



Aoyuan (3883 HK)

Growth accelerated in FY17

- 2017 core profit jumped 55%YoY to RMB 1,889mn
- Gross margin declined 1.0ppt YoY to 26.7% due to changes in product mix
- 2018 sales target of RMB 73bn implies a 60% YoY growth; Aoyuan targets RMB100bn in presale by 2019
- A total landbank of 24.87mn sqm with an estimated saleable resources of RMB 282.3bn, of which the Big Bay Area accounts for RMB 98bn
- 10.53mn sqm of redevelopment projects in the pipeline
- Maintain **BUY** with revised TP of HK\$ 9.00 based on a 50% NAV discount

Company Report

Mar 16, 2018

Rating: BUY

TP: HK\$ 9.00

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Remarkable FY17 results. 2017 core net profit increased 55%YoY to RMB 1,889mn, 9% higher than our forecast and 16% higher than consensus. Booked property sales increased 60% YoY to RMB 17,960mn as GFA delivered rose 51% YoY while booked ASP climbed 6%YoY to RMB 7,397/sqm. Despite a moderate increase in booked ASP, gross margin declined 1ppt YoY to 26.7% on product mix change. Management commented Aoyuan will prioritize growth and scale while gross margin will stay at 25-27% range. Given FY17 presales ASP of RMB 10,160/sqm is ~37% higher than booked ASP, we believe gross margin would improve. Although net debt increased 85% YoY to RMB 16bn, net gearing remained flat at 59% in Dec 2017 as minority interests, which is considered as equity, jumped 197% YoY to RMB 16,971mn. Management said M&A and urban redevelopment projects involved different JV partners, which contributed ~RMB 7.9bn to equity in 2017. Average finance cost declined from 8.1% in 2016 to 7.2% in 2017. As of Dec 2017, unbooked presales were RMB 51.6bn, indicating high earnings visibility.

2018 sales target of RMB 73bn implies a 60% YoY growth. Aoyuan's presales soared 78% YoY to RMB 45.6bn (attributable: RMB 38bn), driven by 51% increase in GFA presold and 18% YoY jump in presales ASP. While Big Bay Area (BBA) accounted for 53% of 2017 presale, management said other tier-3/4 cities demonstrated strong sales and ASP recovery over the last 12 months. In 2018, Aoyuan targets to achieve RMB 73mn in presale for 2018 based on ~RMB120bn of saleable resources and a ~61% sell-through rate, implying a 60% YoY growth. The Group aims to achieve RMB 100bn in presale by 2019.

Low-cost landbank ensures healthy margins. In 2017, the Group purchased 12.86mn sqm of new sites at RMB 31.5bn, or RMB 2,446/sqm, of which 81% are acquired through M&A. Management expects these new projects to contribute RMB166.9bn of saleable resources (with an estimated ASP of ~RMB 13k/sqm). As at Dec 2017, Aoyuan had a total landbank of 24.87mn sqm with an average cost of RMB 2,131/sqm and estimated saleable resources of RMB 282.3nm (of which BBA accounted for RMB 98bn). The low-cost land bank would help support margin in the future.

Share price (HK\$)	7.15
Est. share price return	25.9%
Est. dividend yield	5.3%
Est. total return	31.2%
Previous Rating &TP	BUY, HK\$4.40
Previous Report Date	Aug 18, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	7.53/2.169
Issued shares (mn)	2,679
Market cap (HK\$ mn)	19,906
3-mth avg daily turnover(HK\$ mn)	102.1
Major shareholder(s) (%)	
Mr. Guo Zi Wen	54.11%

Source(s): Bloomberg, ABCI Securities

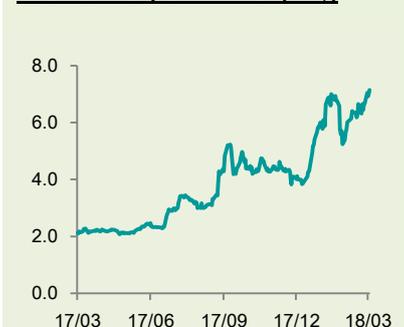
Share Performance (%)

	Absolute	Relative*
1-mth	29.4	25.5
3-mth	85.3	69.8
6-mth	51.3	23.6

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	11,827	19,115	29,904	40,453	51,684
Chg (% YoY)	23.6	61.6	56.4	35.3	27.8
Core net profit (RMB mn)	1,223	1,889	2,860	4,203	6,225
Chg (% YoY)	57.1	54.5	51.4	47.0	48.1
Core EPS (RMB)	0.44	0.68	1.03	1.51	2.24
Chg (% YoY)	57.1	54.5	51.4	47.0	48.1
BVPS (RMB)	3.2	3.6	4.4	5.4	7.0
Chg (% YoY)	8.2	13.9	19.7	24.2	28.9
Core PE (x)	13.1	8.5	5.6	3.8	2.6
P/B (x)	1.8	1.6	1.3	1.1	0.8
ROE (%)	13.7	18.6	23.5	27.8	32.0
ROA (%)	1.8	1.5	1.7	2.1	3.1
DPS(RMB)	0.15	0.25	0.31	0.45	0.67
Yield (%)	2.6	4.3	5.3	7.9	11.6
Net gearing (%)	58.9	58.8	0.7	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates



A sound track record in urban redevelopment projects. Aoyuan has 13 urban redevelopment projects in the BBA (mainly in Zhuhai, Guangzhou and Dongguan) with a total GFA of 5.55mn sqm, and the Group expects 2-3 projects in the region to be converted to the landbank by 2018. The Group also has three other redevelopment projects in Nanning and Bazhou with a total GFA of 4.98mn sqm. Aoyuan has a decent record in ensuring smooth progression of redevelopment projects - their application for Zhuhai Aoyuan Plaza redevelopment project was first submitted in Dec 2014 and land ownership certificate was issued in July 2015. By Oct 2015, presale was launched for the project

Well-positioned in the BBA; maintain BUY. Factoring in the latest land acquisitions and better-than-expected presales, we raise our NAV estimate to HK\$ 17.95/ share (from HK\$ 8.72/share) and TP to HK\$ 9.00 (from HK\$ 4.40) based on an unchanged 50% discount to NAV. Since inclusion into the Shenzhen-HK stock connect, Aoyuan has drawn attention from southbound investors as stakes held by China Securities Depository and Clearing (CSDC) increased from 6.87% in 29 Sep 2017 to 11.46% in 14 Mar, 2018. Aoyuan's 2018 presales target of RMB 73bn is one of highest among the BBA players (Times [1233 HK]: RMB 55bn, Logan [3380 HK]: RMB 66bn). Aoyuan remains as our top pick among the BBA players. Maintain **BUY**.

Risk factors: 1) FX risk in overseas projects; 2) Rising SG&A cost for establishment of overseas operation.

Exhibit 1: Aoyuan's FY17 results

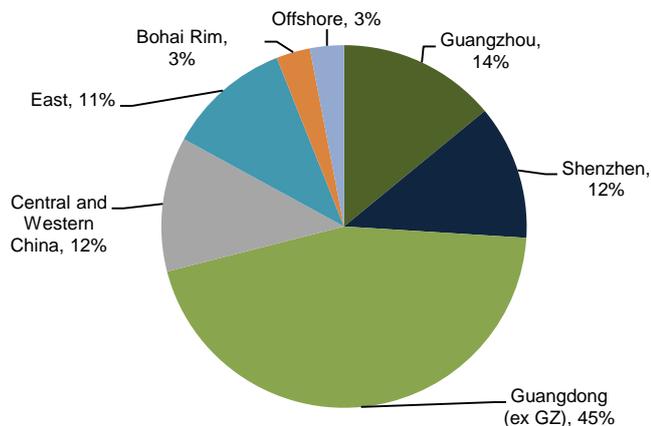
P&L	2017	2016	YoY	Operating statistics	2017	2016	YoY
	RMB mn	RMB mn	(%)				%
Turnover	19,115	11,827	61.6	GFA Delivered (mn sqm)	2.43	1.61	51.1
Cost of Sales	(14,004)	(8,550)	63.8	Booked ASP (RMB/sqm)	7,397	6,994	5.8
Gross Profit	5,111	3,277	56.0	Booked sales (RMB mn)	17,960	11,240	59.8
GPM (%)	26.7	27.7	-1.0ppt	Contracted GFA (mn sqm)	4.49	2.98	50.5
Selling and distribution costs	(926)	(592)	56.4	Contracted ASP (RMB/sqm)	10,160	8,589	18.3
Administrative expense	(800)	(489)	63.4	Contracted Sales (RMB mn)	45,590	25,602	78.1
EBIT	3,386	2,195	54.2				
EBIT Margin (%)	17.7	18.6	-0.9ppt	Balance sheet	Dec-17	Dec-16	YoY
Other income	133	87	52.0		RMB mn	RMB mn	
Fair Value gains on IP and others	337	310	8.7	Gross debt*	42,495	19,568	117.2
Exceptional items	155	(318)	(148.8)	Cash	26,540	10,956	142.2
Share of profit from JCE/ Assoc.	(116)	(32)	NA	Net debt	15,955	8,611	85.3
Finance cost	(268)	(157)	70.2	Net gearing (%)	59	59	-
Profit before tax	3,626	2,085	73.9				
Tax	(1,674)	(1,078)	55.2				
- LAT	(728)	(421)	72.9				
- Enterprise tax	(946)	(657)	43.8				
Profit after tax	1,952	1,007	93.9				
Minority Interest	(312)	(126)	NA				
Net profit	1,640	881	86.2				
Core net profit	1,889	1,223	54.5				
Core net margin (%)	9.9%	10.3%	-0.4ppt				

* Including loans from non-controlling shareholders

Source(s): Company, ABCI Securities

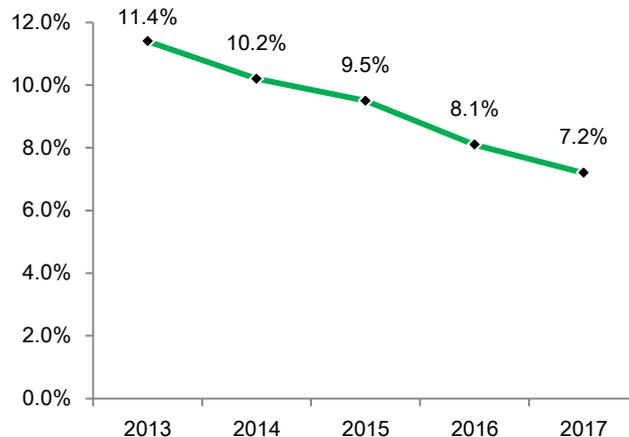


Exhibit 2: Aoyuan's presales breakdown (2017: RMB45.6bn)



Source(s): Company, ABCI Securities

Exhibit 3: Aoyuan's average borrowing cost



Source(s): Company, ABCI Securities

Exhibit 4: Aoyuan's 2018E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Guangzhou	1.7	5,393	13%	DCF with WACC of 8.5%	3,141
Shenzhen	0.2	3,528	9%		16,146
Zhuhai	0.4	1,485	4%		3,524
Foshan	0.7	1,134	3%		1,666
Zhongshan	0.8	736	2%		964
Qingyuan	1.4	1,378	3%		984
Chongqing	1.7	4,038	10%		2,373
Others	13.6	22,108	55%		1,622
Subtotal	20.5	39,800	98%		1,938
Investment Properties		696	2%	6.0% cap rate on 2018E net rental	
Total 2018E GAV		40,496	100%		
2018E Net cash/ (debt)		(202)	0%		
Total 2018E NAV		40,294	100%		
No. of share outstanding (diluted)		2,784			
NAV per share (RMB)		14.47			
Ex rate		1.24			
NAV per share (HKD)		17.95			
Target discount (%)		50%			
Target Price (HKD)		9.00			
WACC					
WACC	8.5%				
Cost of debt	7.6%				
Cost of equity	12.0%				
Debt/ (Debt + Equity)	56%				

Source(s): Company, ABCI Securities estimates

Consolidated income statement (2015A-2020E)

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Revenue	9,572	11,827	19,115	29,904	40,453	51,684
Cost of sales	(6,926)	(8,550)	(14,004)	(21,146)	(28,538)	(36,458)
Gross Profit	2,646	3,277	5,111	8,759	11,916	15,226
SG&A expenses	(890)	(1,082)	(1,726)	(2,464)	(2,848)	(2,436)
EBIT	1,756	2,195	3,386	6,295	9,067	12,790
Finance cost	(91)	(157)	(268)	(485)	(497)	(508)
Share of profit of associates	28	(32)	(116)	-	-	-
Other income/ (expenses)	147	87	133	155	230	285
Fair value gain of investment properties	-	-	-	-	-	-
Disposal/one-off items	45	(8)	492	-	-	-
Profit before tax	1,884	2,085	3,626	5,964	8,800	12,568
Tax	(977)	(1,078)	(1,674)	(2,381)	(3,453)	(4,799)
Profit after tax	907	1,007	1,952	3,583	5,347	7,768
Minority interest	(95)	(126)	(312)	(723)	(1,144)	(1,543)
Reported net profit	812	881	1,640	2,860	4,203	6,225
Less: exceptional items	(34)	342	249	-	-	-
Underlying net profit	778	1,223	1,889	2,860	4,203	6,225
Per share						
Underlying EPS (RMB)	0.28	0.44	0.68	1.03	1.51	2.24
DPS (RMB)	0.11	0.15	0.25	0.31	0.45	0.67
Payout ratio (%)	38%	34%	37%	30%	30%	30%
BVPS (RMB)	2.96	3.20	3.65	4.37	5.42	6.99
Growth %						
Revenue	37.2%	23.6%	61.6%	56.4%	35.3%	27.8%
Gross Profit	28.0%	23.8%	56.0%	71.4%	36.0%	27.8%
EBIT	35.3%	25.0%	54.2%	85.9%	44.0%	41.1%
Underlying net profit	5.7%	57.1%	54.5%	51.4%	47.0%	48.1%
Margin %						
Gross profit margin	27.6%	27.7%	26.7%	29.3%	29.5%	29.5%
GPM (post-LAT)	24.5%	25.4%	24.4%	26.4%	26.2%	25.9%
EBIT margin	18.3%	18.6%	17.7%	21.0%	22.4%	24.7%
Core net margin	8.8%	8.8%	8.9%	12.0%	13.2%	15.0%
Key assumptions						
Contracted Sales (RMB mn)	15,171	25,602	45,590	74,046	83,530	51,877
GFA sold (mn sqm)	1.89	2.98	4.49	7.06	7.54	4.74
ASP (RMB/sqm)	8,035	8,589	10,160	10,482	11,084	10,936
Booked Sales (RMB mn)	9,295	11,240	17,960	28,631	39,075	50,192
GFA delivered (mn sqm)	1.02	1.61	1.80	2.73	3.61	4.57
Booked ASP (RMB/sqm)	9,130	6,994	9,988	10,481	10,822	10,983

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2015A-2020E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Current assets	43,198	59,830	116,110	162,008	193,210	192,854
Cash	7,769	10,471	24,769	41,522	74,911	78,477
Restricted cash	1,267	486	1,771	1,771	1,771	1,771
Trade & other receivables	1,753	3,604	7,407	7,407	7,407	7,407
Property under development	31,792	43,487	77,069	106,214	104,027	100,105
Other current assets	617	1,782	5,094	5,094	5,094	5,094
Non-current assets	5,629	6,589	9,696	10,202	10,695	11,173
Property, plant & equipment	494	506	719	725	718	696
Investment properties	4,505	5,425	6,360	6,860	7,360	7,860
Investment in Associate and JCE	217	164	214	214	214	214
Other non-current assets	413	494	2,403	2,403	2,403	2,403
Total Assets	48,827	66,418	125,806	172,209	203,905	204,026
Current Liabilities	22,770	36,143	75,573	119,302	146,961	141,232
Short term borrowings	2,570	4,506	21,122	22,122	23,122	24,122
Trade & other payables	5,348	6,795	14,579	14,579	14,579	14,579
Pre-sales deposits	9,823	20,524	34,760	77,489	104,148	97,419
Other current assets	5,028	4,318	5,112	5,112	5,112	5,112
Non-current liabilities	14,481	15,645	23,106	23,106	23,106	23,106
Long term borrowings	13,727	15,062	21,373	21,373	21,373	21,373
Other payables	0	0	0	0	0	0
Other non-current assets	754	583	1,733	1,733	1,733	1,733
Total Liabilities	37,251	51,787	98,680	142,408	170,068	164,338
Net Assets	11,576	14,631	27,126	29,801	33,838	39,688
Shareholders' Equity	8,243	8,918	10,155	12,157	15,099	19,457
Minority Interest	3,333	5,713	16,971	17,644	18,738	20,232
Total Equity	11,576	14,631	27,126	29,801	33,838	39,688
Key ratio						
Gross debt (RMB mn)	16,298	19,568	42,495	43,495	44,495	45,495
Net debt (RMB mn)	7,262	8,611	15,955	202	(32,187)	(34,753)
Net gearing (%)	63%	59%	59%	1%	-95%	-88%
Contracted sales/ Total assets (x)	0.31	0.39	0.36	0.43	0.41	0.25

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2015A-2020E)

FY ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
EBITDA	1,790	2,237	3,439	6,359	9,144	12,882
Change in Working Capital	(1,544)	(709)	(17,128)	16,968	32,309	734
Tax payment	(977)	(1,078)	(1,674)	(2,381)	(3,453)	(4,799)
Operating cash flow	(731)	449	(15,363)	20,945	38,000	8,817
Purchase of PP&E	(70)	(70)	(70)	(70)	(70)	(70)
Addition of Investment Properties	(500)	(500)	(500)	(500)	(500)	(500)
Others	(53)	87	133	155	230	285
Investing cash flow	(623)	(483)	(437)	(415)	(340)	(285)
Debt raised	6,831	8,974	35,849	5,000	5,000	5,000
Debt repaid	(1,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Interest expenses	(1,393)	(1,771)	(2,135)	(3,870)	(3,960)	(4,050)
Equity raised	0	0	0	0	0	0
Dividend to shareholders	(295)	(418)	(696)	(858)	(1,261)	(1,867)
Others	128	(50)	1,081	(50)	(50)	(50)
Financing cash flow	4,271	2,735	30,099	(3,778)	(4,270)	(4,967)
Net cash inflow/ (outflow)	2,917	2,702	14,298	16,753	33,390	3,565
Cash- beginning	4,852	7,769	10,471	24,769	41,522	74,911
Cash- year-end	7,769	10,471	24,769	41,522	74,911	78,477

Source(s): Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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