

China Aoyuan Property Group (3883 HK)

Member of quant-based [HTI Portfolios](#): Momentum

Target Price **HK\$9.19**
 Current Price **HK\$4.96**
 % Upside **85%**

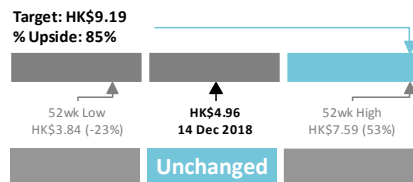
The Scoop: Aiming for 25–30% YoY Contracted Sales Growth in FY19

Real Estate

Hong Kong

17 Dec 2018

BUY

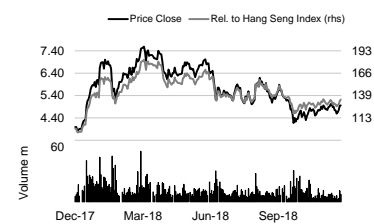


Basic Share Information

Market cap	HK\$13.28b / US\$1.70b
Daily traded value (3mth)	US\$5.99m
Shares outstanding	2,672m
Free float	46%
Net debt-to-equity	56.5%
1 yr high	HK\$7.59
1 yr low	HK\$3.84
Major shareholding	54.1%
Last HTI contact w/ Co	14 Sep 18

Note: Share price-related data is as of 14 December

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	4.2%	-7.1%	20.4%
Absolute USD	4.4%	-6.7%	20.3%
Relative to HSI	2.5%	-2.7%	30.9%



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What event has happened?

We attended Aoyuan's reverse roadshow on 14 December, at which management shared its FY19 plans and sector view. Aoyuan achieved its full-year sales target of Rmb73bn—hitting Rmb74bn—in the first 11 months of the year, and it now expects Rmb82–85bn for the full year, implying 80–86% YoY growth. Aoyuan is also aiming for 25–30% YoY growth in contracted sales in FY19, mainly focusing on properties for development in tier-2 cities. Management is positive on the outlook for the property sector next year, and expects purchase- and loan-limit policies to be eased in most cities, as well as an easing of fund-raising policies for corporates.

Why is it significant?

Aoyuan aims to use 30–35% of its contracted sales for land acquisition. In January–October 2018, it acquired around 60 plots of land, totaling 10.4mn sqm and costing Rmb26bn (of which, Rmb21bn has already been paid). The land cost averages Rmb2,400/sqm. Aoyuan has relatively high interests in its land bank, at about 85% in 2018, which it is planning to keep above 80% in 2019. Aoyuan remains in good financial health, with net gearing below 80%. We expect it to be around 70% at end-FY18. Its overall interest cost is 7.2–7.5%.

Implications for our earnings forecast?

Aoyuan currently has Rmb100bn of unbooked sales, Rmb45bn of which is to be booked as revenue in FY19. We maintain our earnings forecasts, which factor in 43% revenue and NP CAGRs for FY18–20, and GPM of 25–28%.

How do valuations look now?

We maintain our HK\$15.3 NAV-per-share estimate to which, as of the 14 December closing price, Aoyuan is trading at a large 68% discount. Driven by high sales growth and strategic land bank allocation, we think Aoyuan could trade above the average small and mid-sized developer discount to NAV. We continue to use a 40% discount to our NAV estimate and maintain our target price of HK\$9.19. The main risks to our rating and the attainment of our target price are delayed launches of projects, and the Chinese government tightening regulations on property purchases.

What is distinctive about our stock view?

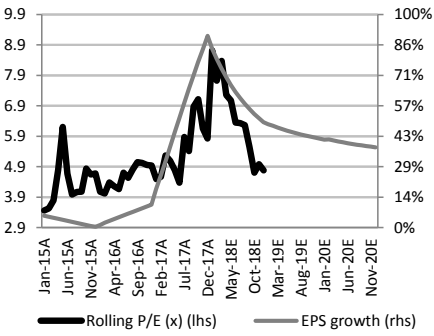
Growth in full-year 2018 contracted sales, pre-sale of the new *AOffice 46 Project* next year, and further share buybacks by management could be catalysts for Aoyuan's share price.

	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E	Trend
Total turnover (Rmbm)	11,827	19,115	28,985	44,255	55,507	▬ ▬ ▬ ▬ ▬
Operating profit (Rmbm)	1,965	3,677	5,587	7,868	10,127	▬ ▬ ▬ ▬ ▬
Pre-tax profit (Rmbm)	2,085	3,626	5,731	7,786	10,007	▬ ▬ ▬ ▬ ▬
Net income to ord equity (Rmbm)	881	1,640	2,454	3,479	4,789	▬ ▬ ▬ ▬ ▬
Net profit growth	8.5%	86.2%	49.6%	41.8%	37.7%	▬ ▬ ▬ ▬ ▬
P/E (x)	13.56	7.14	4.78	3.37	2.45	▬ ▬ ▬ ▬ ▬
Adj EV/EBITDA (x)	14.19	12.79	8.09	5.44	4.20	▬ ▬ ▬ ▬ ▬
P/B (x)	1.31	1.15	0.98	0.81	0.66	▬ ▬ ▬ ▬ ▬
ROE	10.3%	17.2%	22.2%	26.4%	29.7%	▬ ▬ ▬ ▬ ▬
Dividend yield	3.4%	5.7%	8.4%	11.9%	16.3%	▬ ▬ ▬ ▬ ▬
EPS HTI New (Rmb)	0.32	0.61	0.92	1.30	1.79	▬ ▬ ▬ ▬ ▬
Consensus EPS (Rmb)	0.38	0.61	0.88	1.24	1.65	▬ ▬ ▬ ▬ ▬
HTI EPS vs Consensus	(15.0%)	1.4%	4.4%	4.6%	8.8%	▬ ▬ ▬ ▬ ▬

Source: Company data, Bloomberg, HTI estimates

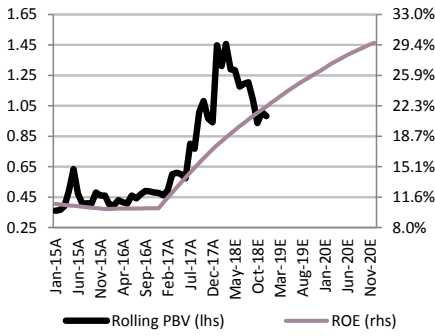
Click [here](#) to download the working model

P/E (x) vs EPS Growth (%)



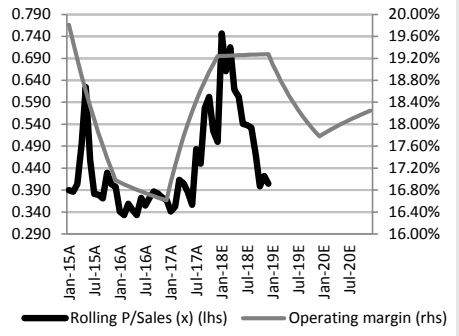
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



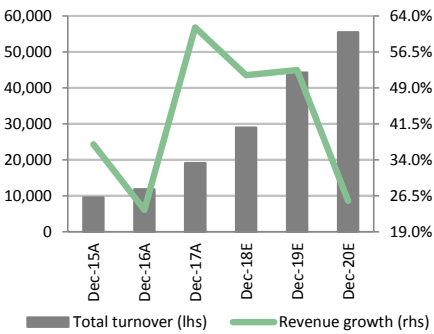
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



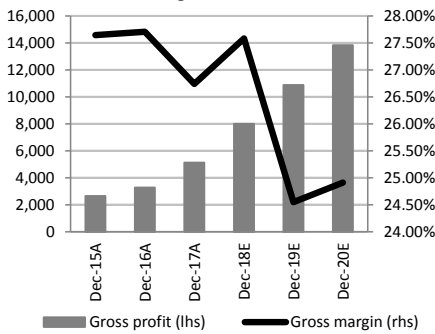
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



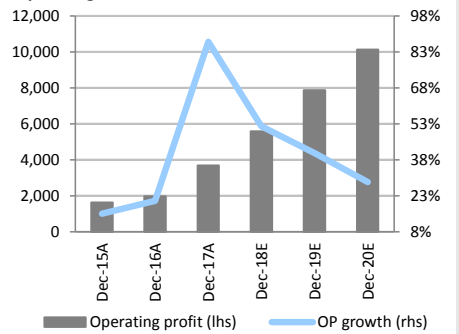
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



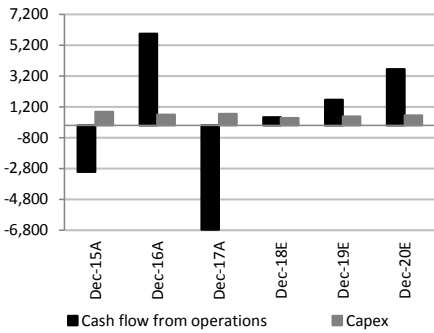
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



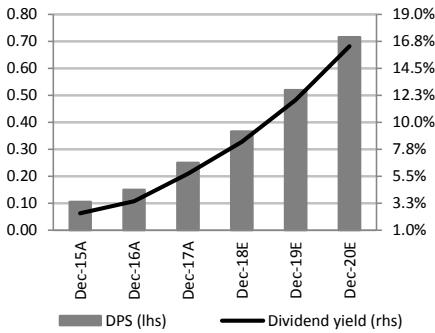
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (Rmbm)



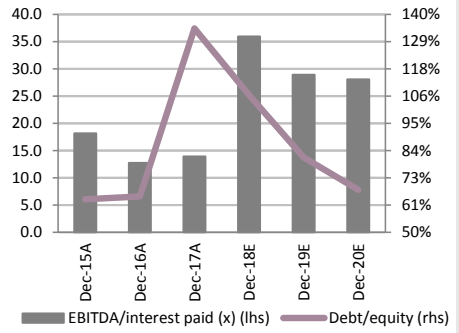
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (Rmb)



Source: Company data, Bloomberg, HTI estimates

Debt to Equity (%) and Interest Cover (x)



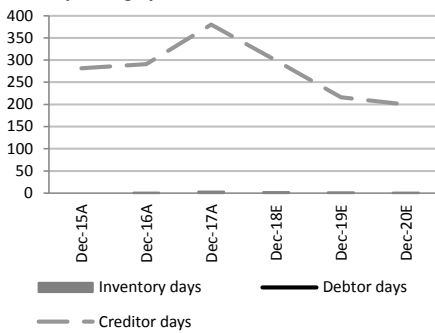
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



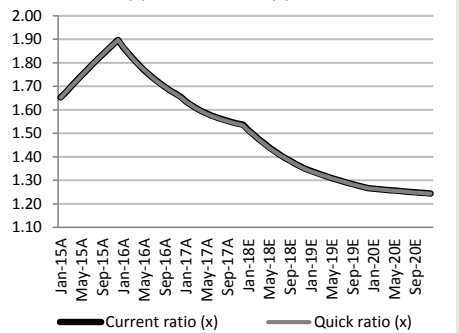
Source: Company data, Bloomberg, HTI estimates

Cash Operating Cycle



Source: Company data, Bloomberg, HTI estimates

Current Ratio (x) vs Quick Ratio (x)



Source: Company data, Bloomberg, HTI estimates

APPENDIX

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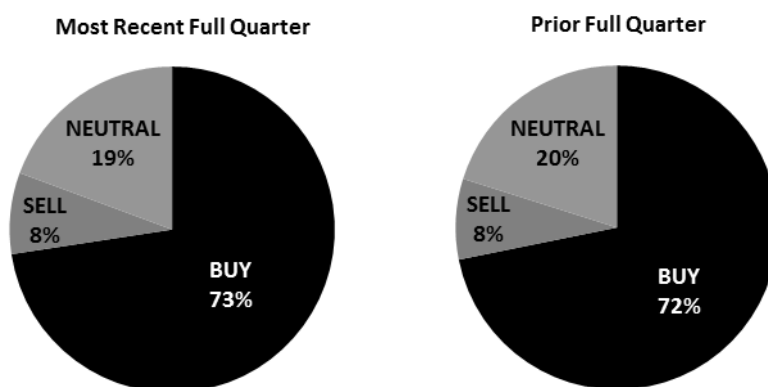
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*Percentage of investment banking clients in each rating category.

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Recommendation Chart



Date	Recommendation	Target (HK\$)	Price (HK\$)
2018-09-19	Buy	9.19	5.51
2018-08-21	Buy	8.41	5.90
2018-03-15	Buy	8.72	7.15
2018-01-12	Buy	7.69	6.00
2017-08-01	Buy	3.93	3.28

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity