



Aoyuan (3883 HK)

Solid execution remains intact

- FY19 core profit jumped 62%YoY to RMB 4.1bn
- Aoyuan aims for a contracted sales target of RMB 132bn in 2020, implying a 12% YoY growth
- As at Dec 2019, redevelopment pipeline had a potential saleable GFA of 8.45mn sqm amounting to RMB 226bn
- Maintain **BUY** with revised TP of HK\$ 11.10 based on a 50% NAV discount

Solid execution drives growth. Aoyuan's FY19 reported net profit attributable to shareholders increased 74% YoY to RMB 4.2bn. Core profit, which excluded other net gains such as fair value changes of investment properties and exchange losses, jumped 62%YoY to RMB4.1bn, 6% higher than our forecast. Revenue increase 63%YoY to RMB50.5bn on the 58% YoY increase in GFA delivery. Gross margin contracted modestly by 1.3ppt YoY to 29.7%. Net gearing increased 10.5ppt YoY to 74.9% as the Group acquired new sites with an attributable GFA of 12.1mn sqm at RMB33.9bn; however, if we exclude the purchase of minority stake (RMB3.3bn) in AEON Life Insurance, which is pending refund since the transaction was subsequently terminated in 2020, net gearing would be 66%. In 2019, Aoyuan achieved a faster asset turnover by shortening the time between land acquisition and presales from 8.8 months in 2017 to 8.2 months in 2018 and 7.5 months in 2019.

M&A and urban redevelopments as potential upsides. Aoyuan secured 87 M&A projects in 2019, compared to 64 in 2018 and 58 in 2017. About 55% of the M&A projects obtained in 2019 started presale in the same year, compared to 52% in 2018 and 47% in 2017. As at Dec 2019, Aoyuan had a total landbank of 45.0mn sqm with an average cost of RMB 2,536/sqm; total estimated saleable resources of RMB 458.5bn. As at Dec 2019, Aoyuan also had a redevelopment pipeline, providing a potential saleable GFA of 8.45mn sqm (2018: 5.94mn sqm, +43%YoY) and saleable resources of RMB 226bn (2018: RMB145.2bn, +56% YoY). The Group expects 50% of the redevelopment projects would complete conversion in 2020-2021.

Growth momentum set to resume. In 2020, Aoyuan aims for a contracted sales target of RMB 132bn, implying a 12% YoY growth compared 2019's actual figure at RMB118bn. The target is based on a saleable resource of RMB 210bn and a sell-through rate of ~63%, excluding any conversion of redevelopment projects in 2020. Regarding the impact of COVID-19, management commented recovery was noticeable in Mar as 99% of sales centers and 94% of construction sites have resumed normal operation. While the 12% YoY increase in 2020 contracted sales target represents a major slowdown compared to 29% YoY growth in 2019, management expects growth momentum would resume to 25-30% YoY in the next two years to achieve a medium-term target of RMB 200bn by 2022. Such target assumes a full economic recovery in 2021 after COVID-19 and faster land acquisition in coming years in our view; our contracted sales forecast- to be conservative, our estimate is lower than the announced target since our model does not factor in any major land acquisitions in the future. As Dec 2019, Aoyuan has an unbooked revenue of RMB 170.5bn, which should warrant a solid set of results in the next two years. (continue next page)

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	31,006	50,531	72,744	87,191	107,511
Chg (%) (YoY)	62.2	63.0	44.0	19.9	23.3
Core net profit* (RMB mn)	2,539	4,122	6,045	8,445	11,307
Chg (%) (YoY)	62.5	66.9	60.8	43.6	34.5
Core EPS (RMB)	0.95	1.53	2.25	3.14	4.20
Chg (%) (YoY)	61.0	61.7	46.7	39.7	33.9
BVPS (RMB)	4.4	5.6	7.2	9.4	12.3
Chg (%) (YoY)	16.9	26.1	28.2	30.7	31.4
Core P/E (x)	8.7	5.4	3.7	2.6	2.0
P/B (x)	1.9	1.5	1.2	0.9	0.7
ROE (%)	21.4	27.4	31.4	33.5	34.2
ROA (%)	1.3	1.4	1.8	2.3	2.8
DPS(RMB)	0.36	0.55	0.67	0.94	1.26
Yield (%)	4.4	6.7	8.2	11.4	15.3
Net gearing (%)	64.4	74.9	43.9	Net cash	Net cash

Note: RMB to HK\$= 1.09

* Core net profit = profit attributable to owners of the company – (fair value changes in IP+ exchange gains+ other net gains)x0.75

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 25, 2020

Rating: **BUY**

TP: HK\$ 11.10

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Share price (HK\$)	8.99
Est. share price return	23.5%
Est. dividend yield	8.2%
Est. total return	31.7%
Previous Rating & TP	BUY, HK\$14.10
Previous Report Date	Jul 2, 2019

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	13.12/7.17
Issued shares (mn)	2,690
Market cap (HK\$ mn)	22,193
3-mth avg daily turnover(HK\$ mn)	87.66
Major shareholder(s) (%)	
Mr. Guo Zi Wen	55.32%

Source(s): Bloomberg, ABCI Securities

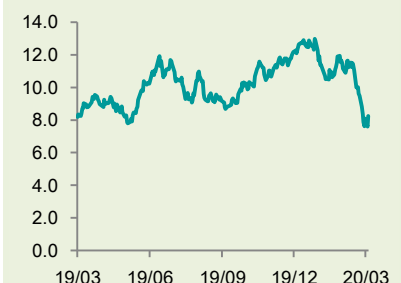
Share Performance (%)

	Absolute	Relative*
1-mth	(17.1)	(4.9)
3-mth	(25.3)	(11.0)
6-mth	4.1	15.5

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Maintain BUY with revised TP of HK\$ 11.10. We reduce our core profit forecasts by 3.0% in 2020E and 15.1% in 2021E on lower-than-expected contracted sales target in 2020. We lower our NAV to HK\$ 22.19/share (from HK\$ 28.3) and TP to HK\$ 11.10 (from HK\$14.10), based on an unchanged NAV discount of 50%. Aoyuan remains as our **top pick** given its proven track record in sales growth; its sizeable redevelopment pipeline also represents a high potential value.

Risk factors: 1) FX risk in overseas projects; 2) Rising SG&A cost for the establishment of overseas operation. 3) Uncertain development of COVID-19 epidemic

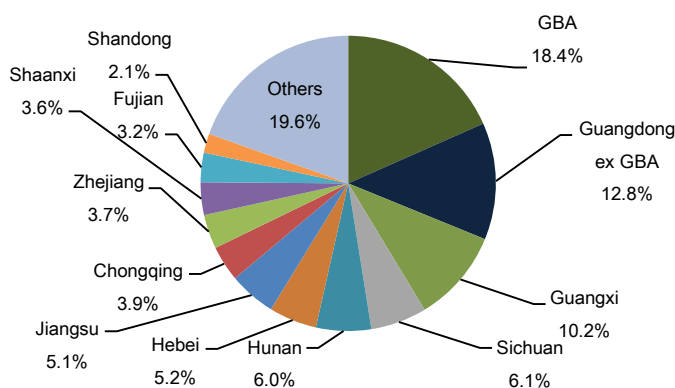
Exhibit 1: Aoyuan's 2019 results

P&L	2019	2018	YoY
	RMB mn	RMB mn	(%)
Turnover	50,531	31,006	63.0
Cost of Sales	(35,510)	(21,372)	66.2
Gross Profit	15,021	9,634	55.9
GPM (%)	29.7	31.1	(1.3ppt)
Selling and distribution costs	(2,138)	(1,432)	49.3
Administrative expense	(2,435)	(1,736)	40.2
EBIT	10,448	6,466	61.6
EBIT Margin (%)	20.7	20.9	(0.2ppt)
Other income	490	373	31.4
Fair Value gains on IP and others	397	865	(54.2)
Exceptional items	23	(374)	(106.0)
Share of profit from JCE/ Assoc.	(51)	35	NA
Finance cost	(718)	(411)	74.9
Profit before tax	10,589	6,954	52.3
Tax	(5,368)	(4,015)	33.7
- LAT	(1,942)	(1,925)	0.9
- Enterprise tax	(3,426)	(2,090)	63.9
Profit after tax	5,221	2,939	77.6
Minority Interest	(1,021)	(531)	92.4
Net profit	4,200	2,409	74.4
Core net profit	4,122	2,539	62.3
Core NPM	8.2%	8.2%	0.0ppt

Source(s): Company, ABCI Securities

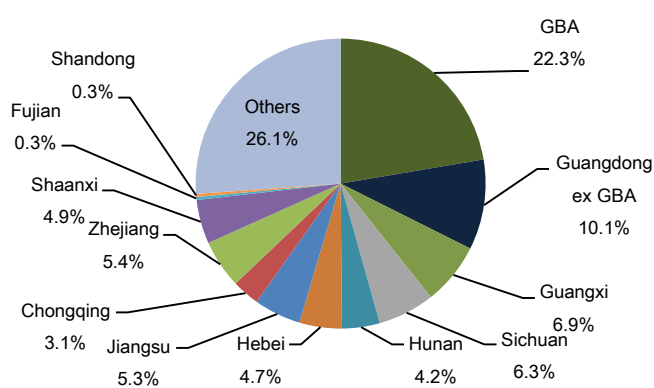
Operating statistics	2019	2018	YoY
			%
Contracted GFA (mn sqm)	5.21	3.30	57.9
Contracted ASP (RMB/sqm)	9,227	9,012	2.4
Contracted Sales (RMB mn)	48,091	29,740	61.7
GFA Delivered (mn sqm)	11.68	8.86	31.8
Booked ASP (RMB/sqm)	10,104	10,298	(1.9)
Booked sales (RMB mn)	118,060	91,280	29.3
Balance sheet	Dec-19	Dec-18	YoY chg
	RMB mn	RMB mn	
Gross debt	95,764	59,418	61.2
Cash	68,060	39,622	71.8
Net debt	27,704	19,797	39.9
Net gearing (%)	74.9	64.4	10.5ppt

Exhibit 2: Aoyuan's landbank breakdown (Dec 19: 45.03mn sqm, 79% attributable)



Source(s): Company, ABCI Securities

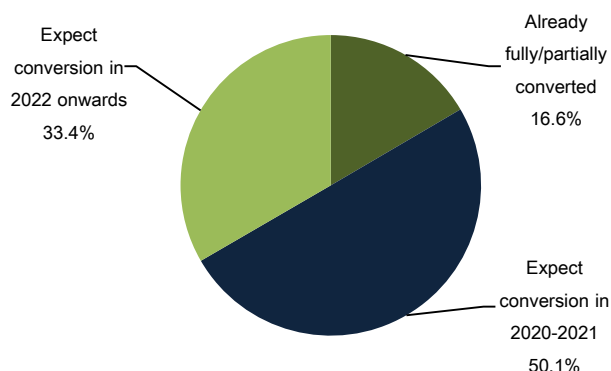
Exhibit 3: Aoyuan's estimated total saleable resources (Dec 19: RMB 458.5bn)



Source(s): Company, ABCI Securities

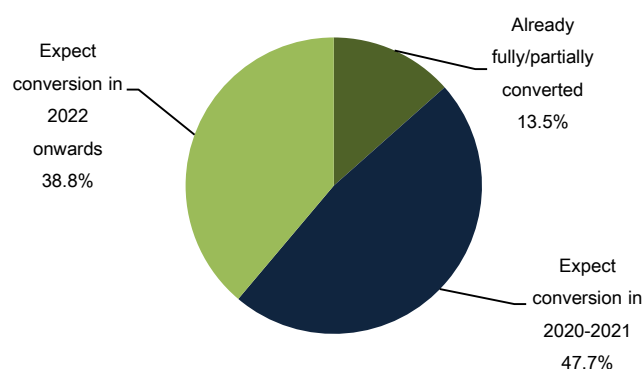


Exhibit 4: Aoyuan's potential saleable GFA in urban redevelopment by stage (Dec 19: 8.45mn sqm)



Source(s): Company, ABCI Securities

Exhibit 5: Aoyuan's potential saleable resources in urban redevelopment by stage (Dec 19: RMB 226bn)



Source(s): Company, ABCI Securities

Exhibit 6: Aoyuan's 2020E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Greater Bay Area	5.2	22,139	30%	DCF with WACC of 8.5%	4,260
GD ex GBA	2.6	5,094	7%		1,957
Guangxi	3.1	6,538	9%		2,133
Jiangsu	1.2	5,009	7%		4,071
Sichuan	1.0	3,163	4%		3,320
Hunan	1.7	3,672	5%		2,132
Overseas	0.4	5,519	7%		12,411
Others	5.9	18,382	25%		3,097
Subtotal	21.2	69,516	94%		3,287
Investment Properties		1,597	2%	6.0% cap rate on 2019E attributable net rental income Market value	
Aoyuan Healthy Life (3662 HK)		2,660	4%		
Total 2020E GAV		73,772	100%		
2020E Net cash/ (debt)		(19,019)	-26%		
Total 2020E NAV		54,753	74%		
No. of share outstanding (diluted)		2,690			
NAV per share (RMB)		20.35			
Ex rate		1.09			
NAV per share (HKD)		22.19			
Target discount (%)		50%			
Target Price (HKD)		11.10			
WACC					
Cost of debt		7.6%			
Cost of equity		12.0%			
Debt/ (Debt + Equity)		56%			

Source(s): Company, ABCI Securities estimates

Exhibit 7: Changes in TP and profit forecasts

	New	Old	Chg	Reasons
TP (HK\$)	11.10	14.10	-21.28%	lower-than-expected 2020 sales target and uncertain post-outbreak recovery
Core profit (RMBmn)				
- 2020E	6,045	6,230	-2.97%	lower-than-expected 2020 sales target and uncertain post-outbreak recovery
- 2021E	8,445	9,942	-15.06%	lower-than-expected 2020 sales target and uncertain post-outbreak recovery

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	31,006	50,531	72,744	87,191	107,511
Cost of sales	(21,372)	(35,510)	(53,660)	(61,077)	(74,376)
Gross Profit	9,634	15,021	19,084	26,114	33,135
SG&A expenses	(3,168)	(4,573)	(4,951)	(5,735)	(6,150)
EBIT	6,466	10,448	14,133	20,379	26,985
Finance cost	(411)	(718)	(835)	(842)	(850)
Share of profit of associates	35	(51)	-	-	-
Other income/ (expenses)	373	490	269	334	411
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	491	419	-	-	-
Profit before tax	6,954	10,589	13,567	19,871	26,547
Tax	(4,015)	(5,368)	(5,331)	(8,043)	(10,637)
Profit after tax	2,939	5,221	8,236	11,827	15,910
Minority interest	(531)	(1,021)	(2,191)	(3,382)	(4,602)
Reported net profit	2,409	4,200	6,045	8,445	11,307
Core net profit*	2,539	4,122	6,045	8,445	11,307
Per share					
Reported EPS (RMB)	0.90	1.56	2.25	3.14	4.20
Core EPS (RMB)	0.95	1.53	2.25	3.14	4.20
DPS (RMB)	0.36	0.55	0.67	0.94	1.26
Payout ratio (%)	38%	36%	30%	30%	30%
BVPS (RMB)	4.43	5.59	7.16	9.36	12.30
Growth %					
Revenue	62.2%	63.0%	44.0%	19.9%	23.3%
Gross Profit	88.5%	55.9%	27.0%	36.8%	26.9%
EBIT	91.0%	61.6%	35.3%	44.2%	32.4%
Core net profit	62.5%	66.9%	60.8%	43.6%	34.5%
Margin %					
Gross profit margin	31.1%	29.7%	26.2%	30.0%	30.8%
GPM (post-LAT)	25.9%	27.2%	23.6%	26.1%	26.7%
EBIT margin	20.9%	20.7%	19.4%	23.4%	25.1%
Core net margin	8.2%	9.8%	11.3%	13.6%	14.8%
Key assumptions					
Contracted Sales (RMB mn)	91,280	118,060	123,612	149,717	153,207
GFA sold (mn sqm)	8.86	11.68	11.00	11.78	11.80
ASP (RMB/sqm)	10,299	10,104	11,237	12,709	12,979
Booked Sales (RMB mn)	29,740	48,091	70,048	84,237	104,270
GFA delivered (mn sqm)	3.30	5.21	6.46	6.94	8.25
Booked ASP (RMB/sqm)	9,007	9,227	10,842	12,145	12,636

* Core net profit = profit attributable to owners of the company – (fair value changes in IP+ exchange gains+ other net gains)x0.75

Source(s): Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Aoyuan Property Group Limited (3883 HK, BUY)

China's Property Sector

Mar 25, 2020

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	171,808	262,458	311,628	346,467	371,838
Cash	36,012	58,043	67,627	101,792	119,084
Restricted cash	3,609	10,017	10,017	10,017	10,017
Trade & other receivables	12,274	26,259	26,259	26,259	26,259
Property under development	114,894	158,931	198,517	199,192	207,270
Other current assets	5,018	9,207	9,207	9,207	9,207
Non-current assets	17,051	27,423	27,243	26,981	26,622
Property, plant & equipment	2,057	2,686	2,349	1,931	1,415
Investment properties	8,833	10,072	10,229	10,386	10,543
Investment in Associate and JCE	1,939	5,865	5,865	5,865	5,865
Other non-current assets	4,221	8,799	8,799	8,799	8,799
Total Assets	188,858	289,880	338,870	373,449	398,460
Current Liabilities	121,033	196,847	239,465	264,799	277,343
Short term borrowings	24,275	41,873	42,773	43,673	44,573
Trade & other payables	25,565	36,838	36,838	36,838	36,838
Pre-sales deposits	59,966	86,056	127,774	152,208	163,852
Other current assets	11,226	32,080	32,080	32,080	32,080
Non-current liabilities	37,092	56,037	56,037	56,037	56,037
Long term borrowings	35,143	53,891	53,891	53,891	53,891
Other payables	0	0	0	0	0
Other non-current assets	1,949	2,146	2,146	2,146	2,146
Total Liabilities	158,124	252,884	295,501	320,836	333,380
Net Assets	30,734	36,997	43,369	52,613	65,080
Shareholders' Equity	11,872	15,030	19,262	25,173	33,089
Minority Interest	18,862	21,967	24,107	27,439	31,992
Total Equity	30,734	36,997	43,369	52,613	65,080
Key ratio					
Gross debt (RMB mn)	59,418	95,764	96,664	97,564	98,464
Net debt (RMB mn)	19,797	27,704	19,019	(14,246)	(30,637)
Net gearing (%)	64%	75%	44%	-27%	-47%

* Our financial model does not include any unconfirmed land acquisitions in future to avoid inflating NAV without substantial grounds; therefore, our net gearing forecasts for FY20E-22E declines consistently based on the assumption of no land purchase, which may deviate from the historical practice of the Company.

Source(s): Company, ABCI Securities estimates



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Aoyuan Property Group Limited (3883 HK, BUY)

China's Property Sector

Mar 25, 2020

FY ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBITDA	6,584	10,788	14,540	20,867	27,572
Change in Working Capital	7,964	(3,588)	9,957	31,657	11,536
Tax payment	(2,385)	(5,368)	(5,331)	(8,043)	(10,637)
Operating cash flow	12,164	1,832	19,166	44,481	28,471
Purchase of PP&E	(453)	(70)	(70)	(70)	(70)
Addition of Investment Properties	(157)	(157)	(157)	(157)	(157)
Others	(16,353)	490	269	334	411
Investing cash flow	(16,963)	263	42	107	185
Debt raised	38,084	20,253	5,000	5,000	5,000
Debt repaid	(17,373)	(4,050)	(4,100)	(4,100)	(4,100)
Interest expenses	(3,576)	(7,452)	(8,659)	(8,740)	(8,821)
Equity raised	0	0	0	0	0
Dividend to shareholders	(670)	(1,480)	(1,814)	(2,534)	(3,392)
Others	(422)	12,663	(50)	(50)	(50)
Financing cash flow	16,042	19,935	(9,623)	(10,424)	(11,363)
Net cash inflow/ (outflow)	11,243	22,030	9,585	34,165	17,292
Cash- beginning	24,769	36,012	58,043	67,627	101,792
Cash- year-end	36,012	58,043	67,627	101,792	119,084

Source(s): Company, ABCI Securities estimates

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return $<$ Market return rate (10%)
Sell	Stock return $<$ - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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