



March 10, 2014
Company Report
Rating: BUY
TP: HK\$ 2.20

Share price (HK\$) 1.48
Est. share price return 48.6%
Est. dividend yield 4.3%
Est. total return 52.9%

Previous Rating & TP BUY; HK\$2.20
Previous Report Date January 29, 2014

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Key Data

52Wk H/L(HK\$) 1.69/1.16
Issued shares (mn) 2,783
Market cap (HK\$mn) 4,146
3-mth avg daily turnover (HK\$ mn) 2.1
Major shareholder(s) (%):
Mr GUO Zi Wen 46.7

Source(s): Company, Bloomberg, ABCI Securities

FY12 Revenue breakdown (%)

Property development 98.0
Property investment 0.8
Others 1.2

Source(s): Company, ABCI Securities

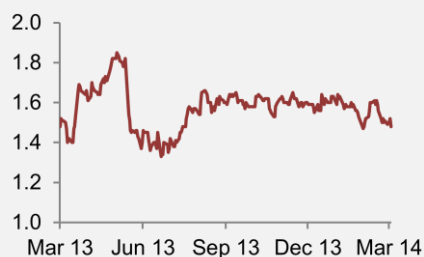
Share performance (%)

	Absolute	Relative*
1-mth	(2.0)	(4.6)
3-mth	(6.3)	0.1
6-mth	(9.1)	(7.1)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Aoyuan (3883 HK)

Site visit to Guangzhou: Key takeaways

- We are impressed by Aoyuan's product quality after visiting its projects in Guangzhou
- Projects are located in prime or convenient locations near the subway stations - Aoyuan City landmark is located right next to Hanxi Changlong station; Aoyuan Beyond Era is close to Guangzhou South Station
- The projects are commercial buildings and therefore are not subjected to home purchase restriction; ASPs are in the range of RMB 20-23k/sqm for loft apartments and RMB 60k-80k/sqm for retail shops
- 2M14 presale grew 146% YoY to RMB1,383mn
- Maintain **BUY** with TP at HK\$ 2.20 based on a 60% discount to 2014E NAV

Site visit to Guangzhou reaffirms our positive view. We have conducted a site visit to Aoyuan's major projects in Guangzhou in early March this year. These projects included Aoyuan City Landmark (奧園城市天地), Aoyuan Beyond Era (奧園越時代), Aoyuan International Centre (奧園国际中心) and Aoyuan Plaza (奧園廣場). Overall, we are impressed by Aoyuan's superior product quality and competitive pricing.

Aoyuan City landmark- primely located at metro station intersection. Located next to the Hanxi Changlong station (center of the Panyu district, intersection of metro Line 3 and 7), the project is only 15 minutes away from Zhujiang Newtown, Guangzhou's major CBD. It is right next to one of the most popular Guangzhou tourist hot spots, the Chimelong Safari Park. Key features of this project include **1) Commercial use.** As a commercial project, it is not subjected to home-purchase restriction and attracts demand from second-home buyers. Homebuyers usually are able to obtain a commercial mortgage with a 50% down payment and an interest rate at 10%-20% above the PBOC rate; **2) Duplex structure.** With a floor height of 4.6m, a mezzanine floor of 28 sqm can be constructed as gift area within an apartment of 45 sqm. This implies an efficiency ratio of 162%. However, homebuyers would need to undertake the conversion themselves at a renovation fee of ~ RMB 100k.

Its prime location, low lump-sum payment (~RMB 1mn per unit) and commercial nature attracts huge demand form homebuyers. In 2013, the project generated about RMB 1.4bn in presale at an ASP of RMB 22k/sqm for loft apartments and RMB 70-80k/sqm for retail shops.

Aoyuan Beyond Era- a high-speed rail story. The project is located next to Guangzhou high-speed rail station (Guangzhou South station). Once the HK-Shenzhen rail section completes, travelling time between the two regions will be shortened to 45 minutes from 2 hours at present. Also, an underground commercial area of 680k sqm is built close to the station. Although Aoyuan Beyond Era and Aoyuan City Landmark are (continue next page)

Results and Valuation

FY ended Dec 31	2011A	2012A	2013E	2014E	2015E
Revenue (RMB mn)	3,022	3,943	5,614	9,960	13,630
Chg (% YoY)	23.7	30.5	42.4	77.4	36.8
Underlying Net Income (RMB mn) ¹	238	243	368	1,087	1,836
Chg (% YoY)	86.7	2.3	51.7	194.9	69.0
Underlying EPS (RMB)	0.09	0.09	0.14	0.42	0.70
Chg (% YoY)	86.7	2.1	51.7	194.9	69.0
BVPS (RMB)	2.4	2.7	2.8	3.1	3.6
Chg (% YoY)	3.9	12.7	4.0	11.4	17.9
Underlying PE (x)	12.8	12.5	8.2	2.8	1.7
P/B (x)	0.5	0.4	0.4	0.4	0.3
ROE (%)	3.9	3.5	5.1	13.5	19.3
ROA (%)	1.4	1.2	1.3	3.2	4.7
DPS(RMB)	0.05	0.31	0.05	0.10	0.15
Yield (%)	4.44	26.88	4.25	8.61	12.92
Net gearing ² (%)	13.1	25.6	64.3	35.2	1.2

¹Underlying net income =Net profit - revaluation gain of investment properties and one-off items

²Net gearing=Net debt/Shareholders' equity

Source(s): Bloomberg, ABCI Securities estimates



similar in nature, the former generated more demand from commercial users in comparison (e.g. office and display showroom etc). In 2013, the project achieved RMB 742mn in presale. The current ASP is about RMB 23k/sqm for loft apartments and RMB 60k/sqm for retail shops.

Aoyuan International Centre- a landmark business complex. Located in Wanbo, the key commercial district in Panyu, the project is positioned as a landmark business complex. According to the current design plan, the project has an above-ground area of about 200k sqm and underground space of 100k sqm. The project is still at the foundation stage, and presale for retail space is likely to begin by end -2014 or early-2015. Wanda's project nearby is selling at RMB 20k/sqm for apartments and RMB 40-50k/sqm for retails.

Aoyuan Plaza- regional shopping mall with international brands. The shopping mall within Aoyuan Plaza is the Group's flagship investment property. Being a regional shopping mall in Panyu, the plaza houses a wide range of global retail brands H&M, Zara, and Starbucks, etc. The Group generated a rental income of RMB 31mn in 2012 and RMB 27mn in 1H13, with Aoyuan Plaza contributing most of them.

Maintain Buy with TP at HK\$ 2.20. In 2M14, Aoyuan's presale was RMB 1,383mn, up 146% YoY, with commercial properties accounting for 69% of total. Our site visit to Guangzhou reaffirms our positive view on the Group's prospect and we believe its annual presales target of RMB 16bn (+60% YoY) for 2014 is achievable. Our TP of HK\$ 2.20 is based on a 60% discount to 2014E NAV. Maintain **BUY**.

Risk factors: 1) Guangdong-concentrated project portfolio; 2) Policy risk; 3) Rising land cost may hurt margins.

Site visit pictures: Aoyuan City Landmark

Exhibit 1: Project master plan



Source(s): Company, ABCI Securities

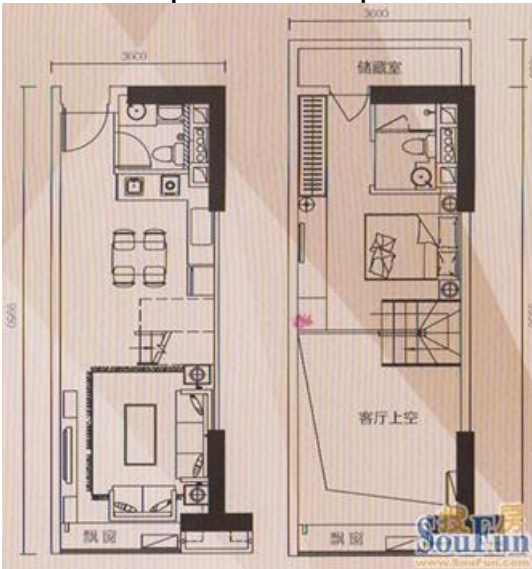
Exhibit 2: Project master plan



Source(s): Company, ABCI Securities

Site visit photos: Aoyuan City Landmark (cont'd)

Exhibit 3: Loft apartment's floor plan



Source(s): Soufun, ABCI Securities

Exhibit 4: Lower level of the loft apartment



Source(s): Company, ABCI Securities

Exhibit 5: Mezzanine floor of the loft apartment



Source(s): Company, ABCI Securities

Exhibit 6: Mezzanine floor of the loft apartment



Source(s): Company, ABCI Securities

Site visit photos: Aoyuan City Beyond Era

Exhibit 7: Construction site



Source(s): Company, ABCI Securities

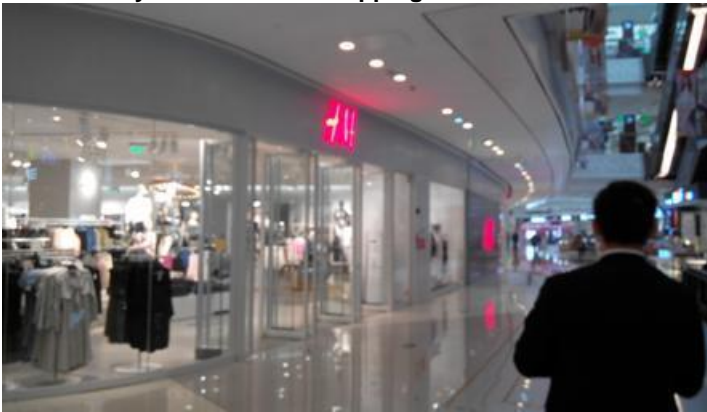
Exhibit 8: The nearby Guangzhou South station and the underground commercial space



Source(s): Company, ABCI Securities

Site visit photos: Aoyuan Plaza

Exhibit 9: Aoyuan Plaza- the shopping mall



Source(s): Company, ABCI Securities

Exhibit 10: Aoyuan Plaza- the shopping mall



Source(s): Company, ABCI Securities



Consolidated income statement (2011A-2015E)

FY Ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Revenue	3,022	3,943	5,614	9,960	13,630
Cost of sales	(2,205)	(2,757)	(3,920)	(6,755)	(8,999)
Gross Profit	818	1,187	1,694	3,205	4,631
SG&A expenses	(413)	(607)	(826)	(1,010)	(1,087)
EBIT	405	580	868	2,195	3,544
Finance cost	(26)	(66)	(104)	(116)	(114)
Share of profit of associates	(22)	(7)	0	0	0
Other income/ (expenses)	162	102	74	114	179
Fair value gain of investment properties	0	0	0	0	0
Disposal/one-off items	261	916	52	0	0
Profit before tax	779	1,525	891	2,193	3,609
Tax	(336)	(593)	(437)	(991)	(1,575)
Profit after tax	443	933	454	1,203	2,034
Minority interest	(10)	(2)	(46)	(116)	(198)
Reported net profit	433	930	408	1,087	1,836
<i>Less: exceptional items</i>	<i>(196)</i>	<i>(687)</i>	<i>(39)</i>	<i>0</i>	<i>0</i>
Underlying net profit	238	243	368	1,087	1,836
Per share					
Underlying EPS (RMB)	0.09	0.09	0.14	0.42	0.70
DPS (RMB)	0.05	0.31	0.05	0.10	0.15
Payout ratio (%)	57%	336%	35%	24%	21%
BVPS (RMB)	2.36	2.66	2.76	3.08	3.63
Growth %					
Revenue	23.7%	30.5%	42.4%	77.4%	36.8%
Gross Profit	24.7%	45.1%	42.8%	89.2%	44.5%
EBIT	9.9%	43.3%	49.7%	152.8%	61.4%
Underlying net profit	86.7%	2.3%	51.7%	194.9%	69.0%
Margin %					
Gross margin	27.1%	30.1%	30.2%	32.2%	34.0%
Gross margin (post-LAT)	18.2%	24.9%	25.5%	26.5%	27.6%
EBIT margin	13.4%	14.7%	15.5%	22.0%	26.0%
Core net margin	8.9%	6.4%	7.4%	12.1%	14.9%
Key assumptions					
Presales (RMB mn)	5,016	5,250	10,040	14,413	16,340
GFA sold (m sqm)	0.55	0.84	1.07	1.62	1.73
ASP (RMB/sqm)	9,118	6,281	9,366	8,909	9,459
Booked Sales (RMB)	3,004	3,865	5,529	9,867	13,531
GFA delivered (mn sqm)	0.31	0.49	0.80	1.22	1.53
Booked ASP (RMB/sqm)	9,685	7,938	6,954	8,068	8,863

Source: Company, ABCI Securities estimates



Consolidated balance sheet (2011A-2015E)

As of Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
Current assets	12,922	16,684	23,078	28,745	33,028
Cash	877	2,381	3,509	6,327	10,051
Restricted cash	2,946	762	762	762	762
Trade & other receivables	611	735	735	735	735
Property under development	8,336	11,548	16,814	19,663	20,222
Other current assets	152	1,257	1,257	1,257	1,257
Non-current assets	3,992	4,129	4,721	5,260	5,800
Property, plant & equipment	492	376	415	455	494
Investment properties	1,383	1,949	2,502	3,002	3,502
Investment in Associate and JCE	507	0	0	0	0
Other non-current assets	1,611	1,804	1,804	1,804	1,804
Total Assets	16,914	20,813	27,799	34,005	38,828
Current Liabilities	8,519	10,105	16,816	22,131	25,362
Short term borrowings	2,616	1,675	5,675	6,675	7,675
Trade & other payables	1,409	2,299	2,299	2,299	2,299
Pre-sales deposits	3,289	4,244	6,955	11,271	13,501
Other current assets	1,206	1,887	1,887	1,887	1,887
Non-current liabilities	2,166	3,605	3,605	3,605	3,605
Long term borrowings	2,016	3,248	3,248	3,248	3,248
Other payables	0	0	0	0	0
Other non-current assets	151	356	356	356	356
Total Liabilities	10,686	13,709	20,420	25,736	28,967
Net Assets	6,229	7,104	7,378	8,269	9,861
Shareholders Equity	6,159	6,951	7,230	8,055	9,499
Minority Interest	70	152	148	214	362
Total Equity	6,229	7,104	7,378	8,269	9,861
Key ratio					
Gross debt (RMB mn)	4,632	4,923	8,923	9,923	10,923
Net debt (RMB mn)	808	1,779	4,651	2,833	110
Net gearing (%)	13%	26%	64%	35%	1%
Presales/ Total assets (x)	0.30	0.25	0.36	0.42	0.42

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2011A-2015E)

FY ended Dec 31 (RMB mn)	2011A	2012A	2013E	2014E	2015E
EBITDA	436	610	899	2,226	3,575
Change in Working Capital	(50)	(2,862)	(1,897)	2,199	2,391
Tax payment	(646)	(770)	(437)	(991)	(1,575)
Operating Cashflow	(261)	(3,021)	(1,435)	3,434	4,391
Purchase of PP&E	(75)	(25)	(70)	(70)	(70)
Addition of Investment Properties	(177)	(394)	(500)	(500)	(500)
Proceeds from disposal/ (acquisition)	(2,072)	4,902	74	114	179
Investing Cashflow	(2,324)	4,483	(496)	(456)	(391)
Debt raised	3,559	4,695	5,000	5,000	5,000
Debt repaid	(2,288)	(4,544)	(1,000)	(4,000)	(4,000)
Interest expenses	-	-	(762)	(848)	(834)
Equity raised	-	-	-	-	-
Dividend to shareholders	(86)	(135)	(129)	(262)	(392)
Others	74	26	(50)	(50)	(50)
Financing Cashflow	1,258	42	3,060	(160)	(276)
Net cash inflow/ (outflow)	(1,326)	1,504	1,128	2,818	3,723
Cash- beginning	2,203	877	2,381	3,509	6,327
Cash- year-end	877	2,381	3,509	6,327	10,051

Source(s): Company, ABCI Securities estimates



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Definition of equity rating

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 from 2009-2013

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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