



Aoyuan (3883 HK) Well positioned in Big Bay Area

- 1H17 core profit jumped 27%YoY to RMB832mn
- Gross margin rose 1.8ppt YoY to 26.9%; given growing ASP trend, we expect margin to improve further in coming years
- 1H7 presales rose 56.9%YoY to RMB16.5bn; Big bay area accounts for 60% of total
- Aoyuan has a sellable resources of RMB58.7bn in Big Bay Area; Aoyuan rapidly expands its landbank in the region via urban redevelopment and M&As
- Maintain **BUY** with revised TP of HK\$ 4.40 based on NAV discount of 50%

More exciting growth ahead in 2H17. Aoyuan's 1H17 reported net profit (before MI) rose 43%YoY to RMB750mn, in-line with its previous positive profit alert. Core profit also jumped 27%YoY to RMB832mn, as GFA delivery increased 35%YoY to 1.11mn sqm. Gross margin increased 1.8ppt YoY to 26.9%, despite 10%YoY decline in booked ASP. Given 1H17 presales ASP of RMB10,571/sqm is about 53% higher than 1H17 booked ASP (RMB6,914/sqm), we believe further margin improvement is possible next 1-2 years. Net gearing increased 12.3ppt HoH to 71.1% as at Jun 2017, as Aoyuan purchased 3.7mn sqm of new projects at RMB9.4bn in 1H17. Cash collection remains healthy at 86% level (FY16: 90%). As at 30 June 2017, Aoyuan has a total landbank of 17.12 mn sqm, with an average cost of RMB1,992/sqm. As of Jun 2017, Aoyuan has an unbooked revenue of RMB35.8bn, of which we estimate 30% or RMB10bn can be booked in 2H17, implying an accelerated growth in 2H17

M&A and redevelopments to drive growth in the Big Bay Area (BBA). In 1H17, Aoyuan presales jumped 56.9%YoY to RMB16.5bn, as GFA and ASP increased by 22%YoY and 29%YoY respectively. In July, Aoyuan presales growth momentum remained as it jumped 107%YoY to RMB2.5bn, achieving 57% of its 2017 target (RMB33.3bn). Aoyuan's impressive presales performance originates to its focus in BBA. Shenzhen, Guangzhou, and rest of BBA account for 22%, 18% and 20% of 1H17 presales respectively. Out of Aoyuan's total sellable resources of RMB162.8bn, the BBA landbank of 4.8mn sqm accounts for RMB58.7bn or 36% of the total. Aoyuan also disclosed for the first time its 4.2mn sqm urban redevelopment pipeline in BBA. In fact, redevelopment projects are nothing new to Aoyuan. For instance, Zhuhai Aoyuan Plaza, an old factory redevelopment project in Zhuhai, only took the group 10 months to reach presales status from redevelopment planning submission. Besides, 16 out of the 20 new projects in 1H17 is acquired via M&A. This also indicates Aoyuan's good deal sourcing ability in Guangdong region.

Maintain BUY with revised TP of HK\$4.40. Factoring in the latest land acquisitions, we raise our NAV estimate to HK\$ 8.72/ share (from HK\$ 8.44/share) and TP to HK\$ 4.40 (from HK\$ 3.40) based on a 50% discount to NAV (from 60%). Aoyuan remains to be our top pick among the big bay area players. Maintain **BUY**.

Risk factors: 1) FX risk in overseas projects; 2) Rising SG&A cost for establishment of overseas operation.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	9,572	11,827	18,947	23,642	27,490
Chg (% YoY)	37.2	23.6	60.2	24.8	16.3
Core net profit (RMB mn)	778	1,003	1,607	2,150	2,410
Chg (% YoY)	5.7	28.9	60.3	33.7	12.1
Core EPS (RMB)	0.28	0.36	0.58	0.77	0.87
Chg (% YoY)	5.7	28.9	60.3	33.7	12.1
BVPS (RMB)	3.0	3.2	3.6	4.1	4.8
Chg (% YoY)	6.8	8.2	12.6	15.0	14.6
Core PE (x)	9.3	7.3	4.5	3.4	3.0
P/B (x)	0.9	0.8	0.7	0.6	0.5
ROE (%)	9.4	11.2	16.0	18.6	18.2
ROA (%)	1.6	1.5	2.0	2.1	2.1
DPS(RMB)	0.11	0.15	0.17	0.23	0.26
Yield (%)	4.1	5.7	6.6	8.9	9.9
Net gearing (%)	62.7	58.9	64.2	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Aug 18, 2017

Rating: **BUY**

TP: **HK\$ 4.40**

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Share price (HK\$)	3.03
Est. share price return	45.2%
Est. dividend yield	7.2%
Est. total return	52.4%
Previous Rating & TP	BUY, HK\$3.40
Previous Report Date	May 17, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	3.55/1.61
Issued shares (mn)	2,672
Market cap (HK\$ mn)	7,907
3-mth avg daily turnover(HK\$ mn)	31.58
Major shareholder(s) (%)	
Mr. Guo Zi Wen	54.11%

Source(s): Bloomberg, ABCI Securities

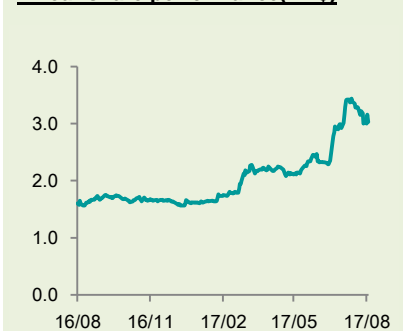
Share Performance (%)

	Absolute	Relative*
1-mth	(10.0)	(11.3)
3-mth	38.0	28.5
6-mth	69.7	50.8

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



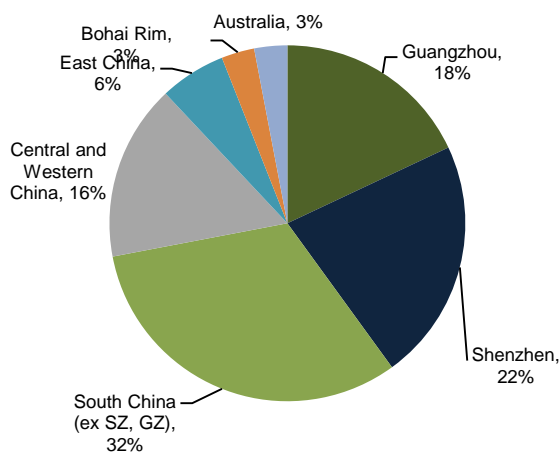
Exhibit 1: Aoyuan's 1H17 results

P&L	1H17	1H16	YoY
	RMB mn	RMB mn	(%)
Turnover	8,154	6,479	25.9
Cost of Sales	(5,963)	(4,857)	22.8
Gross Profit	2,191	1,622	35.1
GPM (%)	26.9	25.0	1.8
Selling and distribution costs	(346)	(192)	80.4
Administrative expense	(332)	(238)	39.8
EBIT	1,514	1,193	26.9
EBIT Margin (%)	18.6	18.4	0.2
Other income	80	29	179.0
Fair Value gains on IP and others	142	130	9.5
Exceptional items	(51)	(149)	(65.9)
Share of profit from JCE/ Assoc.	(39)	(11)	NA
Finance cost	(118)	(79)	49.7
Profit before tax	1,528	1,112	37.4
Tax	(669)	(511)	31.0
- LAT	(238)	(193)	23.6
- Enterprise tax	(431)	(318)	35.4
Profit after tax	858	601	42.9
Minority Interest	(108)	(35)	NA
Net profit	750	566	32.5
Core net profit	832	653	27.4
Core net margin	10.2%	10.1%	

Operating statistics	1H17	1H16	YoY
			%
GFA Delivered (mn sqm)	1.11	0.82	35.0
Booked ASP (RMB/sqm)	6,914	7,670	(9.9)
Booked sales (RMB mn)	7,675	6,307	21.7
Contracted GFA (mn sqm)	1.56	1.29	21.5
Contracted ASP (RMB/sqm)	10,571	8,184	29.2
Contracted Sales (RMB mn)	16,522	10,528	56.9
Balance sheet	Jun-17	Dec-16	YoY
	RMB mn	RMB mn	
Gross debt	27,813	19,568	42.1
Cash	14,814	10,956	35.2
Net debt	12,999	8,611	51.0
Net gearing (%)	71.1	58.9	+12.3ppt

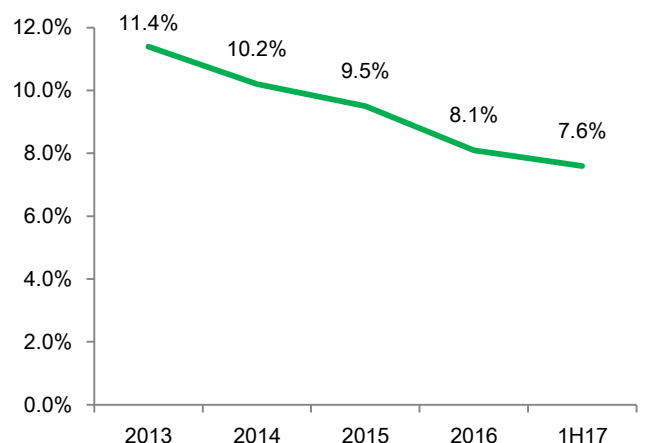
Source(s): Company, ABCI Securities

Exhibit 2: Aoyuan's presales breakdown (1H17: RMB16.5bn)



Source(s): Company, ABCI Securities

Exhibit 3: Aoyuan's average borrowing cost



Source(s): Company, ABCI Securities



Exhibit 4: Aoyuan's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Guangzhou	1.8	3,519	11%		1,989
Shenzhen	0.2	2,764	9%		12,275
Zhuhai	0.4	1,415	4%		3,258
Foshan	0.7	938	3%	DCF with WACC of 12.0%	1,338
Zhongshan	0.8	1,244	4%		1,581
Qingyuan	1.4	940	3%		651
Chongqing	1.8	2,830	9%		1,614
Others	8.3	17,914	56%		2,155
Subtotal	11.4	31,563	99%		2,758
Investment Properties		361	1%	6.0% cap rate on 2017E net rental	
Total 2017E GAV		31,925	100%		
2017E Net cash/ (debt)		(10,997)	-34%		
Total 2017E NAV		20,928	66%		
No. of share outstanding (diluted)		2,784			
NAV per share (RMB)		7.52			
Ex rate		1.16			
NAV per share (HKD)		8.72			
Target discount (%)		50%			
Target Price (HKD)		4.40			
WACC	12.0%				
Cost of debt	7.6%				
Cost of equity	20.0%				
Debt/ (Debt + Equity)	56%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	6,976	9,572	11,827	18,947	23,642	27,490
Cost of sales	(4,909)	(6,926)	(8,550)	(13,442)	(16,880)	(20,266)
Gross Profit	2,067	2,646	3,277	5,506	6,762	7,224
SG&A expenses	(770)	(890)	(1,082)	(1,359)	(1,635)	(1,640)
EBIT	1,297	1,756	2,195	4,147	5,127	5,584
Finance cost	(65)	(91)	(157)	(361)	(379)	(397)
Share of profit of associates	9	28	(32)	-	-	-
Other income/ (expenses)	110	147	242	81	109	169
Fair value gain of investment properties	98	-	-	-	-	-
Disposal/one-off items	-	45	(162)	-	-	-
Profit before tax	1,449	1,884	2,085	3,866	4,857	5,356
Tax	(666)	(977)	(1,078)	(1,810)	(2,224)	(2,299)
Profit after tax	783	907	1,007	2,056	2,633	3,056
Minority interest	26	(95)	(126)	(449)	(483)	(647)
Reported net profit	809	812	881	1,607	2,150	2,410
Less: exceptional items	(73)	(34)	122	0	(0)	0
Underlying net profit	736	778	1,003	1,607	2,150	2,410
Per share						
Underlying EPS (RMB)	0.26	0.28	0.36	0.58	0.77	0.87
DPS (RMB)	0.09	0.11	0.15	0.17	0.23	0.26
Payout ratio (%)	33%	38%	42%	30%	30%	30%
BVPS (RMB)	2.77	2.96	3.20	3.61	4.15	4.75
Growth %						
Revenue	21.8%	37.2%	23.6%	60.2%	24.8%	16.3%
Gross Profit	17.6%	28.0%	23.8%	68.0%	22.8%	6.8%
EBIT	19.2%	35.3%	25.0%	88.9%	23.6%	8.9%
Underlying net profit	12.1%	5.7%	28.9%	60.3%	33.7%	12.1%
Margin %						
Gross profit margin	29.6%	27.6%	27.7%	29.1%	28.6%	26.3%
GPM (post-LAT)	24.7%	24.5%	20.3%	23.9%	23.6%	22.2%
EBIT margin	18.6%	18.3%	18.6%	21.9%	21.7%	20.3%
Core net margin	10.0%	8.8%	9.8%	10.9%	11.1%	11.1%
Key assumptions						
Contracted Sales (RMB mn)	12,220	15,171	25,602	34,329	41,369	35,748
GFA sold (mn sqm)	1.33	1.89	2.98	3.90	4.70	3.90
ASP (RMB/sqm)	9,162	8,035	8,589	8,811	8,807	9,161
Booked Sales (RMB mn)	6,803	9,295	11,240	18,312	22,954	26,745
GFA delivered (mn sqm)	0.91	1.02	1.61	2.05	2.58	2.90
Booked ASP (RMB/sqm)	7,441	9,130	6,994	8,926	8,889	9,222

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	33,150	43,198	59,830	74,231	96,413	109,325
Cash	4,852	7,769	10,471	9,085	29,574	48,927
Restricted cash	1,065	1,267	486	486	486	486
Trade & other receivables	1,849	1,753	3,604	3,604	3,604	3,604
Property under development	24,947	31,792	43,487	59,274	60,966	54,526
Other current assets	437	617	1,782	1,782	1,782	1,782
Non-current assets	3,636	5,629	6,589	7,109	7,619	8,117
Property, plant & equipment	501	494	506	526	536	534
Investment properties	2,728	4,505	5,425	5,925	6,425	6,925
Investment in Associate and JCE	63	217	164	164	164	164
Other non-current assets	344	413	494	494	494	494
Total Assets	36,786	48,827	66,418	81,340	104,031	117,442
Current Liabilities	20,378	22,770	36,143	48,668	69,421	80,548
Short term borrowings	4,464	2,570	4,506	5,506	6,506	7,506
Trade & other payables	3,501	5,348	6,795	6,795	6,795	6,795
Pre-sales deposits	8,772	9,823	20,524	32,050	51,803	61,929
Other current assets	3,641	5,028	4,318	4,318	4,318	4,318
Non-current liabilities	7,374	14,481	15,645	15,645	15,645	15,645
Long term borrowings	7,033	13,727	15,062	15,062	15,062	15,062
Other payables	0	0	0	0	0	0
Other non-current assets	341	754	583	583	583	583
Total Liabilities	27,752	37,251	51,787	64,313	85,066	96,193
Net Assets	9,034	11,576	14,631	17,027	18,965	21,249
Shareholders' Equity	7,719	8,243	8,918	10,043	11,548	13,235
Minority Interest	1,315	3,333	5,713	7,085	7,519	8,115
Total Equity	9,034	11,576	14,631	17,129	19,067	21,350
Key ratio						
Gross debt (RMB mn)	11,497	16,298	19,568	20,568	21,568	22,568
Net debt (RMB mn)	5,580	7,262	8,611	10,997	(8,492)	(26,845)
Net gearing (%)	62%	63%	59%	64%	-45%	-126%
Contracted sales/ Total assets (x)	0.33	0.31	0.39	0.42	0.40	0.30

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	1,323	1,790	2,237	4,197	5,187	5,656
Change in Working Capital	244	(1,544)	(709)	(2,817)	19,578	18,156
Tax payment	(666)	(977)	(1,268)	(1,810)	(2,224)	(2,299)
Operating cash flow	901	(731)	259	(430)	22,540	21,513
Purchase of PP&E	(70)	(70)	(70)	(70)	(70)	(70)
Addition of Investment Properties	(500)	(500)	(500)	(500)	(500)	(500)
Others	110	(53)	242	81	109	169
Investing cash flow	(460)	(623)	(328)	(489)	(461)	(401)
Debt raised	4,979	6,781	8,959	5,000	5,000	5,000
Debt repaid	(2,812)	(1,000)	(4,000)	(4,000)	(4,000)	(4,000)
Interest expenses	(1,276)	(1,393)	(1,771)	(1,806)	(1,896)	(1,986)
Equity raised	0	0	0	0	0	0
Dividend to shareholders	(242)	(295)	(418)	(482)	(645)	(723)
Others	950	128	(50)	923	(50)	(50)
Financing cash flow	1,600	4,221	2,720	(365)	(1,591)	(1,759)
Net cash inflow/ (outflow)	2,040	2,867	2,651	(1,284)	20,489	19,353
Cash- beginning	2,812	4,852	7,719	10,370	9,085	29,574
Cash- year-end	4,852	7,719	10,370	9,085	29,574	48,927

Source(s): Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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