



## Accelerating consolidation amid slower market in 2018

### Accelerating consolidation amid slower physical market

For 2018, we expect a slower physical market after record high property sales (including retail and office spaces) of 1.7bn sqm last year. We expect marginal policy relaxation with relatively tighter credit in 2018 versus that of 2017. However, we remain constructive on listed developers in view of the accelerating market consolidation. With diversified financing channels, rich saleable resources and strong execution, we estimate listed developers will deliver strong sales growth of >35% in 2018F. We like developers with rich land bank/resources in high-tier cities and high-growth national players with strong execution in low-tier markets.

### Physical market might slow in 2018F – sales volume to decrease by 5%

We are relatively conservative on the physical market in 2018. We expect: 1) national property sales volume to decline by ~5% y-y due to high base (+7.7% y-y in 2017) and tight credit (average first-home mortgage rate increased to 5.4% at end-2017 from 4.5% in 2016/higher borrowing cost for developers); 2) property prices to grow moderately due to stringent price control but low inventory levels (11/9/11 months in T1/2/3 cities), and hence, resulting in low single-digit decline for national property sales value; and 3) REI to continue to grow at 5-7% on further land sales recovery, and improving new starts.

### Accelerating market consolidation; sales of listcos to grow >35% in 2018F

We think market consolidation will continue to be the key trend in 2018. We expect the top-20 developers will have >50% market share of primary property sales by 2020F (vs. 32.5% in 2017) due to their: 1) superior financing channels (average financing cost lowered to 5.3% in 1H17 from 7-8.5% in 2012-2015); 2) more competitiveness in the primary land market and M&As (land acquisition of major developers increased 132% by volume on average in 2017); and 3) better execution and brand equity.

### Low-tier market players might continue to outperform in sales growth

While we agree that overall sales volume in low-tier cities could retreat from high base in 2018, we think listed low-tier markets players will continue to outperform in sales (vs. T1/2 focused players) as we see less competition in this fragmented market. Dominant players like Country Garden can easily gain market share in T3/4 cities. On the contrary, competition in T1 and high T2 markets will remain fierce and it will be difficult for major players to gain market share, despite high-tier markets recovering gradually from low base.

### We favor high-growth national players and strong regional names with rich saleable resources

Overall, we remain positive on the sector on a 12-month horizon, given listed developers' strong sales growth of >35% in 2018 and earnings CAGR of >25% for FY17-19F. We change our NAV discount applied to the sector/stocks to reflect the positive growth prospects and improving balance sheets. We expect more divergence in listcos' performance, due to their different strategies and execution. We suggest investors accumulate names with strong execution records or abundant saleable resources in high-tier cities, including **Country Garden, Vanke, Future Land, Aoyuan, Logan, and KWG**. We value stocks using NAV for existing projects. Key risks are further credit/policy tightening.

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### Key Changes

Company	Target Price	Rating
3383.HK	9.40 to 16.08(HKD)	Hold to Buy
3883.HK	7.00 to 8.40(HKD)	-
0817.HK	3.81 to 5.63(HKD)	-
1966.HK	4.57 to 5.23(HKD)	-
0884.HK	4.82 to 7.99(HKD)	-
0688.HK	30.63 to 34.91(HKD)	-
2007.HK	18.12 to 19.93(HKD)	-
1109.HK	27.11 to 37.01(HKD)	-
3333.HK	26.55 to 30.11(HKD)	-
1030.HK	8.26 to 8.88(HKD)	-
600383.SS	10.06 to 13.10(CNY)	-
3900.HK	9.13 to 14.09(HKD)	-
2777.HK	19.69 to 25.92(HKD)	-
1813.HK	12.88 to 15.48(HKD)	-
3380.HK	10.95 to 13.15(HKD)	-
0960.HK	23.17 to 30.29(HKD)	-
600823.SS	4.55 to 5.20(CNY)	-
0813.HK	19.10 to 27.58(HKD)	-
3377.HK	5.27 to 6.83(HKD)	Buy to Hold
1918.HK	46.00 to 46.52(HKD)	-
2202.HK	41.38 to 45.24(HKD)	-
000002.SZ	34.53 to 37.65(CNY)	-

Source: Deutsche Bank

1 February 2018

Property

China Property



Model updated: 30 January 2018

Running the numbers

Asia	
China	
Property	

Aoyuan

Reuters: 3883.HK Bloomberg: 3883.HK

Buy

Price (30 Jan 18)	HKD 6.80
Target Price	HKD 8.40
52 Week range	HKD 1.64 - 7.00
Market Cap (m)	HKDm 18,201 USDm 2,328

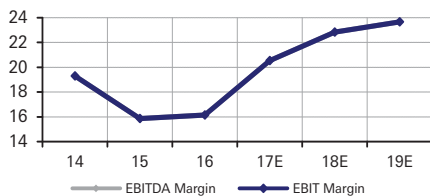
Company Profile

Aoyuan was founded in 1996 and has been listed since October 2007. Aoyuan is regionally focused on the Pearl River Delta, Bohai Rim, Yangtze River Delta, the core region of Central and Western China, and Beibuwan, and has gradually developed overseas property markets, including Australia and Canada. As of 1H17, the company has a total land bank of 17msqm.

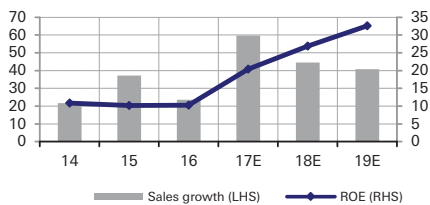
Price Performance



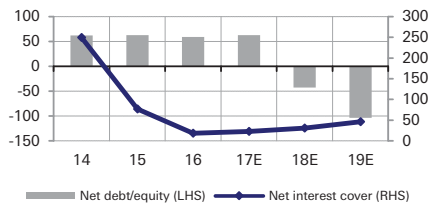
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.26	0.34	0.45	0.68	1.08	1.63
Reported EPS (CNY)	0.29	0.29	0.32	0.73	1.13	1.67
DPS (CNY)	0.09	0.11	0.15	0.24	0.38	0.57
BVPS (CNY)	2.8	3.0	3.3	3.8	4.6	5.7
Weighted average shares (m)	2,784	2,784	2,728	2,673	2,677	2,677
Average market cap (CNYm)	2,354	3,005	3,496	14,727	14,727	14,727
Enterprise value (CNYm)	9,161	13,308	17,647	37,559	16,002	-1,635

Valuation Metrics

P/E (DB) (x)	3.2	3.2	2.8	8.1	5.1	3.4
P/E (Reported) (x)	2.9	3.7	4.0	7.5	4.9	3.3
P/BV (x)	0.29	0.39	0.43	1.44	1.20	0.97
FCF Yield (%)	nm	nm	151.8	nm	160.5	136.4
Dividend Yield (%)	10.3	9.8	11.7	4.3	6.9	10.3
EV/Sales (x)	1.3	1.4	1.5	2.0	0.6	0.0
EV/EBITDA (x)	6.8	8.8	9.2	9.7	2.6	-0.2
EV/EBIT (x)	6.8	8.8	9.2	9.7	2.6	-0.2

Income Statement (CNYm)

Sales revenue	6,976	9,572	11,827	18,889	27,301	38,459
Gross profit	2,067	2,646	3,277	5,296	8,037	11,409
EBITDA	1,347	1,520	1,911	3,880	6,235	9,101
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	1,347	1,520	1,911	3,880	6,235	9,101
Net interest income/(expense)	-5	-20	-103	-168	-201	-197
Associates/affiliates	9	28	-32	36	-4	10
Exceptionals/extraordinaries	98	356	310	181	182	155
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,449	1,884	2,085	3,929	6,212	9,069
Income tax expense	666	977	1,078	1,864	2,758	3,675
Minorities	-26	95	126	115	432	925
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	809	812	881	1,949	3,022	4,470
DB adjustments (including dilution)	-73	139	357	-135	-136	-116
DB Net profit	736	951	1,238	1,814	2,886	4,354

Cash Flow (CNYm)

Cash flow from operations	-1,581	-2,944	5,999	-6,728	23,837	20,538
Net Capex	-324	-867	-692	-780	-201	-453
Free cash flow	-1,905	-3,811	5,307	-7,507	23,636	20,085
Equity raised/(bought back)	1	0	-156	0	0	0
Dividends paid	-223	-292	-245	-635	-1,010	-1,524
Net inc/(dec) in borrowings	2,793	4,849	1,442	9,784	0	0
Other investing/financing cash flows	-306	2,111	-3,665	3,951	375	-1,328
Net cash flow	360	2,856	2,683	5,593	23,002	17,233
Change in working capital	-1,430	-3,170	6,092	-8,833	20,341	15,101

Balance Sheet (CNYm)

Cash and other liquid assets	5,917	9,036	10,956	16,550	39,551	56,784
Tangible fixed assets	3,229	4,998	5,930	6,668	6,827	7,238
Goodwill/intangible assets	0	0	5	5	5	5
Associates/investments	88	292	173	195	192	202
Other assets	27,551	34,501	49,353	76,551	89,473	85,793
Total assets	36,786	48,827	66,418	99,969	136,047	150,021
Interest bearing debt	11,497	16,298	19,568	29,352	29,352	29,352
Other liabilities	16,254	20,953	32,219	50,159	82,784	94,206
Total liabilities	27,752	37,251	51,787	79,511	112,136	123,558
Shareholders' equity	7,719	8,243	8,918	10,233	12,245	15,191
Minorities	1,315	3,333	5,713	10,226	11,666	11,273
Total shareholders' equity	9,034	11,576	14,631	20,458	23,911	26,464
Net debt	5,580	7,262	8,611	12,802	-10,200	-27,432

Key Company Metrics

Sales growth (%)	21.8	37.2	23.6	59.7	44.5	40.9
DB EPS growth (%)	5.7	29.2	32.8	49.6	58.9	50.9
EBITDA Margin (%)	19.3	15.9	16.2	20.5	22.8	23.7
EBIT Margin (%)	19.3	15.9	16.2	20.5	22.8	23.7
Payout ratio (%)	29.9	36.3	46.4	32.5	33.4	34.1
ROE (%)	10.8	10.2	10.3	20.4	26.9	32.6
Capex/sales (%)	4.6	9.1	5.9	4.1	0.7	1.2
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	61.8	62.7	58.9	62.6	-42.7	-103.7
Net interest cover (x)	249.6	77.1	18.6	23.1	31.0	46.2

Source: Company data, Deutsche Bank estimates

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