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Company
China Aoyuan Property Group Ltd

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Satisfactory FY2015 results and briefing takeaways

Good EBITDA growth as expected and lower foreign currency debt portion

Aoyuan announced satisfactory FY2015 results, with revenue was up 37% YoY to RMB9.57bn, in-line with Bloomberg consensus and EBITDA was up 35% YoY to RMB1.8bn. GPM dropped by 2ppt YoY to 27.6% in 2015, in-line with expectations. Its debt-to-EBITDA for 2015 rose to 9.1x from 2014's 8.7x, mainly due to an increase in total debt. Having said that, the company had redeemed the remaining half of its 2017 USD bond in February of this year. Its foreign currency debt as a percentage of total debt dropped from end-June's ~50% to less than 40% at end-2015, which was a positive. In 2015, there was an exchange loss of RMB278mn, vs. a gain of RMB2.8mn in 2014. Aoyuan's liquidity was good, with total cash (including restricted cash) covered 352% of short-term debt at end-2015. Its cash collection ratio was decent at 82%. Its net gearing as of end-2015 was 62.7%, down from end-June's 72.6%, which was a welcomed development. Management expects its end-2016 net debt/total equity ratio to be around 70%.

Landbank update and 2016 outlook

In 2015, the company acquired 13 land parcels with GFA of 2.49mn sq m. This brought its end-2015 total landbank to about 13.33mn sq m, with overall land cost of RMB1,556/sq m (translating to 19% of the developer's 2015 contract sales ASP of RMB8,037/sq m). We see Aoyuan's current landbank as sufficient for about 4.5-5 years' development, with no urgent need for replenishment. Recall that its 2015 contract sales ASP was not high, as commercial properties comprised only 31% of its overall contract sales (down from 50% in 2014). For 2016, it targets 10-15% YoY growth in contract sales to RMB16.7-17.4bn. Last year, Aoyuan beat its sales target, and we believe the recovery in Guangdong property market should help it to exceed its sales target this year. For its Australia projects, One30 Hyde Park Sydney still has about RMB0.7-0.8bn of sellable resources left for 2016 after a strong launch last year, and its second Australia project (188 Maroubra) is slated for launch in mid-year. Aoyuan guided for overall 2016 GPM to be around 25%, vs. 2015's 27.6%; we believe this is largely attributable to geographical and commercial / residential mix.

Bond valuations

We maintain our Buy on CAPG'18 and CAPG'19C17. CAPG'18 (mid price: 106.34; YTM: 7.7%; Z-spread: 674bp) trades about 104bp wider than LOGPH'17 in YTM for two notches of difference in Moody's issue rating and 0.5 year difference in tenor. CAPG'19C17 (mid price: 108.02; YTM: 8.0%; YTW: 7.8%; Z-spread: 707bp) trades about 104bp wider than LOGPH'19C17 and 129bp wider than TPHL'19C17 in YTW, the latter of which is one notch higher rated by Moody's. We think CAPG'19C17 is particularly attractive. Downside risks include: more aggressive acquisitions than expected and severe RMB depreciation.