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## China Aoyuan Property Group Ltd

## 2017 Result in Line

Stock Rating  
Overweight

Industry View  
Attractive

Price Target  
HK\$5.50

2017 result in line, core net profit went up 55%, 3% higher than our estimate. We reiterate OW due to the company's strong 2018 contract sales outlook and favorable landbank exposure (28%) to the Greater Bay Area.

Aoyuan reported 2017 annual results before market open on Mar 15, 2018.

- **Revenue increased by 62% YoY to Rmb19bn**, in line with our estimate, mainly due to increase in GFA and ASP of delivered projects. **Recognised property sales went up 60% YoY** to Rmb18bn.
- **Gross margin remained stable at 26.7%**, slightly lower than 27.7% in 2016 and 28% of our estimate.
- **Core net profit increased 55% YoY (Rmb1,889mn), 3% above our expectation.** The reported net profit grew by 86% YoY to Rmb1.64bn, vs the positive profit alert in Jan 2018 of at least 75% reported net profit YoY growth.
- **Net gearing improved to 51%** from 63% in 1H17.
- **The company declared a final dividend of Rmb0.25/share** (vs Rmb0.15/share in 2016), implying a payout ratio of 40.8% (vs 45.5% in 2016).

**We reiterate OW** due to: 1) strong 2018 contract growth outlook; 2) low land bank cost; 3) favorable exposure to Greater Bay Area (28%, ranked 7th among our covered developers); and 4) cheap valuation, trading at 6x 2018e P/E vs. peers at 7.1x.

**Analyst briefing:** JW Marriott, 4:30pm, March 15

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**China Aoyuan Property Group Ltd ( 3883.HK, 3883 HK )**

China Property / China

<b>Stock Rating</b>	<b>Overweight</b>
<b>Industry View</b>	<b>Attractive</b>
Price target	HK\$5.50
Up/downside to price target (%)	(22)
Shr price, close (Mar 12, 2018)	HK\$7.04
52-Week Range	HK\$7.19-2.04
Sh out, dil, curr (mn)	2,673
Mkt cap, curr (mn)	Rmb15,193
EV, curr (mn)	Rmb29,345
Avg daily trading value (mn)	HK\$61

<b>Fiscal Year Ending</b>	<b>12/16</b>	<b>12/17e</b>	<b>12/18e</b>	<b>12/19e</b>
ModelWare EPS (Rmb)	0.45	0.68	0.95	1.21
Prior ModelWare EPS (Rmb)	-	-	-	-
Consensus EPS (Rmb)§	-	0.60	0.89	1.23
Revenue, net (Rmb mn)	11,827	19,231	26,879	32,574
EBITDA (Rmb mn)	2,618	4,217	5,814	7,291
ModelWare net inc (Rmb mn)	1,238	1,829	2,537	3,232
P/E	3.4	5.2	6.0	4.7
P/BV	0.5	1.0	1.3	1.1
RNOA (%)	9.7	13.6	17.3	19.2
ROE (%)	15.0	20.5	25.6	27.6
EV/EBITDA	7.0	5.9	5.5	4.7
Div yld (%)	9.6	8.6	5.0	6.4
FCF yld ratio (%)**	136.4	(1.3)	(4.3)	(9.1)
Leverage (EOP) (%)	94.9	93.2	89.2	89.5

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Thomson Reuters Estimates

\*\* = Based on consensus methodology

e = Morgan Stanley Research estimates

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**Exhibit 1: Aoyuan 2017 Results Summary**

Aoyuan(Rmb mn)	2016	2017	YoY (%)	MS 2017E	% From Ms Est.
Total Revenue	11,827	19,115	62%	19,231	-1%
Gross profit (Pre-LAT)	3,277	5,111	56%	5,385	-5%
Net Profit	881	1,640	86%	1,829	-10%
Core Profit	1,223	1,889	55%	1,829	3%
Basic EPS(RMB)	0.32	0.61	90%	0.68	-10%
Core EPS (RMB)	0.45	0.71	58%	0.68	3%
DPS (RMB)	0.15	0.25	67%	0.31	-19%
Margin	2016	2017	YoY (ppt)	MS 2017E	% From Ms Est.
Gross Margin (Pre-LAT)	27.7%	26.7%	(0.97)	28.0%	(1.26)
Core net margin	10.3%	9.9%	(0.46)	9.5%	0.37
Leverage	Jun-17	Dec-17	HoH (ppt)	MS 2017E	% From Ms Est.
NDER	63%	51%	(11.99)	59%	(8.39)

Source: Company Data, Morgan Stanley Research

## Valuation methodology and risks

### 3883.HK

Our price target of HK\$5.50 is our base case scenario value, derived by applying our target discount to our 12-month forward NAV estimate.

#### **NAV Calculation Methodology:**

**How to calculate NAV:** We use a discounted cash flow model to estimate NAV, based on the company's landbank (15mn sqm as of June 2017) using 1H17 presales ASP. We estimate long-term net margin to be 9%. Based on Aoyuan's current presales pace, we estimate the company will deplete its projects in 3 years, and we assume the company will not buy new land.

**Key assumptions:** We assume (1) 8.2% WACC, (2) 8.1% pretax cost of debt, based on the company's funding costs, and (3) 15.6% cost of equity (based on a 1.8x beta, 3% risk-free rate, and 7% market risk premium, per our strategy team's forecasts. Then we add Aoyuan's Rmb9.3bn book value as of June 2017 to arrive at our NAV valuation. Our NAV estimate for the property development business is Rmb22.6bn.

**For Aoyuan, we apply a 45% discount to NAV:** This is toward the middle/deep end of our coverage. We assign the same weighting for the four criteria (Leverage, Asset Turnover, % of Gross Asset Value in Tier 1-2 Cities, and Track Record). The higher the score, the shallower the discount to NAV assigned to an individual stock. For more details, see [Structural Factors to Fuel More Re-Rating; Attractive, published on November 12 2017](#).

#### **Downside risks to our price target:**

- Greater-than-expected margin decline
- Sales decline in 2019

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
<b>Overweight/Buy</b>	<b>1175</b>	<b>37%</b>	<b>315</b>	<b>41%</b>	<b>27%</b>	<b>555</b>	<b>39%</b>
<b>Equal-weight/Hold</b>	<b>1369</b>	<b>43%</b>	<b>357</b>	<b>47%</b>	<b>26%</b>	<b>643</b>	<b>45%</b>
<b>Not-Rated/Hold</b>	<b>53</b>	<b>2%</b>	<b>5</b>	<b>1%</b>	<b>9%</b>	<b>7</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>552</b>	<b>18%</b>	<b>87</b>	<b>11%</b>	<b>16%</b>	<b>222</b>	<b>16%</b>
<b>TOTAL</b>	<b>3,149</b>		<b>764</b>			<b>1427</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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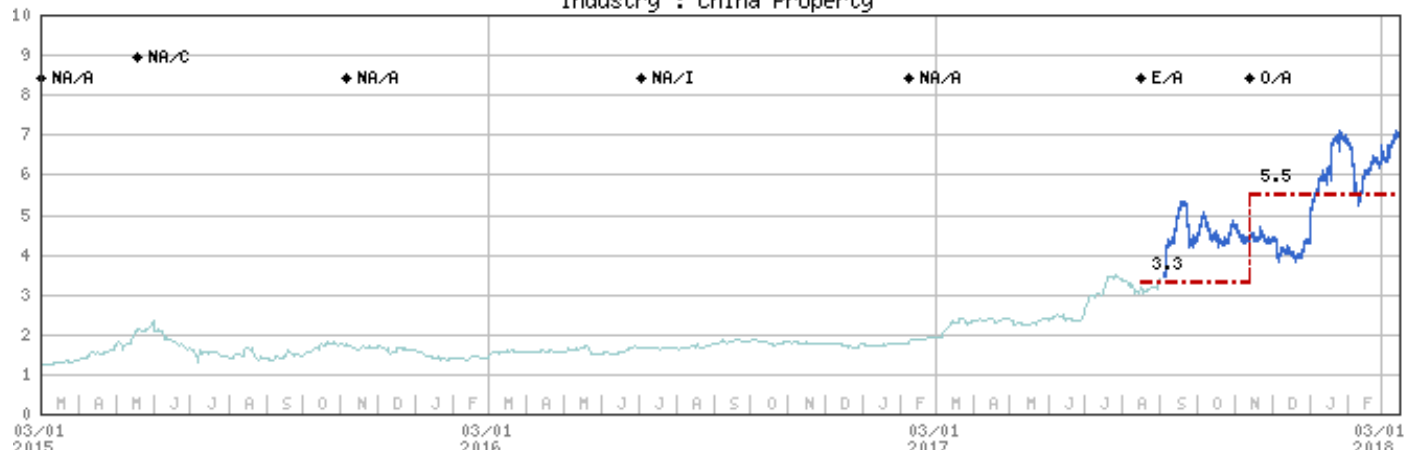
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### Stock Price, Price Target and Rating History (See Rating Definitions)

China Aoyuan Property Group Ltd (3883.HK) - As of 3/14/18 in HKD  
Industry : China Property



Stock Rating History: 3/1/15 : NA/A; 5/19/15 : NA/C; 11/6/15 : NA/A; 7/4/16 : NA/I; 2/7/17 : NA/A; 8/16/17 : E/A; 11/13/17 : O/A

Price Target History: 8/16/17 : 3.3; 11/13/17 : 5.5

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target --      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
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#### INDUSTRY COVERAGE: China Property

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/14/2018)
<b>John Lam, CFA</b>		
Agile Group Holdings Ltd (3383.HK)	O (07/04/2016)	HK\$14.12
BBMG Corporation (2009.HK)	U (04/05/2017)	HK\$4.00
BBMG Corporation (601992.SS)	U (04/05/2017)	Rmb5.32
China Aoyuan Property Group Ltd (3883.HK)	O (11/13/2017)	HK\$6.98
China Overseas Grand Oceans Group (0081.HK)	O (11/06/2015)	HK\$4.33
China Overseas Land & Inv. (0688.HK)	O (05/19/2015)	HK\$27.75
China Resources Land (1109.HK)	O (03/22/2016)	HK\$28.10
China Vanke Co., Ltd. (000002.SZ)	U (02/07/2017)	Rmb32.70
China Vanke Co., Ltd. (2202.HK)	E (08/19/2014)	HK\$34.90
Country Garden Holdings Company Limited (2007.HK)	O (03/14/2018)	HK\$15.22
Evergrande Real Estate Group (3333.HK)	E (06/09/2017)	HK\$24.35
Gemdale Corporation (600383.SS)	U (09/30/2015)	Rmb12.50
Guangzhou R&F Properties (2777.HK)	O (11/13/2017)	HK\$18.76
KWG Property Holding Limited (1813.HK)	O (11/06/2015)	HK\$11.90
Logan Property Holdings Co Ltd (3380.HK)	O (08/16/2017)	HK\$11.92
Poly Property Group (0119.HK)	U (07/04/2016)	HK\$4.26
Poly Real Estate Group (600048.SS)	O (11/06/2015)	Rmb14.57
RiseSun Real Estate Development (002146.SZ)	U (09/30/2015)	Rmb10.81
Shenzhen Overseas Chinese Town (000069.SZ)	O (09/30/2015)	Rmb8.72
Shimao Property (0813.HK)	O (11/06/2015)	HK\$21.15
Sunac China Holdings (1918.HK)	O (06/30/2017)	HK\$30.20
Times China Holdings Ltd. (1233.HK)	O (04/19/2017)	HK\$11.82
<b>Leif Chang</b>		
China Jinmao Holdings Group (0817.HK)	E (07/07/2017)	HK\$4.85
CIFI Holdings Group (0884.HK)	O (05/29/2017)	HK\$6.80
Financial Street Holdings Co Ltd (000402.SZ)	O (11/15/2016)	Rmb10.28
Greenland Holdings Corp Ltd (600606.SS)	U (11/15/2016)	Rmb7.82
Joy City Property (0207.HK)	O (02/22/2017)	HK\$1.39
Longfor Properties (0960.HK)	E (07/05/2017)	HK\$23.35
Red Star Macalline Group Corp Ltd. (1528.HK)	O (03/23/2016)	HK\$9.95
Shanghai Lujiazui Finance & Trade Zone (600663.SS)	U (10/15/2015)	Rmb19.88
Shanghai Shimao (600823.SS)	E (03/28/2016)	Rmb5.25
Shenzhen Investment Ltd. (0604.HK)	E (08/16/2017)	HK\$3.37
Sino Ocean Land (3377.HK)	O (08/25/2017)	HK\$5.74
SOHO China (0410.HK)	O (11/15/2016)	HK\$4.78
Yuexiu Property (0123.HK)	O (01/08/2018)	HK\$1.90
Yuexiu Real Estate Investment Trust (0405.HK)	O (01/08/2018)	HK\$5.34

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.