

China Aoyuan Property Group Ltd.

Contracted sales update for May

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CAPG reported contracted sales of RMB7.5bn in May, up by 185% YoY, which was mainly driven by GFA (118% up). Accordingly, for the first five months ended 31 May 2018, contracted sales were RMB28.3bn, up 153% YoY and represents 39% of its full-year target of RMB73bn. We view CAPG's sales performance as in line with peers' average sales run rate of 37%. Separately, in the capital market, CAPG has got RMB1.5bn quota for onshore corporate bond issuance. For the offshore NDRC quota, the company has US\$700mn remaining quota as of 11 Jun 2018. In terms of bond recommendations, we are currently MW on CAPG'19/20/22 on fair valuation (Chart 1).

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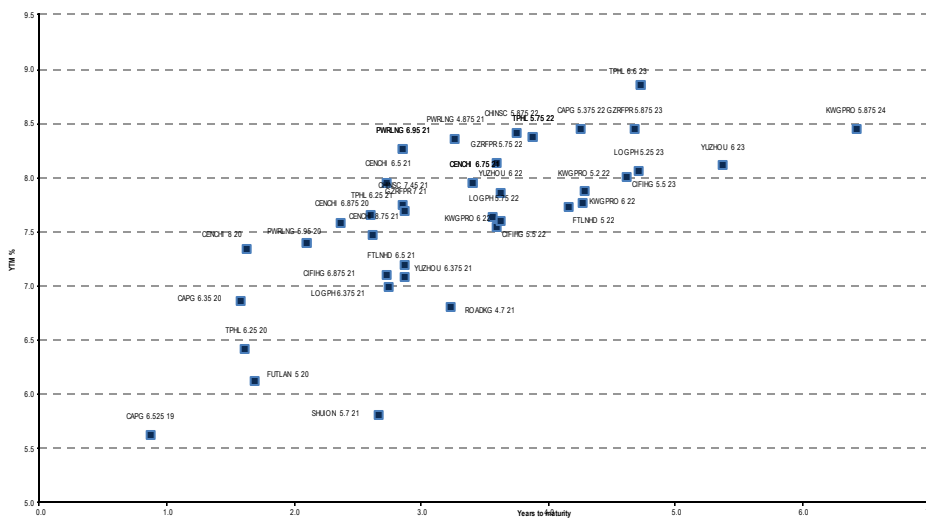
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Chart 1: Relative value charts for B-rated issuances



Source: BofA Merrill Lynch Global Research, Bloomberg

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Timestamp: 11 June 2018 12:31AM EDT

Valuation & risk

China Aoyuan (CAPG)

The company delivered decent growth in revenue/earnings, higher but acceptable net gearing/leverage. We are MW on CAPG'19/20/22 on fair valuations.

Downside risks to our recommendation are: (1) sharp pick-up in land acquisitions resulting in higher leverage/net gearing, and (2) more aggressive overseas expansion.

Upside risks to our recommendation are: (1) the company continues to deliver strong contracted sales which might enhance its liquidity further. (2) possible upgrading by rating agencies given both S&P/Moody's have put the company on Positive outlook.

Analyst Certification

I, Jessie Huang, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Security pricing

China Aoyuan Property Group Ltd. / CAPG

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Next call		Price	Price date	YTW* (%)	STW (Govt+bps)
				Call date	Call price				
6.525, Senior, USD, 2019:B	250	25-APR-2019	B2/NR/BB-			100.37	08-Jun-2018	6.07	375
6.35, Senior, USD, 2020:B	250	11-JAN-2020	B2/B/BB-			99.25	08-Jun-2018	6.85	439
5.375, Senior, USD, 2022	250	13-SEP-2022	B2/B/BB-	13-Sep-2020	102.69	89.29	08-Jun-2018	8.42	566

For pricing information refer to "Other Important Disclosures" below.

* For loans, YTW reflects yield to maturity.

B=Bond; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

China Aoyuan Property Group Ltd. / CAPG

Security	Date ^a	Action	Recommendation	Price
6.525, Senior, USD, 2019:B	31-May-2017		Market weight	
	02-May-2018	Restricted	NA	NA
	02-May-2018	Coverage Resumed	Market weight	
6.35, Senior, USD, 2020:B	31-May-2017		Overweight	
	17-Aug-2017	Downgrade	Market weight	102.37
	14-Sep-2017	Upgrade	Overweight	103.63
	02-Mar-2018	Downgrade	Market weight	100.94
	02-May-2018	Restricted	NA	NA
	02-May-2018	Coverage Resumed	Market weight	
5.375, Senior, USD, 2022	29-Sep-2017	Initial	Market weight	99.63
	02-May-2018	Restricted	NA	NA
	02-May-2018	Coverage Resumed	Market weight	

Table reflects credit opinion history as of previous business day's close. ^aFirst date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security. Prior to November 9, 2015, the investment opinion system included Overweight-100%, Overweight-70%, Overweight-30%, Underweight-30%, Underweight-70% and Underweight-100%. As of November 9, 2015, the investment opinion system is contained at the end of the report under the heading "BofA Merrill Lynch Credit Opinion Key."

Pricing information in the table is provided for each action occurring after July 2, 2016, where available. In the case of bonds, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

B=Bond; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

BofA Merrill Lynch Credit Opinion Key

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Buy Protection: Buy CDS, therefore going short credit risk.

Neutral: No purchase or sale of CDS is recommended.

Sell Protection: Sell CDS, therefore going long credit risk.

Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 01 Apr 2018)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	111	31.09%	Buy	96	86.49%
Hold	176	49.30%	Hold	145	82.39%
Sell	70	19.61%	Sell	56	80.00%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only corporate credit issuer recommendations. A corporate credit issuer rated Overweight is included as a Buy, a corporate credit issuer rated Marketweight is included as a Hold, and a corporate credit issuer rated Underweight is included as a Sell.

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