66%</b>			<b>50%</b>	<b>12%</b>	<b>22%</b>	<b>23%</b>
<b>Median</b>				<b>66%</b>			<b>50%</b>	<b>3%</b>	<b>10%</b>	<b>8%</b>

Source: Company Fubon Research (HK) \* COLI originally reports in HKD, converted into RMB

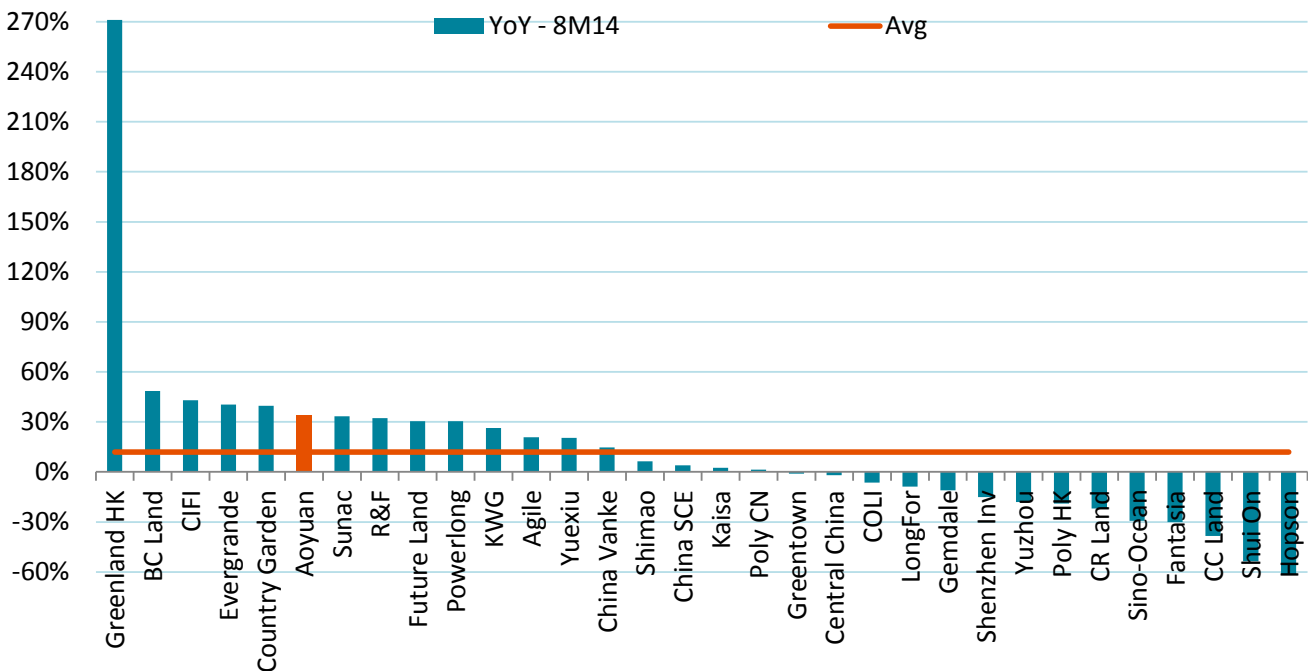
### Appendix – contracted sales comparison

Full year contracted sales target achievement ratio – 32 major developers



Source: Company, Fubon Research (HK)

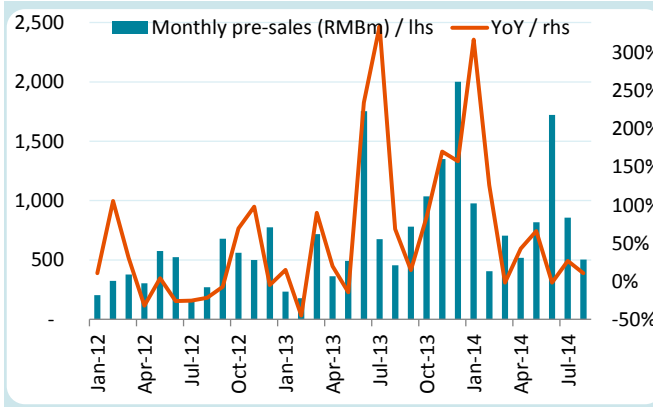
YTD contracted sales year-on-year growth – 32 major developers



Source: Company, Fubon Research (HK)

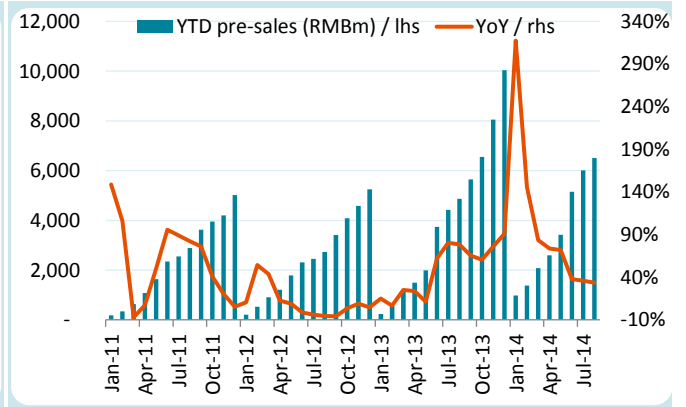
### Appendix – Aoyuan’s contracted sales record (by Aug 2014)

**Contracted sales value - monthly**



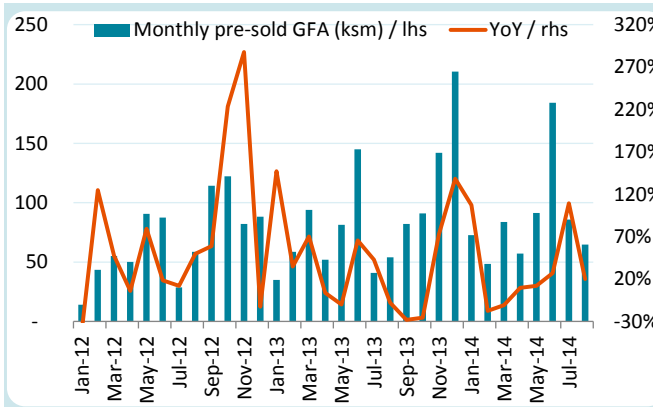
Source: Company, Fubon Research (HK)

**Contracted sales value – YTD**



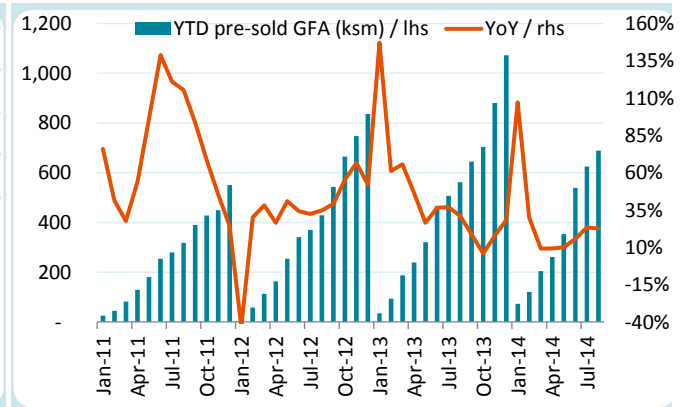
Source: Company, Fubon Research (HK)

**Contracted sales GFA - monthly**



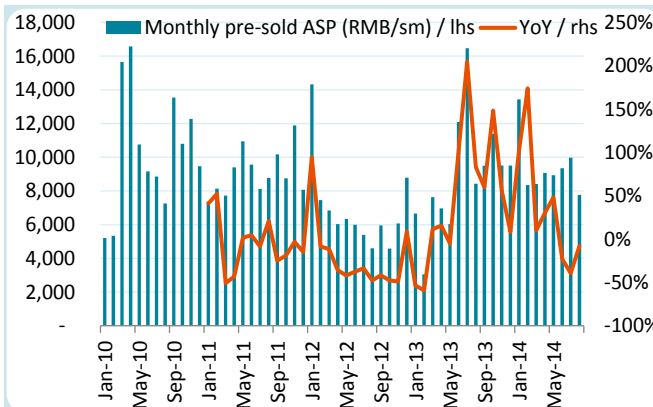
Source: Company, Fubon Research (HK)

**Contracted sales GFA - YTD**



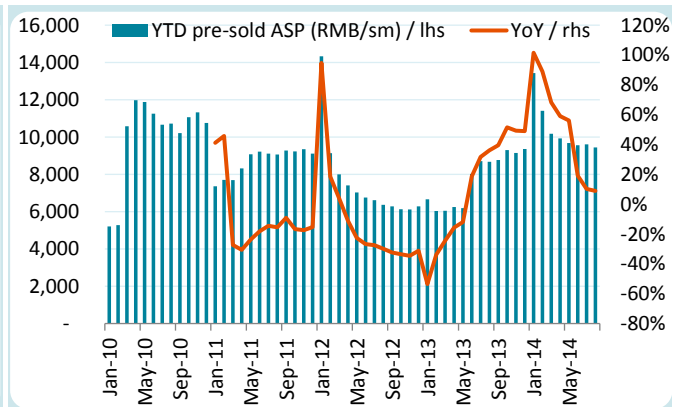
Source: Company, Fubon Research (HK)

**Contracted sales ASP - monthly**



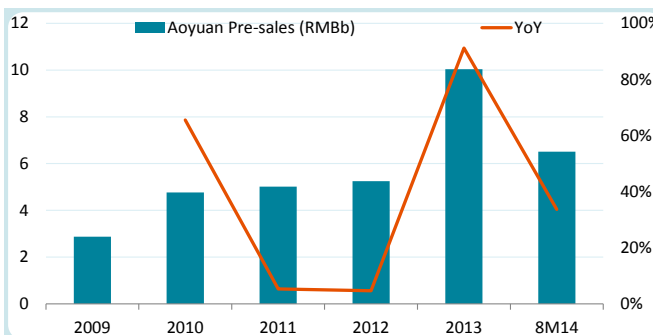
Source: Company, Fubon Research (HK)

**Contracted sales ASP - YTD**



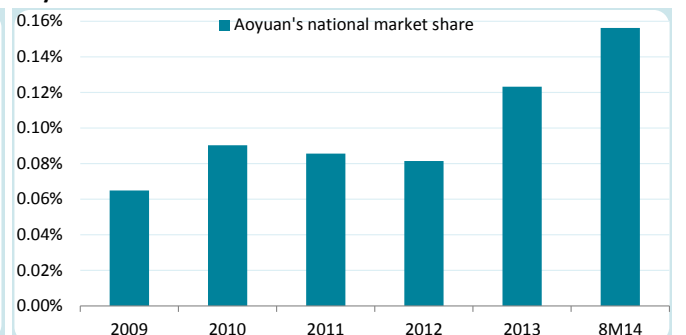
Source: Company, Fubon Research (HK)

**Historical contracted sales**



Source: Company, Fubon Research (HK)

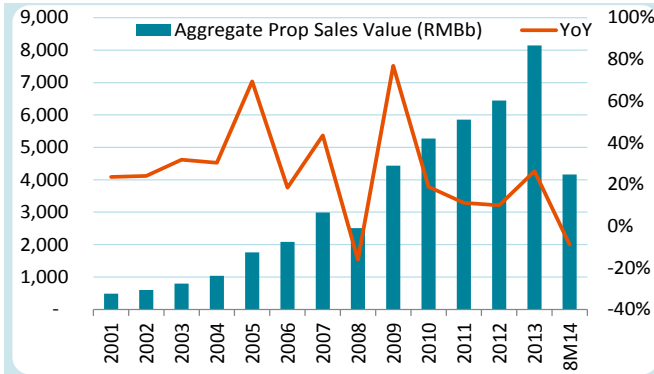
**Aoyuan's national market share in terms of contracted sales**



Source: NBS, Company, Fubon Research (HK)

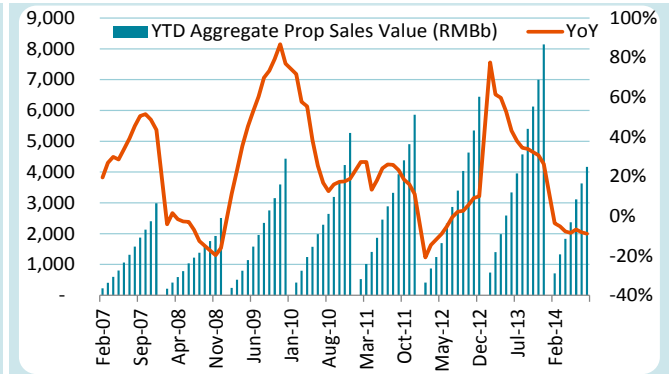
### Appendix – National Property Market (by Aug 2014)

Sales value – Annual



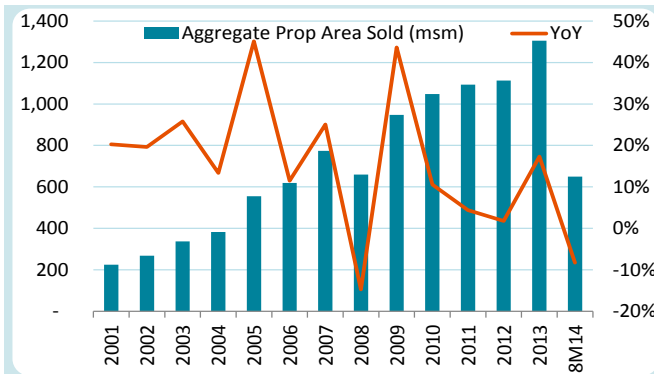
Source: NBS, Wind, Fubon Research (HK)

Sales value – YTD



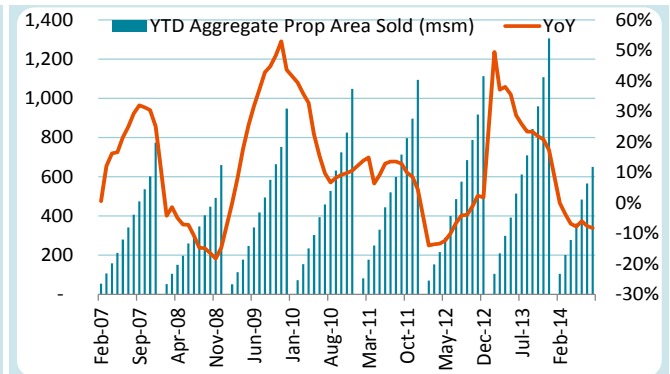
Source: NBS, Wind, Fubon Research (HK)

Area sold - Annual



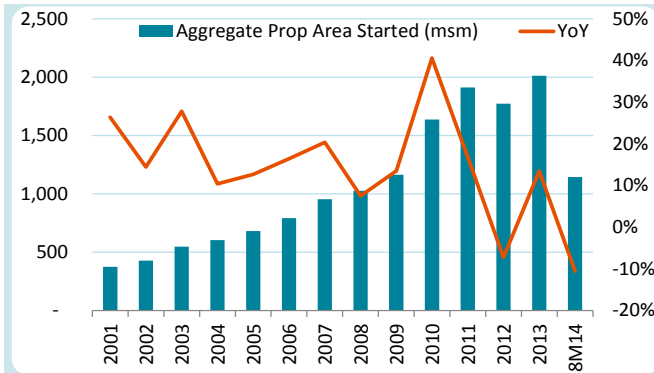
Source: NBS, Wind, Fubon Research (HK)

Area sold - YTD



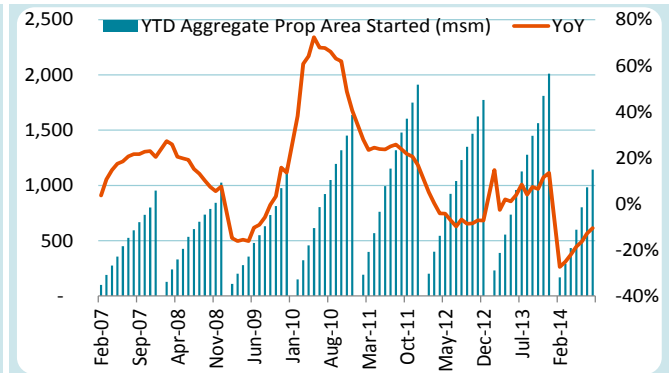
Source: NBS, Wind, Fubon Research (HK)

Area started - Annual



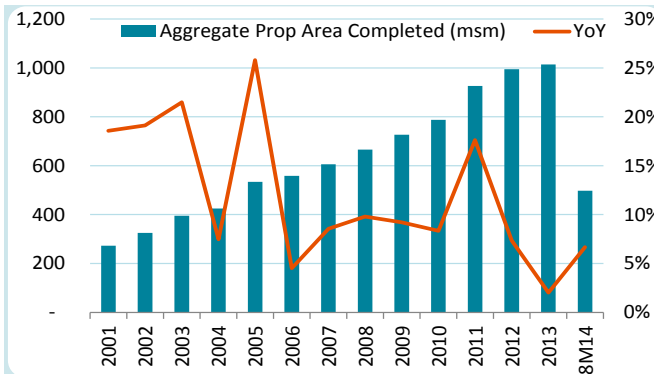
Source: NBS, Wind, Fubon Research (HK)

Area started - YTD



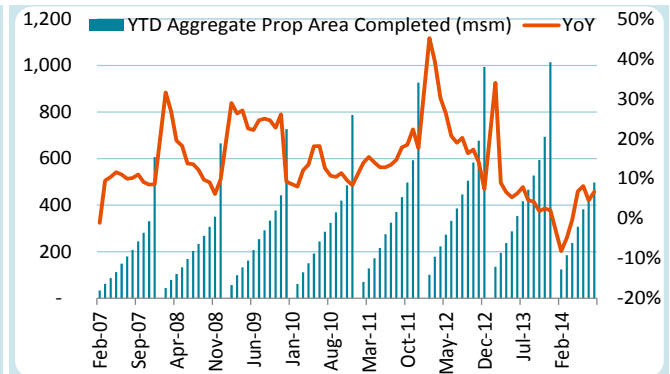
Source: NBS, Wind, Fubon Research (HK)

Area completed - Annual



Source: NBS, Wind, Fubon Research (HK)

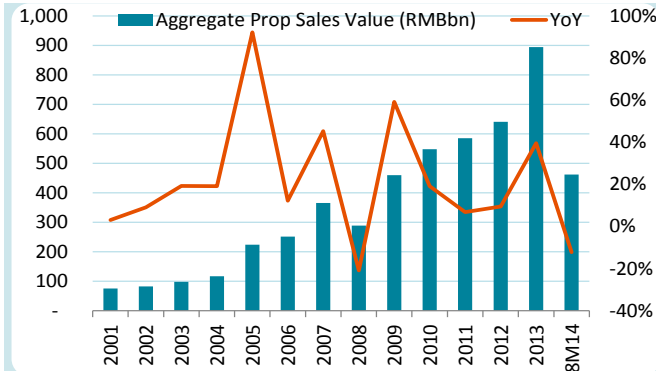
Area completed - YTD



Source: NBS, Wind, Fubon Research (HK)

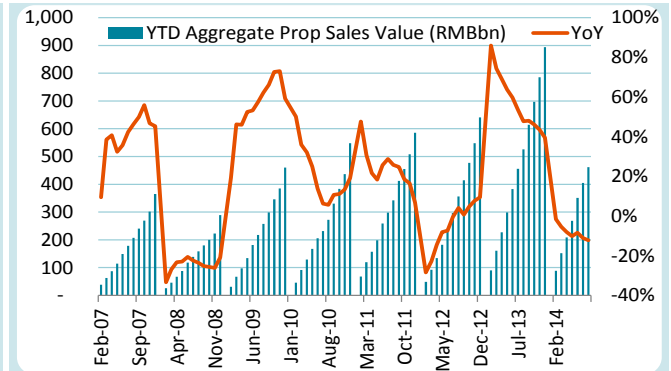
## Appendix – Guangdong Property Market (by Aug 2014)

Sales value – Annual



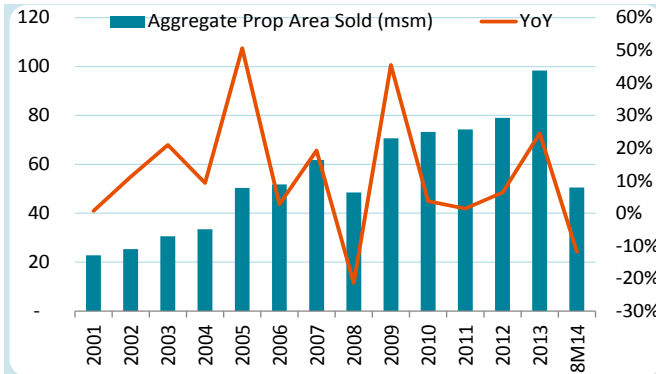
Source: NBS, Wind, Fubon Research (HK)

Sales value – YTD



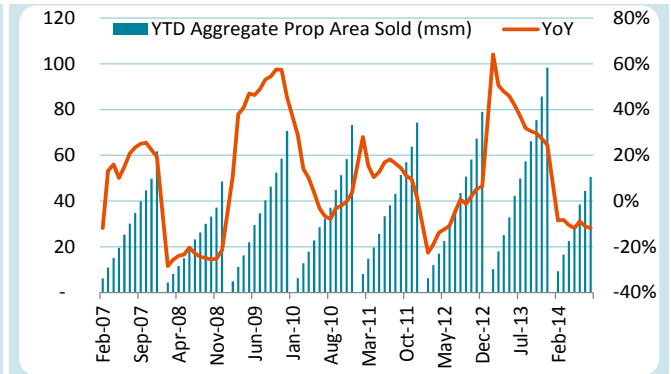
Source: NBS, Wind, Fubon Research (HK)

Area sold - Annual



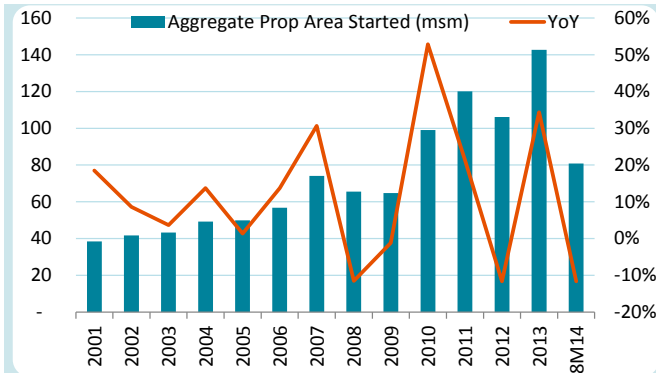
Source: NBS, Wind, Fubon Research (HK)

Area sold - YTD



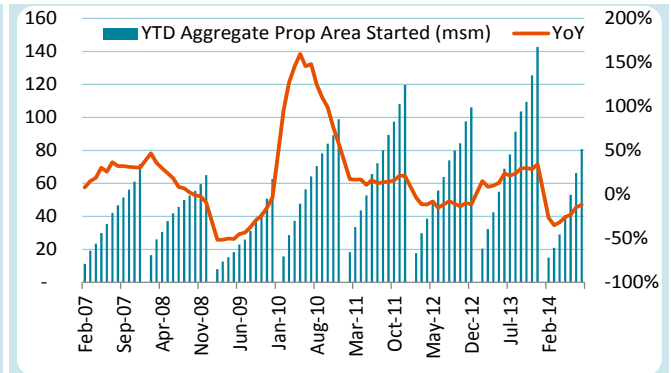
Source: NBS, Wind, Fubon Research (HK)

Area started - Annual



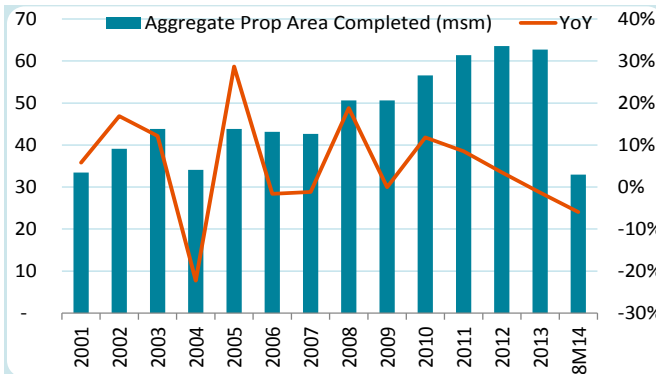
Source: NBS, Wind, Fubon Research (HK)

Area started - YTD



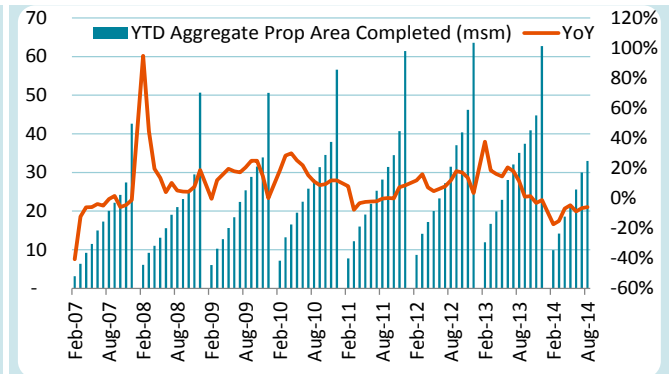
Source: NBS, Wind, Fubon Research (HK)

Area completed - Annual



Source: NBS, Wind, Fubon Research (HK)

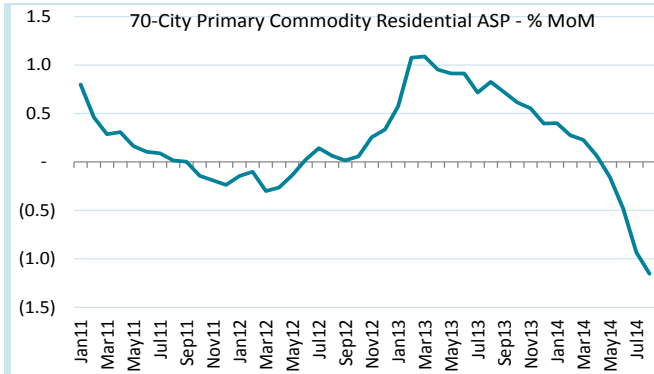
Area completed - YTD



Source: NBS, Wind, Fubon Research (HK)

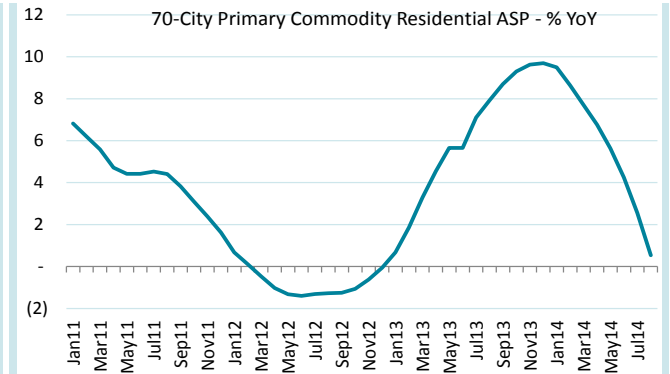
### Appendix – Home price momentum in major cities (by Aug 2014)

**NBS 70-City Home Price Indices - MoM**



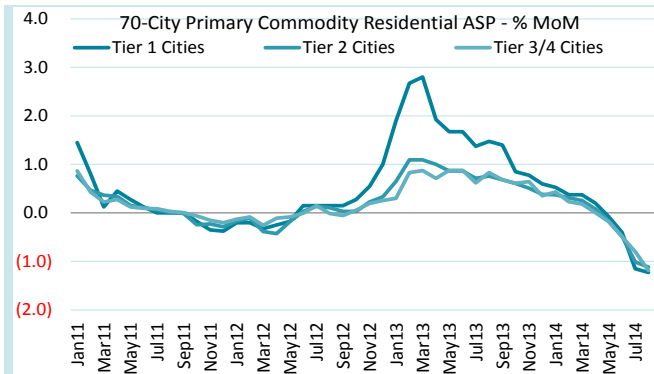
Source: NBS, Wind, Fubon Research (HK)

**NBS 70-City Home Price Indices - YoY**



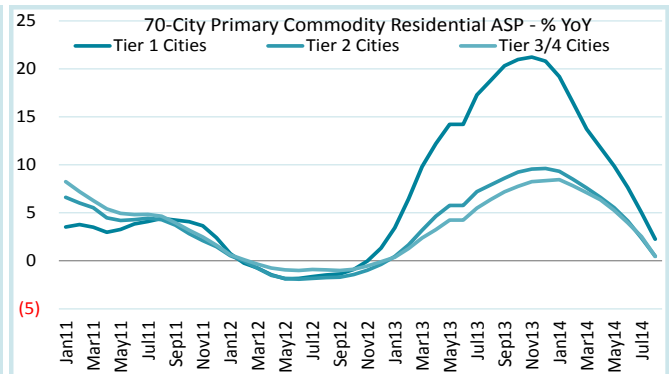
Source: NBS, Wind, Fubon Research (HK)

**NBS 70-City (by city tiers) Home Price Indices - MoM**



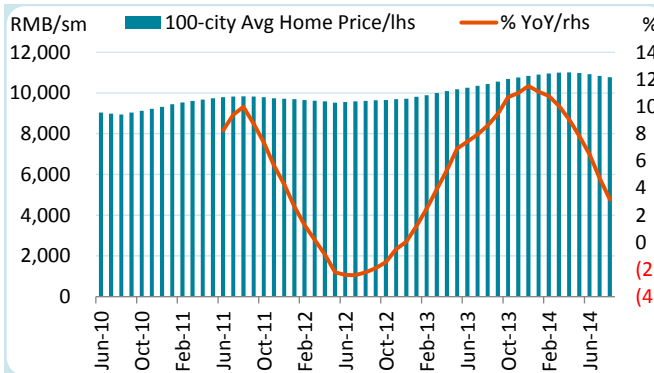
Source: NBS, Wind, Fubon Research (HK)

**NBS 70-City (by city tiers) Home Price Indices - YoY**



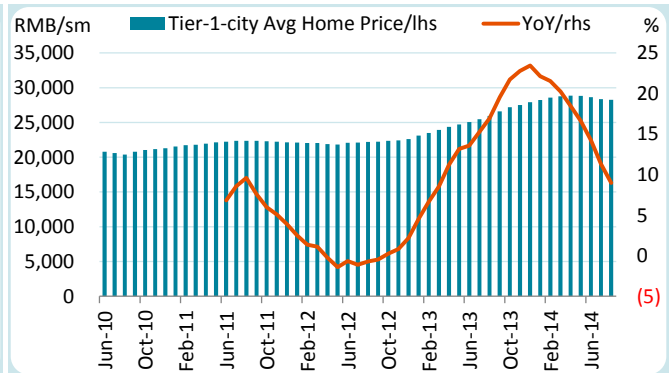
Source: NBS, Wind, Fubon Research (HK)

**Soufun 100-City Home Price – All**



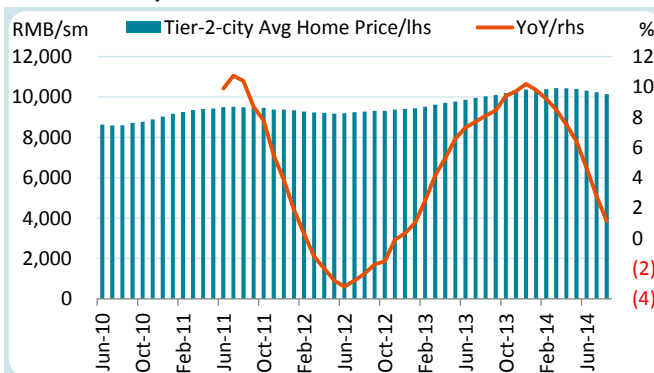
Source: Soufun, Wind, Fubon Research (HK)

**Soufun 100-City Home Price – Tier-1**



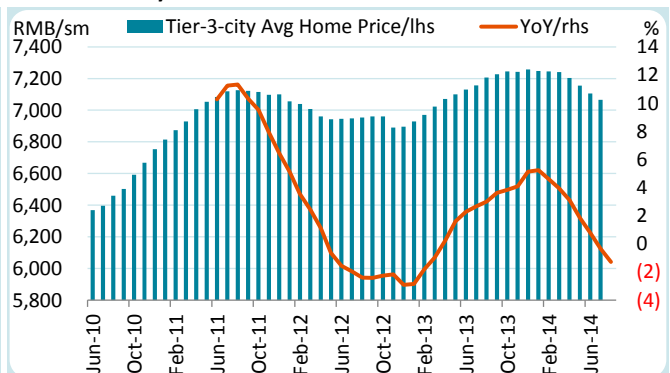
Source: Soufun, Wind, Fubon Research (HK)

**Soufun 100-City Home Price – Tier-2**



Source: Soufun, Wind, Fubon Research (HK)

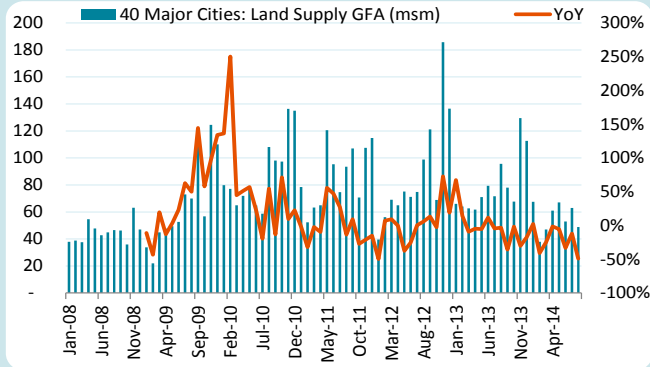
**Soufun 100-City Home Price – Tier-3**



Source: Soufun, Wind, Fubon Research (HK)

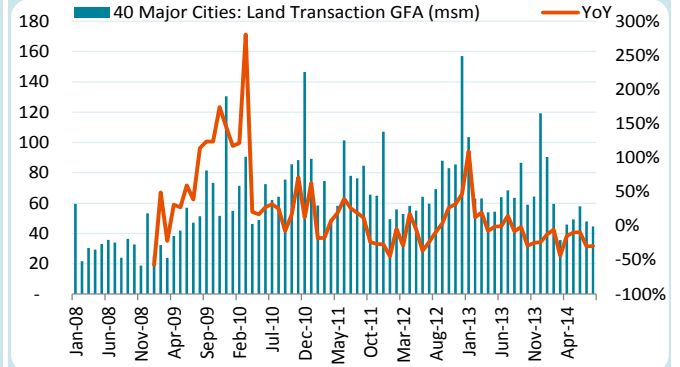
## Appendix – Land Market (by Aug 2014)

### Land Supply in 40 Major Cities



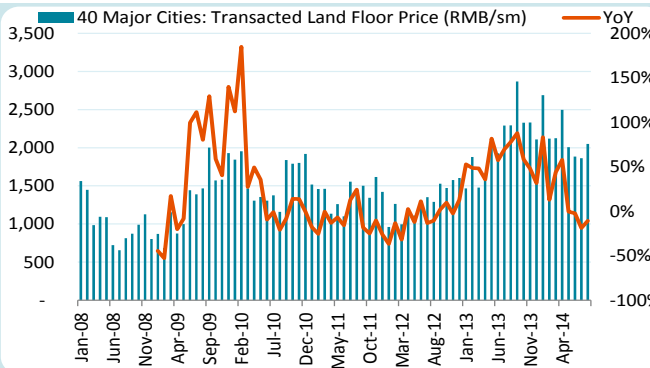
Source: Local Land Bureaus, Wind, Fubon Research (HK)

### Land Transaction in 40 Major Cities



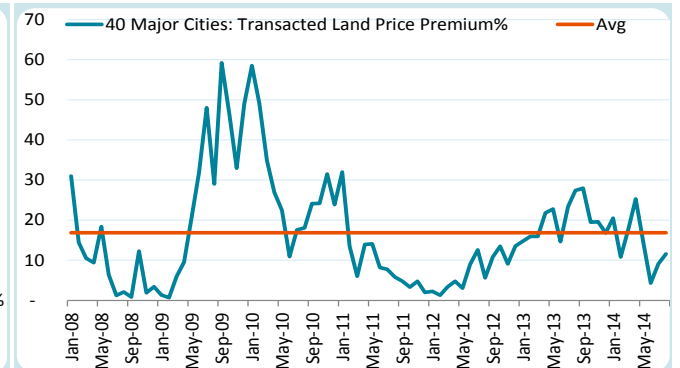
Source: Local Land Bureaus, Wind, Fubon Research (HK)

### Transacted Land Price in 40 Major Cities



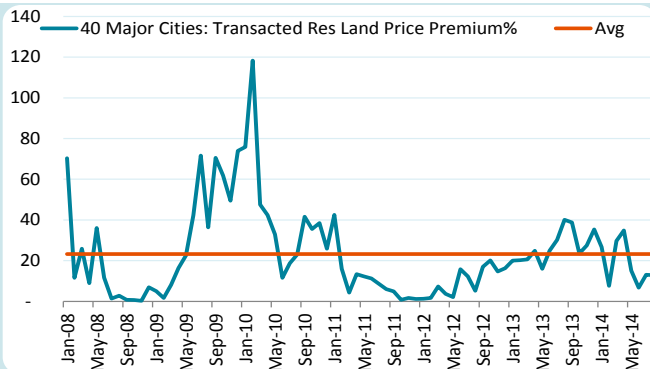
Source: Local Land Bureaus, Wind, Fubon Research (HK)

### Transacted Land Price Premium in 40 Major Cities



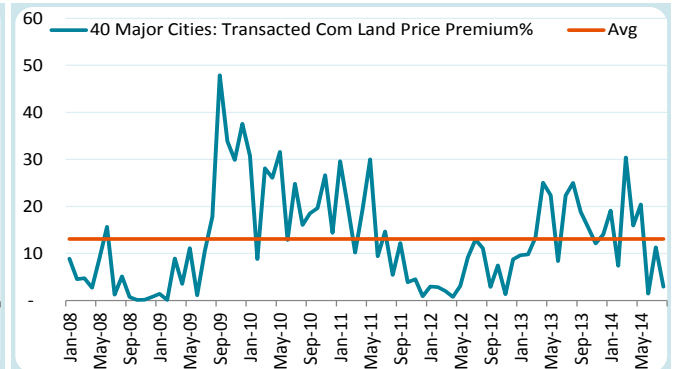
Source: Local Land Bureaus, Wind, Fubon Research (HK)

### Transacted Residential Land Price Premium in 40 Major Cities



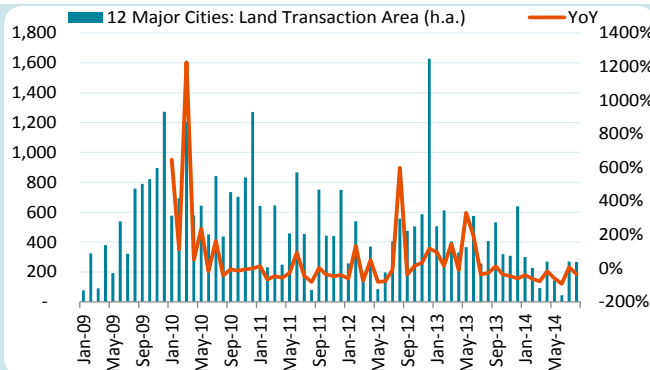
Source: Local Land Bureaus, Wind, Fubon Research (HK)

### Transacted Commercial Land Price Premium in 40 Major Cities



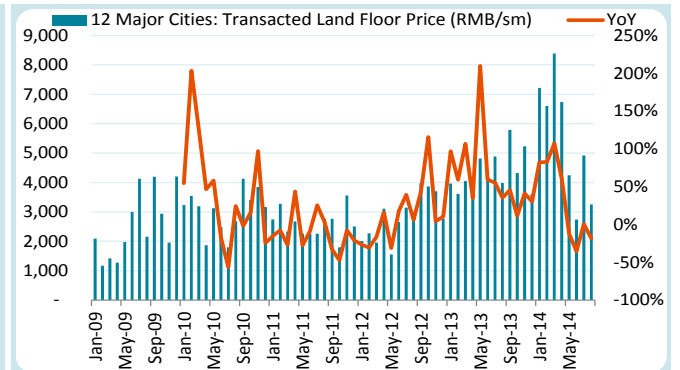
Source: Local Land Bureaus, Wind, Fubon Research (HK)

### Land Transaction in 12 Major Cities by Centaline



Source: Centaline, Wind, Fubon Research (HK)

### Transacted Land Price Premium in 12 Major Cities by Centaline



Source: Centaline, Wind, Fubon Research (HK)





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Add	Expected absolute return to be 10 – 30% within the next 6 months
Neutral	Expected absolute return to be level within the next 6 months
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Sell	Expected absolute return to be over negative 30% within the next 6 months
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