

China Aoyuan Property Group (3883 HK)

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

Target Price **HK\$8.41**
 Current Price **HK\$5.82**
 % Upside **45%**

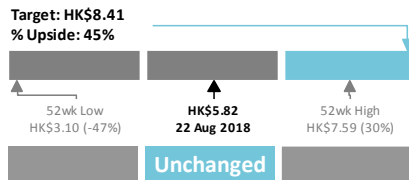
The Scoop: Takeaways from Post-Results Investor Meeting

Real Estate

Hong Kong

22 Aug 2018

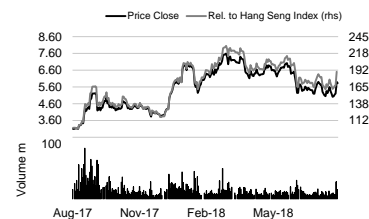
BUY



Basic Share Information

Market cap	HK\$15.61b / US\$1.99b
Daily traded value (3mth)	US\$8.17m
Shares outstanding	2,682m
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	22 Aug 18

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	12.1%	-14.7%	87.7%
Absolute USD	12.1%	-14.7%	87.1%
Relative to HSI	13.8%	-3.5%	86.4%



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What event has happened?

We hosted a post-interim results group meeting between investors and China Aoyuan Property Group (Aoyuan) management today (22 August 2018). Management presented its take on the company's operating performance so far this year and its outlook for FY19–20. Core NP rose by 57% YoY to Rmb1.2bn in H1 FY18, accounting for 48% of the full-year Bloomberg-consensus estimate (H1 FY17 core NP was 46% of the FY17 number).

Why is it significant?

The company targets FY18 contract sales of Rmb73bn, based on total saleable resources of Rmb123bn and a flat sell-through rate of 60%. A sell-through rate of 65% would put total sales at Rmb80bn. We believe that Aoyuan can achieve sales of Rmb110bn or slightly above this level in FY19. H1 FY18 contract sales were Rmb40bn and Chinese property developers typically record stronger sales in H2 than in H1. Even assuming that H2 FY18 sales only match the H1 FY18 level, full-year sales would still beat the company's target. Guidance is for the core NPM (based on profit attributable to shareholders) holding steady at 8.5–9.0% for FY18. The company started construction for 22 new projects in H1 FY18 and is scheduled to do so for a further 30 projects in H2. Its attributable floor area at these projects is 83–84%. Of Aoyuan's total land bank of 30mn square meters at the end of H1 FY18, 81% is attributable to the company, in line with its target of no less than 75%. In terms of city tier, 78% of its land bank is in first- and second-tier cities and 22% in third- and fourth-tier cities.

Implications for our earnings forecast?

There was Rmb77bn of unbooked sales at the end of H1 FY18 and this is to be recognized over FY19–20. We forecast a 39% revenue CAGR over FY18–20 and the GPM holding steady at 27–29% and the NPM at 8–9% during this period (excluding revaluation gains).

How do valuations look now?

We maintain our target price of HK\$8.41, based on a 40% discount to our net asset value per share estimate of HK\$14.00. The main risks to our rating and the attainment of our target price are 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 tightening its regulations for property purchases.

What is distinctive about our stock view?

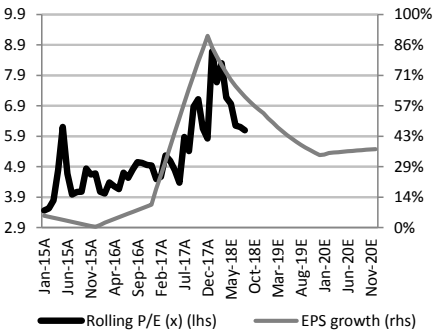
Aoyuan's chairman has bought about HK\$34mn of the company's shares on four occasions this year at an average of about HK\$6.70 per share. We think that he might increase his stake further following the results announcement.

	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)	15.72	8.28	5.39	4.02	2.94	▬ ▬ ▬ ▬ ▬
Adj EV/EBITDA (x)	15.52	13.84	7.78	5.72	4.39	▬ ▬ ▬ ▬ ▬
P/B (x)	1.52	1.34	1.13	0.95	0.77	▬ ▬ ▬ ▬ ▬
ROE	10.3%	17.2%	22.8%	25.6%	28.9%	▬ ▬ ▬ ▬ ▬
Dividend yield	3.0%	4.9%	7.4%	9.9%	13.6%	▬ ▬ ▬ ▬ ▬
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

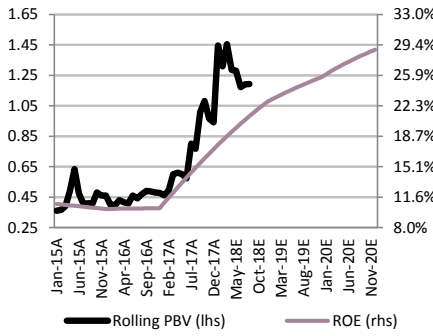
Click [here](#) to download the working model

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



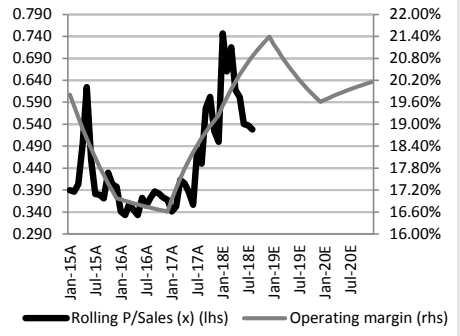
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



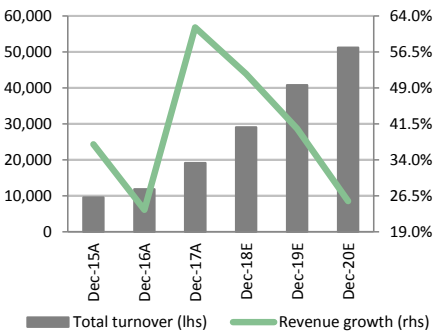
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



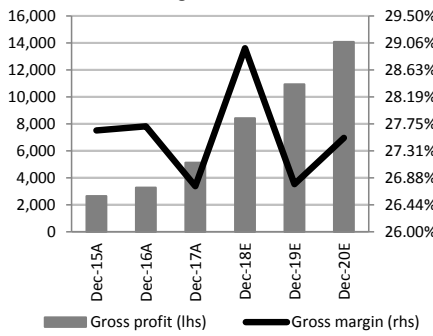
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



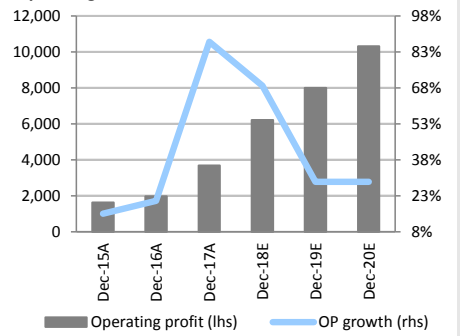
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



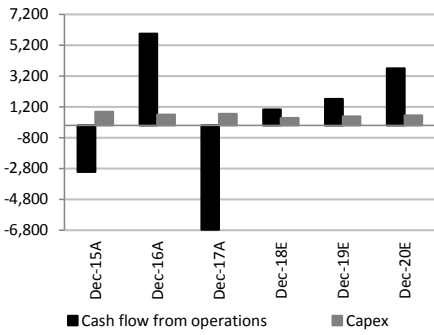
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



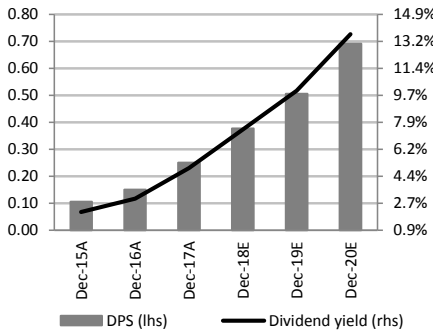
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (Rmbm)



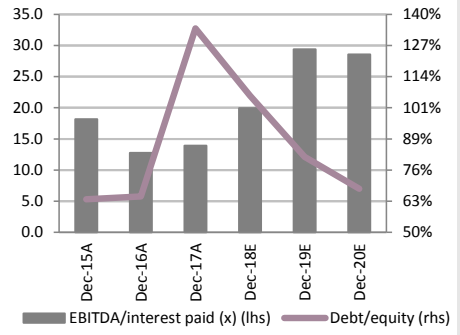
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (Rmb)



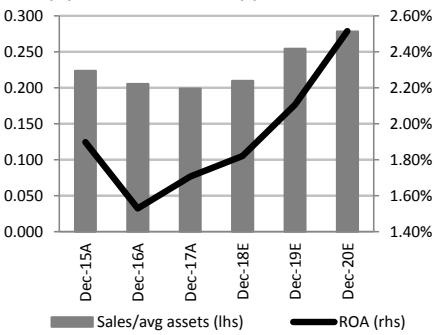
Source: Company data, Bloomberg, HTI estimates

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



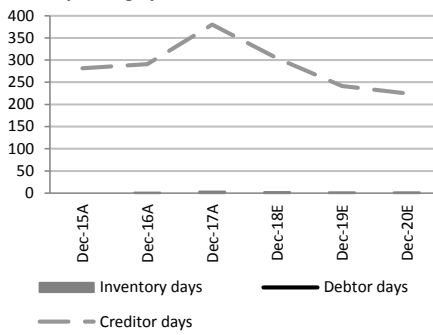
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



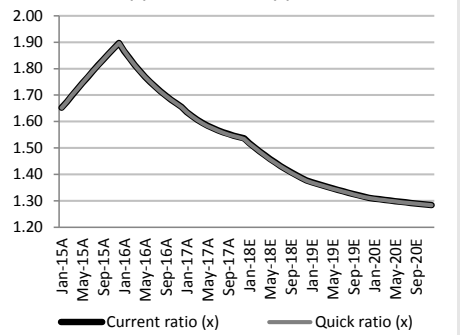
Source: Company data, Bloomberg, HTI estimates

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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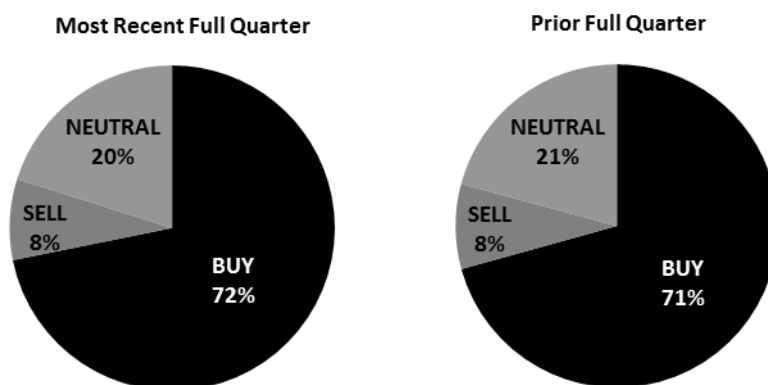
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*Percentage of investment banking clients in each rating category.

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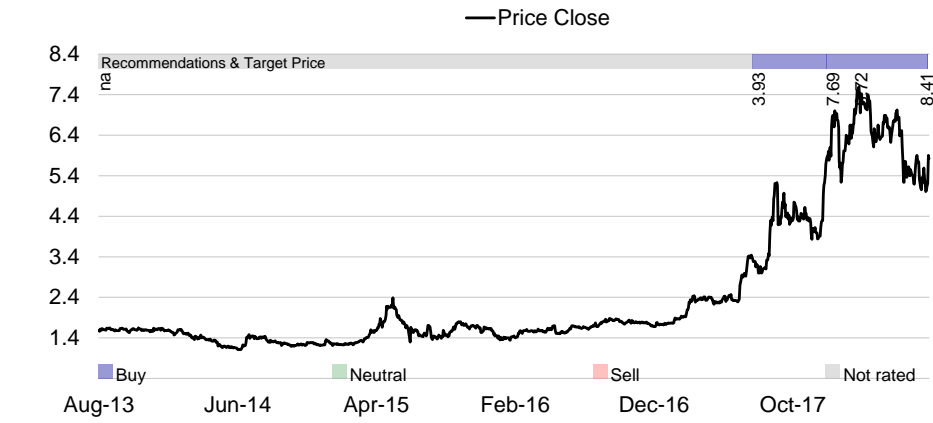
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Recommendation Chart



Date	Recommendation	Target (HK\$)	Price (HK\$)
2018-08-21	Buy	8.41	5.90
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