

# China Aoyuan: Financial Summary

Exhibit 29: Aoyuan: Financial summary (Rmb mn)

Aoyuan Financial Summary					
Balance Sheet: RMB mn	2016	2017	2018E	2019E	2020E
<b>Current assets</b>					
Properties under development	35,293	68,849	75,664	80,408	96,995
Completed Inventory	8,220	8,358	13,193	23,193	23,193
Trade & Other Receivables	4,116	10,102	15,554	21,760	28,386
Amts due from JV & Assoc	485	1,014	1,115	1,227	1,349
Tax recoverable	616	1,041	1,145	1,260	1,386
Restricted cash	143	1,771	1,771	1,771	1,771
Cash & cash Equiv.	10,471	24,769	35,192	39,945	47,019
<b>Total current assets</b>	<b>59,344</b>	<b>115,904</b>	<b>143,634</b>	<b>169,564</b>	<b>200,100</b>
<b>Non-current assets</b>					
Investment Prop.	5,426	6,360	6,360	6,360	6,360
Investments in JV & Asso.	316	196	224	263	313
Other LT Assets	704	1,058	1,260	1,514	1,761
<b>Total non-current assets</b>	<b>6,589</b>	<b>9,696</b>	<b>9,946</b>	<b>10,219</b>	<b>10,517</b>
<b>Total assets</b>	<b>66,418</b>	<b>125,806</b>	<b>153,786</b>	<b>179,990</b>	<b>210,823</b>
<b>Non-current Liabilities</b>					
Borrowings	15,062	21,373	35,373	40,079	45,491
Payable & Tax liabilities	583	1,733	1,872	2,038	2,237
<b>Total Non-current Liabilities</b>	<b>15,645</b>	<b>23,106</b>	<b>37,245</b>	<b>42,116</b>	<b>47,727</b>
<b>Current Liabilities</b>					
Trade & other payables	8,224	15,682	22,306	31,206	40,709
Customer Advances	20,524	34,760	37,947	45,722	55,831
Amounts due	296	837	898	965	1,039
Current Tax liabilities	2,593	3,172	3,489	3,838	4,222
Borrowings	4,506	21,122	22,709	24,179	25,797
<b>Total Current Liabilities</b>	<b>36,143</b>	<b>75,573</b>	<b>87,348</b>	<b>105,911</b>	<b>127,598</b>
<b>Total Liabilities</b>	<b>51,787</b>	<b>98,680</b>	<b>124,593</b>	<b>148,028</b>	<b>175,326</b>
Perpetual Capital Securities	-	-	-	-	-
<b>Shareholders' Equity</b>	<b>8,918</b>	<b>10,155</b>	<b>11,754</b>	<b>13,896</b>	<b>16,630</b>
Non-controlling interests	5,713	16,971	17,439	18,066	18,867
<b>Total equity</b>	<b>14,631</b>	<b>27,126</b>	<b>29,194</b>	<b>31,962</b>	<b>35,497</b>
<b>Ratios</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Net Debt to Equity ratio	59%	59%	72%	71%	63%
Consolidated GP Margin	28%	27%	27%	26%	25%
Net Margin on consolidated revenue	10.3%	9.9%	8.4%	8.0%	7.8%
Asset Turnover	18%	15%	19%	23%	25%
Asset to Equity	7.4	12.4	13.1	13.0	12.7
ROE	14%	19%	21%	24%	25%
ROA	1.8%	1.5%	1.6%	1.8%	2.0%
Total Debt to Shareholders' Equity	2.2	4.2	4.9	4.6	4.3

  

Income Statement: RMB mn	2016	2017	2018E	2019E	2020E
<b>Consolidated Revenue</b>	<b>11,827</b>	<b>19,115</b>	<b>29,432</b>	<b>41,176</b>	<b>53,714</b>
<b>Consolidated Gross profit</b>	<b>3,277</b>	<b>5,111</b>	<b>7,799</b>	<b>10,500</b>	<b>13,429</b>
Other Income and gains	45	(112)	-	-	-
SG&A	(1,082)	(1,726)	(2,117)	(2,900)	(3,770)
Other expense	-	-	-	-	-
Operating profit	2,220	3,939	5,682	7,600	9,659
Finance income	54	75	75	75	75
Finance costs	(157)	(268)	(346)	(421)	(466)
Profit of JV & Assoc	(32)	(116)	28	39	51
<b>Profit before tax</b>	<b>2,085</b>	<b>3,626</b>	<b>5,439</b>	<b>7,293</b>	<b>9,318</b>
Income tax expenses	(1,078)	(1,674)	(2,611)	(3,372)	(4,310)
of which corp income tax	(657)	(946)	(1,419)	(1,902)	(2,430)
of which LAT	(421)	(728)	(1,092)	(1,470)	(1,880)
Non-controlling interests	(126)	(312)	(468)	(627)	(800)
<b>Net profit</b>	<b>1,223</b>	<b>1,889</b>	<b>2,461</b>	<b>3,294</b>	<b>4,207</b>
<b>EPS</b>	<b>0.45</b>	<b>0.71</b>	<b>0.92</b>	<b>1.23</b>	<b>1.57</b>
<b>Cash flow: RMB mn</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Profit before income taxes	2,085	3,626	5,439	7,293	9,318
Adjustment	341	(380)	318	382	416
- Depreciation	42	53	74	93	113
Chg in working capital	6,239	(5,899)	(7,292)	(4,274)	(3,602)
<b>Net Cash from operating</b>	<b>5,945</b>	<b>(6,763)</b>	<b>(3,966)</b>	<b>101</b>	<b>1,925</b>
Combination Exp.	(650)	(630)	-	-	-
Investments in Asso. & JV	(3,952)	(6,809)	(160)	(176)	(194)
PPF	(43)	(124)	(137)	(151)	(166)
Other Investing	(4,027)	(9,819)	(160)	(176)	(194)
<b>Cash used in investing</b>	<b>(4,069)</b>	<b>(9,944)</b>	<b>(297)</b>	<b>(327)</b>	<b>(359)</b>
Proceeds from borrowings	5,245	24,663	15,587	6,177	7,030
Proceeds from bonds	(5,916)	(5,000)	-	-	-
Issuance of shares	2,112	1,063	-	-	-
Equity inv. from MI	(1,600)	(902)	-	-	-
Repayments of borrowings	(327)	(411)	-	-	-
Other Financing	1,293	11,634	(902)	(1,197)	(1,521)
<b>Net cash from financing</b>	<b>808</b>	<b>31,046</b>	<b>14,685</b>	<b>4,979</b>	<b>5,508</b>
<b>Net increase in cash</b>	<b>2,683</b>	<b>14,340</b>	<b>10,422</b>	<b>4,754</b>	<b>7,074</b>
<b>Ending Balance</b>	<b>10,471</b>	<b>24,769</b>	<b>35,192</b>	<b>39,945</b>	<b>47,019</b>

Source: Company data, Morgan Stanley Research; E=Morgan Stanley Research estimates.

Note: 1 Core net profit excludes the impact of the gain from acquisition of equity interests, the FV change of the investment properties and impairment provision for properties, ie Aoyuan's standard;

**Risk-Reward: China Aoyuan (3883.HK, HK\$6.22, EW, PT HK\$6.90)**  
 Asset turnover improvement and margin recovery



Source: Thomson Reuters, Morgan Stanley Research

**Price Target** **HK\$6.90**

Our price target is set at 6x 2018e P/E.

**Bull** **HK\$9.20**

**8.0x 2018e P/E**

**A new round of monetary easing drives property prices higher:** We assume: 1) the central government provides a new round of aggressive monetary stimulus to reach its GDP targets, driving investment demand and asset prices higher in 2018; 2) 10% growth in property prices across the board over the next 12 months.

**Base** **HK\$6.90**

**6.0x 2018e P/E**

**ASP holds steady:** We expect: 1) sales volumes to remain flat in 2018, pressured by tightening measures in tier 1-2 cities; and 2) ASP to be flattish in tier 1-2 cities but increase 5% YoY in tier 3 cities, supported by healthy inventory, limited land supply, and expensive land prices transacted in 2016-17.

**Bear** **HK\$4.60**

**4.0x 2018e P/E**

**Liquidity tightens sharply:** We assume: 1) further tightening of financial conditions and slower sell-through rates at the national level that weigh on developers' balance sheets and cash flows in 2018, forcing them to further soften asking prices; and 2) 10% property price declines over the next 12 months.

**Investment Thesis**

- Aoyuan's aggressive contracted sales target (+60% YoY in 2018) may stretch its balance sheet.
- Average asset turnover of 0.45 vs. the industry average of 0.42 might slow down its growth pace amid a flat ASP environment.

**Key Value Drivers**

- Property prices
- contracted sales
- Transaction volumes

**Potential Catalysts**

- Better-than-expected 2018 contracted sales growth and asset turnover
- Special dividend announcement
- Successful launch of urban renewal projects

**Risks to Achieving Price Target**

- **Upside:**
  - Improved asset turnover
  - Better-than-expected national property sales
- **Downside:**
  - Greater-than-expected margin decline
  - Sales decline in 2019