

China Aoyuan Property Group (3883 HK)

Member of quant-based [HTI Portfolios](#): Momentum

Target Price **HK\$8.41**
 Current Price **HK\$5.90**
 % Upside **43%**

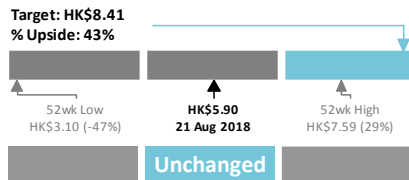
The Scoop: Fairly Strong H1 Sales Growth with Disciplined Expansion

Real Estate

Hong Kong

21 Aug 2018

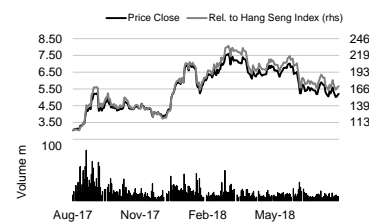
BUY



Basic Share Information

Market cap	HK\$15.82b / US\$2.02b
Daily traded value (3mth)	US\$7.95m
Shares outstanding	2,672m
Free float	44.04%
Net debt-to-equity	56.5%
1 yr high	HK\$7.59
1 yr low	HK\$3.10
Major shareholding	52%
Last HTI contact w/ Co	20 Aug 18

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	13.7%	-13.5%	94.7%
Absolute USD	13.7%	-13.5%	94.1%
Relative to HSI	15.9%	-1.8%	93.1%



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What event has happened?

China Aoyuan announced H1 FY18 results on 17 August. Core net profit rose by 57% YoY to Rmb1.2bn, accounting for 48% of the full-year consensus estimate (46% in H1 FY17). We believe Aoyuan is on track to meet the full-year consensus estimate. Aoyuan locked in a high 63% of its full-year target for contracted sales of Rmb73bn by the end of July (versus a sector average of 57%), but management has not revised its target.

Why is it significant?

Unbooked sales at the end of June were around Rmb77bn and this sizeable sales figure represents more than 2x both our and the Bloomberg consensus FY18 revenue estimate. We consider Aoyuan's earnings visibility to be good. Management guides unbooked sales to generate a gross margin of 27–28% and a net margin of around 10%, largely in line with our estimates. In addition, Aoyuan has remained fairly disciplined in new land buying; we estimate land cost committed in H1 FY18 (Rmb15bn) to be around 37% of contracted sales in the same period, which we think is fair and also in line with Aoyuan's historical average over FY14–16 (37–39%). Disciplined land acquisition should result in positive operating cash flow in H1 FY18. Management added that it plans to use 50% of cash collected from sales on new acquisitions, and full-year land acquisition guidance is Rmb30bn, or around 41% of full-year sales guidance.

Implications for our earnings forecast?

Given the rapid growth in contracted sales, we have adjusted our revenue forecasts. We estimate a 39% CAGR for revenue over FY18–20. We also expect the gross profit margin to stay at 27–29%, and the net profit margin at 8–9% during FY18–20 (our forecasts do not include any revaluation gains).

How do valuations look now?

After including new projects and updating the debt situation, we revise our net asset value (NAV) estimate from HK\$13.40 to HK\$14.00 per share. We widen the discount to our NAV from 35% to 40% to reflect the tightening credit environment, which generates our new target price of HK\$8.41 (previously HK\$8.72). The main risks to our rating and target price include slower economic growth in China than we expect and this adversely affecting property-market sentiment, delayed launches of Aoyuan's projects, and the Chinese government imposing increasingly strict regulations on property purchases.

What is distinctive about our stock view?

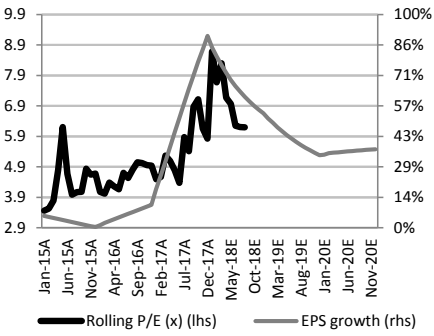
Aoyuan's chairman bought Aoyuan shares four times this year for a total of around HK\$34mn (or HK\$6.7 per share). We believe the chairman may choose to increase his stake further after the results announcement.

	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E	Trend
Total turnover (Rmbm)	11,827	19,115	29,038	40,795	51,160	— — — — —
Operating profit (Rmbm)	1,965	3,677	6,212	8,001	10,309	— — — — —
Pre-tax profit (Rmbm)	2,085	3,626	5,957	7,725	9,916	— — — — —
Net income to ord equity (Rmbm)	881	1,640	2,523	3,380	4,624	— — — — —
Net profit growth	8.5%	86.2%	53.9%	34.0%	36.8%	— — — — —
P/E (x)	15.97	8.41	5.47	4.08	2.98	■ — — — —
Adj EV/EBITDA (x)	15.63	13.90	7.81	5.74	4.41	■ — — — —
P/B (x)	1.54	1.36	1.15	0.96	0.78	■ — — — —
ROE	10.3%	17.2%	22.8%	25.6%	28.9%	— — — — —
Dividend yield	2.9%	4.8%	7.3%	9.8%	13.4%	— — — — —
EPS HTI old (Rmb)	0.32	0.61	1.04	1.27	1.60	— — — — —
EPS HTI New (Rmb)	0.32	0.61	0.94	1.26	1.73	— — — — —
Consensus EPS (Rmb)	0.38	0.61	0.88	1.21	1.61	— — — — —
HTI EPS vs Consensus	(15.0%)	1.4%	7.0%	4.1%	7.6%	■ — — — —

Source: Company data, Bloomberg, HTI estimates

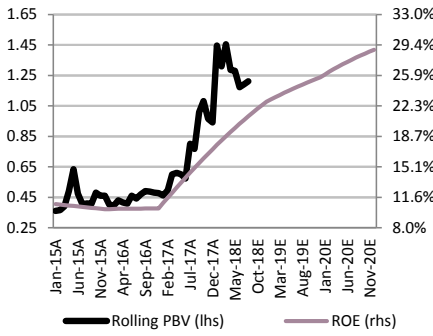
Click [here](#) to download the working model

P/E (x) vs EPS Growth (%)



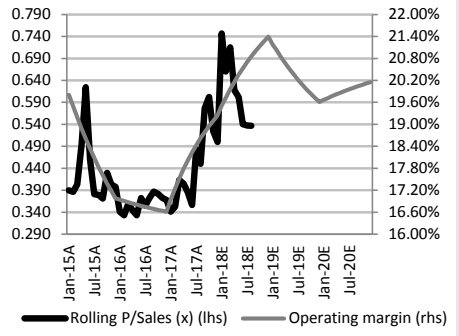
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



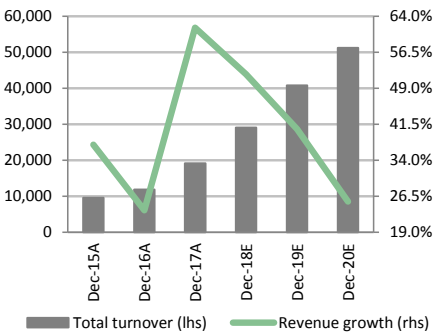
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



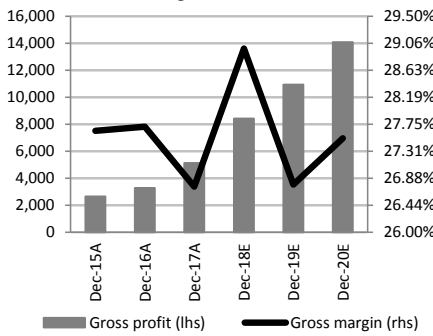
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



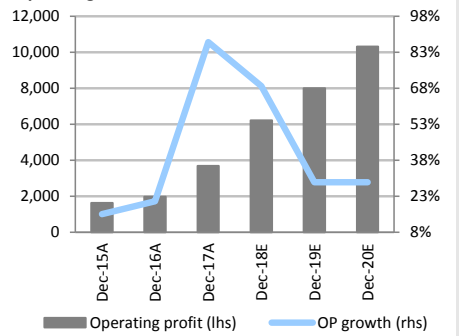
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



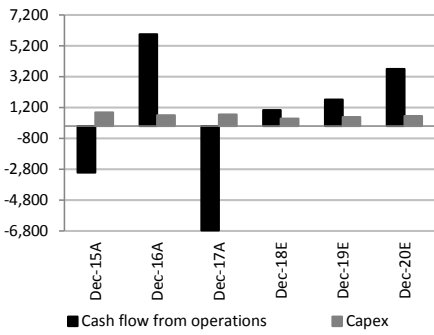
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



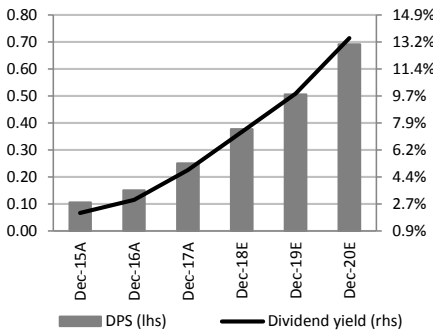
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (Rmbm)



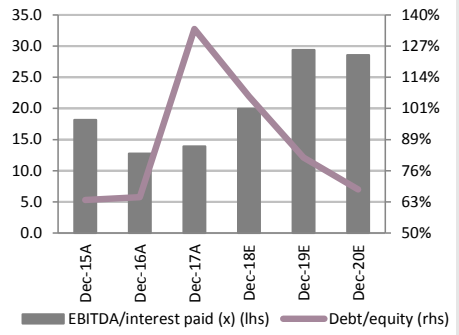
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (Rmb)



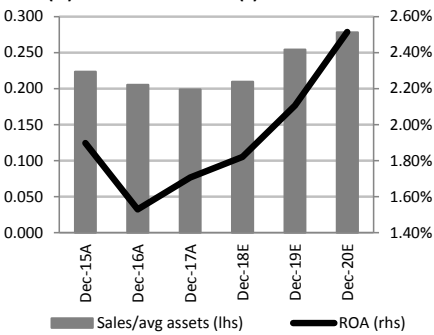
Source: Company data, Bloomberg, HTI estimates

Debt to Equity (%) and Interest Cover (x)



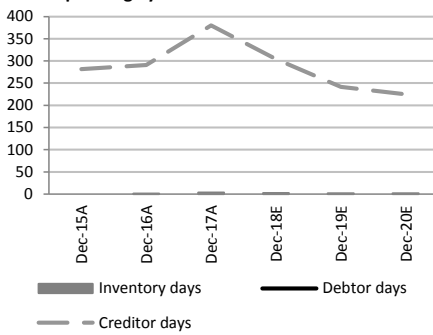
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



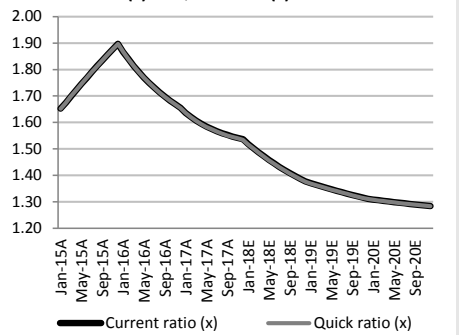
Source: Company data, Bloomberg, HTI estimates

Cash Operating Cycle



Source: Company data, Bloomberg, HTI estimates

Current Ratio (x) vs Quick Ratio (x)



Source: Company data, Bloomberg, HTI estimates

APPENDIX

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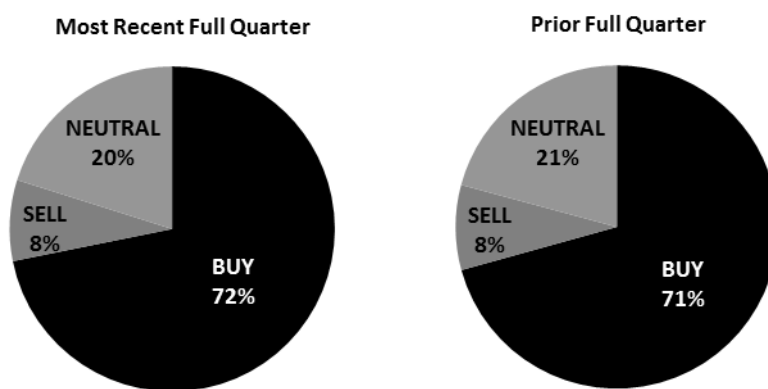
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*Percentage of investment banking clients in each rating category.

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Recommendation Chart



Date	Recommendation	Target (HK\$)	Price (HK\$)
2018-03-15	Buy	8.72	7.15
2018-01-12	Buy	7.69	6.00
2017-08-01	Buy	3.93	3.28

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity