

# China Aoyuan Property

## Tone on sales growth appears to be more cautious

Fixed Income

Asia

Outlook

Stable

### Outperform rating on CAPG'17 and '19, prefer '19

We recommend Outperform rating on CAPG'17 and '19 (See Fig. 2). Offered at 111.0 and 103.4, CAPG'17 and '19 are trading at YTM of 9.6% and 10.6% respectively. Since mid-May, the bonds have underperformed CIFIHGs, YUZHOU's and TPHL'19, albeit they have performed largely in line with LOGPH'19. Between '17 and '19, we prefer '19 given the yield pick-up of c100bps, 7-8 pts lower in cash price and better trading liquidity for about 14 months in maturity.

### Margin pressure expected

Aoyuan posted stronger 1H14 yoy, supported by a higher ASP (See Fig 3 for financial summary). In 1H14, 53% of its revenue was from sales of retail and commercial apartments of which the ASP is higher, compared with 34% in 1H13. That said, its gross margin was 30.5% in 1H14, slightly lower than 30.6% in 2H13 and 30.9% in 1H13, reflecting the higher land and construction costs. The company expects pressure on profit margin with gross margin at 28%-30% for FY14.

### Sales target maintained but tone appears to be more cautious

Aoyuan's contract sales increased 36% yoy to RMB6.0bn in 7M14, driven by 10.3% and 23.3% increases in ASP and GFA pre-sold respectively. It completed c40% of its full year sales target of RMB15bn. Given the saleable resources of cRMB19bn in 2H14, it can achieve its sales target with a sell-through rate similar to that of 1H14. It maintains sales target unchanged, but based on our various discussions with the company, we feel that the company's tone on sales growth has turned more cautious. We take some comfort that its capex on construction and land acquisitions was cut compared with the previous guidance. We take additional comfort that the overall cash collection rate in 1H14 was at a healthy level of 84%.

### Net gearing ratio not exceeding 80%

Its net gearing ratio increased to 70.4% in Jun'14, increased from 64% in Dec'13 (44.8% in Jun'13). Aoyuan was more cautious in land acquisitions. In 1H14, its land premium payment was equivalent to c17% of cash collection from pre-sales, compared with c52% in FY13. Going forward, it targets to maintain net gearing ratio around c80%. On the other hand, it paid down about one-third of its trust loans during 1H14; hence, trust loans accounted for 15% of its total debts at Jun'14, compared with 28% at Dec'13. Aoyuan had cash on hand of RMB6.3bn (RMB3.7bn unrestricted) in Jun'14. This should adequately cover its short debts of cRMB3bn, and a small negative FCF in 2H14.

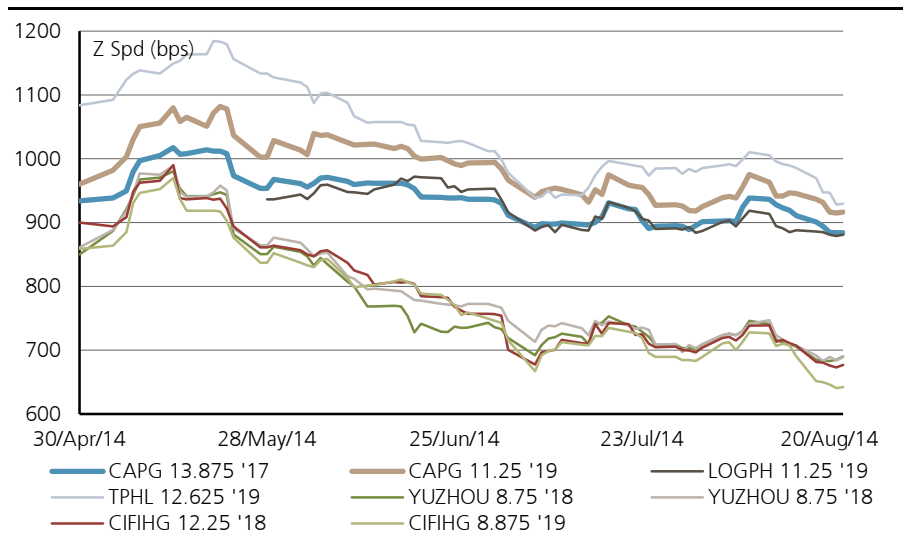
**Glenn Ko, CFA**  
Analyst  
glenn.ko@ubs.com  
+852-2971 7337

**Figure 1: Bond recommendation table**

Bond	Moody's	S&P	Fitch	Amt O/s (USD mn)	Price	Yield	Z-spd	T-spd	Recom
CAPG 13.875 '17	B3	NR	B+	225	110.5	9.9	883	939	OP
CAPG 11.25 '19	B3	B-	B+	300	101.9	10.7	915	904	OP

Source: Moody's, S&P, Fitch, Bloomberg, UBS; Levels as of 25-Aug-14, OP: Outperform

**Figure 2: Relative performance of CAPG bonds in Z Spd terms**



Source: UBS, Bloomberg

**Figure 3: Financial summary**

<b>FY ending 31 Dec (RMB 'mn)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>1H13</b>	<b>2H13</b>	<b>1H14</b>
<b>Consolidated Income Statement</b>						
Revenue	3,022	3,943	5,729	2,150	3,579	2,658
Sales of properties	3,004	3,865	5,600	2,093	3,507	2,584
Rental income	6	31	49	27	21	27
Hotel revenue, management and consulting income	12	47	81	30	51	47
Cost of sales	(2,205)	(2,757)	(3,971)	(1,485)	(2,485)	(1,846)
Gross profit	817	1,187	1,759	665	1,093	812
Selling and distribution expenses	(160)	(237)	(319)	(43)	(276)	(100)
Administrative expenses	(253)	(370)	(351)	(110)	(241)	(143)
Fair value gain on investments properties	152	183	85	52	33	18
Gain on disposal of a JV/subsidiary	0	858	21	0	21	0
Finance costs	(26)	(66)	(44)	(12)	(32)	(35)
Other income	271	(23)	115	32	83	15
Share of result of a jointly controlled entity	(22)	(7)	(0)	0	(0)	1
Income tax expenses	(336)	(593)	(513)	(222)	(291)	(249)
Non-controlling interests	(10)	(2)	(16)	(13)	(3)	(10)
<b>Net Profit</b>	<b>433</b>	<b>930</b>	<b>736</b>	<b>348</b>	<b>388</b>	<b>309</b>
<b>Consolidated balance sheet</b>						
Properties for sale	8,336	11,548	19,437	15,635	19,437	21,036
Trade and other receivables	611	735	1,064	939	1,064	2,114
Restricted bank deposits	2,946	762	1,899	942	1,899	2,541
Bank balances and cash	877	2,381	2,812	2,471	2,812	3,744
Property, plant and equipment	492	376	415	368	415	419
Prepaid lease payments	3	3	168	155	168	15
Investment properties	1,383	1,949	2,419	2,039	2,419	2,450
Deposits paid for acquisition of land use rights	0	2,822	1,064	683	1,064	50
Others assets	2,266	236	653	233	653	724
<b>Total Assets</b>	<b>16,914</b>	<b>20,813</b>	<b>29,932</b>	<b>23,465</b>	<b>29,932</b>	<b>33,092</b>
Trade and other payables	1,409	2,299	2,953	2,084	2,953	2,320
Sales deposits	3,289	4,244	6,463	4,897	6,463	7,892
Other liabilities	1,357	2,244	3,468	3,012	3,468	3,677
Borrowings-current	2,616	1,675	2,411	1,201	2,411	2,994
Borrowings-term	2,017	3,248	7,113	5,325	7,113	8,628
<b>Total equity</b>	<b>6,229</b>	<b>7,104</b>	<b>7,524</b>	<b>6,946</b>	<b>7,524</b>	<b>7,580</b>
<b>Credit statistics</b>						
Cash	3,823	3,143	4,712	3,413	4,712	6,285
Gross Debt	4,633	4,923	9,524	6,526	9,524	11,623
Net Debt	809	1,779	4,812	3,113	4,812	5,338
EBITDA	442	613	1,122	2,983	3,389	569
Gross margin (%)	27%	30%	31%	31%	31%	31%
Operating margin (%)	13%	15%	19%	24%	16%	21%
EBITDA margin (%)	15%	16%	20%	139%	95%	21%
EBITDA/gross interest expense (x)	1.2	1.3	1.3	8.7	6.7	1.0
Gross debt/EBITDA (x)	10.5	8.0	8.5	1.1	1.4	10.2
Net debt/EBITDA (x)	1.8	2.9	4.3	0.5	0.7	4.7
Debt/total capitalisation (%)	43%	41%	56%	48%	56%	61%
<b>Net debt/net total capitalisation (%)</b>	<b>11%</b>	<b>20%</b>	<b>39%</b>	<b>31%</b>	<b>39%</b>	<b>41%</b>

Source: Company, UBS

## Required Disclosures

This report has been prepared by UBS Securities Asia Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit [www.ubs.com/disclosures](http://www.ubs.com/disclosures). The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

**Analyst Certification:** Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

### UBS Global Credit Strategy and Research: Rating Definitions

**UBS ranks potential investment opportunities within non-government fixed income markets and sectors. Issuers are rated on one or both criteria shown below, and specific securities may be recommended as well.**

	UBS Terminology	Time Horizon	Definition
<b>Issuer Ratings</b>			
Credit Rating	AAA, AA, A, BBB, BB, B, CCC, CC, C (+/-)	Up to 12 months	UBS' assessment of a company's creditworthiness
Outlook	Positive; Stable; Negative	Up to 6 months	UBS' expected trend in a company's creditworthiness
<b>Security Recommendations</b>			
Bond Recommendation	Outperform; Marketperform; Underperform	Up to 3 months	A corporate bond's expected relative performance versus a defined reference
CDS Recommendation	Buy Protection; Sell Protection	Up to 3 months	Recommendation to hedge a company's creditworthiness

Note: Recommendations for periods under 3 months are defined as 'Tactical', as in Tactical Outperform or Tactical Underperform. The UBS credit rating may be modified by the addition of a plus (+) or minus (-) sign where applicable to show relative standing within the major categories.

Source: UBS

### Company Disclosures

Issuer Name	Credit Rating	Outlook
China Aoyuan Property <sup>2, 4</sup>	-	Stable

Source: UBS. Ratings in this table are the most current published ratings prior to this report.

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.

## Global Disclaimer

This document has been prepared by UBS Securities Asia Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject UBS to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ('the Information'), except with respect to Information concerning UBS. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. UBS does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS. Any statements contained in this report attributed to a third party represent UBS's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates or other market conditions. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in the document. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full (or any) amount invested. Past performance is not necessarily a guide to future performance. Neither UBS nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial instruments. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by UBS or any other source may yield substantially different results.

This document and the Information are produced by UBS as part of its research function and are provided to you solely for general background information. UBS has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. In no circumstances may this document or any of the Information be used for any of the following purposes:

- (i) valuation or accounting purposes;
- (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or
- (iii) to measure the performance of any financial instrument.

By receiving this document and the Information you will be deemed to represent and warrant to UBS that you will not use this document or any of the Information for any of the above purposes or otherwise rely upon this document or any of the Information.

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this document 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 UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this document. For financial instruments admitted to trading on a non-EU regulated market: UBS may act as a market maker save that where this activity is carried out in the US in accordance with the definition given to it by the relevant laws and regulations, such activity will be specifically disclosed in this document. UBS may have issued a warrant the value of which is based on one or more of the financial instruments referred to in the document. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein; such transactions or positions may be inconsistent with the opinions expressed in this document.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this material is distributed by UBS Limited to persons who are eligible counterparties or professional clients. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France S.A. UBS Securities France S.A. is regulated by the ACP (Autorité de Contrôle Prudentiel) and the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this document, the document is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Distributed by UBS Limited. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in the Republic of Turkey. Therefore, this document may not be considered as an offer made or to be made to residents of the Republic of Turkey. UBS AG is not licensed by the Turkish Capital Market Board under the provisions of the Capital Market Law (Law No. 6362). Accordingly, neither this document nor any other offering material related to the instruments/services may be utilized in connection with providing any capital market services to persons within the Republic of Turkey without the prior approval of the Capital Market Board. However, according to article 15 (d) (ii) of the Decree No. 32, there is no restriction on the purchase or sale of the securities abroad by residents of the Republic of Turkey. **Poland:** Distributed by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce. **Russia:** Prepared and distributed by UBS Securities CJSC. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. UBS AG is regulated by the Swiss Financial Market Supervisory Authority (FINMA). **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this document, the document is also deemed to have been prepared by UBS Italia Sim S.p.A. **South Africa:** Distributed by UBS South Africa (Pty) Limited, an authorised user of the JSE and an authorised Financial Services Provider. **Israel:** This material is distributed by UBS Limited. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. UBS Securities Israel Ltd is a licensed Investment Marketer that is supervised by the Israel Securities Authority (ISA). UBS Limited and its affiliates incorporated outside Israel are not licensed under the Israeli Advisory Law. UBS Limited is not covered by insurance as required from a licensee under the Israeli Advisory Law. UBS may engage among others in issuance of Financial Assets or in distribution of Financial Assets of other issuers for fees or other benefits. UBS Limited and its affiliates may prefer various Financial Assets to which they have or may have Affiliation (as such term is defined under the Israeli Advisory Law). Nothing in this Material should be considered as investment advice under the Israeli Advisory Law. This Material is being issued only to and/or is directed only at persons who are Eligible Clients within the meaning of the Israeli Advisory Law, and this material must not be relied on or acted upon by any other persons. **Saudi Arabia:** This document has been issued by UBS AG (and/or any of its subsidiaries, branches or affiliates), a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich. This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority to conduct securities business under license number 08113-37. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate') to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a document prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this document must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a registered investment dealer in Canada and a Member-Canadian Investor Protection Fund, or by another affiliate of UBS AG that is registered to conduct business in Canada or is otherwise exempt from registration. **Brazil:** Except as otherwise specified herein, this material is prepared by UBS Brasil CCTVM S.A. to persons who are eligible investors residing in Brazil, which are considered to be: (i) financial institutions, (ii) insurance firms and investment capital companies, (iii) supplementary pension entities, (iv) entities that hold financial investments higher than R\$300,000.00 and that confirm the status of qualified investors in written, (v) investment funds, (vi) securities portfolio managers and securities consultants duly authorized by Comissão de Valores Mobiliários (CVM), regarding their own investments, and (vii) social security systems created by the Federal Government, States, and Municipalities. **Hong Kong:** Distributed by UBS Securities Asia Limited and/or UBS AG, Hong Kong Branch. **Singapore:** Distributed by UBS Securities Pte. Ltd. [mica (p) 107/09/2013 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte. Ltd., an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110); or UBS AG, Singapore Branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or document. The recipients of this document represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Co., Ltd. to professional investors (except as otherwise permitted). Where this document has been prepared by UBS Securities Japan Co., Ltd., UBS Securities Japan Co., Ltd. is the author, publisher and distributor of the document. Distributed by UBS AG, Tokyo Branch to Professional Investors (except as otherwise permitted) in relation to foreign exchange and other banking businesses when relevant. **Australia:** Clients of UBS AG: Distributed by UBS AG (Holder of Australian Financial Services License No. 231087). Clients of UBS Securities Australia Ltd: Distributed by UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098). Clients of UBS Wealth Management Australia Ltd: Distributed by UBS Wealth Management Australia Ltd (Holder of Australian Financial Services License No. 231127). This Document contains general information and/or general advice only and does not constitute personal financial product advice. As such, the Information in this document has been prepared without taking into account any investor's objectives, financial situation or needs, and investors should, before acting on the Information, consider the appropriateness of the Information, having regard to their objectives, financial situation and needs. If the Information contained in this document relates to the acquisition, or potential acquisition of a particular financial product by a 'Retail' client as defined by section 761G of the Corporations Act 2001 where a Product Disclosure Statement would be required, the retail client should obtain and consider the Product Disclosure Statement relating to the product before making any decision about whether to acquire the product. The UBS Securities Australia Limited Financial Services Guide is available at: [www.ubs.com/ecs-research-fsg](http://www.ubs.com/ecs-research-fsg). **New Zealand:** Distributed by UBS New Zealand Ltd. The information and recommendations in this publication are provided for general information purposes only. To the extent that any such information or recommendations constitute financial advice, they do not take into account any person's particular financial situation or goals. We recommend that recipients seek advice specific to their circumstances from their financial advisor. **Dubai:** The research distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This document may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (253825-x). **India:** Prepared by UBS Securities India Private Ltd. (Corporate Identity Number U67120MH1996PTC097299) 2/F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000 SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437.

The disclosures contained in research documents produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this document in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2014. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

