

China Aoyuan Property

1H2017 Interim Result Preview

Potential acquisition of 22.07% of China Sports

Aoyuan announced a potential major transaction on 5 July 2017. Aoyuan submitted the tender on 5 July 2017 to acquire 22.07% of share capital of China Sports Industry Group (SH 600158) at price of RMB17.53 per share. The target company was co-op partner with Aoyuan in 1990s to early 2000s on residential projects. We estimate the total consideration to be around RMB3.3 bn.

We don't think the potential acquisition can be completed in near term, as many uncertainties of this potential acquisition lie ahead. Therefore, there are mixed implications for the share price of Aoyuan in near term. Completion of the acquisition is subject to the fulfillment of following conditions: 1) the tenderer has to inject profitable asset to China Sports in one year after transaction is completed; 2) fulfill CSRC independency requirement; 3) better profitability of the tenderer than that of China Sports, in terms of weight average ROE & EPS. The acquisition is subjected to SASAC and CSRC approval.

Contracted sales in June surged by 102% yoy, the highest monthly record

Sales in June hit record high of single month sales, which is RMB5.32 bn, up 102% yoy and 79% mom. Aoyuan has achieved 50% of its RMB33 bn sales target in 1H2017. We believe Aoyuan will achieve its target by the end of this year, backed by RMB14.6 bn saleable resource in 2016 and RMB29.5 bn in 2017 with moderate sale-through rate of 62%.

1H17 result preview

Usual booking pace in 1H/2H is 40%/60%. As completed inventories sold increased in 1H2017, revenue in 1H2017 would account for slightly more than 40% of total 2017 revenue. The revenue is expected to increase by 8% yoy to around RMB 7 bn. We maintain GPM to maintain flat as 1H2016, core profit increased accordingly. Due to newly commencement in 1H2017, we estimate borrowing to increase and cash similar to 2016 year end level; net gearing ratio should be around mid-60% level. What is more, after 3 year of debt optimization, we believe average funding cost will further decline to mid-7 in 2017.

Reiterate Buy rating and raise price target to HK\$3.65, 22% upside

The potential acquisition is mixed for Aoyuan. However, Aoyuan has 58% of land bank located in Guangdong. As Greater Bay area framework was signed by President Xi in early July 2017, which should support strong home demand in Guangdong Province. Moreover, We expect Aoyuan to be privileged for SZ-HK Stock Connect in 3Q2017, which is a long term support for the share price. What is more, Aoyuan's sales pace beats expectation with good cash generation. Therefore, we lower NAV discount from 60% to 50%, target price revised up to HK\$3.65, which implies 6.2x 2017 PE and 4.7x 2018 PE discount to Dec-17 NAV. Aoyuan maintains 35% payout ratio in 2017. The stock is trading at 59% discount to NAV, 5.1x 2017 PE and 0.7x 2017e PB.

Stock code: 3883.HK
Rating: Buy

Price target (HK\$)	3.65
Current price (HK\$, 11 July 2017)	2.99
Upside/downside %	22%
Market cap (HK\$ m)	7,988
Market cap (US\$ m)	1,023
Avg daily turnover (HK\$ m)	10.79

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2016	2017e	2018e	2019e
Revenue	11,827	16,094	21,526	27,808
yoy %	24%	36%	34%	29%
Net profit	881	1,388	1,832	2,313
yoy %	8%	58%	32%	26%
Adjusted NP	890	1,279	1,764	2,289
yoy %	14%	44%	38%	30%
Gross margin	27.7%	28.1%	28.6%	28.6%
Net gearing	50.7%	61.1%	62.1%	58.3%
EPS	0.33	0.52	0.69	0.87
DPS	0.15	0.17	0.22	0.28
BPS	3.34	3.82	4.38	5.09

Source: Company data, AMTD Equity Research

Valuation

	2016	2017e	2018e	2019e
P/E	8.04	5.10	3.87	3.06
P/BV	0.79	0.70	0.61	0.52
Div. yield	5.7%	6.6%	8.5%	10.5%
ROA	1.7%	2.2%	2.4%	2.5%
ROE	10.3%	14.5%	16.7%	18.3%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

Donald Yu
 Analyst

+852 3163 3384

Donald.Yu@amtd.com.hk
Michelle Li
 Analyst

+852 3163 3383

Michelle.Li@amtd.com.hk

Figure 1: Aoyuan's P&L forecast and key ratios

PnL, RMB mn	2014	2015	2016	2017e	2018e	2019e	YoY growth				
							2015	2016	2017e	2018e	2019e
Revenue	6,976	9,572	11,827	16,094	21,526	27,808	37%	24%	36%	34%	29%
Sales of properties	6,803	9,295	11,240	15,394	20,717	26,897	37%	21%	37%	35%	30%
Rental income of investment properties	71	69	73	75	77	80	-3%	6%	3%	3%	3%
Property management services	102	209	514	624	731	832	104%	146%	21%	17%	14%
Cost of sales	(4,909)	(6,926)	(8,550)	(11,575)	(15,378)	(19,851)	41%	23%	35%	33%	29%
Gross profit	2,067	2,646	3,277	4,519	6,148	7,957	28%	24%	38%	36%	29%
Fair value gains on investment properties	98	356	310	271	170	62	265%	-13%	-12%	-37%	-64%
Selling and marketing costs	(379)	(489)	(592)	(676)	(859)	(1,054)	29%	21%	14%	27%	23%
Administrative expenses	(391)	(402)	(489)	(628)	(840)	(1,085)	3%	22%	28%	34%	29%
Other gains	110	(164)	(230)	84	84	85	-250%	40%	-136%	0%	1%
Operating profit	1,505	1,948	2,275	3,570	4,703	5,965	29%	17%	57%	32%	27%
Share of profit of associates	9	28	(32)	0	0	0	203%	-216%			
Finance costs — net	(65)	(91)	(157)	(114)	(122)	(135)	40%	72%	-27%	7%	11%
Profit before income tax	1,449	1,884	2,085	3,456	4,582	5,830	30%	11%	66%	33%	27%
Income tax expense	(666)	(977)	(1,078)	(1,870)	(2,488)	(3,186)	47%	10%	73%	33%	28%
Net profit (Reported)	783	907	1,007	1,586	2,094	2,643	16%	11%	58%	32%	26%
Attributable to:											
Equity holders of the Company	809	812	881	1,388	1,832	2,313	0%	8%	58%	32%	26%
Minority interest	(26)	95	126	198	261	330	-460%	32%	58%	32%	26%
Dividend payout ratio	30%	36%	45%	34%	33%	32%					
Net profit ex-FX losses (Reported)	783	1,185	1,479	1,586	2,094	2,643	51%	25%	7%	32%	26%
Net Profit Margin ex-FX losses	11.2%	12.4%	12.5%	9.9%	9.7%	9.5%					
Adjusted net profit	753	778	890	1,279	1,764	2,289	3%	14%	44%	38%	30%
<i>Adjusted net Profit Margin</i>	10.8%	8.1%	7.5%	7.9%	8.2%	8.2%					
Net change to retained earnings	560	615	762	1,120	1,494	1,899	10%	24%	47%	33%	27%
EPS	0.291	0.292	0.330	0.520	0.686	0.866	0%	13%	58%	32%	26%
EPS - underlying	0.271	0.280	0.333	0.479	0.660	0.857	3%	19%	44%	38%	30%
DPS	0.087	0.106	0.150	0.175	0.224	0.278	22%	42%	16%	29%	24%
BVPS	2.773	2.961	3.338	3.816	4.375	5.086	7%	13%	14%	15%	16%
Key Ratios, RMB mn											
Gross profit margin	29.6%	27.6%	27.7%	28.1%	28.6%	28.6%					
EBITDA margin	21.6%	20.4%	19.2%	22.2%	21.9%	21.4%					
Net profit margin	11.2%	9.5%	8.5%	9.9%	9.7%	9.5%					
Net profit margin ex-FX losses	11.2%	12.4%	12.5%	9.9%	9.7%	9.5%					
Gross debt	11,497	16,298	18,380	20,081	22,811	25,568					
Net debt	5,580	7,262	7,424	9,848	11,098	11,723					
Net gearing ratio	61.8%	62.7%	50.7%	61.1%	62.1%	58.3%					
Net debt/EBITDA	3.7	3.7	3.3	2.8	2.4	2.0					
Contracted sales to gross debt	1.1	0.9	1.4	1.5	1.6	1.7					
Cash collection rate	81%	82%	90%	90%	90%	90%					
Asset turnover days	1,745	1,632	1,778	1,655	1,493	1,377					
ROAA	2.35%	2.12%	1.75%	2.17%	2.38%	2.52%					
ROAE	10.8%	10.2%	10.3%	14.5%	16.7%	18.3%					
EBITDA	1,505	1,948	2,275	3,570	4,703	5,965					

Source: Company data, AMTD Equity Research

Figure 2: Aoyuan's balance sheet forecast

Balance Sheet, RMB mn	2014	2015	2016	2017e	2018e	2019e
Non-current assets	3,636	5,629	6,589	6,661	7,139	7,512
Land use rights	16	15	15	15	14	14
Property, plant and equipment	501	494	506	474	454	436
Investment properties	2,728	4,505	5,425	5,659	6,158	6,549
Interests in jointly controlled entities	63	217	164	164	164	164
Deposits to acquire equity interest in a company	-	-	130	-	-	-
Available-for-sale financial assets	25	75	10	10	10	10
Deferred income tax assets	151	171	183	183	183	183
Amounts due from a JV	152	152	152	152	152	152
Goodwill and intangibles	-	-	5	5	5	5
Current assets	33,150	43,198	59,830	72,833	89,477	105,681
Properties under development	20,479	31,792	43,487	57,098	69,836	76,261
Amounts due from non-controlling shareholders of subsidiaries	21	27	365	365	365	365
Prepayments	0	0	0	0	0	0
Trade and other receivables	1,849	1,753	3,604	3,604	3,604	3,604
Prepaid taxes	219	263	616	647	667	687
Restricted cash	3,928	1,267	486	486	486	486
Amounts due from related parties	197	222	98	98	98	98
Cash	1,989	7,769	10,471	9,747	11,228	13,360
Assets held for sale	-	105	386	386	386	386
Other current assets	-	-	-	401	2,807	10,435
Total assets	36,786	48,827	66,418	79,494	96,616	113,194
Shareholder's equity	9,034	11,576	14,631	16,106	17,861	20,091
Share capital	26	26	25	25	25	25
Reserves	7,693	8,216	8,893	10,170	11,664	13,563
Attributable equity	7,719	8,243	8,918	10,195	11,689	13,588
Minority interest in equity	1,315	3,333	5,713	5,911	6,172	6,502
Non-current liabilities	7,374	14,481	15,645	17,650	20,656	23,662
Long-term bank loans	3,776	4,803	3,795	4,795	6,295	7,795
Loans from non-controlling shareholders of subsidiaries	-	-	1,187	1,187	1,187	1,187
Senior notes	3,257	8,924	10,079	11,079	12,579	14,079
Deferred income tax liabilities	341	454	583	588	594	600
Current liabilities	20,378	22,770	36,143	45,738	58,099	69,441
Trade and other payables	3,501	5,348	6,795	8,833	11,483	11,483
Deposits received on sale of properties	8,772	9,823	20,524	27,928	37,354	48,256
Current income tax liabilities	1,790	2,202	2,593	3,111	3,733	4,480
Short-term bank loans	4,464	2,570	2,997	2,698	2,428	2,185
Senior note and bond	-	-	1,508	1,508	1,508	1,508
Amount due to a non-controlling shareholder	197	105	163	171	175	178
Amount due to a JV	57	1,123	133	130	128	125
Provisions	1,577	1,597	1,430	1,358	1,290	1,226
Total liabilities and equities	36,786	48,827	66,418	79,494	96,616	113,194

Source: Company data, AMTD Equity Research

Figure 3: Aoyuan's cash flow forecast

Cash Flow Statement, RMB mn	2014	2015	2016	2017e	2018e	2019e
Operating cash flow	9,880	12,470	23,040	27,959	32,153	40,191
Land acquisition	(2,730)	(5,420)	(6,280)	(10,355)	(11,908)	(14,886)
Construction expenses	(5,880)	(5,760)	(9,740)	(12,662)	(15,194)	(18,233)
Tax expenses	(1,040)	(1,170)	(2,210)	(2,682)	(3,084)	(3,855)
SG&A	(700)	(890)	(1,040)	(1,248)	(1,498)	(1,797)
Interest expenses	(1,110)	(1,260)	(1,530)	(1,427)	(1,521)	(1,688)
Dividend payments	(220)	(290)	(250)	(309)	(466)	(600)
FCF	(1,800)	(2,320)	1,990	(724)	(1,519)	(868)
New bank borrowings	6,160	5,800	5,540	5,000	5,000	5,000
Proceeds from bonds issuance	1,770	5,930	3,580	5,000	5,000	5,000
Debt repayment	(5,140)	(6,130)	(7,040)	(8,000)	(7,000)	(7,000)
Redemption of bonds	0	(770)	(1,460)	(2,000)	0	0
Other cash outflow	216	608	(689)	0	0	0
Net change of cash	1,206	3,118	1,921	(724)	1,481	2,132
Opening cash balance	4,712	5,917	9,036	10,956	10,233	11,713
Ending cash balance	5,917	9,036	10,956	10,233	11,713	13,845

Source: Company data, AMTD Equity Research

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Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

Analyst Certification

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AMTD Asset Management Limited

Address: 23/F & 25/F, Nexus Building, No. 41 Connaught Road Central, Central, Hong Kong

Tel: (852) 3163-3288 **Fax:** (852) 3163-3289

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