



August 26, 2014
Company Report
Rating: BUY
TP: HK\$ 2.20

Share price (HK\$) 1.40
Est. share price return 57.1%
Est. dividend yield 8.6%
Est. total return 65.7%

Previous Rating & TP BUY; HK\$2.40
Previous Report Date March 19, 2014

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Key Data

52Wk H/L(HK\$) 1.68/1.10
Issued shares (mn) 2,782
Market cap (HK\$ mn) 3,897
3-mth avg daily turnover (HK\$ mn) 3.05
Major shareholder(s) (%):
Mr GUO Zi Wen 48.0

Source(s): Company, Bloomberg, ABCI Securities

FY13 Revenue breakdown (%)

Property development 97.7
Property investment 0.9
Others 1.4

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	(3.4)	(7.1)
3-mth	16.7	6.4
6-mth	(0.3)	(11.3)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Aoyuan (3883 HK)

Robust presales momentum with healthy margins

- Aoyuan's 1H14 core profit dropped 5.0% YoY to RMB 306mn
- Gross margin dropped 0.4ppt YoY to 30.5% in 1H14, but still higher than most peers
- Aoyuan's presales growth of 37% YoY in 1H14 is much higher than sector average growth of 13% YoY
- Maintain **BUY** with revised TP at HK\$ 2.20 (from HK\$ 2.40) based on 60% discount to end- FY14E NAV

Gross margin higher than 30%. Revenue grew 24% YoY to RMB 2.7bn on significantly higher ASP (+25.5% YoY to RMB 8,595/sqm). Gross margin edged down by 0.4ppt to 30.5%, which is still slightly higher than most developers achieving 25%-28% in 1H14. As of June 14, the average land cost of Aoyuan's landbank (11.96m sqm) was low at RMB 1,105/sqm, representing 11.5% of 1H14 presales ASP, thus ensuring the Group a higher-than-peer gross margin going forward. Core net profit declined 5.0% YoY to RMB 306mn, as core net margin shrank to 11.1% (from 14.4%) due to substantial increase in SG&A expenses. LAT also increased 101% YoY to RMB 105mn as commercial properties, which have higher margins and hence LAT, contributed 53% to total revenue as compared to 44% in 1H13.

Net gearing (excluding MI) increased from 66.7% in Dec 13 to 73.0% in June 14 after the 1.45mn sqm land acquisition at RMB 1.95bn in Guangzhou, Chongqing, Yinde and Yunfu. However, effective interest rate dropped from 11.4% in FY13 to 10.2% in 1H14 as high-cost trust loan (interest rate at 12%-13%), as a percentage of total debt, declined from 28% in Dec 2013 to 15% in June 14. Besides the USD 300mn 5-year bond issued in Jan 2014 has a 11.25% coupon, much lower than 13.875% in previous issuance.

Presales momentum remains strong in 2H14. Aoyuan achieved RMB 5.1bn in 1H14 presales, up 37% YoY. In July 2014, presales momentum remained strong, jumping 27%YoY to RMB 859mn. In 2H14, Aoyuan will increase its total saleable resources from RMB 10.9bn in 1H14 to RMB 19bn in 2H14 (RMB 13bn of new additions and RMB 6bn of existing resources). Nonetheless, we believe that achieving the RMB 15bn presales target (+50% YoY) will be a challenging task for the Group. We expect a certain level of price-cutting for inventories in lower tier cities in 2H14.

Maintain BUY with revised TP of HK\$2.20. We lower our FY14E core profit by 13.4% to RMB 1,012mn and end-FY14E NAV estimate to HK\$ 5.52/share (from HK\$ 6.02) to factor in the lower-than-expected GFA delivery and margins in 1H14. We revise down our TP to HK\$ 2.20 (from HK\$ 2.40) based on an unchanged NAV discount of 60%. Despite 1H14 results were weaker than expected, we are impressed by Aoyuan's growth and its decent gross margin of 30%. Valuation looks attractive with a 8.6% yield and 2.9x 2014E P/E. Maintain **BUY**.

Risk factors: 1) Guangdong-concentrated project portfolio; 2) Rising land cost may hurt margins.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	3,943	5,729	9,979	14,422	17,185
Chg (% YoY)	30.5	45.3	74.2	44.5	19.2
Underlying Net Income (RMB mn) ¹	243	657	1,012	1,599	2,103
Chg (% YoY)	2.3	170.3	54.1	58.0	31.5
Underlying EPS (RMB)	0.09	0.25	0.39	0.61	0.80
Chg (% YoY)	2.1	170.3	54.1	58.0	31.5
BVPS (RMB)	2.7	2.8	3.1	3.5	4.1
Chg (% YoY)	12.7	3.9	10.5	15.0	17.2
Underlying PE (x)	12.1	4.5	2.9	1.8	1.4
P/B (x)	0.4	0.4	0.4	0.3	0.3
ROE (%)	3.5	9.1	12.7	17.4	19.6
ROA (%)	1.2	2.2	2.7	3.7	4.5
DPS(RMB)	0.31	0.08	0.10	0.15	0.20
Yield (%)	27.9	7.1	8.6	13.7	17.9
Net gearing ² (%)	25.6	66.7	57.1	13.5	(21.9)

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

²Net gearing=Net debt/Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates

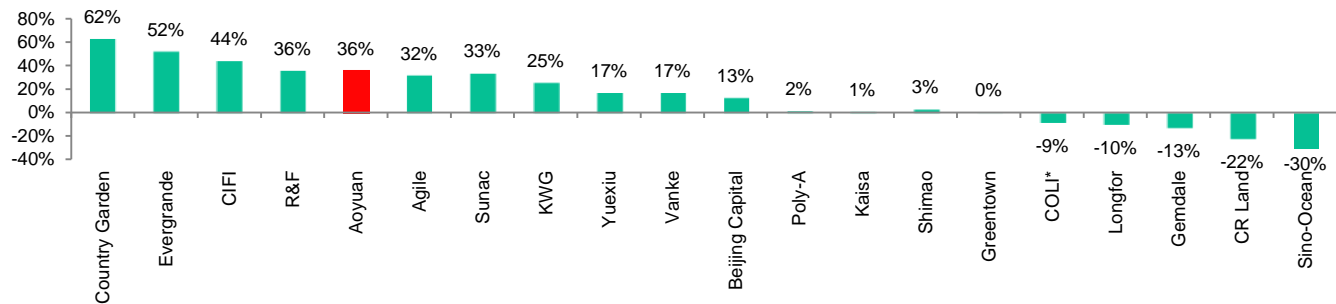


Exhibit 1: Aoyuan's 1H14 results

P&L	1H14	1H13	YoY Chg	Operating statistics	1H14	1H13	YoY Chg
	RMB mn	RMB mn	(%)				
Turnover	2,658	2,150	23.6	Booked GFA (mn sqm)	0.30	0.31	(1.6)
Cost of Sales & direct operating costs	(1,846)	(1,485)	24.3	Booked ASP (RMB/sqm)	8,595	6,849	25.5
Gross Profit	812	665	22.0	Booked Sales (RMB mn)	2,584	2,093	23.4
Gross Margin (%)	30.5	30.9	(0.4)	Presales GFA (mn sqm)	0.54	0.47	15.5
Selling and distribution costs	(100)	(43)	130.0	Presales ASP (RMB/sqm)	9,557	8,031	19.0
Administrative expense	(143)	(110)	29.5	Presales (RMB mn)	5,140	3,741	37.4
EBIT	569	512	11.3	Balance sheet	Jun-14	Dec-13	HoH %
EBIT Margin (%)	21	24	(2.4)		RMBm	RMBm	
Other income,	15	18	(12.1)	Gross debt	11,623	9,524	22.0
Fair value gain of IP	18	52	(64.9)	Cash	6,285	4,712	33.4
One-off gains and losses	0	14	(100.0)	Net debt	5,338	4,812	10.9
Share of profit from JCE/ Associates	1	0	NA	Net gearing (%)	73.0	66.7	6.4ppt
Finance cost	(35)	(12)	183.1				
Profit before tax	569	583	(2.4)				
Tax	(249)	(222)	12.5				
- LAT	(105)	(52)	101.1				
- Enterprise tax	(144)	(170)	(14.8)				
Profit after tax	320	361	(11.5)				
Minority Interest	(10)	(13)	NA				
Net profit	309	348	(11.1)				
Core profit	306	322	(5.0)				
Core profit (ex MI)	296	309	(4.3)				
Core net margin	11.1	14.4	(3.2)				

Source(s): Company, ABCI Securities

Exhibit 2: 7M14 presales YoY growth rate



Source(s): Company, ABCI Securities

Exhibit 3: 1H14 land acquisitions

Project	City	Acquired Date	Stake	GFA	Consideration	Land cost per sqm
			%	'000 sqm	RMB mn	RMB/sqm
1 Yinde Aoyuan Wonderland	Qingyuan	Jan-14	100%	756	219	289
2 Yunfu Aoyuan	Yunfu	Jan-14	100%	255	28	110
3 Chongqing Beyond Era (Phase 1)	Chongqing	Apr-14	100%	170	620	3,656
4 Chongqing Beyond Era (Phase 2)	Chongqing	May-14	100%	239	775	3,249
5 Guangzhou Luogang Aoyuan Plaza (Phase 2)	Guangzhou	May-14	51%	34	315	9,364
Total				1,454	1,957	1,346

Source(s): Company, ABCI Securities



Exhibit 4: Cash flow guidance

RMB mn	1H14	2H14E
Presales	4,340	7,000
Land	(750)	(2,500)
Construction	(2,660)	(3,000)
Tax	(570)	(800)
SG&A	(310)	(500)
Interest expenses	(460)	(750)
Others	(970)	-
Total cash outflow	(5,720)	(7,550)
Net cash flow	(1,380)	(550)

Source(s): Company, ABCI Securities estimates

Exhibit 5: Aoyuan's FY14E NAV

	Attr. GFA (M sqm)	Net assets value (RMB m)	% of total	Valuation Methodology	Implied value per sqm (RMB)
Property development					
Guangzhou	1.6	4,856	30%	DCF at WACC of 13.7%	2,977
Zengcheng	0.2	206	1%		1,064
Qingyuan	1.4	1,384	9%		960
Jiangmen	0.2	132	1%		653
Zhongshan	0.7	163	1%		248
Foshan	0.4	219	1%		601
Ganzhou	0.5	481	3%		935
Chongqing	0.6	438	3%		760
Shenyang	2.2	1,394	9%		648
Others	4.7	6,402	40%		1,364
Subtotal	9.7	15,677	97%		1,616
Investment Properties		438	3%	6.0% cap rate on 2014E net rental income	
Total 2014E GAV		16,115	100%		
2014E Net debt		(4,557)	(28%)		
Total 2014E NAV		11,558	72%		
No. of share outstanding (diluted)		2,616			
NAV per share (RMB)		4.42			
Ex rate		1.25			
NAV per share (HKD)		5.52			
Target discount (%)		60%			
Target Price (HKD)		2.20			
WACC					
WACC		13.7%			
Cost of debt		11.7%			
Cost of equity		20.0%			
Debt/ (Debt + Equity)		56%			

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Revenue	3,943	5,729	9,979	14,422	17,185
Cost of sales	(2,757)	(3,971)	(6,912)	(10,107)	(11,850)
Gross Profit	1,187	1,759	3,067	4,315	5,334
SG&A expenses	(607)	(670)	(931)	(1,105)	(1,211)
EBIT	580	1,088	2,136	3,210	4,124
Finance cost	(66)	(44)	(165)	(165)	(162)
Share of profit of associates	(7)	(0)	-	-	-
Other income/ (expenses)	102	115	52	69	95
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	916	106	-	-	-
Profit before tax	1,525	1,265	2,022	3,113	4,057
Tax	(593)	(513)	(902)	(1,333)	(1,727)
Profit after tax	933	752	1,120	1,781	2,330
Minority interest	(2)	(16)	(108)	(181)	(227)
Reported net profit	930	736	1,012	1,599	2,103
Less: exceptional items	(687)	(79)	-	-	-
Underlying net profit	243	657	1,012	1,599	2,103
Per share					
Underlying EPS (RMB)	0.09	0.25	0.39	0.61	0.80
DPS (RMB)	0.31	0.08	0.10	0.15	0.20
Payout ratio (%)	336%	32%	25%	25%	25%
BVPS (RMB)	2.66	2.76	3.05	3.51	4.11
Growth %					
Revenue	30.5%	45.3%	74.2%	44.5%	19.2%
Gross Profit	45.1%	48.2%	74.4%	40.7%	23.6%
EBIT	43.3%	87.7%	96.2%	50.3%	28.5%
Underlying net profit	2.3%	170.3%	54.1%	58.0%	31.5%
Margin %					
Gross margin	30.1%	30.7%	30.7%	29.9%	31.0%
Gross margin (post-LAT)	24.9%	28.0%	25.8%	25.1%	25.8%
EBIT margin	14.7%	19.0%	21.4%	22.3%	24.0%
Core net margin	6.4%	11.7%	11.2%	12.3%	13.6%
Key assumptions					
Presales (RMBm)	5,250	10,038	15,269	18,138	18,343
GFA sold (m sqm)	0.84	1.07	1.91	2.18	2.27
ASP (RMB/sqm)	6,281	9,364	7,976	8,320	8,093
Booked Sales (RMB)	3,865	5,600	9,838	14,271	17,023
GFA delivered (m sqm)	0.49	0.82	1.27	1.78	2.08
Booked ASP (RMB/sqm)	7,938	6,866	7,766	8,024	8,190

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Current assets	16,684	26,781	33,769	38,714	42,202
Cash	2,381	2,812	4,068	8,384	12,978
Restricted cash	762	1,899	1,899	1,899	1,899
Trade & other receivables	735	1,064	1,064	1,064	1,064
Property under development	11,548	19,437	25,170	25,798	24,692
Other current assets	1,257	1,569	1,569	1,569	1,569
Non-current assets	4,129	3,150	3,687	4,223	4,759
Property, plant & equipment	376	415	451	488	524
Investment properties	1,949	2,419	2,919	3,419	3,919
Investment in Associate and JCE	0	5	5	5	5
Other non-current assets	1,804	311	311	311	311
Total Assets	20,813	29,932	37,456	42,936	46,960
Current Liabilities	10,105	14,963	21,670	25,820	28,089
Short term borrowings	1,675	2,411	3,411	4,411	5,411
Trade & other payables	2,299	2,953	2,953	2,953	2,953
Pre-sales deposits	4,244	6,463	12,170	15,320	16,589
Other current assets	1,887	3,136	3,136	3,136	3,136
Non-current liabilities	3,605	7,444	7,444	7,444	7,444
Long term borrowings	3,248	7,113	7,113	7,113	7,113
Other payables	0	0	0	0	0
Other non-current assets	356	332	332	332	332
Total Liabilities	13,709	22,408	29,115	33,265	35,534
Net Assets	7,104	7,524	8,341	9,672	11,427
Shareholders Equity	6,951	7,219	7,978	9,178	10,755
Minority Interest	152	305	363	494	672
Total Equity	7,104	7,524	8,341	9,672	11,427
Key ratio					
Gross debt (RMBm)	4,923	9,524	10,524	11,524	12,524
Net debt (RMBm)	1,779	4,812	4,557	1,241	(2,353)
Net gearing (%)	26%	67%	57%	14%	(22%)
Presales/ Total assets (x)	0.25	0.34	0.41	0.42	0.39

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2012A-2016E)

FY ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2015E
EBITDA	610	1122	2170	3244	4158
Change in Working Capital	(2862)	(4740)	911	3459	3295
Tax payment	(770)	(461)	(902)	(1333)	(1727)
Operating Cashflow	(3021)	(4078)	2179	5370	5726
Purchase of PP&E	(25)	(70)	(70)	(70)	(70)
Addition of Investment Properties	(394)	(500)	(500)	(500)	(500)
Proceeds from disposal/ (acquisition)	4902	115	52	69	95
Investing Cashflow	4483	(455)	(518)	(501)	(475)
Debt raised	4695	7137	5000	5000	5000
Debt repaid	(4544)	(1064)	(4000)	(4000)	(4000)
Interest expenses	0	(848)	(1103)	(1102)	(1082)
Equity raised	0	0	0	0	0
Dividend to shareholders	(135)	(209)	(253)	(400)	(526)
Others	26	(50)	(50)	(50)	(50)
Financing Cashflow	42	4965	(406)	(552)	(658)
Net cash inflow/ (outflow)	1,504	431	1,255	4,316	4,594
Cash- beginning	877	2,381	2,812	4,068	8,384
Cash- year-end	2,381	2,812	4,068	8,384	12,978

Source(s): Company, ABCI Securities estimates



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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.

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