Deutsche Bank
Markets Research

Asia
China

HY Corporate Credit
Real Estate

Company
China Aoyuan Property Group Ltd

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Good 1H16 results

Aoyuan's 1H16 results were good, with satisfactory EBITDA growth and stable leverage

Aoyuan's 1H16 results were good with 1H16 revenue up 65% YoY to RMB6.48bn and EBITDA up 36% YoY. Its GPM for 1H16 was 25.0%, lower than 2015's 27.6% and in-line with prior management guidance of about 25% for full year 2016. We attribute the lower YoY GPM in 1H partly to a lower portion of commercial and retail properties recognized (a segment that usually bears higher margins) and a lower portion of revenue booked from Guangzhou. We believe a GPM level of around 25% is sustainable going forward. In 1H16, its recognized ASP was RMB7,670/sq m, lower than 1H contract sales ASP of RMB8,184/sq m.

Our calculated total debt/EBITDA ratio for Aoyuan was roughly stable HoH at 9x. Aoyuan's net debt/total equity was 56% at end-June (65% if we adjust to include RMB1.29bn of loan from a non-controlling shareholder of a subsidiary as debt), vs. end-2015's 63%. Cash-to-short-term debt coverage was good at 2.5x at end-June. Off-shore debt represented 37% of total debt at end-June, and its FX debt exposure looks manageable to us. In 1H16, the company's average cost of borrowing dropped to about 8.4%, and management expects this to further decline in 2H. In 2017, there will be a USD300mn HY bond with a coupon of 11.25% that will be callable.

Landbanking and cashflow updates

Aoyuan acquired some good landbank in 1H, including a site in Pingshan, Shenzhen at decent land costs. After the acquisition of four commercial and residential projects in Ganzhou, Shenzhen, Chengdu, and Yulin in 1H (adding total GFA of 1.4mn sq m), Aoyuan's total landbank at end-June was 13.8mn sq m, which we see as sufficient for the next 4-5 years' development. In terms of cashflow, its cash collection ratio was good at 90%. Please refer to figure 1 for the company guided FY2016 cashflow. We expect the developer's end-2016 net debt/total equity to be around 70% or below.

Aoyuan's 6M16 contract sales aggregated to RMB10.5bn, up 74% YoY and locking in ~62% of its full year contract sales target. Management indicated at the results briefing that it still wants to de-stock in 2H16. Its Australia execution has been satisfactory, with One30 Hyde Park achieving contract sales of RMB1.5bn since first launch in August 2015; and its Maison 188 Maroubra project was just launched and management expects this project can fetch a GPM of around 25-27%.

Bond recommendation and risks

We maintain our Buy recommendation on CAPG 2018s (ask price: 110.625, YTM: 4.5%). Downside risks include unexpected change in policy and aggressive landbanking.

Key Charts/Tables

Figure 1: Aoyuan's guided full year 2016 cashflow

in RMB bn	2016
Cash inflow	15.8
Land acquisitions	-6.0
Construction costs	-7.0
Interest expenses	-1.5
SG&A	-1
Taxes	-1.4
Dividends	-0.27
Others	-0.5
Net operating cashflow	-1.9

Source: Company data, Deutsche Bank

Figure 2: Aoyuan's end-June landbank breakdown by type (by GFA)

Residential apts	Commercial	Inv properties	Auxiliary facilities	Low density residential
63%	27%	6%	3%	1%

Source: Company data, Deutsche Bank

Figure 3: Aoyuan's financial summary

Company	Aoyuan (B2/B/B+; B3/B-/B+)				
Stock code	3883.HK				
Reporting period	FY14	FY15	1H14	1H15	1H16
Reporting currency	(RMBm)	(RMBm)	(RMBm)	(RMBm)	(RMBm)
Income statement					
Revenue	6,976	9,572	2,658	3,935	6,480
Gross profit	2,067	2,646	812	1,156	1,622
EBITDA	1,323	1,790	580	895	1,213
Gross interest	(1,276)	(1,393)	(583)	(604)	(853)
Net income	809	812	309	538	567
Cash Flows Statement					
FFO (Funds from operations)	(149)	n.a.	(130)	127	n.a.
Changes in working capital	(1,430)	n.a.	(942)	(1,916)	n.a.
Cash from operations	(1,645)	n.a.	(1,099)	(1,822)	n.a.
Balance Sheet					
Total cash	5,917	9,036	6,285	6,731	10,211
Restricted cash embedded in total cash	3,928	1,267	2,541	2,577	25
Inventory (completed properties held for sale)	4,468	-	4,691	n.a.	n.a.
Total assets	36,786	48,827	33,092	40,315	58,527
Short term debt	4,464	2,570	2,994	4,091	4,111
Net debt (incl. restricted cash)	5,580	7,262	5,338	7,067	8,077
Total equity	9,034	11,576	7,580	9,740	14,433
Total debt	11,497	16,298	11,623	13,798	18,289
KEY CREDIT METRICS					
Revenue growth	21.8%	37.2%	23.6%	48.0%	64.6%
EBITDA growth	17.8%	35.3%	9.7%	54.2%	35.6%
Gross margin	29.6%	27.6%	30.5%	29.4%	25.0%
EBITDA margin	19.0%	18.7%	21.8%	22.7%	18.7%
EBITDA interest coverage *	1.0x	1.3x	1.1x	1.3x	1.3x
Debt / EBITDA *	8.7x	9.1x	9.9x	8.4x	8.7x
Net debt / EBITDA *	4.2x	4.1x	4.5x	4.3x	3.8x
Total debt / Total capital	56.0%	58.5%	60.5%	58.6%	55.9%
Net debt / Equity (cash incl. restricted cash)	61.8%	62.7%	70.4%	72.6%	56.0%
Unrestricted cash / Short-term debt	44.6%	302.3%	125.0%	126.5%	247.8%
Total cash / (ST debt + 6-month COGS)	85.5%	149.8%	129.8%	98.0%	113.9%
Total cash / Short-term debt	132.6%	351.5%	209.9%	164.5%	248.4%

** Ratios are calculated based on trailing 12-month data. EBITDA figures are DB calculated numbers.*
Note: if we include loan from a non-controlling shareholder of a subsidiary of RMB1.29bn (in non-current liabilities) as of end-June, 2016 in our debt calculation, then the adjusted total debt figure would be RMB19.57bn and net debt/total equity would be 64.9% at end-June. The total debt/EBITDA ratio would be 9.3x, net debt/EBITDA would be 4.4x, and adjusted total debt/total capital would be 57.6% as of June-2016.
Source: Company data, Deutsche Bank

Appendix 1

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Additional information available upon request

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China Aoyuan Property Group Ltd	
CAPG 10.875% notes due 2018	1
CAPG 6.525% notes due 2019	1
CAPG 11.25% notes due 2019	1

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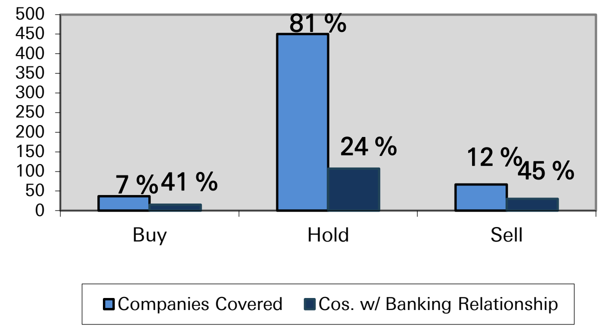

Asia-Pacific Universe

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