



Rating
Buy

Asia
China

Property
Property

Company
Aoyuan

Reuters
3883.HK

Bloomberg
3883 HK

Exchange
HSI

Ticker
3883

Date
28 November 2017

Company Update

Price at 24 Nov 2017 (HKD)	4.47
Price target - 12mth (HKD)	6.74
52-week range (HKD)	5.23 - 1.57
HANG SENG INDEX	29,866

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Chairman meeting: 50% earnings CAGR and 6-14% yield achievable

Reaffirming top pick for high visibility on 50% earnings CAGR and 6-14% yields

We reaffirm our strong view on Aoyuan's high visibility of 50% earnings CAGR and 6-14% dividend yields in the next three years after attending the reverse roadshow meeting with Chairman recently. We believe the company's current >RMB200bn saleable resources, proactive landbanking via M&A and good progress on redevelopment projects in Guangzhou and Zhuhai should be able to support management's aggressive target to achieve RMB50-60bn sales in 2018F. Also, we find the current valuation at 3.5x FY18F P/E and 68% discount to NAV is a good defensive level compared to small-cap peers.

Full-year sales to reach RMB38-40bn; aiming 40% CAGR to achieve RMB100bn by 2020F on back of >RMB200bn saleable resources by September

Management is confident that full-year sales will exceed RMB38bn (~50% yoy, versus its RMB33.3bn target; achieved RMB30.1bn in 10M17), given the current strong sales momentum, and management expects positive MoM sales growth in November and December. Also, management is positive on the overall physical market and aims to achieve RMB50-60bn sales in 2018F and RMB100bn by 2020F (implying ~40% CAGR in 2018-20F), on back of >RMB200bn saleable resources by September (~85% attributable).

Proactive landbanking via M&A to continue; good progress on redevelopment projects in Guangzhou and Zhuhai

Leveraging on its strong M&A capability (accounts for >80% of its landbanking since IPO), Aoyuan will remain proactive on acquiring more projects via M&A (enjoy >30% gross margin and double-digit net margin), as well as expanding its exposure in eastern and central regions. Also, management expects two redevelopment sites in Zhuhai (1.46mn sqm GFA) and one in Guangzhou (310k sqm GFA) will likely be included into the landbank in 2018, which we estimate should add >RMB50bn saleable resources.

50% earnings CAGR implies attractive 6-14% dividend yield

We expect Aoyuan's strong sales, gross margin expansion (28-30% vs. 27.7% in FY16) and >RMB49bn unbooked sales by October will support 50% earnings CAGR in FY17-19F. This implies 6-14% dividend yield on 35% payout and may be subjected to upside surprise with special dividend (paid in past two years).

Valuation and risks

Our TP is based on 50% of end-FY18F NAV of HKD13.48. The stock trades at 3.5x FY18F P/E and a 68% NAV discount, which is at a good defensive level compared with other small-caps at 4.5-6x P/E and 40-55% NAV discounts. Key risks: 1) slower sales growth, and 2) a failure to acquire quality landbank.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.5	43.3	172.4
HANG SENG INDEX	6.1	8.5	32.1

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	9,572.4	11,827.3	18,888.9	27,179.3	38,340.9
DB EPS growth (%)	29.2	32.8	49.1	57.8	41.7
PER (x)	3.2	2.8	5.6	3.5	2.5
DPS (net) (CNY)	0.11	0.15	0.24	0.37	0.53
Yield (net) (%)	9.8	11.7	6.3	9.9	14.0

Source: Deutsche Bank estimates, company data

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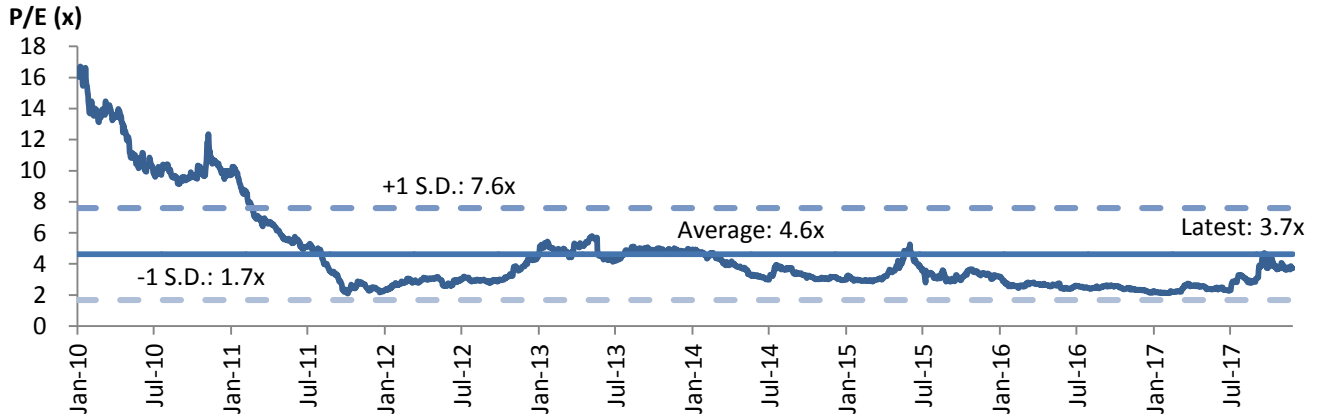
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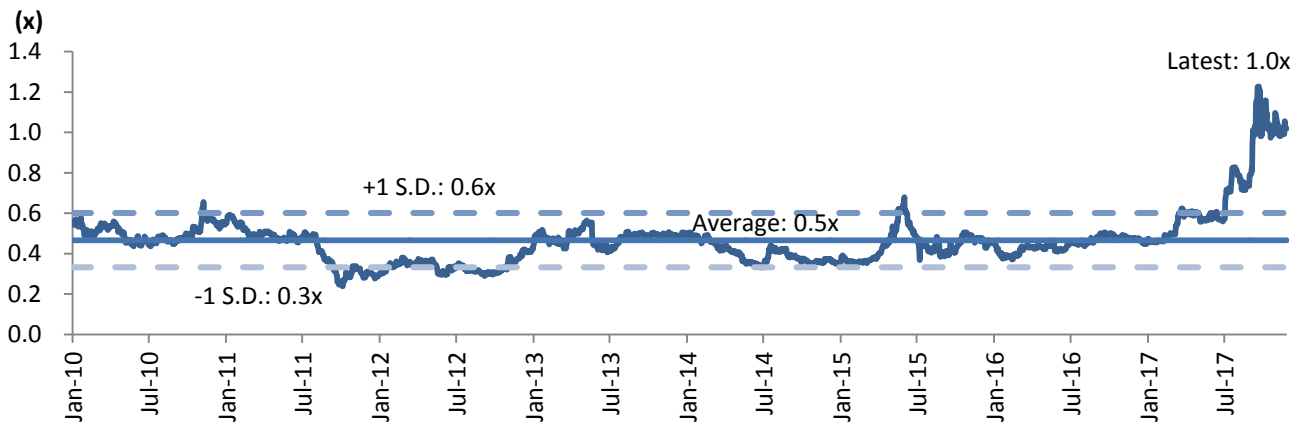
Historical valuation

Figure 1: Aoyuan: 12-month forward P/E chart



Source: Bloomberg Finance LP, Company data, Deutsche Bank

Figure 2: Aoyuan: Price-to-book value chart



Source: Bloomberg Finance LP, Company data, Deutsche Bank



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Aoyuan	3883.HK	4.47 (HKD) 24 Nov 17	1,7,14

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Historical recommendations and target price: Aoyuan (3883.HK)
 (as of 11/24/2017)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

**Analyst is no longer at Deutsche Bank

1. 26/10/2017: Upgrade to Buy, Target Price Change HKD6.74 Jeffrey Gao

Equity rating key

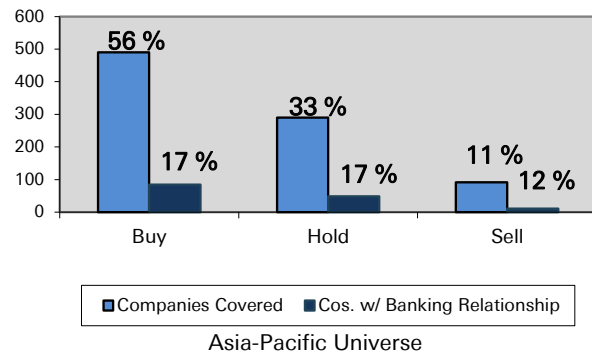
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