

China Aoyuan Property

Visible strong growth with low valuation

Aoyuan entered SZ-HK Stock Connect list, which is unlocking its value.

Aoyuan entered the next batch of HK-China Stock Connect list, which is effective on 4th Sept 2017. After the first day of trading of HK-China Stock Connect, the southbound flow has 0.7% of total shares. We believe current low valuation are still very attractive (5.9x 18PE v.s. 6.2x 18PE of sector average).

Revenues surged by 25.8% yoy with GPM improved to 26.9%, core profit surged by 36.7% yoy.

1H17 revenue increased by 25.8% yoy to RMB 8.2bn, beating our expectation of RMB 7bn. The profitability improvement is mainly contributed by higher GPM of residential project (improved 2.9 pts) and more commercial projects, which have higher GPM booked in 1H17 (increased to 20.5% of total revenue). Thanks to GPM improvement by 1.8 pts to 26.9%, net profit surged by 30.9% yoy to RMB 760mn and core profit increased to RMB 666mn, up 36.8% yoy. This beats our core profit expectation of RMB 500mn. Core NPM also improved to 8.2%, up 0.7 pts.

Contracted sales in first 7 months surged by 62% yoy to RMB 19bn.

Sales from Jan. to Jul. 2017 reached RMB 19bn. ASP is around 10,571 per sq.m. We believe Aoyuan will achieve its target by the end of this year, backed by RMB14.6bn saleable resource in 2016 and RMB29.5bn in 2017 with moderate sale-through rate of 62%. The company acquired 3.70mn sq.m landbank in 1H2017; total landbank increased to 17.12mn sq.m with average cost at only RMB 1,992 per sq.m. We believe the low land cost will convert to be high margin in the future (land cost is only 18.8% of average land cost).

Funding cost lower to 7.6% in 1H17, from 8.1% at the end of 2016

As more construction expenditure in 1H raise net gearing from RMB 7.4bn 2016 to RMB 11.7bn, net gearing ratio increased by 13.6 pts to 64.3%, which is in line with our expectation. We believe the net gearing ratio will slightly improve to 61.9% in 2H17, thanks to more contracted sales in 2H17 (Golden Sept. & Silver Oct.) and less construction expense in 2H17.

Reiterate 'Buy' and price target of HK\$5.78, 20% upside

Aoyuan is one of the most active developers whose biggest landbank in Greater Bay Area (58% of land bank located in Guangdong). High expectation of more immigrants from West Guangdong to Zhuhai, Zhongshan and Foshan will boost home prices in these cities, which is positive for Aoyuan. High sales growth will be delivered into revenues in next 2 years. Therefore, we reiterate 'Buy' and revise up target price to HK\$ 5.78, 20% of NAV discount to Dec-17 NAV, which implies 10.8x 17PE and 7.9x 18PE.

Stock code: 3883.HK

Rating: Buy

Price target (HK\$)	5.78
Current price (HK\$, 14 Sep 2017)	4.83
Upside/downside %	20%
Market cap (HK\$ m)	12,904
Market cap (US\$ m)	1,652
Avg daily turnover (HK\$ m)	0.2

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2016	2017e	2018e	2019e
Revenue	11,827	16,322	21,784	27,985
yoy %	23.6%	38.0%	33.5%	28.5%
Net profit	881	1,290	1,750	2,256
yoy %	8.5%	46.4%	35.6%	28.9%
Adjusted NP	678	1,290	1,750	2,256
yoy %	18.3%	90.3%	35.6%	28.9%
Gross margin	27.7%	28.3%	28.6%	28.3%
Net gearing	50.7%	61.9%	61.6%	57.9%
EPS	0.33	0.48	0.65	0.84
DPS	0.15	0.14	0.19	0.25
BPS	3.34	3.82	4.48	5.32

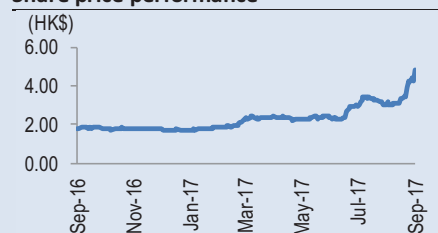
Source: Company data, AMTD Equity Research

Valuation

	2016	2017e	2018e	2019e
P/E	13.2	9.0	6.6	5.1
P/BV	1.3	1.1	1.0	0.8
Div. yield	3.5%	3.3%	4.4%	5.7%
ROE	7.9%	13.5%	15.8%	17.2%
ROA	1.5%	1.8%	2.0%	2.3%

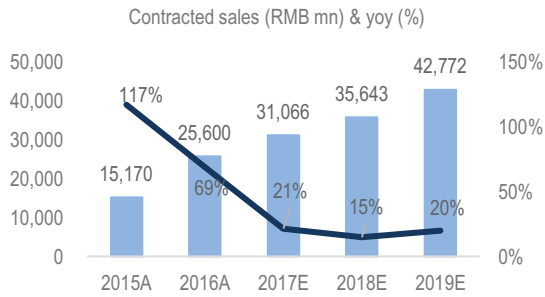
Source: Bloomberg, AMTD Equity Research

Share price performance



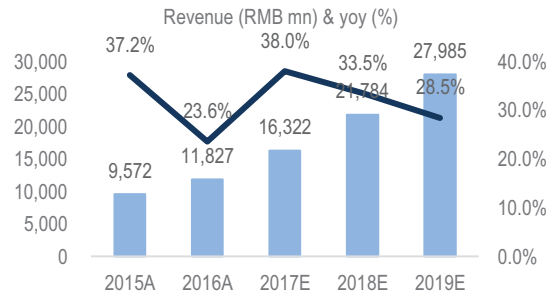
Source: Bloomberg

Figure 26: Contracted Sales & yoy



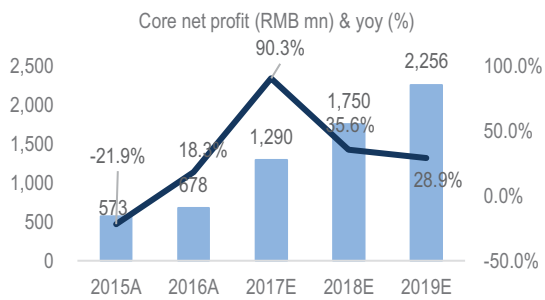
Source: Company Data, AMTD Equity Research

Figure 27: Revenue & yoy



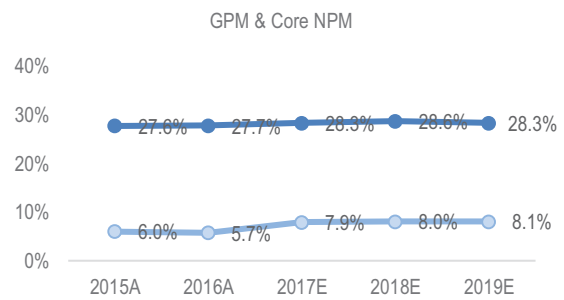
Source: Company Data, AMTD Equity Research

Figure 28: Core Net Profit & yoy



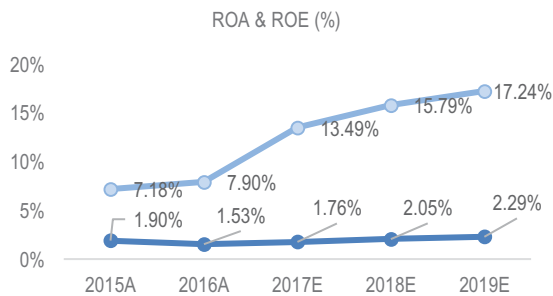
Source: Company Data, AMTD Equity Research

Figure 29: GPM & Core NPM



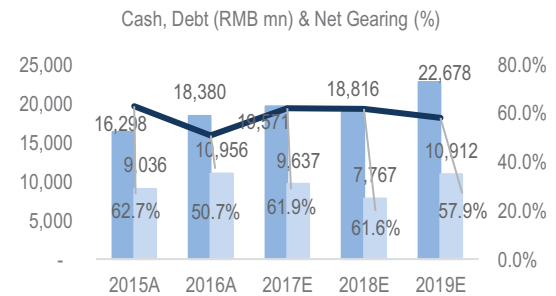
Source: Company Data, AMTD Equity Research

Figure 30: ROA & ROE



Source: Company Data, AMTD Equity Research

Figure 31: Cash, Debt & Net Gearing Ratio



Source: Company Data, AMTD Equity Research

Figure 32:P&L forecast and key ratios

PnL, RMBmn	2015	2016	2017e	2018e	2019e	YoY growth				
						2015	2016	2017e	2018e	2019e
Revenue	9,572	11,827	16,322	21,784	27,985	37.2%	23.6%	38.0%	33.5%	28.5%
Sale of properties	9,295	11,240	15,676	21,073	27,203					
Cost of sales	(6,926)	(8,550)	(11,711)	(15,544)	(20,074)					
Gross profit	2,646	3,277	4,611	6,240	7,910	28.0%	23.8%	40.7%	35.3%	26.8%
Selling expenses	(489)	(592)	(719)	(1,069)	(1,360)	28.8%	21.2%	21.4%	48.8%	27.2%
Administrative expenses	(402)	(489)	(594)	(927)	(1,283)	2.8%	21.8%	21.4%	56.1%	38.5%
Share of post-tax loss of an associate	-	-	-	-	-					
Share of post-tax (losses)/profits of joint ventures	28	(32)	(32)	(32)	(32)					
Finance costs	(91)	(157)	(157)	(168)	(161)	40.4%	72.1%	0.0%	6.5%	-3.9%
Profit before tax	1,884	2,085	2,879	3,814	4,843	30.1%	10.6%	38.1%	32.5%	27.0%
Income tax expense	(977)	(1,078)	(1,463)	(1,938)	(2,461)					
Profit for the year	907	1,007	1,416	1,876	2,382	15.9%	10.9%	40.6%	32.5%	27.0%
Profit for the year attributable to:										
Net profit	812	881	1,290	1,750	2,256	0.3%	8.5%	46.4%	35.6%	28.9%
Core net profit	573	678	1,290	1,750	2,256	-21.9%	18.3%	90.3%	35.6%	28.9%
Non-controlling interests	95	126	126	126	126					
Dividends	245	259	379	515	664					
	50	142	-	-	-					
EPS - basic										
EPS-underlying	0.29	0.33	0.48	0.65	0.84					
DPS - basic	0.21	0.25	0.48	0.65	0.84					
BVPS	0.11	0.15	0.14	0.19	0.25					
Key Ratios, RMBmn	2015	2016	2017e	2018e	2019e					
GPM	27.6%	27.7%	28.3%	28.6%	28.3%					
NPM	8.5%	7.4%	7.9%	8.0%	8.1%					
Core NPM	6.0%	5.7%	7.9%	8.0%	8.1%					
ROA	1.9%	1.5%	1.8%	2.0%	2.3%					
ROCE	3.4%	2.9%	3.8%	4.8%	5.7%					
ROE	7.2%	7.9%	13.5%	15.8%	17.2%					
Total Debt / EBITDA	8.6x	8.2x	6.4x	4.7x	4.5x					
Total Debt / Equity	140.8%	125.6%	122.0%	105.0%	111.7%					
Total Debt / Capitalization	58.5%	55.7%	54.9%	51.2%	52.8%					
Net Debt / EBITDA	3.8x	3.3x	3.3x	2.8x	2.4x					
Net Debt / Equity	62.7%	50.7%	61.9%	61.6%	57.9%					
Net Debt / Capitalization	26.1%	22.5%	27.9%	30.1%	27.4%					
Current Ratio	189.7%	165.5%	144.1%	148.5%	160.0%					
Cash / Total Assets	18.5%	16.5%	12.0%	8.6%	10.2%					
Inventory / Total Assets	65.3%	66.1%	73.5%	78.7%	78.9%					
Net debt / Net Inventory	22.8%	16.9%	16.9%	15.5%	14.0%					
Quick Ratio	150.0%	135.2%	125.2%	134.8%	142.6%					
Cash Ratio	39.7%	30.3%	18.9%	13.7%	17.5%					
Interest Coverage	1.4x	1.3x	1.7x	2.1x	2.8x					

Source: Company data, AMTD Equity Research

Figure 33: Balance sheet forecast & Cash flow forecast

Balance Sheet, RMBmn	2015	2016	2017e	2018e	2019e
Non-current assets	5,629	6,589	6,589	6,589	6,589
Current assets	43,198	59,830	73,477	84,177	100,003
Properties held under development	31,792	43,487	58,453	71,024	83,704
Pledged bank deposits	1,267	486	486	486	486
Bank balances and cash	7,769	10,471	9,152	7,281	10,427
Others	2,370	5,387	5,387	5,387	5,387
Current liabilities	22,770	36,143	51,000	56,693	62,495
Advanced proceeds received from customers	9,823	20,524	31,565	41,145	50,726
Senior note and bond	-	1,508	-	-	-
Borrowings	2,570	2,997	8,322	4,435	656
Others	10,376	11,113	11,113	11,113	11,113
Non-current liabilities	14,481	15,645	13,019	16,151	23,792
Borrowings	4,803	3,795	11,249	14,381	22,022
Senior notes	8,924	10,079	-	-	-
Others	754	1,770	1,770	1,770	1,770
Capital and reserves	11,576	14,631	16,047	17,922	20,304
Equity attributable to owners of the Company	8,243	8,918	10,208	11,958	14,214
Non-controlling interests	3,333	5,713	5,839	5,964	6,090
Total equity	11,576	14,631	16,047	17,922	20,304
Cash Flow Statement, RMBmn	2015	2016	2017e	2018e	2019e
Operating activities					
Profit before income tax	1,884	2,085	2,879	3,814	4,843
Operating cash flows before movements in working capital	1,827	2,268	3,036	3,981	5,004
Increase in inventories	-	(26)	-	-	-
Increase in properties for sale	(4,908)	(1,676)	(14,967)	(12,571)	(12,680)
Increase in deposits received for sale of properties	1,478	10,012	11,041	9,580	9,581
Cash (used in) from operations	(1,342)	8,360	(889)	990	1,906
PRC Income tax paid	(480)	(880)	(1,463)	(1,938)	(2,461)
Interest paid	(1,201)	(1,535)	(1,614)	(1,719)	(1,652)
Net cash (used in) from operating activities	(3,023)	5,945	(3,966)	(2,667)	(2,208)
Net cash used in investing activities	(924)	(4,069)	(157)	(168)	(161)
Financing activities					
New bank and other borrowings raised	6,006	5,245	6,394	7,567	8,298
Repayment of bank and other borrowings	(6,318)	(5,916)	(5,203)	(8,322)	(4,435)
Net cash from (used in) financing activities	6,804	808	2,804	964	5,515
Net increase in cash and cash equivalents	2,856	2,683	(1,319)	(1,870)	3,146
Effect of foreign exchange rate changes	61	18	-	-	-
Cash and cash equivalents at beginning of the year	4,852	7,769	10,471	9,152	7,281
Cash and cash equivalents at end of the year	7,769	10,471	9,152	7,281	10,427

Source: Company data, AMTD Equity Research