



Rating
Buy

Asia
China

Property
Property

Company
Aoyuan

Reuters 3883.HK Bloomberg 3883 HK Exchange HSI Ticker 3883

Date
20 August 2018

Forecast Change

Price at 20 Aug 2018 (HKD)	5.21
Price target - 12mth (HKD)	9.59
52-week range (HKD)	7.59 - 3.03
HANG SENG INDEX	27,213

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An undervalued developer with high growth; maintain Buy

Maintaining Buy for high growth, attractive valuation and high dividend yield

We maintain our Buy rating and lift our TP to HKD9.59 after factoring in 1) strong 1H18 results with margin expansion; 2) higher sales and earnings (we lift our 2018F sales forecast by 17%, and hence FY19-20F earnings by 1-9%); 3) the latest landbanking; and 4) a weaker RMB. In addition to its strong sales growth (~90% y-y), we like Aoyuan for its lowest valuation (55% earnings CAGR implies 3.3x 12-month forward P/E and 67% discount to NAV) and highest dividend yield (9-19% in FY18-20F) amongst stocks under our coverage. We maintain Aoyuan as one of our top picks among small caps.

Strong sales to continue to beat full-year target

Aoyuan had achieved RMB46.3bn sales by July (+143% y-y, implying 63% completion of its RMB73bn target). Although management did not raise the sales target, we expect the strong sales to continue for the rest of the year and full-year sales to likely exceed RMB85bn (~90% y-y growth), given its RMB82bn saleable resources for 2H (including RMB54bn new launches).

Aggressive landbanking to sustain high growth and decent margin; good progress in redevelopment projects

Aoyuan acquired 7.3mn sqm GFA in 1H (vs. 3.9mn sqm GFA sold) for RMB15.0bn (86% attributable ratio). We estimate these new projects can provide ~RMB70bn saleable resources. Given that the average land cost of the new projects (89% acquired via M&A) is only RMB2.1k/sqm (vs RMB10.2k/sqm ASP in 1H18), we expect gross margin to be maintained at a decent 26-27%, even with the fast turnover. Also, Aoyuan acquired the Zhuhai Cuiwei Village redevelopment project (700k sqm saleable GFA) in August, which we estimate will contribute about RMB25bn saleable resources. Management guides for another five projects (1.1mn sqm saleable GFA) to be included in the landbank in the next two years.

Strong results with margin expansion, net gearing remains decent

In line with its positive profit alert, Aoyuan reported strong results: 1) revenue increased 68% to RMB13.7bn; 2) gross margin expanded to 28.6% (vs. 26.7% in FY17); 3) core profits increased 57% to RMB1.2bn; and 4) net gearing remained decent at 68% (vs. 51% in FY17).

Valuation and risks

Our TP is based on a 40% discount applied to our HKD15.98 end-FY18F NAV. The stock now trades at 4.5x/2.9x FY18/19F P/E and a 67% NAV discount. Key downside risks: slower sales growth and failure to acquire quality landbank.

Key changes

TP	9.29 to 9.59	↑	3.2%
Sales (FYE)	27,910 to 29,219	↑	4.7%
Op prof margin(FYE)	19.2 to 19.3	↑	0.6%
Net profit(FYE)	2,882.6 to 2,883.0	↑	0.0%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.4	-24.4	73.7
HANG SENG INDEX	-3.6	-12.4	0.6

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	11,827.3	19,115.3	29,218.9	46,063.2	63,958.5
DB EPS growth (%)	32.8	31.8	71.7	54.6	38.9
PER (x)	2.8	4.3	4.5	2.9	2.1
DPS (net) (CNY)	0.15	0.25	0.41	0.64	0.88
Yield (net) (%)	11.7	9.6	9.0	13.9	19.3

Source: Deutsche Bank estimates, company data



Model updated: 20 August 2018

Running the numbers

Asia

China

Property

Aoyuan

Reuters: 3883.HK

Bloomberg: 3883 HK

Buy

Price (20 Aug 18) HKD 5.21

Target Price HKD 9.59

52 Week range HKD 3.03 - 7.59

Market Cap (m) HKDm 13,971
USDm 1,780

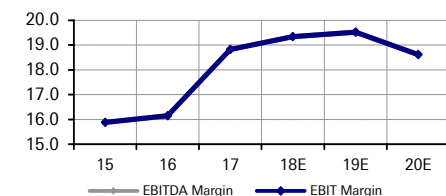
Company Profile

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 end-FY17, the company has a total land bank of 24.9msqm.

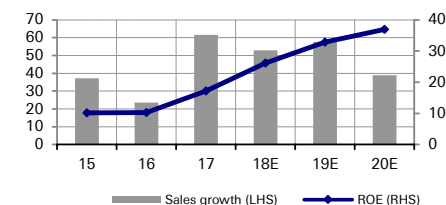
Price Performance



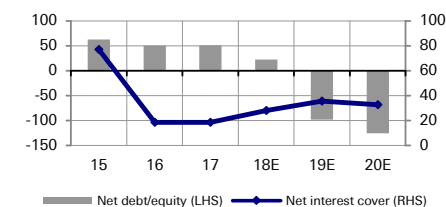
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	0.34	0.45	0.60	1.03	1.59	2.20
Reported EPS (CNY)	0.29	0.32	0.61	1.07	1.63	2.27
DPS (CNY)	0.11	0.15	0.25	0.41	0.64	0.88
BVPS (CNY)	3.0	3.3	3.8	4.5	5.4	6.8
Weighted average shares (m)	2,784	2,728	2,673	2,681	2,682	2,682
Average market cap (CNYm)	3,005	3,496	6,945	12,259	12,259	12,259
Enterprise value (CNYm)	13,308	16,460	37,332	39,288	-3,730	-18,215

Valuation Metrics

P/E (DB) (x)	3.2	2.8	4.3	4.5	2.9	2.1
P/E (Reported) (x)	3.7	4.0	4.2	4.3	2.8	2.0
P/BV (x)	0.39	0.43	0.98	1.03	0.84	0.67
FCF Yield (%)	nm	151.8	nm	60.1	372.4	148.2
Dividend Yield (%)	9.8	11.7	9.6	9.0	13.9	19.3
EV/Sales (x)	1.4	1.4	2.0	1.3	-0.1	-0.3
EV/EBITDA (x)	8.8	8.6	10.4	7.0	-0.4	-1.5
EV/EBIT (x)	8.8	8.6	10.4	7.0	-0.4	-1.5

Income Statement (CNYm)

Sales revenue	9,572	11,827	19,115	29,219	46,063	63,958
Gross profit	2,646	3,277	5,111	7,900	12,078	16,126
EBITDA	1,520	1,911	3,598	5,650	8,992	11,904
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	1,520	1,911	3,598	5,650	8,992	11,904
Net interest income/(expense)	-20	-103	-193	-201	-253	-364
Associates/affiliates	28	-32	-116	-20	-38	323
Exceptionals/extraordinary	356	310	337	171	139	231
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,884	2,085	3,626	5,600	8,841	12,094
Income tax expense	977	1,078	1,674	2,230	3,552	4,687
Minorities	95	126	312	487	925	1,319
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	812	881	1,640	2,883	4,364	6,088
DB adjustments (including dilution)	139	357	-40	-128	-105	-173
DB Net profit	951	1,238	1,600	2,755	4,259	5,915

Cash Flow (CNYm)

Cash flow from operations	-2,944	5,999	-6,670	7,588	46,104	17,045
Net Capex	-867	-692	-983	-218	-458	1,125
Free cash flow	-3,811	5,307	-7,653	7,370	45,646	18,170
Equity raised/(bought back)	0	-156	0	7	0	0
Dividends paid	-292	-245	-401	-1,102	-1,704	-2,366
Net inc/(dec) in borrowings	4,849	1,442	20,726	0	0	0
Other investing/financing cash flows	2,111	-3,665	1,667	1,352	-1,280	-994
Net cash flow	2,856	2,683	14,339	7,628	42,663	14,810
Change in working capital	-3,170	6,092	-6,926	4,164	40,762	9,584

Balance Sheet (CNYm)

Cash and other liquid assets	9,036	10,956	26,540	32,900	75,563	90,373
Tangible fixed assets	4,998	5,930	7,079	7,244	7,648	6,469
Goodwill/intangible assets	0	5	33	33	33	33
Associates/investments	292	173	414	2,082	2,044	2,080
Other assets	34,501	49,353	91,739	133,057	128,826	112,386
Total assets	48,827	66,418	125,806	175,316	214,114	211,341
Interest bearing debt	16,298	18,380	40,370	40,370	40,370	40,370
Other liabilities	20,953	33,407	58,310	101,361	137,892	131,037
Total liabilities	37,251	51,787	98,680	141,731	178,262	171,406
Shareholders' equity	8,243	8,918	10,155	11,943	14,603	18,326
Minorities	3,333	5,713	16,971	21,641	21,249	21,609
Total shareholders' equity	11,576	14,631	27,126	33,585	35,852	39,935
Net debt	7,262	7,424	13,830	7,470	-35,193	-50,003

Key Company Metrics

Sales growth (%)	37.2	23.6	61.6	52.9	57.6	38.8
DB EPS growth (%)	29.2	32.8	31.8	71.7	54.6	38.9
EBITDA Margin (%)	15.9	16.2	18.8	19.3	19.5	18.6
EBIT Margin (%)	15.9	16.2	18.8	19.3	19.5	18.6
Payout ratio (%)	36.3	46.4	40.8	38.2	39.0	38.9
ROE (%)	10.2	10.3	17.2	26.1	32.9	37.0
Capex/sales (%)	9.1	5.9	5.1	0.7	1.0	0.0
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	62.7	50.7	51.0	22.2	-98.2	-125.2
Net interest cover (x)	77.1	18.6	18.7	28.1	35.6	32.7

Source: Company data, Deutsche Bank estimates

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Investment thesis

Outlook

We maintain our Buy rating after factoring in 1) strong 1H18 results with margin expansion; 2) higher sales and earnings (we lift our 2018F sales forecast by 17%, and hence FY19-20F earnings by 1-9%); 3) the latest landbanking; and 4) a weaker RMB. In addition to its strong sales growth (~90% y-y), we like Aoyuan for its lowest valuation (55% earnings CAGR implies 3.3x 12-month forward P/E and 67% discount to NAV) and highest dividend yield (9-19% in FY18-20F) amongst stocks under our coverage. We maintain Aoyuan as one of our top picks among small caps.

Valuation

Our target price is based on a 40% discount to our end-FY18F NAV. This is comprised of HKD18.85/share for development properties, HKD0.33/share for investment properties, and -HKD3.20/share of net debt. Our NAV estimate values existing landbank and properties using a sum-of-the-parts methodology: 1) we use DCF to value the company's development properties, with a WACC of 11.6% (we apply a risk-free rate of 3.0%, beta of 2.0, risk premium of 6.0% and cost of debt of 7.5%); and 2) we use a cap-rate approach (5-9%) to value investment properties. We assume full prepayment of the land appreciation tax. In terms of property price assumptions, we assume prices in T1, T2 and T3 cities should increase 5% in 2018 and remain flat thereafter.

Our target price implies 8.1x FY18F P/E (EPS: RMB1.03) and 1.9x FY18F P/B. The benchmark index for the stock is MSCI China.

Risks

Macro risks: The government's property tightening measures may be stricter than expected, which could result in volatile housing transaction volumes, housing prices, land prices, and financing available to developers and homebuyers. Unexpected fluctuations in the Chinese economy would also add risk to the sector.

Company-specific: 1) weaker sales; 2) faster margin squeeze; and 3) higher gearing due to aggressive land acquisitions.

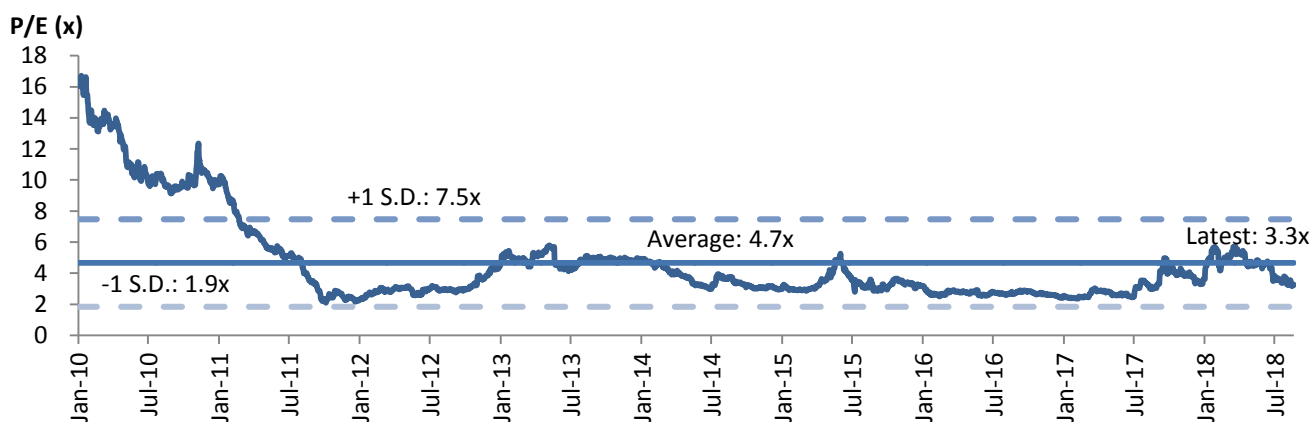


Figure 1: Summary of 1H18 results

(RMB mn)	1H18	1H17	y-y %
Revenue	13,667	8,154	68%
Cost of sales	(9,764)	(5,963)	64%
Gross profit	3,902	2,191	78%
SG&A	(1,251)	(678)	85%
Other operating income/expenses	11	(4)	n/a
Operating profit	2,662	1,510	76%
Interest expenses	(173)	(118)	46%
Interest income	89	34	164%
Share of results of associates and JCE	89	(39)	n/a
Pre-tax exceptional items	407	142	186%
Profit before tax	3,074	1,528	101%
Income tax	(1,599)	(669)	139%
Profit before minority interests	1,475	858	72%
Minority interests	259	108	139%
Reported net profit	1,216	750	62%
Core profits	1,160	741	57%
Gross margin	28.6%	26.9%	1.7%
Core profits margin	8.5%	9.1%	-0.6%
Net gearing *	68%	51%	17%

Note: Net gearing for 2017 is as of end-2017.
 Source: Company, Deutsche Bank

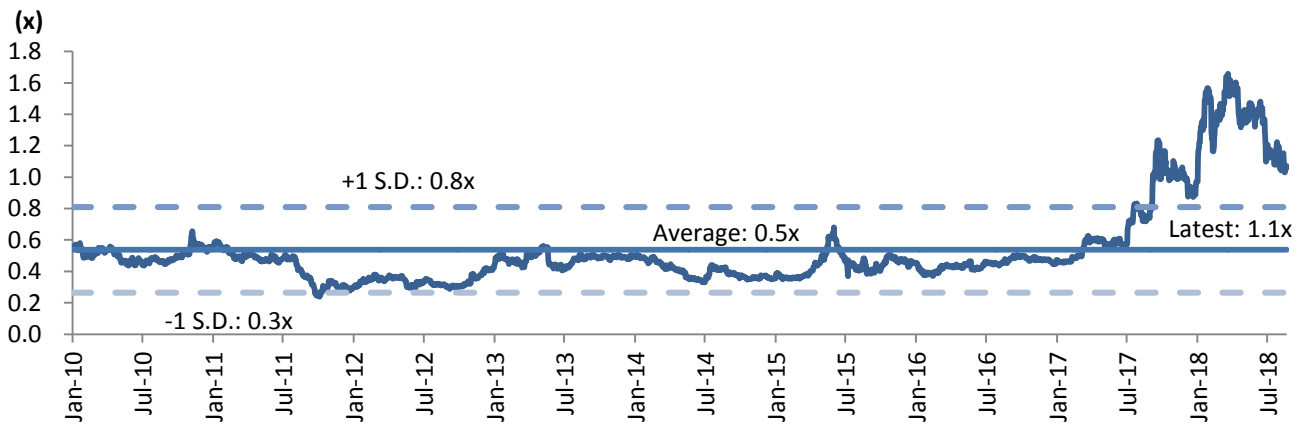
Figure 2: Aoyuan: 12-month forward P/E chart



Source: Bloomberg Finance LP, Company data, Deutsche Bank estimates



Figure 3: Aoyuan: Price-to-book value chart



Source: Bloomberg Finance LP, Company data, Deutsche Bank estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Aoyuan	3883.HK	5.21 (HKD) 20 Aug 18	1,7,14,15

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Historical recommendations and target price: Aoyuan (3883.HK)
 (as of 8/20/2018)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

**Analyst is no longer at Deutsche Bank

1. 26/10/2017:	Upgrade to Buy, Target Price Change HKD6.74 Jeffrey Gao	3. 31/01/2018:	Buy, Target Price Change HKD8.40 Jeffrey Gao
2. 03/01/2018:	Buy, Target Price Change HKD7.00 Jeffrey Gao	4. 16/03/2018:	Buy, Target Price Change HKD9.29 Jeffrey Gao

Equity rating key

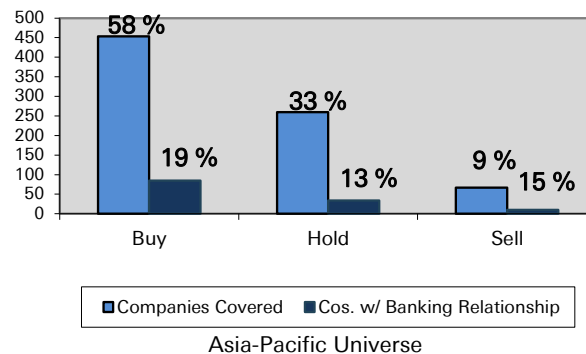
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





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