



Company Report: China Aoyuan (03883 HK)

公司报告: 中国奥园(03883 HK)

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23 August 2016

Rapid Sales Contraction but Attractive Valuation, Maintain “Accumulate”

快速增长的合约销售以及吸引人的估值，维持“收集”

- **1H16 net profit was in line with our expectation.** Top line increased by 64.6% YoY to RMB6,480 mn in 1H16. Due to a decline in margins and exchange losses of RMB149 mn, the net profit increased 5.2% YoY to RMB567 mn.
- **Contracted sales are likely to extend fast growth.** From Jan. to Jul. 2016, the Company achieved RMB11.75 bn in contracted sales, up 66% YoY. Meanwhile, the issuing of domestic corporate bonds and the redemption of USD senior notes showed an improvement in the debt structure.
- **Quality land bank could drive stable gross margins and support future development.** 77% of the Company's land banks were in tier-1/ tier-2/ international cities and its unit land cost amounted to RMB1,705 per sq.m, or representing 20.8% of ASP in 1H16.
- The Company's fundamentals are gradually improving. In addition, the expected launch of SZ-HK Stock Connect will be a catalyst for valuation promotion. Therefore, we revise up our target price from HK\$1.80 to HK\$1.98, representing a 58% discount to 2016E NAV of HK\$4.70 per share, 4.5x 2016 underlying PER and 0.5x 2016 PBR. The Company's share price is also undervalued. **Therefore, we maintain “Accumulate”.** **Risk factors:** lower-than-expected contracted sales, possible operation failure of commercial projects and further depreciation of RMB.
- **2016 年上半年净利符合预期。**总收入同比增长 64.6% 到人民币 6,480 百万元。由于利润率的下降及人民币 149 百万元的汇兑损失，净利同比上升 5.2% 到人民币 567 百万元。
- **合约销售很有可能延续快速增长。**2016 年 1-7 月，公司录得人民币 117.5 亿元的合约销售，同比增长 66%。与此同时，境内公司债的发行以及美元优先票据的赎回表明债务结构的改善。
- **有质量的土储能够维持稳定的毛利率和支持未来的发展。**公司 77% 的土储位于一线/ 二线/ 国际城市且其单位地价为人民币 1,705 元每平方米，相当于 2016 年上半年销售均价的 20.8%。
- 公司基本面正在逐渐改善，另外，深港通的预计开通将会是估值提升的催化剂。因此，我们将我们的目标价从 1.80 港元调高到 1.98 港元，相当于较 4.70 港元每股净资产有 58% 的折让，也分别相当于 4.5 倍 2016 年核心市盈率和 0.5 倍 2016 年市净率。公司股价也被低估。因此，我们维持“收集”。**风险：**低于预期的合约销售，商业项目可能的运营失败和人民币的进一步贬值。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$1.98

Revised from 原目标价:

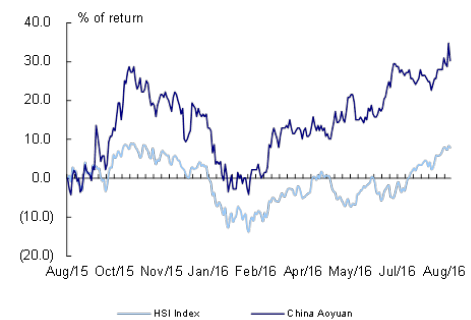
HK\$1.80

Share price 股价:

HK\$1.680

Stock performance

股价表现



| Change in Share Price 股价变动 | 1 M 1 个月 | 3 M 3 个月 | 1 Y 1 年 |
|-------------------------------------|-------------|-------------|------------|
| Abs. % 绝对变动 % | 0.0 | (1.2) | 8.7 |
| Rel. % to HS index 相对恒指变动 % | (4.7) | (17.0) | 6.0 |
| Avg. share price(HK\$) 平均股价 (港元) | 1.7 | 1.6 | 1.5 |

Source: Bloomberg, Guotai Junan International.

| Year End 年结 12/31 | Turnover 收入 (RMB m) | Net Profit 股东净利 (RMB m) | EPS 每股净利 (RMB) | EPS 每股净利变动 (Δ%) | PER 市盈率 (x) | BPS 每股净资产 (RMB) | PBR 市净率 (x) | DPS 每股股息 (RMB) | Yield 股息率 (%) | ROE 净资产收益率 (%) |
|-------------------------|---------------------------|-------------------------------|----------------------|-----------------------|-------------------|-----------------------|-------------------|----------------------|---------------------|----------------------|
| 2014A | 6,976 | 809 | 0.291 | 6.0 | 4.6 | 2.773 | 0.5 | 0.080 | 5.9 | 9.8 |
| 2015A | 9,572 | 812 | 0.292 | 0.3 | 4.8 | 2.961 | 0.5 | 0.105 | 7.5 | 7.9 |
| 2016F | 14,383 | 1,073 | 0.388 | 32.8 | 3.7 | 3.275 | 0.4 | 0.139 | 9.8 | 8.9 |
| 2017F | 18,218 | 1,444 | 0.522 | 34.6 | 2.7 | 3.677 | 0.4 | 0.188 | 13.1 | 10.9 |
| 2018F | 20,903 | 1,805 | 0.652 | 25.0 | 2.2 | 4.180 | 0.3 | 0.235 | 16.4 | 12.3 |

| | | | |
|---------------------------------------|---------------|---------------------------------------|------------------------|
| Shares in issue (m) 总股数 (m) | 2,769.3 | Major shareholder 大股东 | Ace Rise Profits 50.0% |
| Market cap. (HK\$ m) 市值(HK\$ m) | 4,652.4 | Free float (%) 自由流通比率(%) | 37.9 |
| 3 month average vol. 3 个月平均成交股数('000) | 2,310.5 | FY16 Net gearing (%) FY16 净负债/股东资金(%) | 70.5 |
| 52 Weeks high/low (HK\$) 52 周高/低 | 1.810 / 1.300 | FY16 Est. NAV (HK\$) FY16 每股估值 (港元) | 4.7 |

Source: the Company, Guotai Junan International.

1H16 net profit was in line with our expectation. Top line increased by 64.6% YoY to RMB6,480 mn in 1H16 due to strong contracted sales growth. Gross profit amounted to RMB1,622 mn, up 40.3% YoY. Due to the decline in margins and exchange losses of RMB149 mn, net profit slightly increased 5.2% YoY to RMB567 mn, which was in line our expectation. If excluding fair value gains on investment properties and exchange losses, the underlying net profit increased 27.2% YoY to RMB577 mn, also in line with our expectation. GPM dropped 4.3 pts YoY to 25.0%. Net profit margin declined 4.9 pts YoY to 8.7%. Net gearing ratio increased 5.3 pts YoY. Cash balance increased 51.7% YoY to RMB10,211 mn due to an enlarged debt scale and more cash collection from contracted sales.

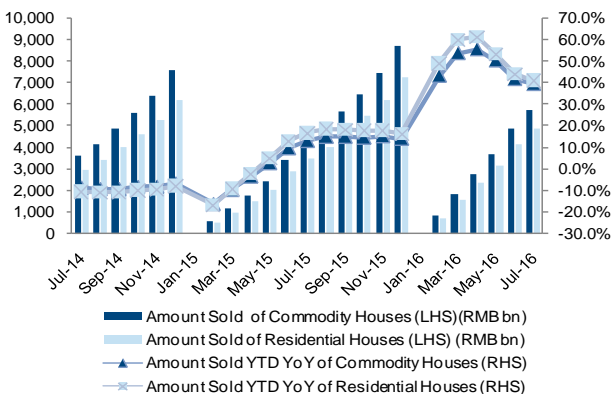
Table 1: Comparison of the Company's Balance Sheet and Income Statement in 1H15 and 1H16

| RMB mn | 1H15 | 1H16 | Change |
|--|--------|--------|-----------|
| Total Revenue | 3,935 | 6,480 | 64.6% |
| Gross Profit | 1,156 | 1,622 | 40.3% |
| GPM | 29.4% | 25.0% | - 4.3 pts |
| Net Profit (Inc. after-tax fair value gains on IP) | 538 | 567 | 5.2% |
| Net Profit (Ex. after-tax fair value gains on IP) | 453 | 577 | 27.2% |
| NPM (Inc. after-tax fair value gains on IP) | 13.7% | 8.7% | - 4.9 pts |
| NPM (Ex. after-tax fair value gains on IP) | 11.5% | 8.9% | -2.6 pts |
| DPS (RMB cent) | N.A. | N.A. | N.A. |
| Underlying EPS (HKD cent) | 16.3 | 20.8 | 27.9% |
| Cash and Cash Equivalents | 6,731 | 10,211 | 51.7% |
| Total Asset | 40,315 | 58,527 | 45.2% |
| Properties under development | 26,205 | 38,866 | 48.3% |
| Total Debt | 13,798 | 18,289 | 32.5% |
| Shareholders' equity | 8,006 | 8,636 | 7.9% |
| Net Gearing Ratio | 88.3% | 93.5% | 5.3 pts |

Source: the Company, Guotai Junan International.

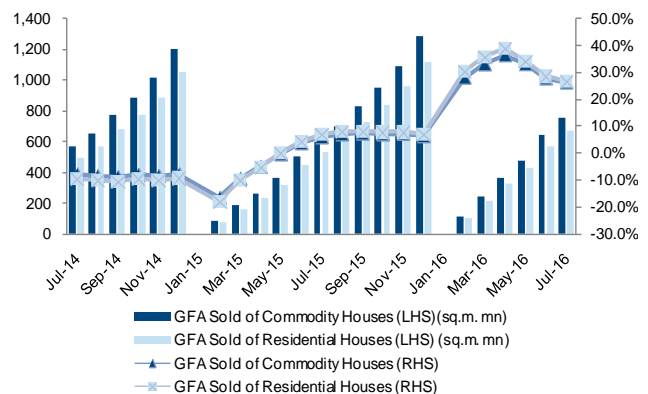
Growth rate of key property development and sales data decreased. During Jan.-Jul. 2016, Commodity house sales were up 39.8% YoY. Salable areas extended the decline trend, dropping 0.3 mn sq.m. compared to end of Jun. In addition, cumulative new construction areas still maintained double-digit growth. Property market recovery momentum extended. However, the YoY increase of commodity house sales, GFA sold, investment, land area sold and GFA newly started, decreased compared to that during Jan.-Jun. 2016.

Figure 1: Cumulative House Sales Amount in China



Source: NBS, Guotai Junan International.

Figure 2: Cumulative House Sales GFA in China

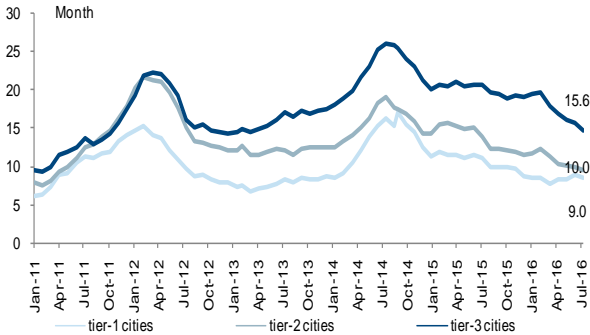


Source: NBS, Guotai Junan International.

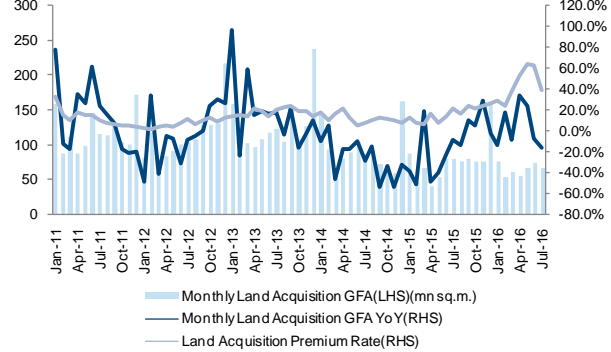
Property market recovery momentum is likely to extend with a more moderate sales growth. Recently, HPR has tightened further in Suzhou and Nanjing. According to CRIC, stock pressure had gradually alleviated for tier-1 and tier-2 cities as the stocks-to-sales ratio decreased to a healthy level. The land market also recovered, especially in tier-1 and tier-2 cities. We think that HPR may tighten further in some tier-2 cities where there are overheating housing markets. Nevertheless, China's economic recovery momentum is weak, with property stock pressure existing in lower tier cities. Therefore, the overall

policy and credit environment should continue to support house sales, which in turn, will stabilize the Chinese economy and continue to destock in lower tier cities. Overall, we believe that the recovery will extend with a more moderate sales growth.

Figure 3 : Stocks-to-Sales Ratios by City Tier During Jan. 2011- Jul. 2016 **Figure 4: Monthly Land Acquisition Amount in 100 Cities During Jan. 2011- Jul. 2016**



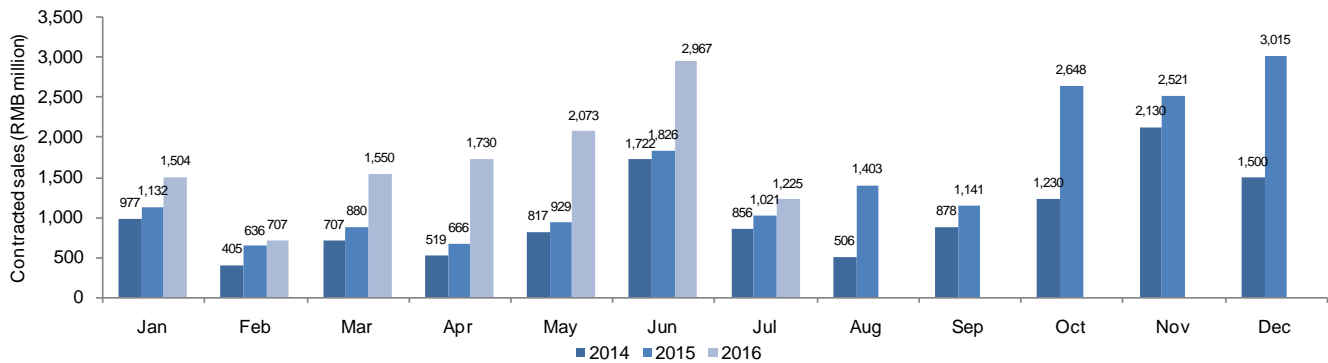
Source: CRIC, Guotai Junan International.



Source: Wind, Guotai Junan International.

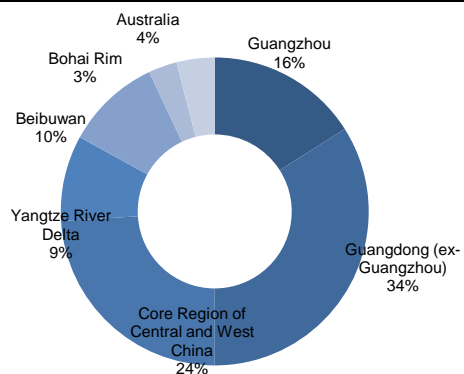
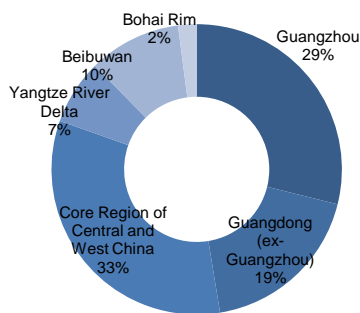
Contracted sales are likely to extend fast growth. During Jan.-Jul. 2016, China Aoyuan recorded RMB11.75 bn in contracted sales, up 66% YoY. Accumulated contracted GFA amounted to 1.441 mn sq.m, up 49% YoY. ASP was RMB8,157 per sq.m, up 11% YoY. The Company has achieved 69% of its 2016 sales target. In 2H16, total saleable resources amounted to RMB19.2 bn. Amongst which, expected new launches and saleable resources carried from 1H16 were 11.5 bn and 7.7 bn, respectively. With sufficient saleable resources and under property market recovery, we believe the Company's contracted sales to extend fast growth.

Figure 5: Aoyuan Contracted Sales Comparison During 2014-Jul. 2016



Source: the Company.

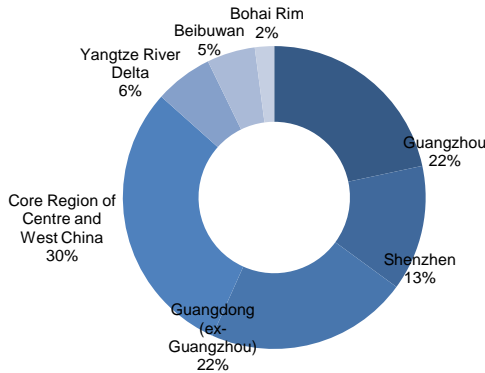
Figure 6: China Aoyuan's Contracted Sales Breakdown by Region in 1H15 **Figure 7: China Aoyuan's Contracted Sales Breakdown by Region in 1H16**



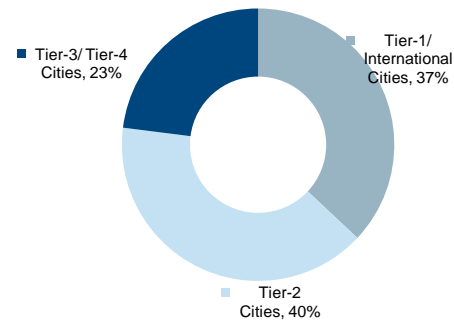
Source: the Company, Guotai Junan International.

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The Company's land reserves are mainly exposed to tier-1/ tier-2 cities, which is favorable under the market divergence. In 1H16, the Company acquired 4 land parcels. The total acquiring GFA recorded 1,391,800 sq.m. with total consideration of RMB5,341 mn. In addition, China Aoyuan has entered into the Shenzhen property market for the first time. As at 30 Jun. 2016, the Company had a total GFA of approximately 13.76 million sq.m, 77% of its land banks are located in tier-1/ tier-2/ international cities. We saw its land bank maintain a high quality. According to the Company, its unit land cost amounted to RMB1,705 per sq.m, 20.8% of ASP in 1H16. We think that this quality land bank and proper unit land cost could provide sufficient saleable resources for future development and protect the Company's gross margins.

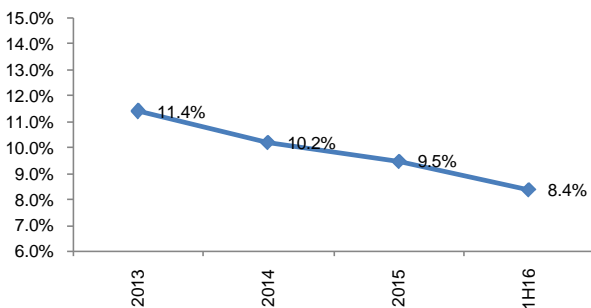
Figure 8: China Aoyuan's Land Exposure by Region in 1H16


Source: the Company, Guotai Junan International.

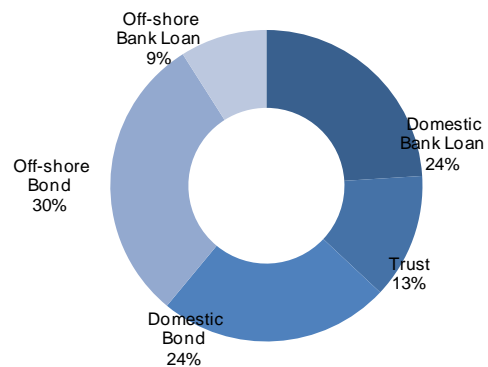
Figure 9: China Aoyuan's Land Exposure by City in 1H16


Source: the Company, Guotai Junan International.

We expect average financial costs to decline, the debt structure is improving. Average financial costs declined by 8.4% in 1H16. Under the loosening credit environment, average financial costs are likely to further decline due to the repayment of high-yield debts. In 1H16, the Company issued domestic corporate bonds amounting to RMB5.0 bn with a coupon rate of 7.9%. Meanwhile, the Company redeemed senior notes amounting to USD325 mn with coupon rates of over 9.25%. With the rapid growth of contracted sales and under monetary accommodation, we believe off-shore bonds and bank loans will decline further. Therefore, the risk exposure to RMB depreciation is likely to decline.

Figure 10: China Aoyuan's Average Financial Costs


Source: the Company, Guotai Junan International.

Figure 11: China Aoyuan's Debt Structure in 1H16


Source: the Company, Guotai Junan International.

We slightly revise up underlying profit estimations. We expect that China Aoyuan's contracted sales will maintain fast growth due to the recovery in the China property market and sufficient saleable resources. We revise up the 2016F, 2017F and 2018F total revenue by 12.4%, 11.8% and 6.4% to RMB14,383 mn, 18,218 mn and RMB20,903 mn, respectively. However, because of the unexpected GPM decline in 1H16, we revise down the GPM in 2016, 2017 and 2018. Overall, we slightly revise up the 2016F, 2017F and 2018F underlying net profit by 1.0%, 0.9% and 0.7% to RMB1,029 mn, RMB1,340 mn and RMB1,661 mn, respectively. In order to support the strong contracted sales growth, the Company needs to invest more cash to provide more saleable resources. As a result, we revise up the net gearing ratio by 21.5 ppts, 23.1 ppts and 13.3 ppts in 2016, 2017 and 2018, respectively.

Table 2: Revision of 2016-2018 Profit Estimation

| | New estimation | | | Old estimation | | | Change | | |
|------------------------------|----------------|--------|--------|----------------|--------|--------|------------|------------|------------|
| | 2016F | 2017F | 2018F | 2016F | 2017F | 2018F | 2016F | 2017F | 2018F |
| Total Revenue | 14,383 | 18,218 | 20,903 | 12,792 | 16,296 | 19,640 | 12.4% | 11.8% | 6.4% |
| Gross Profit | 3,605 | 4,640 | 5,455 | 3,461 | 4,425 | 5,384 | 4.2% | 4.8% | 1.3% |
| Operating profit | 2,542 | 3,437 | 4,175 | 2,423 | 3,205 | 3,956 | 4.9% | 7.2% | 5.5% |
| Net Profit | 1,213 | 1,633 | 2,041 | 1,137 | 1,536 | 1,924 | 6.7% | 6.3% | 6.1% |
| Underlying Profit | 1,029 | 1,340 | 1,661 | 1,019 | 1,328 | 1,649 | 1.0% | 0.9% | 0.7% |
| Gross Margin | 25.1% | 25.5% | 26.1% | 27.1% | 27.2% | 27.4% | - 2.0 ppts | - 1.7 ppts | - 1.3 ppts |
| Operating Profit Margin | 17.7% | 18.9% | 20.0% | 18.9% | 19.7% | 20.1% | - 1.3 ppts | - 0.8 ppts | - 0.2 ppts |
| Net Profit Margin | 8.4% | 9.0% | 9.8% | 8.9% | 9.4% | 9.8% | - 1.1 ppts | - 0.5 ppts | 0.0 ppts |
| Underlying Net Profit Margin | 7.2% | 7.4% | 7.9% | 8.0% | 8.1% | 8.4% | - 0.8 ppts | - 0.8 ppts | - 0.4 ppts |
| ROE | 8.9% | 10.9% | 12.3% | 8.5% | 10.5% | 11.9% | - 0.4 ppts | - 0.4 ppts | - 0.4 ppts |
| ROCE | 3.7% | 4.8% | 5.7% | 3.6% | 4.7% | 5.6% | 0.1 ppts | 0.1 ppts | 0.1 ppts |
| ROA | 2.0% | 2.4% | 2.8% | 2.0% | 2.4% | 2.7% | 0.0 ppts | 0.0 ppts | 0.1 ppts |
| Net Gearing Ratio | 70.5% | 65.1% | 49.2% | 49.0% | 42.1% | 35.9% | 21.5 ppts | 23.1 ppts | 13.3 ppts |

Source: Guotai Junan International.

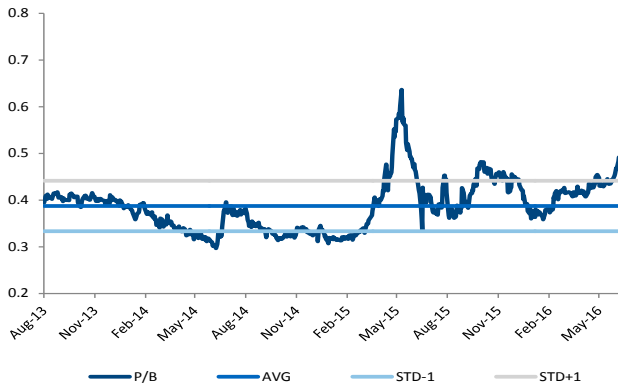
Maintain “Accumulate” investment rating for Aoyuan. The Company's contracted sales are expected to maintain fast growth amidst property market recovery. Land reserves are mainly exposed to tier-1/ tier-2/ international cities. The debt structure is improving, decreasing its risk exposure to the RMB depreciation and financial costs. The Company's fundamentals are gradually improving. In addition, the expected launch of SZ-HK Stock Connect will be a catalyst for valuation promotion. As a result, we revise up our target price from HK\$1.80 to HK\$1.98, representing a 58% discount to 2016E NAV of HK\$4.70 per share, 4.5x 2016 underlying PER and 0.5x 2016 PBR. Moreover, the Company's share price is undervalued as the last price implied PBR in 2016, 2017 and 2018 are only 0.4x, 0.4x and 0.3x, respectively. Therefore, we rate Aoyuan “Accumulate”. Risk factors include lower-than-expected contracted sales, possible operations failure of commercial projects and further depreciation of RMB.

Table 3: Breakdown of China Aoyuan's 2016 NAV

| NAV summary results | 2016F |
|---|---------------|
| Development properties (RMB mn) | 18,206 |
| Investment properties (RMB mn) | 1,704 |
| Total gross asset value (RMB mn) | 19,910 |
| (Net debt)/net cash(RMB mn) | (8,837) |
| NAV (RMB mn) | 11,073 |
| NAV/share (RMB) | 4.00 |
| NAV/share (HK\$) | 4.70 |
| TP discount to NAV | 58% |
| Price target (HK\$) | 1.98 |

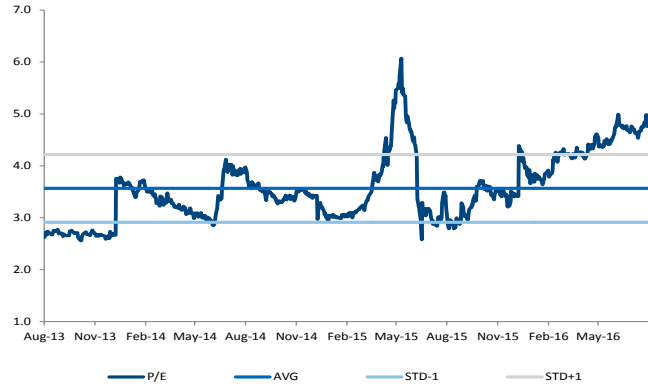
Source: the Company, Guotai Junan International.

Figure 12: China Aoyuan 12 Months Historical P/B



Source: Bloomberg, Guotai Junan international.

Figure 13: China Aoyuan 12 Months Historical P/E



Source: Bloomberg, Guotai Junan international.

Table 4: Peers Comparison

| Company | Stock Code | Mkt Cap (HK\$ m) | Last Price HK\$ | PE | | | PB | | | D/Y% | ROE | EV/EBITDA |
|--|------------|------------------|-----------------|-------|-------|-------|-------|-------|-------|------|------|-----------|
| | | | | 2016F | 2017F | 2018F | 2016F | 2017F | 2018F | | | |
| HK listed large developers with major revenue from mainland | | | | | | | | | | | | |
| China Overseas Land & Invest | 00688 HK | 264,756.6 | 26.850 | 8.2 | 7.1 | 6.4 | 1.2 | 1.1 | 1.0 | 2.6 | 15.5 | 5.8 |
| Evergrande Real Estate Group | 03333 HK | 78,666.2 | 5.750 | 10.5 | 7.9 | 7.0 | 1.1 | 1.1 | 1.1 | 6.7 | 12.2 | 11.7 |
| China Resources Land Ltd | 01109 HK | 151,441.0 | 21.850 | 9.1 | 7.8 | 6.9 | 1.1 | 1.0 | 0.9 | 2.9 | 13.3 | 6.4 |
| Bbmg Corporation-H | 02009 HK | 48,225.8 | 2.880 | 10.3 | 8.5 | 7.9 | 0.6 | 0.6 | 0.6 | 1.1 | 6.9 | 10.9 |
| Country Garden Holdings Co | 02007 HK | 85,067.6 | 3.830 | 7.4 | 6.0 | 5.2 | 1.0 | 0.9 | 0.8 | 4.2 | 14.1 | 8.4 |
| Longfor Properties | 00960 HK | 73,659.1 | 12.620 | 7.9 | 6.9 | 6.1 | 1.0 | 0.9 | 0.8 | 3.7 | 13.8 | 7.9 |
| Agile Property Holdings Ltd | 03383 HK | 19,428.6 | 4.960 | 5.8 | 4.9 | 4.4 | 0.4 | 0.4 | 0.4 | 5.4 | 7.6 | 6.5 |
| Soho China Ltd | 00410 HK | 24,489.8 | 4.710 | 43.0 | 37.4 | 36.1 | 0.6 | 0.6 | 0.6 | 4.8 | 1.4 | 28.2 |
| Shimao Property Holdings Ltd | 00813 HK | 38,307.6 | 11.160 | 4.9 | 4.5 | 4.2 | 0.6 | 0.5 | 0.5 | 6.5 | 12.5 | 7.5 |
| Guangzhou R&F Properties - H | 02777 HK | 40,924.1 | 12.700 | 5.5 | 4.9 | 4.6 | 0.8 | 0.7 | 0.6 | 6.3 | 14.2 | 8.2 |
| Sino-Ocean Land Holdings | 03377 HK | 27,651.1 | 3.680 | 7.3 | 6.1 | 5.4 | 0.5 | 0.5 | 0.5 | 4.5 | 7.7 | 8.8 |
| Franshion Properties | 00817 HK | 26,466.1 | 2.480 | 7.6 | 6.4 | 5.9 | 0.6 | 0.6 | 0.5 | 4.2 | 9.1 | 7.6 |
| Shui On Land Ltd | 00272 HK | 17,578.3 | 2.190 | 9.2 | 8.5 | 7.8 | 0.4 | 0.4 | 0.3 | 2.4 | 3.9 | 14.5 |
| New World China Land Ltd | 00917 HK | 67,442.8 | 7.750 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Kwg Property Holding Ltd | 01813 HK | 16,551.6 | 5.420 | 4.4 | 4.0 | 3.8 | 0.6 | 0.5 | 0.5 | 6.9 | 13.2 | 9.7 |
| Yuexiu Property Co Ltd | 00123 HK | 14,137.5 | 1.140 | 9.6 | 8.2 | 7.1 | 0.4 | 0.4 | 0.4 | 3.9 | 4.2 | 10.0 |
| Shenzhen Investment Ltd | 00604 HK | 28,857.5 | 3.780 | 9.2 | 7.4 | 6.5 | 0.8 | 0.7 | 0.7 | 4.9 | 9.2 | 4.9 |
| Hopson Development Holdings | 00754 HK | 16,380.1 | 7.360 | 20.4 | 18.0 | 16.4 | n.a. | n.a. | n.a. | 1.5 | n.a. | n.a. |
| Beijing North Star Co Ltd-H | 00588 HK | 15,506.8 | 2.600 | 7.7 | 5.7 | n.a. | 0.4 | 0.4 | n.a. | 2.7 | 5.8 | n.a. |
| Yuexiu Real Estate Investmen | 00405 HK | 13,970.2 | 4.890 | 26.7 | 25.1 | 24.4 | 0.9 | 1.0 | 1.0 | 6.3 | 3.8 | 22.6 |
| Greentown China Holdings | 03900 HK | 13,840.5 | 6.400 | 6.4 | 5.4 | 5.0 | 0.4 | 0.4 | 0.4 | 2.9 | 7.2 | 16.7 |
| China Vanke Co Ltd-H | 02202 HK | 306,956.3 | 20.600 | 9.4 | 8.0 | 7.1 | 1.7 | 1.5 | 1.4 | 4.6 | 19.6 | 7.4 |
| Dalian Wanda Commercial Pr-H | 03699 HK | 238,817.6 | 52.750 | 10.5 | 9.2 | 9.2 | 1.1 | 1.0 | 0.9 | 2.7 | 10.8 | 7.7 |
| Median | | | | 8.7 | 7.3 | 6.5 | 0.6 | 0.6 | 0.6 | 4.2 | 9.2 | 8.3 |
| Simple Average | | | | 11.0 | 9.5 | 8.9 | 0.8 | 0.7 | 0.7 | 4.2 | 9.8 | 10.6 |
| Weighted Average | | | | 9.2 | 7.9 | 7.2 | 1.1 | 1.0 | 0.9 | 3.6 | 12.8 | 7.7 |
| HK listed mid-small developers with major revenue from mainland | | | | | | | | | | | | |
| China Overseas Grand Oceans | 00081 HK | 5,705.6 | 2.500 | 4.8 | 3.5 | 3.5 | 0.4 | 0.4 | 0.4 | 1.4 | 11.0 | 4.3 |
| Poly Property Group Co Ltd | 00119 HK | 8,384.9 | 2.290 | 34.7 | 30.5 | 21.6 | 0.3 | 0.3 | 0.3 | 0.5 | 0.2 | 24.3 |
| Sh Ind Urban | 00563 HK | 8,660.3 | 1.800 | 11.3 | 15.0 | 16.4 | 0.7 | 0.6 | 0.6 | 2.4 | 5.5 | n.a. |
| Modern Land China Co Ltd | 01107 HK | 2,543.8 | 1.220 | 2.8 | 2.1 | 1.7 | 0.5 | 0.4 | 0.4 | 9.6 | 21.4 | n.a. |
| Powerlong Real Estate Holdin | 01238 HK | 8,514.3 | 2.130 | 4.3 | 3.5 | 2.8 | 0.3 | 0.3 | 0.2 | 5.6 | 9.9 | 6.0 |
| China Aoyuan Property Group | 03883 HK | 4,652.4 | 1.680 | 3.9 | 2.9 | 2.3 | 0.4 | 0.4 | 0.4 | 9.0 | 8.5 | n.a. |
| C C Land Holdings Ltd | 01224 HK | 5,668.2 | 2.190 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Fantasia Holdings Group Co | 01777 HK | 6,856.5 | 1.190 | 8.5 | 5.1 | 6.0 | 0.5 | 0.5 | 0.4 | 4.6 | 7.8 | 5.6 |
| Yuzhou Properties Co | 01628 HK | 9,921.6 | 2.600 | 4.7 | 4.3 | 3.6 | 0.8 | 0.7 | 0.6 | 7.3 | 18.2 | 5.0 |
| Central China Real Estate | 00832 HK | 4,054.2 | 1.660 | 3.5 | 3.0 | 2.1 | 0.4 | 0.4 | 0.3 | 7.9 | 13.3 | 2.8 |
| China Sce Property Holdings | 01966 HK | 6,334.1 | 1.850 | 5.1 | 3.7 | 2.9 | 0.7 | 0.6 | 0.5 | 3.8 | 14.7 | 7.8 |
| Top Spring International Hid | 03688 HK | 3,088.8 | 2.610 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Beijing Capital Land Ltd-H | 02868 HK | 9,780.3 | 3.230 | 5.2 | 4.0 | 3.0 | 0.6 | 0.5 | 0.5 | 6.5 | 20.9 | 10.8 |
| Zhong An Real Estate Ltd | 00672 HK | 1,855.4 | 0.790 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Kaisa Group Holdings Ltd | 01638 HK | 8,011.3 | 1.560 | 1.9 | n.a. | n.a. | 0.3 | n.a. | n.a. | 14.9 | 18.1 | 4.6 |
| Glorious Property Holdings | 00845 HK | 7,403.0 | 0.950 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Redco Properties Group Ltd | 01622 HK | 9,482.8 | 5.340 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Median | | | | 4.8 | 3.7 | 3.0 | 0.5 | 0.4 | 0.4 | 6.0 | 12.1 | 5.6 |
| Simple Average | | | | 7.6 | 7.1 | 6.0 | 0.5 | 0.5 | 0.4 | 6.1 | 12.5 | 7.9 |
| Weighted Average | | | | 6.9 | 6.0 | 5.1 | 0.4 | 0.4 | 0.3 | 4.8 | 10.1 | 5.6 |

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

| Income Statement | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|
| Year End Dec (RMB mn) | 2014A | 2015A | 2016F | 2017F | 2018F |
| Total revenue | 6,976 | 9,572 | 14,383 | 18,218 | 20,903 |
| yoy | 21.8% | 37.2% | 50.3% | 26.7% | 14.7% |
| Sales of properties | 6,803 | 9,295 | 14,046 | 17,822 | 20,449 |
| Other income | 173 | 278 | 337 | 396 | 454 |
| Cost of sales | (4,909) | (6,926) | (10,778) | (13,578) | (15,448) |
| Gross profit | 2,067 | 2,646 | 3,605 | 4,640 | 5,455 |
| yoy | 17.6% | 28.0% | 36.2% | 28.7% | 17.6% |
| - Fair value gains on investment properties | 98 | 356 | 254 | 287 | 323 |
| - SG&A | (770) | (890) | (1,287) | (1,568) | (1,730) |
| - Other gains net | 110 | (131) | (31) | 78 | 127 |
| Operating profit | 1,505 | 1,981 | 2,542 | 3,437 | 4,175 |
| - Finance income/(costs), net | (65) | (91) | (108) | (135) | (133) |
| - Share profits of JVs | 9 | 28 | 25 | 24 | 24 |
| - Losses on sales of a subsidiary | 0 | (33) | 0 | 0 | 0 |
| Profit before income tax | 1,449 | 1,884 | 2,458 | 3,326 | 4,066 |
| - Income tax expense | (666) | (977) | (1,245) | (1,693) | (2,025) |
| Profit for the period | 783 | 907 | 1,213 | 1,633 | 2,041 |
| Profit attributable to | | | | | |
| - Shareholders (Net income) | 809 | 812 | 1,073 | 1,444 | 1,805 |
| yoy | 10.0% | 0.3% | 32.1% | 34.6% | 25.0% |
| - Minority interest | (26) | 95 | 140 | 189 | 236 |
| - Shareholders (Underlying profit) | 753 | 778 | 1,029 | 1,340 | 1,661 |
| EPS (RMB) | 0.29 | 0.29 | 0.39 | 0.52 | 0.65 |
| Underlying EPS (RMB) | 0.27 | 0.28 | 0.37 | 0.48 | 0.60 |
| yoy | 9.4% | 3.3% | 32.9% | 30.2% | 24.0% |
| DPS (RMB) | 0.08 | 0.11 | 0.14 | 0.19 | 0.24 |
| Dividend payout ratio | 27.5% | 36.0% | 36.0% | 36.0% | 36.0% |
| Balance Sheet | | | | | |
| Year End Dec (RMB mn) | 2014A | 2015A | 2016F | 2017F | 2018F |
| Investment properties | 2,728 | 4,505 | 5,088 | 5,737 | 6,458 |
| PPE | 501 | 494 | 519 | 474 | 454 |
| Other current assets | 407 | 630 | 593 | 587 | 582 |
| Total non-current assets | 3,636 | 5,629 | 6,199 | 6,798 | 7,493 |
| Properties for Sale | 24,947 | 31,792 | 38,217 | 43,565 | 45,986 |
| Trade and other receivables | 1,849 | 1,753 | 2,042 | 2,235 | 2,371 |
| Restricted cash | 3,928 | 1,267 | 1,914 | 2,429 | 2,787 |
| Bank balances and cash | 1,989 | 7,769 | 6,316 | 5,563 | 6,570 |
| Other non-current assets | 437 | 617 | 1,695 | 1,486 | 1,480 |
| Total current assets | 33,150 | 43,198 | 50,183 | 55,277 | 59,194 |
| Total assets | 36,786 | 48,827 | 56,383 | 62,075 | 66,687 |
| Trade and other payables | 3,501 | 5,348 | 7,014 | 7,432 | 7,704 |
| Deposits received on sale of properties | 8,772 | 9,823 | 14,761 | 18,696 | 21,451 |
| Short-term bank loans | 4,464 | 2,570 | 3,641 | 3,532 | 3,426 |
| Provision | 1,577 | 1,597 | 1,518 | 1,442 | 1,370 |
| Current income tax liabilities | 1,790 | 2,202 | 2,422 | 2,592 | 2,670 |
| Other current liabilities | 273 | 1,228 | 599 | 596 | 588 |
| Total current liabilities | 20,378 | 22,770 | 29,955 | 34,289 | 37,209 |
| Long-term bank loans | 3,776 | 4,803 | 4,323 | 4,193 | 4,067 |
| Senior notes | 3,257 | 8,924 | 9,103 | 9,285 | 9,471 |
| Other non-current liabilities | 341 | 754 | 459 | 463 | 468 |
| Total non-current liabilities | 7,374 | 14,481 | 13,884 | 13,941 | 14,006 |
| Total liabilities | 27,752 | 37,251 | 43,839 | 48,230 | 51,214 |
| Total common equity | 7,719 | 8,243 | 9,070 | 10,183 | 11,575 |
| Minority interest | 1,315 | 3,333 | 3,473 | 3,662 | 3,898 |
| Total equity & liabilities | 36,786 | 48,827 | 56,383 | 62,075 | 66,687 |

Source: the Company, Guotai Junan International.

| Cash Flow Statement | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Year End Dec (RMB mn) | 2014A | 2015A | 2016F | 2017F | 2018F |
| Profit before taxation | 1,449 | 1,884 | 2,458 | 3,326 | 4,066 |
| - Adjustments for: | | | | | |
| - Finance costs | 65 | 91 | 108 | 135 | 133 |
| - Depreciation | 25 | 34 | 35 | 35 | 36 |
| - Fair value gain on IPs | (98) | (356) | (254) | (287) | (323) |
| - Others | (79) | 173 | 45 | (61) | (107) |
| After above adjustments: | 1,363 | 1,827 | 2,392 | 3,149 | 3,805 |
| Changes in working capital: | (1,430) | (3,170) | (152) | 149 | 1,197 |
| Net cash from operations | (67) | (1,342) | 2,240 | 3,298 | 5,001 |
| Income taxes and Interest paid | (1,578) | (1,681) | (1,969) | (2,437) | (2,572) |
| Net cash from operating activities | (1,645) | (3,023) | 271 | 861 | 2,429 |
| Purchase of investment properties | (211) | (849) | (482) | (681) | (757) |
| Increase in restricted bank deposits | (2,121) | (202) | (648) | (515) | (358) |
| Other investing cash flow | 704 | 126 | (773) | (133) | (113) |
| Cash flow from investments | (1,628) | (924) | (1,902) | (1,329) | (1,228) |
| Debt raised/(repaid) | 2,793 | 4,849 | 769 | (57) | (46) |
| Dividend paid | (223) | (292) | (386) | (520) | (650) |
| Other financing cash flow | (142) | 2,247 | (236) | 277 | 505 |
| Cash flow from financing | 2,429 | 6,804 | 147 | (300) | (191) |
| Net increase (decrease) in cash | (844) | 2,856 | (1,484) | (768) | 1,010 |
| Beginning cash balance | 2,812 | 4,852 | 7,769 | 6,316 | 5,563 |
| Exchange losses on cash equivalents | 21 | 61 | 30 | 15 | (3) |
| Ending cash balance | 1,989 | 7,769 | 6,316 | 5,563 | 6,570 |
| Ratio | | | | | |
| | 2014A | 2015A | 2016F | 2017F | 2018F |
| ROE | 9.8% | 7.9% | 8.9% | 10.9% | 12.3% |
| ROCE | 4.3% | 3.4% | 3.7% | 4.8% | 5.7% |
| ROA | 2.4% | 1.9% | 2.0% | 2.4% | 2.8% |
| Net Gearing Ratio | 61.8% | 62.7% | 70.5% | 65.1% | 49.2% |
| Debt to Equity Ratio | 127.3% | 140.8% | 136.1% | 122.9% | 109.6% |
| Current Ratio | 162.7% | 189.7% | 167.5% | 161.2% | 159.1% |
| Cash / Total Assets | 5.4% | 15.9% | 11.2% | 9.0% | 9.9% |
| Valuation | | | | | |
| | 2014A | 2015A | 2016F | 2017F | 2018F |
| Underlying PER (Diluted) (x) | 4.62 | 4.82 | 3.68 | 2.74 | 2.19 |
| PER (Basic) (x) | 4.62 | 4.82 | 3.68 | 2.74 | 2.19 |
| PER (Diluted) (x) | 4.62 | 4.82 | 3.68 | 2.74 | 2.19 |
| PBR (x) | 0.48 | 0.48 | 0.44 | 0.39 | 0.34 |
| Dividend Yield (%) | 5.95 | 7.46 | 9.77 | 13.14 | 16.43 |
| Margins | | | | | |
| | 2014A | 2015A | 2016F | 2017F | 2018F |
| Gross Margin | 29.6% | 27.6% | 25.1% | 25.5% | 26.1% |
| Operating Profit Margin | 21.6% | 20.7% | 17.7% | 18.9% | 20.0% |
| Underlying Net Profit Margin | 10.8% | 8.1% | 7.2% | 7.4% | 7.9% |
| EBIT Margin | 21.6% | 20.7% | 17.7% | 18.9% | 20.0% |

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating | Definition |
|------------|---|
| Buy | Relative Performance >15%; or the fundamental outlook of the company or sector is favorable. |
| Accumulate | Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable. |
| Neutral | Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral. |
| Reduce | Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable. |
| Sell | Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable. |

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

| Rating | Definition |
|--------------|--|
| Outperform | Relative Performance >5%; or the fundamental outlook of the sector is favorable. |
| Neutral | Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral. |
| Underperform | Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable. |

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