

Company Note

Hong Kong

NOT RATED

Consensus ratings*: Buy 5 Hold 1 Sell 0

Current price:	HK\$3.03
Target price:	na
Previous target:	Na
Up/downside:	na
CIMB / Consensus:	na
Reuters:	3883.HK
Bloomberg:	3883 HK
Market cap:	US\$1,035m
	HK\$8,095m
Average daily turnover:	US\$3.94m
	HK\$30.73m
Current shares o/s:	2,672m
Free float:	45.9%

*Source: Bloomberg

Key changes in this note

N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.7	32.9	79.3
Relative (%)	-2.6	24.8	59.4

Major shareholders	% held
Guo Zi Wen	54.1

China Aoyuan Property Group Ltd**Play on the Big Bay Area**

- Aoyuan's 1H17 core net profit increased 27% yoy on the back of strong property sales.
- Gross margin expanded by 2% pts to 27% in 1H17. Management expects gross margin to be stable at 26-27% in FY17-18F.
- Contracted sales increased by 57% yoy to Rmb16.5bn in 1H17, achieving 50% of the company's internal full-year target of Rmb33.3bn.
- Aoyuan is a play on the Big Bay Area, with 61% of its landbank at end-Jun 2017 located in South China (offers higher gross margin than Central China).
- Aoyuan has existing landbank of 17m sq m, which management believes is sufficient for its development requirements over the next 3-4 years.

Solid core net profit growth in 1H17

1H17 core net profit rose 27% yoy to Rmb832m, driven by strong property sales. Core net margin was flat yoy at 10%. Revenue increased by 26% yoy to Rmb8,154m. Gross margin expanded by 2% pts to 27%, mainly due to changes in product mix. Net gearing jumped from 51% at end-Dec 2016 to 63% at end-Jun 2017, after active land acquisition in 1H17. Management expects net gearing of 80% or below in FY17F.

Contracted sales on track to company FY17F; 60% in Big Bay Area

Contracted sales increased by 57% yoy to Rmb16,520m in 1H17, achieving 50% of Aoyuan's full-year target of Rmb33.3bn. Contracted sales further accelerated in Jul 2017, rising 79% yoy to Rmb5.3bn - a record-high for monthly sales. Product mix in 1H17 was largely the same as 1H16, with residential comprising 69%. ASP rose 29% yoy to Rmb10,571/sq m. At end-Jun 2017, net order book stood at Rmb35.8bn.

Management expects stable gross margins of 26-27% in FY17-18F

Recognised property sales increased by 22% yoy to Rmb7,675m in 1H17, mainly due to sales from Guangzhou (20%), other cities in South China (30%) and Central China (31%). Gross profit increased by 35% yoy to Rmb2,191m, with gross margin expanding from 25% in 1H16 to 27% in 1H17 due to more high-margin residential sales. Management expect gross margin to be stable at 26-27% in FY17-18F.

A play on the Big Bay Area

As at end-Jun 2017, Aoyuan held 95 projects with total landbank of 17m sq m and total saleable resources of Rmb163bn, which it deems sufficient for its development needs over the next 3-4 years. In terms of saleable resources, 61% of its landbank is located in South China and 16% in Central China. In 1H17, the Big Bay Area contributed 60% of the total contracted sales (Rmb9.93bn). Management said its gross margin in Guangzhou/other cities in Guangdong were 35%/30%, above the c.23% of other cities.

Active landbanking in 1H17

In 1H17, Aoyuan acquired 20 sites with total GFA of 3.7m sq m for total land cost of Rmb9.4bn. This is higher than the 17 sites acquired in FY16 (total GFA of 3.1m sq m and total land cost of Rmb9.9bn). Of the 20 sites acquired in 1H17, 16 sites were bought via M&A.

Overseas investment strategy

Aoyuan has overseas projects in Australia and Canada, in addition to proactive bidding on land in Hong Kong. Management believe the overseas investments would help to improve its build quality in Mainland China and expect these overseas projects to contribute around 10% of contracted sales in the long run. The overseas projects generate gross margins of 25-28% and net margins of 12-13%, according to management.

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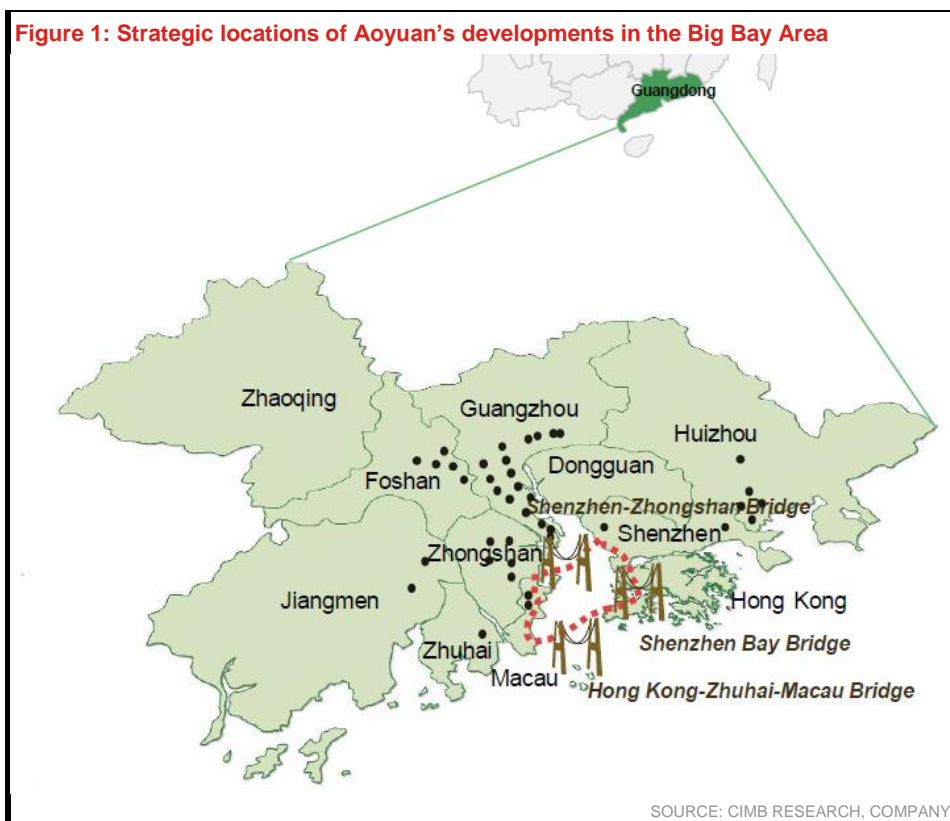
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Financial summary

	Dec-12A	Dec-13A	Dec-14A	Dec-15A	Dec-16A
Revenue (HK\$m)	3,943	5,729	6,976	9,572	11,827
Gross Profit (HK\$m)	1,187	1,759	2,067	2,646	3,277
Gross Profit Margin	30.1%	30.7%	29.6%	27.6%	27.7%
Net Profit (HK\$m)	930	736	809	812	881
Core net profit (HK\$m)	166	635	707	951	1,247
Normalised EPS (HK\$)	0.36	0.27	0.29	0.29	0.32
Normalised EPS Growth		(22.9%)	6.1%	0.3%	10.7%
FD Normalised P/E (x)	5.81	7.53	7.10	7.08	6.40
DPS (HK\$)	0.05	0.08	0.09	0.09	0.10
Dividend Yield	2.52%	3.87%	4.21%	4.26%	4.69%
EV/EBITDA (x)	24.00	13.14	11.21	8.36	6.33
P/FCFE (x)	nm	nm	nm	nm	0.94
Net Gearing	36.7%	93.0%	123.2%	72.3%	55.1%
Recurring ROE	13.1%	10.1%	9.8%	7.9%	6.7%

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Strategic locations of Aoyuan’s developments in the Big Bay Area



SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Landbank replenishment in 1H17

Name	City	Type	Approach	Acquired date	Stake (%)	Total GFA (sqm)	Land cost (RMB/sqm)	Total land cost (RMB m)	Attributable land cost (RMB m)
1 Zhuhai Aoyuan Seaview Mountain	Zhuhai, Guangdong	C	Equity acquisition	Jan 2017	70%	205,500	4,039	830	581
2 Zhongshan Aoyuan Xiangshan Scenery	Zhongshan, Guangdong	C, R	Equity acquisition	Jan 2017	100%	37,900	2,698	120	120
3 Yangzhou Aoyuan The Lake Shine House	Yangzhou, Jiangsu	C, R	Equity acquisition	Jan 2017	100%	300,700	4,434	1,333	1,333
4 Vancouver Granville Project	Vancouver, Canada	R	Land acquisition	Jan 2017	90%	5,500	29,204	161	145
5 Shenzhen Aoyuan SOHO	Shenzhen, Guangdong	C, R	Equity acquisition	Feb 2017	100%	72,700	13,369	985	985
6 Foshan Aoyuan Champion City	Foshan, Guangdong	C, R	Equity acquisition	Feb 2017	10%	621,000	486	302	30
7 Huizhou Aoyuan Mansion	Huizhou, Guangdong	C, R	Equity acquisition	Mar 2017	100%	90,000	4,089	368	368
8 Zhongshan Xiaolan	Zhongshan, Guangdong	C, R	Equity acquisition	Mar 2017	77%	57,400	2,330	224	103
9 Beijing Aoyuan Second Ring Plaza	Fengtai, Beijing	C, R	Equity acquisition	Mar 2017	100%	16,000	41,138	658	658
10 Huizhou Daya Bay Project	Huizhou, Guangdong	C, R	Equity acquisition	Apr 2017	70%	64,500	3,384	322	225
11 Quanzhou Nan'an Project	Quanzhou, Fujian	C, R	Equity acquisition	Apr 2017	55%	497,500	725	289	159
12 Xiangtan Project	Xiangtan, Hunan	C, R	Equity acquisition	Apr 2017	100%	665,100	483	420	407
13 Zhuhai Aoyuan Xianghai Scenery	Zhuhai, Guangdong	R	Equity acquisition	Apr 2017	80%	48,200	7,266	350	280
14 Jingzhou Project	Jingzhou, Hubei	C, R	Land auction	May 2017	100%	353,700	3,701	1,310	1,310
15 Jiaxing Xiuzhou Project	Jiaxing, Zhejiang	C, R	Land auction	May 2017	100%	71,000	6,211	441	441
16 Huizhou Danshui Project	Huizhou, Guangdong	C, R	Equity acquisition	May 2017	51%	38,000	2,107	81	41
17 Quanzhou Shishi Project	Quanzhou, Fujian	C, R	Equity acquisition	Jun 2017	100%	153,900	1,982	305	305
18 Huizhou Ganghong Project	Huizhou, Guangdong	C, R	Equity acquisition	Jun 2017	51%	241,100	334	80	41
19 Jiaxing Guangyi Project	Jiaxing, Zhejiang	C	Equity acquisition	Jun 2017	51%	34,800	1,496	52	27
20 Vancouver Burnaby Project	Vancouver, Canada	R	Land acquisition	Jun 2017	100%	123,800	6,591	816	816
Total						3,700,000	2,553	9,447	8,375

SOURCE: CIMB RESEARCH, COMPANY

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Corporate Governance Report:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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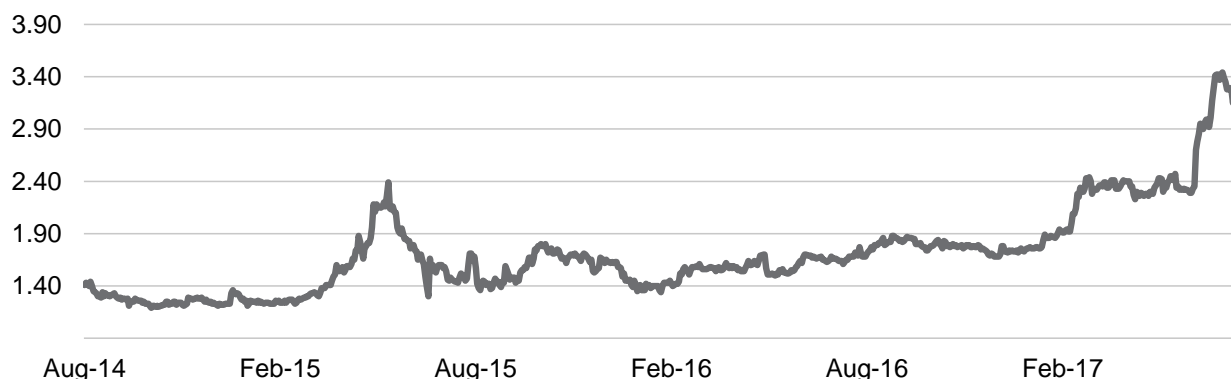
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2017		
1288 companies under coverage for quarter ended on 30 June 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	51.2%	5.5%
Hold	35.7%	3.1%
Reduce	11.9%	0.1%

Spitzer Chart for stock being researched (2 year data)

China Aoyuan Property Group Ltd (3883 HK)

— Price Close



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016

AAV – Very Good, n/a, ADVANC – Very Good, Certified, AEONTS – Good, n/a, AMATA – Excellent, Declared, ANAN – Very Good, Declared, AOT – Excellent, Declared, AP – Very Good, Declared, ASK – Very Good, Declared, ASP – Very Good, Certified, BANPU – Very Good, Certified, BAY – Excellent, Certified, BBL – Very Good, Certified, BCH – not available, Declared, BCP - Excellent, Certified, BEM – Very Good, n/a, BDMS – Very Good, n/a, BEAUTY – Good, Declared, BEC - Good, n/a, BH - Good, Declared, BIGC - Excellent, Declared, BJC – Good, n/a, BJCHI – Good, Declared, BLA – Very Good, Certified, BPP – not available, n/a, BR - Good, n/a, BTS - Excellent, Certified, CBG – Good, n/a, CCET – not available, n/a, CENTEL – Very Good, Certified, CHG – Very Good, n/a, CK – Excellent, n/a, COL – Very Good, Declared, CPALL – not available, Declared, CPF – Excellent, Declared, CPN - Excellent, Certified, DELTA - Excellent, Declared, DEMCO – Excellent, Certified, DIF – not available, n/a, DTAC – Excellent, Certified, EA – Very Good, Declared, ECL – Good, Certified, EGCO - Excellent, Certified, EPG – Good, n/a, GFPT - Excellent, Declared, GLOBAL – Very Good, Declared, GLOW – Very Good, Certified, GPSC – Excellent, Declared, GRAMMY - Excellent, n/a, GUNKUL – Very Good, Declared, HANA - Excellent, Certified, HMPRO - Excellent, Declared, ICHI – Very Good, Declared, INTUCH - Excellent, Certified, ITD – Good, n/a, IVL - Excellent, Certified, JAS – not available, Declared, JASIF – not available, n/a, JUBILE – Good, Declared, KAMART – not available, n/a, KBANK - Excellent, Certified, KCE - Excellent, Certified, KGI – Good, Certified, KKP – Excellent, Certified, KSL – Very Good, Declared, KTB - Excellent, Certified, KTC – Excellent, Certified, LH - Very Good, n/a, LPN – Excellent, Declared, M – Very Good, Declared, MAJOR - Good, n/a, MAKRO – Good, Declared, MALEE – Very Good, Declared, MBKET – Very Good, Certified, MC – Very Good, Declared, MCOT – Excellent, Declared, MEGA – Very Good, Declared, MINT - Excellent, Certified, MTLS – Very Good, Declared, NYT – Excellent, n/a, OISHI – Very Good, n/a, PLANB – Very Good, Declared, PLAT – Good, Declared, PSH – not available, n/a, PSL - Excellent, Certified, PTT - Excellent, Certified, PTTEP - Excellent, Certified, PTTGC - Excellent, Certified, QH – Excellent, Declared, RATCH – Excellent, Certified, ROBINS – Very Good, Declared, RS – Very Good, n/a, SMART - Excellent, n/a, SAPPE - Good, n/a, SAT – Excellent, Certified, SAWAD – Good, n/a, SC – Excellent, Declared, SCB - Excellent, Certified, SCBLIF – not available, n/a, SCC – Excellent, Certified, SCN – Good, Declared, SCCC - Excellent, Declared, SIM - Excellent, n/a, SIRI - Good, n/a, SPA - Good, n/a, SPALI - Excellent, Declared, SPRC – Very Good, Declared, STA – Very Good, Declared, STEC – Excellent, n/a, SVI – Excellent, Certified, TASCO – Very Good, Declared, TCAP – Excellent, Certified, THAI – Very Good, Declared, THANI – Very Good, Certified, THCOM – Excellent, Certified, THRE – Very Good, Certified, THREL – Very Good, Certified, TICON – Very Good, Declared, TIPCO – Very Good, Certified, TISCO - Excellent, Certified, TK – Very Good, n/a, TKN – Good, n/a, TMB - Excellent, Certified, TNR – not available, n/a, TOP - Excellent, Certified, TPCH – Good, n/a, TPIPP – not available, n/a, TRUE – Very Good, Declared, TTW – Very Good, Declared, TU – Excellent, Declared, TVO – Very Good, Declared, UNIQ – not available, Declared, VGI – Excellent, Declared, WHA – not available, Declared, WHART – not available, n/a, WORK – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework
Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.