

**Fubon Research (HK)**

April 23, 2014

## China Aoyuan Property (3883 HK)

A neglected jewel in the sand; ADD initiated

### ADD

Current Price	Target Price
<b>HKD 1.34</b>	<b>HKD 1.67</b>
○ Visit Notes	● Initiate Coverage
○ Company Update	○ Earnings Revision
○ Earnings Preview	○ Rating Change
Shares outstanding (m)	2,783
Mkt Cap (HKD/USDm)	3,729 / 481
3M avg dly Tnv (HKDm)	2.54
Major shareholder (%)	Guo Zi Wen, 46.7
Free float (%)	41.5
52-week high/low (HKD)	1.86 / 1.27

### Financial Summary

	Year-end: Dec 31				
In RMBm	2012	2013	2014F	2015F	2016F
Revenue	3,943	5,729	8,352	11,949	17,012
Gross profit	1,187	1,759	2,801	3,978	5,679
Operating profit	580	1,088	1,798	2,545	3,638
Net profit	930	736	1,242	1,642	2,088
Core net profit	172	570	940	1,316	1,724
Core EPS (RMB)	0.07	0.21	0.35	0.49	0.64
BVPS (RMB)	2.66	2.59	2.95	3.42	4.02
DPS (RMB)	0.05	0.08	0.09	0.12	0.15
PER (x)	15.9	4.9	3.0	2.1	1.6
PBR (x)	0.4	0.4	0.4	0.3	0.3
Div. Yield (%)	4.9	7.6	8.5	11.3	14.3
EV/EBITDA (x)	6.0	6.1	4.7	3.8	3.0
ROA (%)	0.9	0.9	2.2	2.8	3.1
ROE (%)	2.2	2.6	8.0	12.2	14.8
ROCE (%)	1.6	1.8	4.4	5.5	5.5

Source: Fubon Securities (HK)

 Karl Shen, CFA, FRM  
 (852) 2881 4573  
 karl.shen@fubon.com

Aoyuan is a boutique property developer headquartered in Guangzhou. After disposing its Beijing Project in 2012, which stranded Aoyuan during 2009-2012, it adopted fast development strategy and made precise market positioning (residential + commercial dual core model). As a result, pre-sales recorded significant growth in 2013, and are poised to post fast growths for 2014-2016. We believe Aoyuan is an under-researched, under-valued jewel yet to be unearthed. Initiate ADD with a TP of HKD1.67.

→ **Taking off burden and turning a new leaf:** Aoyuan disposed Beijing project in 2012 and freed up HKD3b in cash. The project stalled Aoyuan's growth for almost 3 years when property market rebounded robustly from 2008 trough. After the disposal, Aoyuan got back on track of fast growth.

→ **Established model, effective mechanism, distinct strategy:** Aoyuan's established "residential + commercial dual core model" is easy to copy from one project to another, backed by effective "standardized development mechanism". Via this model and mechanism, Aoyuan is able to carry out its distinct "fast development, fast sales strategy".

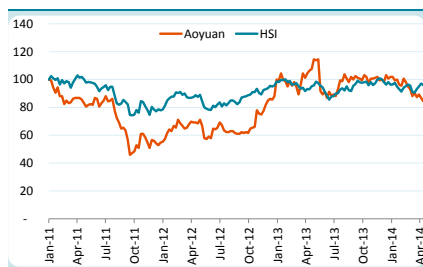
→ **Low cost land bank with focus on Guangdong:** As at end-2013, Aoyuan's average land cost was only RMB1,090/sm. Guangdong accounted for 50% of total land bank and 60% of total GAV. Aoyuan may continue to focus on Guangdong going forward with more urban renewal projects.

→ **Oversupply not imminent yet:** Most of Aoyuan's buyers are lower-budget young people, investors and start-up entrepreneurs. Its commercial apartments & retail shops are popular with prime locations and financially affordable. We do not see imminent oversupply at the moment.

→ **Valuation:** Our TP of HKD1.67 is based on 50% discount to our estimated NAV, suggesting 3.7x 14F P/E and 0.44x 14F P/B respectively. The stock is trading at 60% discount to NAV, implying 24% upside.

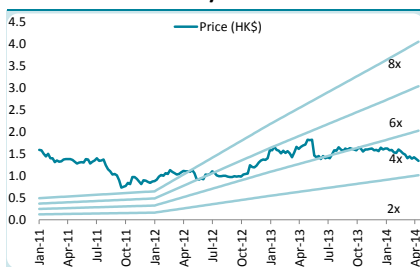
→ **Key risks:** Macro: weaker economy, weaker property demand, more stringent policies on property market. Micro: failure to control financial healthiness and execute previously mentioned strategy.

### Relative Performance



Source: Fubon Securities (HK)

### 12-month Forward P/E Bands



Source: Fubon Securities (HK)

### 12-month Forward P/B Bands



Source: Fubon Securities (HK)

## 2012: Taking off burden for strategic turnaround

The *8 Chang'an Ave* project is situated in prime location in Beijing. However it is a famous problem maker with highly entangled equity interest disputations. The project had switched hand 2 times before Aoyuan stepped in.

*8 Chang'an Ave* was initially positioned as luxury residential project, which was later proved to be a total failure as ASP was set too high and the adjacent region became a CBD rather than a place suitable for high quality living.

### Aoyuan's Turnaround Point

On 7 Jul 2009, Aoyuan announced that it acquired **41.33%** stake of Century Profit Zone Investments, which holds 96.8% interest in Beijing Yaohui Real Estate possessing the Beijing project namely *8 Chang'an Ave*, for a total of RMB370m. Besides, Aoyuan would provide RMB460m short term loan to Century Profit. Aoyuan later increased the stake to **52.69%** via excising the conversion rights of the RMB296m Convertible Note issued by Hong Da, the other owner of Century Profit.

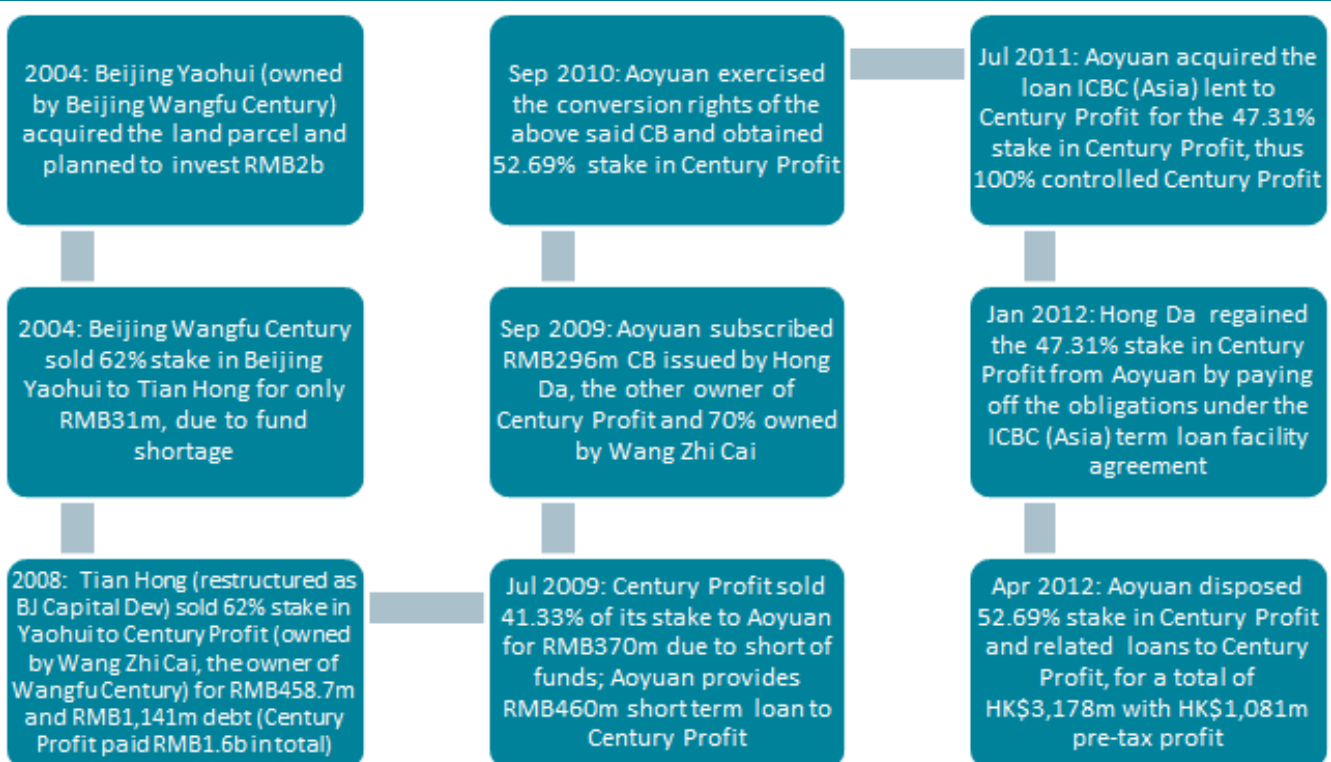
On 1 Aug 2011, Aoyuan announced that it had acquired HKD713.43m loan by ICBC (Asia) to Century Profit for **the remaining 47.31% stake** in Century Profit due to Hong Da's default on HKD670m term loan pledged with these stake granted in Dec 2009, and in turn acquired 96.8% interest in *8 Chang'an Ave* project. Hong Da later sued Aoyuan for such action but the appeal was dismissed by court and bore all the litigation costs.

On 18 Jan 2012, Hong Da paid Aoyuan HKD351,91m to Aoyuan to discharge obligations under the credit facility agreement and regained the 47.31% stake in Century Profit.

On 1 Apr 2012, Aoyuan announced that it had disposed all **52.69%** stake in Century Profit for a total of HKD1,829m (RMB1,480m) and recovered HKD1,349m loans, raking in a **sum of HKD3,178m** with a pre-tax gain of HKD1,081m.

The asset sale deal was completed in Oct 2012, followed by the issue of 5-yr US\$125m senior notes, enhancing Aoyuan's solid cash flow/financial position significantly. **After stranded in the Beijing Project for almost 3 years, Aoyuan finally took off this burden and got back on track for fast growth.**

### Historical events of the *8 Chang'an Ave* Project



Source: Company, Fubon Securities (HK)

In Mar 2014, Aoyuan was awarded as **the 31<sup>st</sup> among the “Top 100 Real Estate Developers in China 2014”** sponsored by the Development Research Center of the State Council, Tsinghua University and 3 research institutions. The ranking was **up 13 notches** from the 44<sup>th</sup> in 2013. In the sub-ranking for operation efficiency, Aoyuan’s ranking also improved from the 9<sup>th</sup> in 2013 to the 6<sup>th</sup> in 2014.

## 2013: Turning a new leaf after Beijing project disposal

After regaining HKD3,178m cash (HKD3,174m after related fees) in 2012, Aoyuan immediately executed a fast development strategy based on precise market positioning.

Since Apr 2010 when China adopted stringent property tightening and implemented **home purchase restriction (HPR)** in most Tier-1/2 cities to curb housing investment and speculation, home sales in Guangzhou became harder as less people are eligible to buy residential units due to Hukou restriction or limited residence period in the city.

To tackle the problem, Aoyuan started to develop small/mid-sized residential units targeting end-users, e.g. first-time home buyers less susceptible to property austerity measures, as well as LOFT-style commercial apartments. Commercial apartments are built with commercial land use right (40-50 yrs vs 70 yrs for residential use). These commercial apartments are not limited by tightening measures which targets properties with residential land use right only, therefore not restricted by purchase eligibility.

These LOFT-style apartments are financially affordable due to their small sizes, and suitable for both end-users for own use and investors for renting. Besides, these apartments with commercial land use right can be used as properties for business registration, thus are quite popular among start-up / SOHO companies.

Distinct product features and precise market positioning		
	Residential Properties for Sale	Commercial Properties* for Sale
Percentage	Approx. 60%	Approx. 40%
Features	Targeted at end-users; <b>LESS impacted by HPR</b>	High demand; <b>NOT impacted by HPR</b>
Location	Apartment: downtown regions in tier-1/2/3 cities Villa/Townhouse: city outskirts or non-city-proper	Downtown regions; major transportation hubs
Target	Individual/household with normal salary income and genuine demand for living	LOFT apartment for first-time home buyers/investors; Retail booth for wealthy individuals/small biz owners
Pro/Con	Pro: can be property for Hukou registration Con: not suitable for SOHO or small businesses	Pro: can be property for business registration Con: cannot be property for Hukou registration

Source: Company, Fubon Securities (HK) Note: Hukou is a record in the system of household registration required by law in mainland China.

\* Commercial properties include commercial apartments and retail shops

Aoyuan’s emphasis on commercial properties **created synergy** for its residential products as most residents in these apartments are young and tend to consume stylish goods, therefore more fashionable retail shops are needed. By adopting such fast development strategy and dual core model, Aoyuan recorded robust pre-sales in 2013 with significant 91% YoY increase to over RMB10bn. **We believe pre-sales will continue to record fast growths in 2014-2016.**

Aoyuan is aware of the impact of B2C or O2O business on traditional commercial properties, and is deploying more experience stores or restaurants that are less likely to be impacted by internet consumption trend.

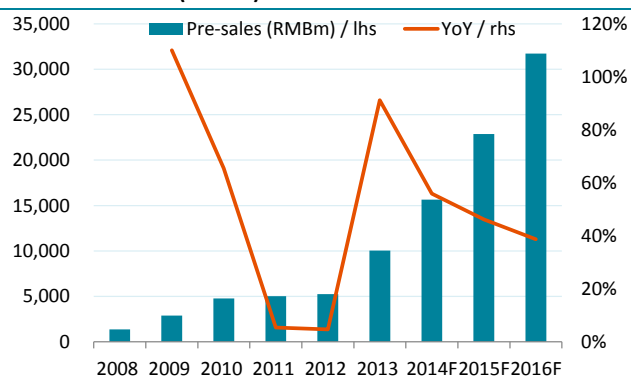
## Dual core more efficient than mono core

Of all residential property sales, the percentage of villa/townhouse is becoming smaller as Aoyuan is now focusing on end-user buyers to boost asset turnover. Land bank for villa/townhouse was only 1% of total as at end-2013.

Aoyuan Property is a unique developer among all HKEx-listed China property players. The company's unique **residential + commercial** model has earned itself great success. Residential/commercial property account for **60%/40%** of sales value and the ratio is expected to stay stable in the next couple of years. Of all commercial properties, **80% are sold and 20% are held** as investment properties.

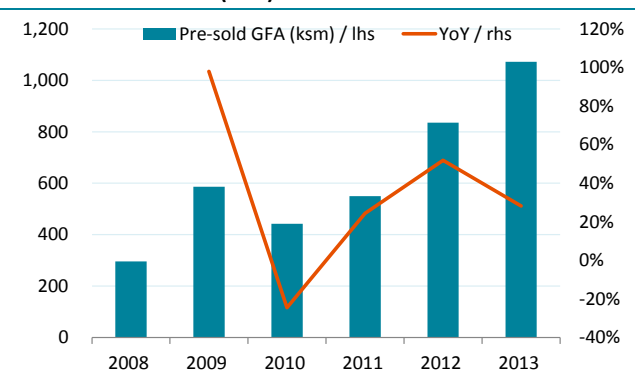
Unlike many other developers who employ tiny percent of commercial properties as supplement to facilitate sales of their residential units, Aoyuan has put a **high emphasis on commercial** since 2010 when it saw the huge potential of commercial activities in Guangzhou, one of the most dynamic economies in China. This **dual core** model has been proved to be more efficient than a **mono core** one (residential only or with tiny commercial part), and pre-sales recorded tremendous growth in 2013.

### Contracted sales (RMBm)



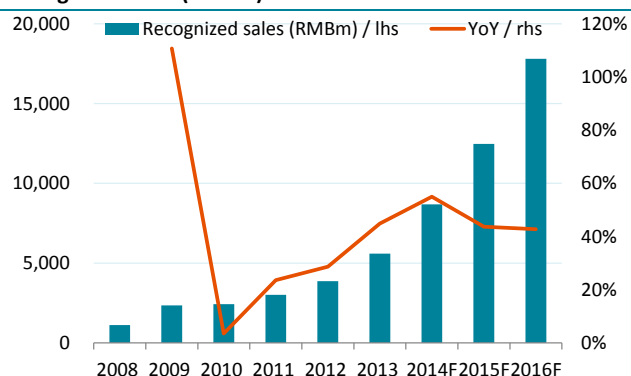
Source: Company, Fubon Securities (HK)

### Contracted GFA sold (ksm)



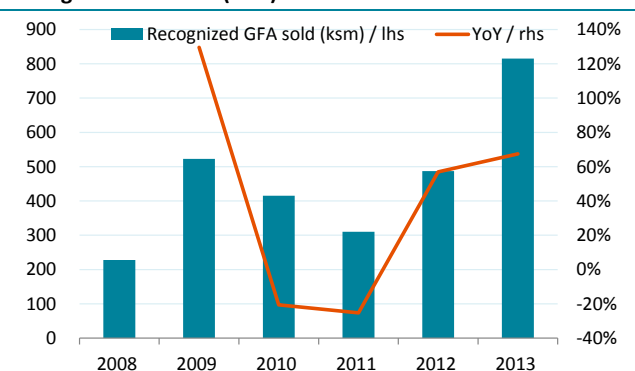
Source: Company, Fubon Securities (HK)

### Recognized sales (RMBm)



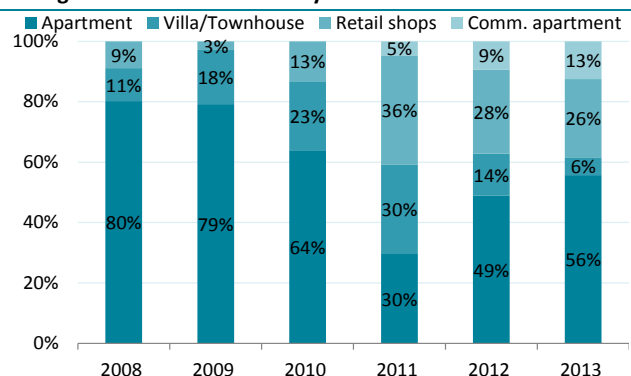
Source: Company, Fubon Securities (HK)

### Recognized GFA sold (ksm)



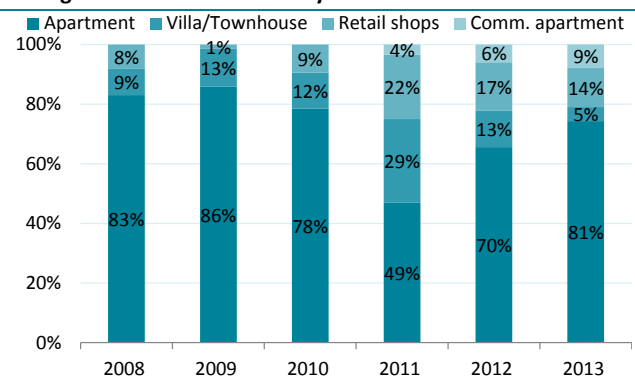
Source: Company, Fubon Securities (HK)

### Recognized sales breakdown by value



Source: Company, Fubon Securities (HK)

### Recognized sales breakdown by GFA



Source: Company, Fubon Securities (HK)

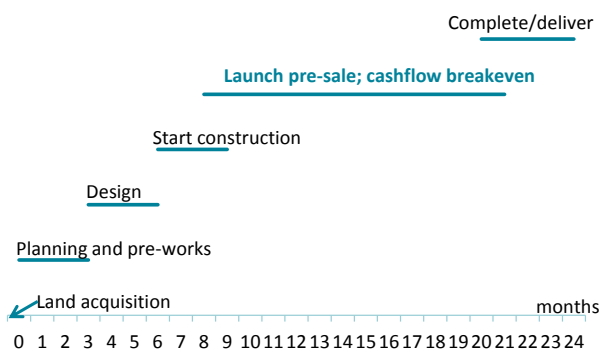
### Established model, effective mechanism, distinct strategy

Aoyuan has made great efforts establishing the "standardized development mechanism" which covers investment, positioning, planning, tendering, construction, marketing, display design, sales, property management, and delivery. Standardized design and procedures are widely employed across various projects.

Aoyuan's COO Mr. Yang Zhong, who gained abundant experience with 10 years in COLI (Shenzhen) and 6 years in Zovie Real Estate (Dongguan) before joining Aoyuan in 2009, spent 2 years establishing a "standardized development mechanism" with operable, effective rules and highly trained in-charge staffs.

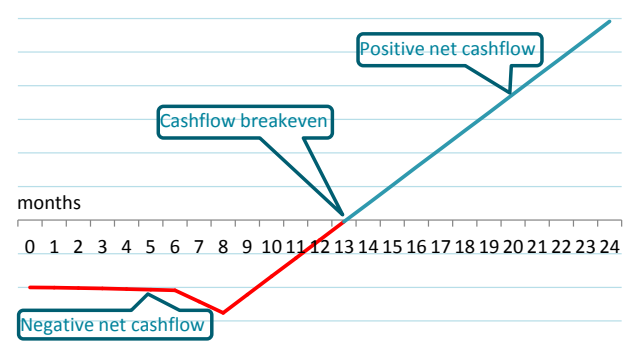
The established **"residential + commercial dual core model"** is easy to copy from one project to another, backed by effective **"standardized development mechanism"**. Via this model and mechanism, Aoyuan is able to carry out its distinct **"fast development, fast sales strategy"**.

Sample project development pipeline



Source: Company, Fubon Securities (HK)

Sample project accumulated cash flow illustration



Source: Company, Fubon Securities (HK)

For example, pre-sales began in about **6 months** after land acquisition for Chongqing Aoyuan The Metropolis, Guangzhou Aoyuan City Plaza, Guangzhou Aoyuan Health Plaza and Zhongshan Aoyuan Jinyu. Cash flow breaks even in about **12 months** after land acquisition.

Development pipeline example - Chongqing Aoyuan The Metropolis



Dec-12 Jan-13 Feb-13 Mar-13 Apr-13 May-13 Jun-13 Jul-13 Aug-13  
**Land acquisition**

**Pre-sales started**

Source: Company, Fubon Securities (HK)

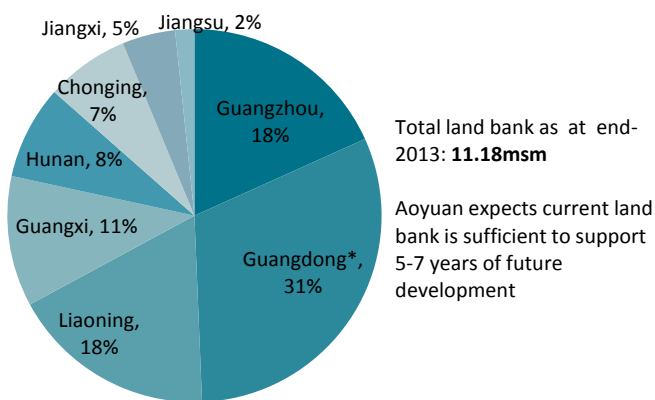
## Low cost land bank with focus on Guangdong

Land prices in tier-1/2 cities surged in 2013, with major developers refocusing on tier-1/2 cities. We expect land prices in tier-1/2 cities to stay afloat in a few years as property demand there remains strong while those in most tier-3/4 cities to remain less strong.

As at end-2013, Aoyuan's total land bank was 11.18msm, with an **average cost of only RMB1,090/sm**. Aoyuan is now very prudent in project acquisition, and tend to acquire land with comprehensive cautious considerations including IRR, margins, financial healthiness, market positioning issues. We expect more land bank acquisition via cooperation and equity acquisition, considering high land prices in tier-1/2 cities.

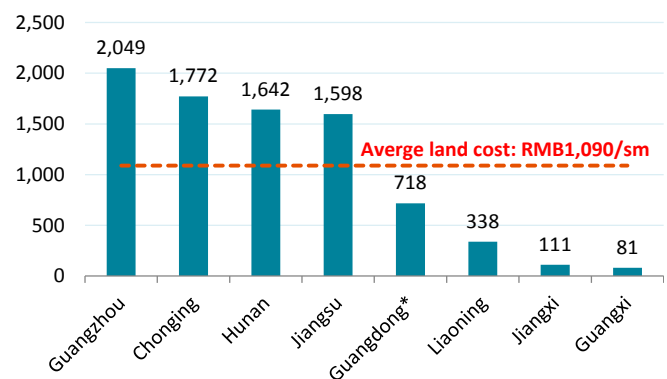
Guangzhou accounted for 18% of total land bank while Guangdong (ex Guangzhou) accounted for 31%. Guangdong in together accounted for **49% of total land bank**. Considering higher scale/margins for Guangzhou projects, Guangdong (especially Guangzhou) should contribute higher percentage of GAV (see page 13 for details).

### Land bank breakdown by province (end-2013)



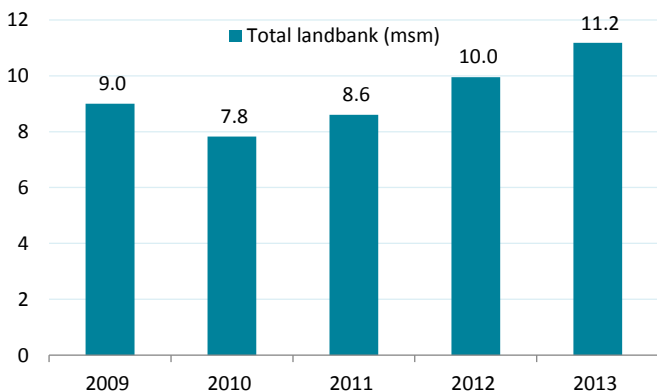
Source: Company, Fubon Securities (HK) \*Excluding Guangzhou

### Land bank cost breakdown by province (end-2013)



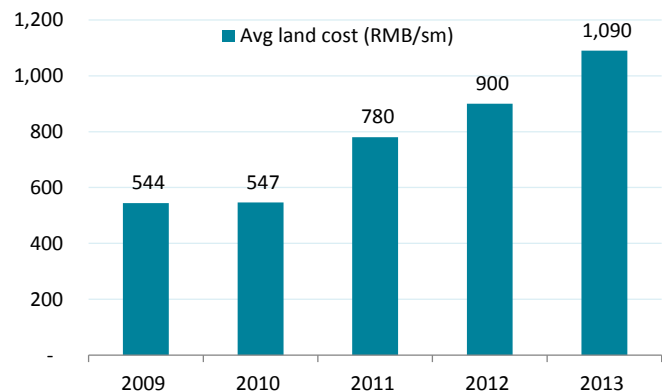
Source: Company, Fubon Securities (HK) \*Excluding Guangzhou

### Historical year-end land bank (msm)



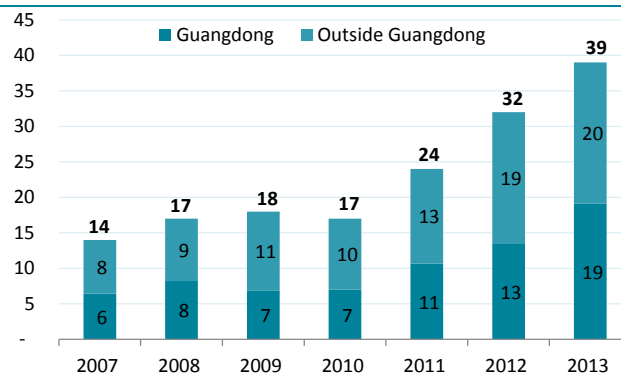
Source: Company, Fubon Securities (HK)

### Historical year-end average land cost (RMB/sm)



Source: Company, Fubon Securities (HK)

### Historical number of projects



Source: Company, Fubon Securities (HK)

## Abundant urban redevelopment opportunities in Guangdong

Since 2013, Aoyuan successfully acquired two projects via the *Three Olds Redevelopment* program, at significantly low cost compared to adjacent land parcels at market prices.

Guangdong's urban redevelopment program, a.k.a. *Three Olds Redevelopment* refers to the renewal of shanty town, old factory and dilapidated intown villages in urban areas. Since 2009, the Ministry of Land & Resources and Guangdong govt have offered a series of favorable policies to encourage developers to participate in the program. **Acquisition costs of such redevelopment projects are usually lower compared to those via public auction, especially when land prices have surged since 2013.**

### Aoyuan's projects acquired via "Three-Old Redevelopment" Program

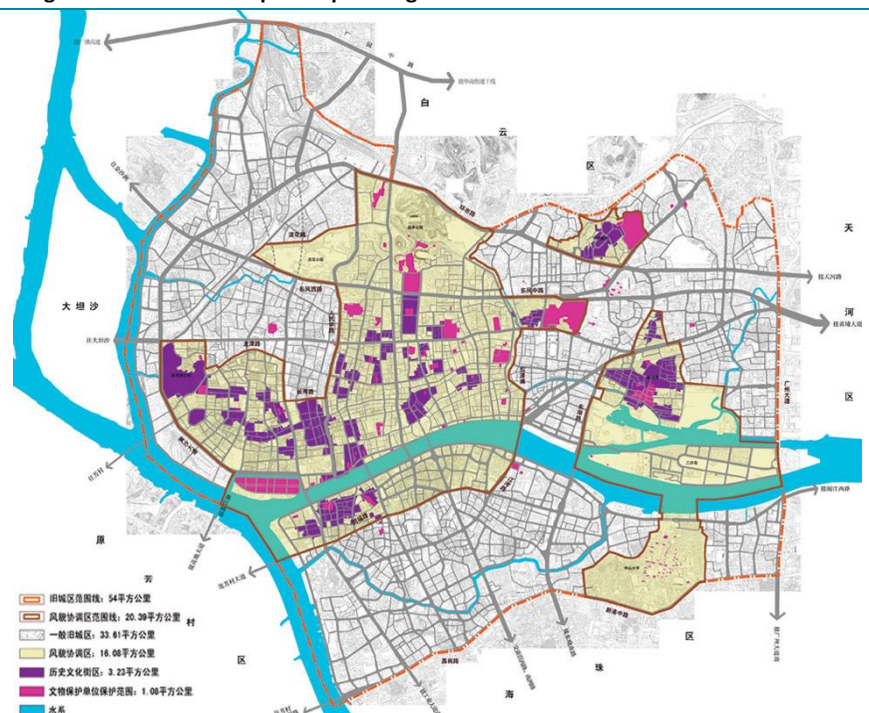
Project	District / City	Acq. Date	Stake	GFA (sm)	Consideration (RMBm)	Floor cost (RMB/sm)
Aoyuan Kangwei Plaza	Zengcheng / Guangzhou	Jan 2013	51%	379,409	601	1,584
Luogang Aoyuan Plaza	Huangpu / Guangzhou	Aug 2013	60%	300,019	1,306	4,353

Source: Company, Fubon Securities (HK)

However, projects acquired via this method take more time/procedures before construction can be started than those via public auction. **This drawback requires deliberate consideration and balance in lower land cost and lower efficiency.** In this regard, Aoyuan will only consider *Three Olds Redevelopment* projects with prime locations around developed CBDs, so that faster pre-sales can be expected as buyers have no concern on the project's future planning.

Taking Guangzhou for example, there are 554msm (56msm shanty town, 190msm old factory, 310msm intown village) of old urban areas to be redeveloped according to Guangzhou's *Three Olds Redevelopment* 2011-2015 planning. **However only 30msm, or 5% of the total planned area, has been completed by end-2013.** Guangzhou govt has recently held high-profile meetings highlighting the importance of boosting *Three Olds Redevelopment* program. Besides, approval procedures are expected to be simplified. **If the program is accelerated, more projects will be available for Aoyuan' choice.**

### Guangzhou urban redevelopment planning



Source: www.upo.gov.cn, Fubon Securities (HK)

## Major projects in Guangzhou enjoy prime locations

As seen from the chart below, most of Aoyuan's projects enjoy highly prime location, which is always the most important issue in real estate business.

Aoyuan has 14 projects in Guangzhou. The most important (higher NAVs) projects in city proper are Aoyuan Beyond Era (奥園越時代), Aoyuan City Plaza (奥園城市天地), and Aoyuan International Center (奥園國際中心). There is another two major projects, i.e. Aoyuan Kangwei Plaza (康威廣場) and Luogang Aoyuan Plaza (蘿崗奥園廣場), which are located in Zengcheng and Luogang (now integrated with Huangpu) Districts, respectively.

Prime locations of Aoyuan's projects in Guangzhou city proper



Source: Company, Fubon Securities (HK)



## Case study - Guangzhou Aoyuan Plaza

Aoyuan is planning to offer **O2O** (online to offline) service to boost sales in its projects' retail shops and shopping malls. If implemented, retail sales in Aoyuan Plaza are expected to **rise 20%** from current level.

Guangzhou Aoyuan Plaza (廣州奧園廣場) is comprised of **shopping mall, retail shops and commercial apartment**. It is located at the heart of Panyu District, surrounded by the most dynamic and wealthy communities of the region.

Aoyuan sold the project's retail shops and commercial apartments, but retained shopping mall (80.5ksm) as investment property. Aoyuan plaza was opened in end-2012 and its shopping mall was **almost established within only half a year with about 85% occupancy rate** with many international brands, including H&M, Zara, Vanguard, etc. Aoyuan Plaza has become one of Guangzhou's most popular landmarks.

### Guangzhou Aoyuan Plaza - Part of convenient adjacent facilities

Community	Helenbergh, New Century Garden, Huajin New Town, etc.
Supermarket	Aoyuan Plaza Supermarket, RT-Mall Supermarket
Hotel	Helenbergh Hotel
School	Shiqiao Experimental Primary School, Yushan High School, etc.
Bank	ICBC, CMB, CGB, CITIC, HSBC, etc.
Transportation	Bus No.2/6/7/15/18/26/22/27/30, etc. 5km to Shiqiao Station or Panyu Square Station (Metro Line 3)
Other	South Panyu Park

Source: Baidu, Soufun, Fubon Securities (HK)

### Guangzhou Aoyuan Plaza – Adjacent communities



Source: Baidu, Fubon Securities (HK)

### Guangzhou Aoyuan Plaza – Introduced brands



Source: Company, Fubon Securities (HK)

### Guangzhou Aoyuan Plaza – Rendering effect 1



Source: Soufun, Fubon Securities (HK)

### Guangzhou Aoyuan Plaza – Rendering effect 2



Source: Soufun, Fubon Securities (HK)

## Who are buying?

### Young white-collar workers

Many young people working in CBDs such as Zhujiang New Town usually can't afford an apartment in expensive downtown region. They often seek decent shelter a bit away from city proper but near transportation hubs so that <1-hour commuting is possible.

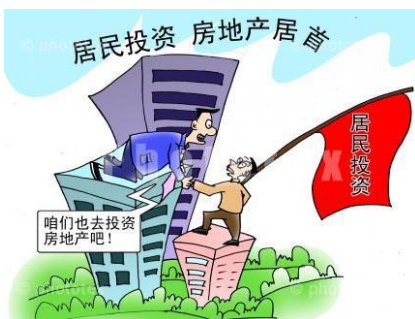
Nowadays, many young people prefer shiny commercial apartment to old dark shanty downtown apartment, despite the former may be smaller and a bit far away. And they are not always non-local, as many local young people seek independent lifestyle and do not live with parents anymore once they have found jobs.



### Real estate investors

Most wealthy individual investors prefer investment in real estate. The door to investing in residential property was half closed since the HPR was introduced in 2010. Investors now look for alternative property investment such as retail shops and commercial apartment for renting and appreciation.

Aoyuan's retail shops/commercial apartments are located in prime areas. And the company has a professional team in charge of commercial operation, such as introducing famous consumer brands and shopping mall management. Aoyuan normally signs contract with retail shop investors to guarantee a certain return for a certain period, in exchange for the right of deploying brands with overall planning, so that commercial quality of the community can be guaranteed.



### Startup entrepreneurs

People in Yangtze River Delta, especially Guangdong Province, have historically been famous for their entrepreneurship. As the heart of Guangdong, Guangzhou is one of the top destinations for young people longing for starting up own businesses, especially mobile internet biz, let alone its comfortable weather and abundant academic resources.

According to a survey by the famous Sun Yat-Sen University in 2013 on 5,000 young people aged 18-35 in Guangzhou, **the most desired job is self-employment** (27% for university students and 37% for experienced professionals), instead of becoming public servant like most young people in other cities. About 60% of the surveyed believe that Guangzhou is a dynamic city with plenty of opportunities.

Besides, thousands of young talents are relocating to Guangzhou/Shenzhen/Hangzhou, as they seek better startup environment when deterred by awful air pollution and bureaucracy against private biz in Beijing/Shanghai.

A startup company, say internet/creativity biz, does not need a large office. Instead, a 50-90sm apartment will suffice as a SOHO (small office, home office). **Commercial apartment works best as a SOHO** for startupper as it is **affordable and convenient**. Besides, such apartment can also be used as property for business registration while residential apartment cannot. Entrepreneur can live and work there, saving time/energy and money on renting both office and apartment.



## Oversupply? You can't be so sure about that.

Commercial apartment is usually sized 40-60sm in gross floor area. However net floor area is a lot bigger as such apartment is built with high floor height and developer builds another mini storey within the apartment for free. With such design, commercial apartment is quite popular among young people with limited budget.

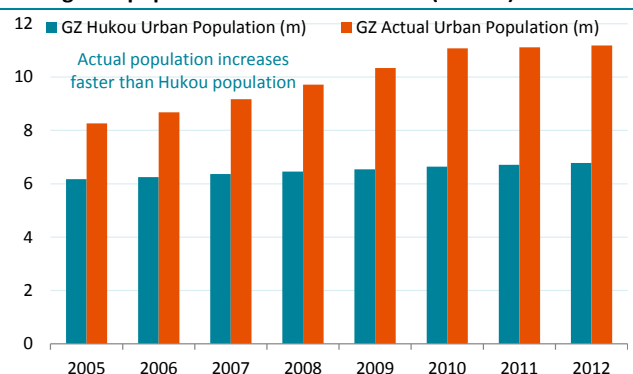
Commercial apartment has become the most popular property type since the introduction of HPR policy in 2010. Except for being ideal SOHO properties, commercial apartments are not restricted to home purchase/mortgage eligibility and are usually lower in ASP compared to adjacent residential properties. Besides, commercial apartments are normally small in size, thus lowering entry barrier for buyers with limited budget.

Some may argue that commercial apartment supply in Guangzhou has already become very huge in recent years. However note that a senior official of MOHURD recently suggested that **tier-1 cities will continue to carry out HPR in the foreseeable future.**

### Demand potential still huge

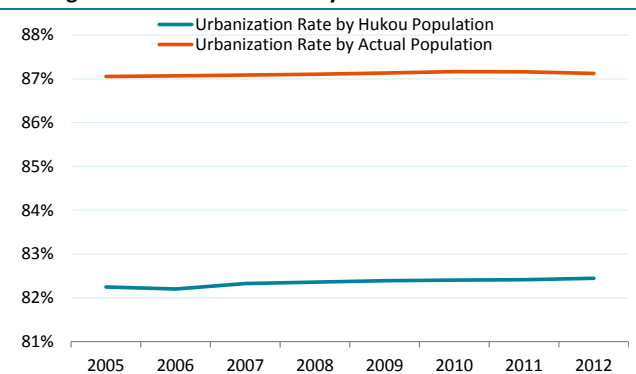
Each year lots of young people move into tier-1 cities to pursue their career dreams. But they are restricted by HPR policy to buy a home in these mega cities as they don't have Hukou there or enough years of residence. The actual population in Guangzhou (常住人口) is much higher than registered population in the city (户籍人口), just like the case in other tier-1/2 cities. The higher percentage the former is (meaning more non-local population), the **more demand for housing unrestricted by HPR** such as commercial apartments.

Guangzhou population – Hukou vs. Actual (million)



Source: Guangzhou Statistics Bureau, Fubon Securities (HK)

Guangzhou Urbanization Rate by Hukou & Actual



Source: Guangzhou Statistics Bureau, Fubon Securities (HK)

### Location! Location! Location!

Like other real estates, the most important selling point for commercial apartments should be their locations. For young people who are major buyers of commercial apartments, they are social animals and need to live close to transportation hubs and convenient commercial facilities. Aoyuan's complex projects can well meet those criteria and total price is within affordable regions due to smaller size. **Supplies for really good locations always can't quench market thirst enough.**

Don't be daunted by news about oversupply in commercial apartment/retail shops in Guangzhou. Don't jump into conclusion before you have done on-site research because **real estate is no simple math** just by looking at numbers. Imagine yourself an investor, take a visit to Guangzhou to see how prime Aoyuan's projects are located and how good quality its products possess.

## Financial summary

We expect Aoyuan to record over 40% annual revenue growth during 2014-2016, but at declining rates due to concern on competition and slowdown of property market. Margins are expected to remain stable with slight decline.

### Key Income Statement Items (RMBm)

	2011A	2012A	2013A	2014F	2015F	2016F
Revenue	3,022	3,943	5,729	8,352	11,949	17,012
YoY	24%	30%	45%	46%	43%	42%
Gross profit	818	1,187	1,759	2,801	3,978	5,679
YoY	25%	45%	48%	59%	42%	43%
Operating profit	405	580	1,088	1,798	2,545	3,638
YoY	6%	43%	88%	65%	41%	43%
Core net profit	133	172	570	940	1,316	1,724
YoY	98%	29%	232%	65%	40%	31%
Gross margin	27%	30%	31%	34%	33%	33%
Op margin	13%	15%	19%	22%	21%	21%
Core net margin	4%	4%	10%	11%	11%	10%

Source: Company, Fubon Research (HK)

Net gearing is expected to remain stable at around 65-70%. Aoyuan is not an aggressive developer when it comes to debt leverage, but higher gearing is justified during the fast growth stage. Maximum net gearing may not exceed 75% in the future, in our opinion.

### Debt and Cash Items (RMBm)

	2011A	2012A	2013A	2014F	2015F	2016F
ST debt	2,616	1,675	2,411	3,673	1,681	1,617
LT debt	2,016	3,248	7,113	10,410	17,760	23,759
<b>Total debt</b>	<b>4,632</b>	<b>4,923</b>	<b>9,524</b>	<b>14,082</b>	<b>19,442</b>	<b>25,375</b>
Cash / deposits	3,823	3,143	4,712	8,028	12,564	17,360
<b>Net debt (cash)</b>	<b>808</b>	<b>1,779</b>	<b>4,812</b>	<b>6,054</b>	<b>6,878</b>	<b>8,015</b>
Total equity	6,229	7,104	7,524	8,606	10,007	11,899
<b>Net gearing</b>	<b>13%</b>	<b>25%</b>	<b>64%</b>	<b>70%</b>	<b>69%</b>	<b>67%</b>

Source: Company, Fubon Research (HK)

ROE looks quite attractive and the breakdown via DuPont Analysis shows the improvement is largely due to rise in asset turnover (revenue/total assets) and equity leverage (total assets/shareholders' equity).

### Other ratios / Assumptions

	2011A	2012A	2013A	2014F	2015F	2016F
Pay-out ratio	20%	14%	30%	20%	20%	20%
SG&A/Revenue	14%	16%	12%	12%	12%	12%
Effective Tax Rate	43%	39%	41%	38%	40%	42%
Current ratio	2.0	2.1	2.0	2.1	2.4	2.4
ROA	1%	1%	2%	3%	3%	3%
<b>ROE</b>	<b>2%</b>	<b>3%</b>	<b>8%</b>	<b>12%</b>	<b>15%</b>	<b>17%</b>
- Core net margin	4%	4%	10%	11%	11%	10%
- Asset turnover	0.20	0.21	0.23	0.25	0.28	0.31
- Equity leverage	2.5	2.9	3.6	4.4	4.9	5.3

Source: Company, Fubon Research (HK)

## NAV summary

After taking Aoyuan's operating history/scale/current situation into account, and a WACC of 10%, we arrived at an estimated NAV of HKD3.32. By applying **50% discount to NAV**, we reached a **TP of HKD1.67**, suggesting 3.7x 14F P/E and 0.44x 14F P/B respectively.

GAV breakdown by province	
Province	% of GAV
Guangzhou	43.1%
Guangdong	19.5%
Liaoning	17.6%
Chongqing	8.7%
Guangxi	5.0%
Hunan	3.7%
Jiangxi	1.9%
Jiangsu	0.4%

Source: Fubon Research (HK)

NAV Summary			
	HKDm	HKD/share	% of GAV
GAV: Res & Commercial Properties	7,773	2.79	50%
GAV: Investment Properties	7,162	2.57	46%
GAV: Others assets	550	0.20	4%
<b>Total GAV</b>	<b>15,486</b>	<b>5.56</b>	
- Net Debt	(6,216)	(2.23)	
<b>Estimated NAV</b>	<b>9,270</b>	<b>3.33</b>	
<b>TP Discount to NAV</b>		<b>50%</b>	
<b>Target Price</b>		<b>1.67</b>	
Current Price		1.34	
Current Discount to NAV		60%	
<b>Implied Upside</b>		<b>24%</b>	
TP suggested 14F P/E		3.7	
TP suggested 14F P/B		0.44	
Current 14F P/E		3.0	
Current 14F P/B		0.36	

Source: Fubon Research (HK)

We have conducted scenario analyses to see how changes in discount to NAV, ASP and construction cost may affect our target price, assuming other assumptions unchanged.

### TP scenario analysis on changes in discount to NAV (HKD)

	Discount to NAV				
	60%	55%	50%	45%	40%
Target Price	1.33	1.50	<b>1.67</b>	1.83	2.00

Source: Fubon Research (HK)

### TP scenario analysis on changes in ASP/construction cost (HKD)

		ASP Change				
		10%	5%	0%	-5%	-10%
<b>Construction Cost Change</b>	-10%	2.37	2.14	1.90	1.66	1.41
	-5%	2.26	2.02	1.78	1.54	1.29
	0%	2.15	1.91	<b>1.67</b>	1.42	1.14
	5%	2.03	1.79	1.54	1.29	0.99
	10%	1.91	1.67	1.42	1.14	0.82

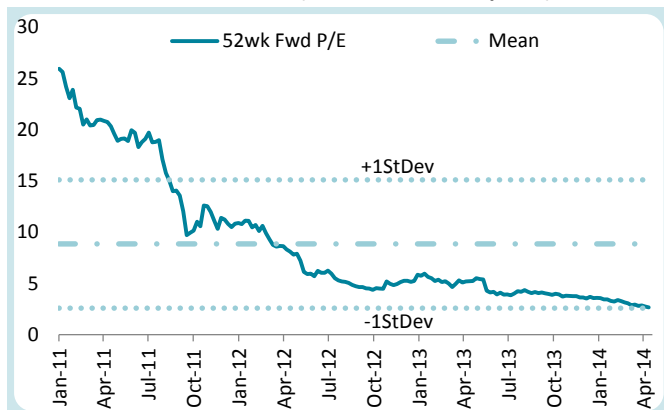
Source: Fubon Research (HK)

## Valuation and risks

Aoyuan is trading at 60% discount to our NAV, implying 24% upside potential. If Aoyuan continues to deliver better-than-expected and consistent performance going forward, lower NAV discount should be justified, providing further upside potential.

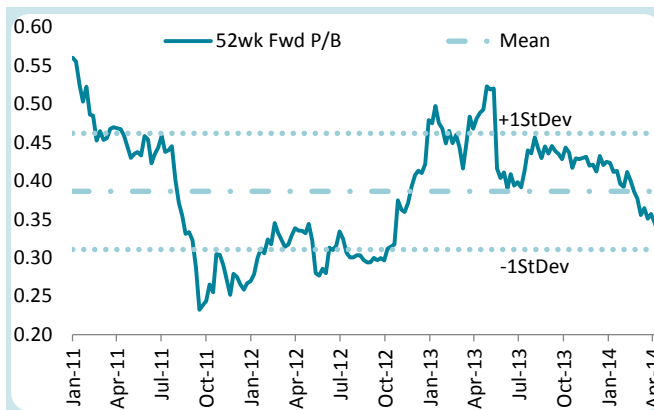
Alternatively, the stock's 3.0x 2014F P/E and 0.36x 2014F P/B are now at or near historical -1x standard deviation levels, suggesting need for mean reversion.

Historical 52-wk forward P/E (based on core net profit)



Source: Bloomberg, Company, Fubon Research (HK)

Historical 52-wk forward P/B



Source: Bloomberg, Company, Fubon Research (HK)

We also adopted various valuation metrics to see the mean suggested prices given historical low/high (NAV Discount low/high assumed). The median of mean suggested prices is HKD1.96, higher than our target price and leaving room for some safety margin.

Historical low/high for various metrics

	Hist.Low	Hist.High	Current
P/E	2.7	26.0	3.0
P/B	0.2	0.6	0.4
Div. Yield	2.5%	9.4%	8.5%
NAV Discount*	60%	40%	50%

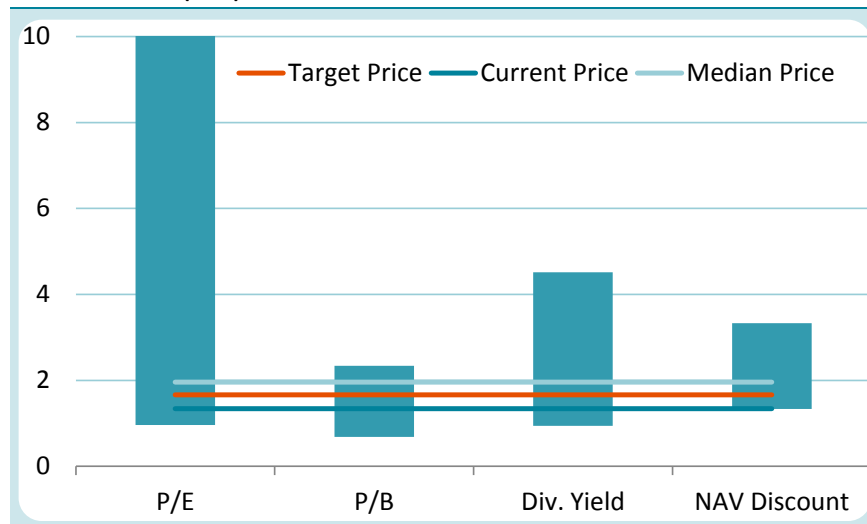
Source: Fubon Securities (HK) \* Assumed hist. low/high

Suggested prices by various metrics\*

	Low	Mean	High
P/E	0.93	5.01	9.09
P/B	0.69	1.17	1.65
Div. Yield	0.94	2.26	3.57
NAV Discount	1.33	1.67	2.00
<b>Median</b>	<b>0.94</b>	<b>1.96</b>	<b>2.78</b>

Source: Fubon Securities (HK) \*Based on 14F EPS/BVPS/DPS

Valuation Matrix (HKD)



Source: Fubon Research (HK)

Key macro risks include weaker economy, weaker property demand, more stringent policies on property market. Key micro risks include failure to control financial healthiness, failure to execute previously mentioned strategy.



## Financial statements & forecasts

### Income Statement (RMBm) – Full Year

Year-end: Dec 31

	2011	2012	2013	2014F	2015F	2016F
<b>Revenue</b>	<b>3,022</b>	<b>3,943</b>	<b>5,729</b>	<b>8,352</b>	<b>11,949</b>	<b>17,012</b>
- Prop Dev	3,004	3,865	5,600	8,200	11,783	16,824
- Prop Inv/others	6	31	49	63	70	87
Cost of sales	(2,205)	(2,757)	(3,971)	(5,551)	(7,971)	(11,333)
<b>Gross profits</b>	<b>818</b>	<b>1,187</b>	<b>1,759</b>	<b>2,801</b>	<b>3,978</b>	<b>5,679</b>
SG&A	(413)	(607)	(670)	(1,002)	(1,434)	(2,041)
<b>Operating profit</b>	<b>405</b>	<b>580</b>	<b>1,088</b>	<b>1,798</b>	<b>2,545</b>	<b>3,638</b>
Finance cost	(26)	(66)	(44)	(61)	(88)	(125)
Exceptionals	400	1,011	221	403	435	486
<b>Pre-tax profit</b>	<b>779</b>	<b>1,525</b>	<b>1,265</b>	<b>2,140</b>	<b>2,892</b>	<b>3,999</b>
Income tax	(336)	(593)	(513)	(810)	(1,162)	(1,690)
Minority	(10)	(2)	(16)	(89)	(88)	(221)
<b>Net profit</b>	<b>433</b>	<b>930</b>	<b>736</b>	<b>1,242</b>	<b>1,642</b>	<b>2,088</b>
<b>Core profit</b>	<b>133</b>	<b>172</b>	<b>570</b>	<b>940</b>	<b>1,316</b>	<b>1,723</b>
Reported Basic EPS (RMB)	0.17	0.36	0.27	0.46	0.61	0.78
Reported Diluted EPS (RMB)	0.17	0.36	0.27	0.46	0.61	0.78
Core Basic EPS (RMB)	0.05	0.07	0.21	0.35	0.49	0.64
Core Diluted EPS (RMB)	0.05	0.07	0.21	0.35	0.49	0.64
DPS (RMB)	0.03	0.05	0.08	0.09	0.12	0.15
<b>YoY (%)</b>						
Revenue	24	30	45	46	43	42
Gross profit	25	45	48	59	42	43
Operating profit	6	43	88	65	41	43
Core Net profit	98	29	232	65	40	31
<b>Margin (%)</b>						
Gross	27	30	31	34	33	33
Operating	13	15	19	22	21	21
Core net	4	4	10	11	11	10

### Income Statement (RMBm) – Half Year

	1H11	2H11	1H12	2H12	1H13	2H13
<b>Revenue</b>	<b>1,588</b>	<b>1,434</b>	<b>1,685</b>	<b>2,258</b>	<b>2,150</b>	<b>3,579</b>
Gross profit	501	316	525	661	665	1,093
SG&A	(179)	(233)	(188)	(419)	(154)	(517)
<b>Operating profit</b>	<b>322</b>	<b>83</b>	<b>338</b>	<b>242</b>	<b>512</b>	<b>577</b>
Finance cost	(9)	(17)	(8)	(58)	(12)	(32)
Exceptionals	143	257	198	813	84	137
<b>Pre-tax profit</b>	<b>456</b>	<b>323</b>	<b>528</b>	<b>997</b>	<b>583</b>	<b>682</b>
Tax	(173)	(163)	(245)	(348)	(222)	(291)
Minority	0	(10)	1	(3)	(13)	(3)
<b>Net profit</b>	<b>283</b>	<b>150</b>	<b>284</b>	<b>647</b>	<b>348</b>	<b>388</b>
<b>Core net profit</b>	<b>175</b>	<b>(43)</b>	<b>135</b>	<b>37</b>	<b>285</b>	<b>285</b>
<b>YoY (%)</b>						
Revenue			6	57	28	58
Gross profit			5	109	27	65
Operating profit			5	192	52	138
Core Net profit			(23)	(187)	112	671
<b>Margin (%)</b>						
Gross	32	22	31	29	31	31
Operating	20	6	20	11	24	16
Core net	11	(3)	8	2	13	8

### Ratios & Valuations

Year-end: Dec 31

	2011	2012	2013	2014F	2015F	2016F
ROA (%)	0.9	0.9	2.2	2.8	3.1	3.1
ROE (%)	2.2	2.6	8.0	12.2	14.8	16.6
ROCE (%)	1.6	1.8	4.4	5.5	5.5	5.4
P/E (x)	19.0	13.4	5.8	3.0	2.1	1.6
P/S (x)	0.8	0.6	0.6	0.3	0.2	0.2
P/BV (x)	0.4	0.3	0.5	0.4	0.3	0.3
EV/EBITDA (x)	6.5	6.0	6.1	4.7	3.8	3.0
Dividend yield (%)	3.4	5.9	6.5	8.6	11.5	14.8

### Balance Sheet (RMBm)

Year-end: Dec 31

	2011	2012	2013	2014F	2015F	2016F
Properties for sale	8,336	11,548	19,437	22,419	27,330	33,448
Deposits for land acquisition	0	1,117	1,064	2,100	3,225	4,400
Trade and other receivables	611	735	1,064	1,117	1,173	1,231
Restricted bank deposits	2,946	762	1,899	3,912	5,718	7,930
Bank balances and cash	877	2,381	2,812	4,117	6,846	9,431
Other current assets	152	140	505	530	557	584
<b>Total current assets</b>	<b>12,922</b>	<b>16,684</b>	<b>26,781</b>	<b>34,194</b>	<b>44,848</b>	<b>57,024</b>
Property, plant and equipment	492	376	415	426	443	463
Investment properties	1,383	1,949	2,419	2,613	3,011	3,958
Other non-current assets	2,118	1,804	316	331	348	365
<b>Total non-current assets</b>	<b>3,992</b>	<b>4,129</b>	<b>3,150</b>	<b>3,370</b>	<b>3,801</b>	<b>4,786</b>
<b>Total assets</b>	<b>16,914</b>	<b>20,813</b>	<b>29,932</b>	<b>37,564</b>	<b>48,649</b>	<b>61,810</b>
Trade and other payables	1,409	2,299	2,953	3,189	3,444	3,719
Sales deposits	3,289	4,244	6,463	7,823	11,436	15,860
Tax liabilities	1,117	1,206	1,488	1,785	2,138	2,665
Bank and other borrowings	2,616	1,675	2,411	3,673	1,681	1,617
Other current liabilities	89	681	1,648	1,730	1,817	1,908
<b>Total current liabilities</b>	<b>8,519</b>	<b>10,105</b>	<b>14,963</b>	<b>18,200</b>	<b>20,516</b>	<b>25,769</b>
Bank and other borrowings	2,016	2,498	5,742	9,059	17,166	23,759
Senior notes	0	750	1,371	1,351	594	0
Other non-current liabilities	151	356	332	348	366	384
<b>Total non-current liabilities</b>	<b>2,166</b>	<b>3,605</b>	<b>7,444</b>	<b>10,758</b>	<b>18,126</b>	<b>24,143</b>
<b>Total liabilities</b>	<b>10,686</b>	<b>13,709</b>	<b>22,408</b>	<b>28,958</b>	<b>38,642</b>	<b>49,911</b>
Shareholders' equity	6,159	6,951	7,219	8,212	9,526	11,196
Minority	70	152	305	393	481	702
<b>Total equity</b>	<b>6,229</b>	<b>7,104</b>	<b>7,524</b>	<b>8,606</b>	<b>10,007</b>	<b>11,899</b>
<b>Total liabilities &amp; equity</b>	<b>16,914</b>	<b>20,813</b>	<b>29,932</b>	<b>37,564</b>	<b>48,649</b>	<b>61,810</b>
BVPS (RMB)	2.35	2.66	2.59	2.95	3.42	4.02

### Cash Flow Statement (RMBm)

Year-end: Dec 31

	2011	2012	2013	2014F	2015F	2016F
Pre-tax profit	779	1,525	1,265	2,140	2,892	3,999
Dep. & Amort.	37	33	34	33	34	35
Changes in W/C	(88)	(2,917)	(1,822)	(2,474)	(2,224)	(2,653)
Others	(989)	(1,662)	(1,247)	(1,759)	(1,823)	(2,507)
<b>Cash flow - operations</b>	<b>(261)</b>	<b>(3,021)</b>	<b>(1,770)</b>	<b>(2,060)</b>	<b>(1,122)</b>	<b>(1,125)</b>
Purchases of PP&E	(75)	(25)	(37)	(44)	(51)	(56)
Decrease in restricted bank deposits	(1,310)	2,183	(1,137)	(2,012)	(1,806)	(2,212)
Others	(939)	2,325	(744)	5,934	8,022	3,824
<b>Cash flow - investment</b>	<b>(2,324)</b>	<b>4,483</b>	<b>(1,917)</b>	<b>3,877</b>	<b>6,165</b>	<b>1,557</b>
<b>Free cash flow</b>	<b>(2,584)</b>	<b>1,462</b>	<b>(3,687)</b>	<b>1,817</b>	<b>5,043</b>	<b>432</b>
Inc. (Dec.) debt	1,270	(588)	4,075	(264)	(1,986)	2,571
Proceeds received from senior notes	0	739	666	0	0	0
Dividends paid	(86)	(135)	(473)	(248)	(328)	(418)
Others	78	37	(124)	0	0	0
<b>Cash flow - financing</b>	<b>1,262</b>	<b>53</b>	<b>4,143</b>	<b>(513)</b>	<b>(2,314)</b>	<b>2,153</b>
FX change effect	(4)	(11)	(25)	0	0	0
<b>Change in cash</b>	<b>(1,326)</b>	<b>1,504</b>	<b>431</b>	<b>1,304</b>	<b>2,729</b>	<b>2,585</b>
FCPS (RMB)	0.56	(1.41)	0.65	1.81	0.16	0.00
CPS (RMB)	(0.51)	0.58	0.16	0.47	0.98	0.93



## Appendix – contracted sales comparison

Among the 33 major developers we monitor, Aoyuan's contracted sales in the first 3 months of this year recorded **significantly higher growth (84% YoY, ranked 2nd)** than both the mean and the median values. Full year target achievement in 1Q14 was 14%, close to the median of the 33 developers.

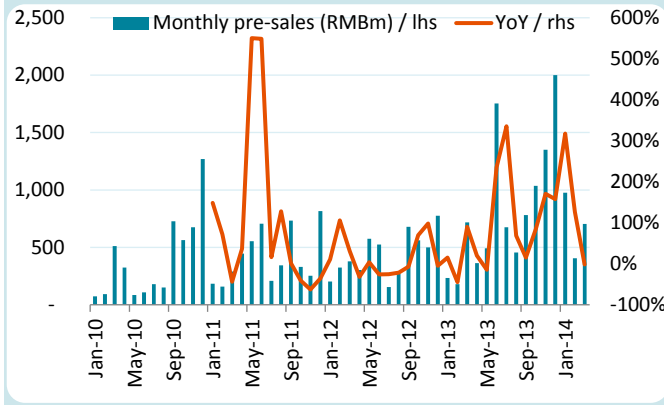
YTD contracted sales performance of major developers (RMBm)										
Company	Ticker	1Q13	2013 Target	Achieved in 1Q13	3M14	2014 Target	Achieved in 1Q14	YoY – 1Q14	MoM - Mar 14	YoY - Mar 14
Agile	3383 HK	7,500	42,000	18%	10,303	70,000	15%	37%	48%	44%
<b>Aoyuan</b>	<b>3883 HK</b>	<b>1,132</b>	<b>8,500</b>	<b>13%</b>	<b>2,088</b>	<b>15,000</b>	<b>14%</b>	<b>84%</b>	<b>74%</b>	<b>-2%</b>
BC Land	2868 HK	2,400	20,000	12%	2,420	28,000	9%	1%	245%	37%
CC Land	1224 HK	2,366	8,800	27%	1,702	11,000	15%	-28%	-7%	-35%
Central China	832 HK	3,137	12,600	25%	1,526	17,000	9%	-51%	68%	-33%
China SCE	1966 HK	2,661	7,500	35%	3,053	14,000	22%	15%	17%	-40%
China Vanke	000002 CH	43,650	160,000	27%	54,230	200,000	27%	24%	19%	-5%
CIFI	884 HK	3,360	14,000	24%	5,271	22,000	24%	57%	178%	81%
COLI*	688 HK	31,679	94,800	33%	27,751	110,600	25%	-12%	19%	-26%
C. Garden	2007 HK	18,390	62,000	30%	31,840	128,000	25%	73%	-15%	9%
CR Land	1109 HK	18,720	57,000	33%	9,610	70,000	14%	-49%	64%	-43%
Evergrande	3333 HK	17,721	100,000	18%	30,506	110,000	28%	72%	15%	66%
Fantasia	1777 HK	1,778	10,000	18%	691	15,000	5%	-61%	6%	-55%
Future Land	1030 HK	3,292	20,000	16%	4,047	24,000	17%	23%	66%	7%
Gemdale	600383 CH	8,640	42,000	21%	7,710	60,000	13%	-11%	213%	-7%
Greenland HK	337 HK	835	4,000	21%	1,231	10,000	12%	47%	30%	129%
Greentown	3900 HK	12,100	55,000	22%	12,100	65,000	19%	0%	70%	13%
Hopson	754 HK	2,650	15,000	18%	703	13,000	5%	-73%	-24%	-79%
Kaisa	1638 HK	4,806	22,000	22%	4,112	30,000	14%	-14%	87%	1%
KWG	1813 HK	4,004	16,000	25%	4,810	21,000	23%	20%	28%	14%
LongFor	960 HK	10,180	46,000	22%	9,130	57,000	16%	-10%	100%	-2%
Minmetals	230 HK	1,206	6,000	20%	874	8,000	11%	-28%		
Poly CN	600048 CH	30,758	120,000	26%	28,071	150,000	19%	-9%	34%	-14%
Poly HK	119 HK	6,700	26,000	26%	6,200	28,000	22%	-7%	24%	-16%
Powerlong	1238 HK	1,184	8,000	15%	6,200	12,000	52%	424%	37%	35%
R&F	2777 HK	8,882	42,000	21%	15,159	55,000	28%	71%	208%	166%
Shenzhen Inv	604 HK	2,215	9,000	25%	1,048	10,500	10%	-53%	70%	-67%
Shui On	272 HK	3,179	9,000	35%	1,659	13,000	13%	-48%	31%	-31%
Shimao	813 HK	13,722	55,000	25%	11,790	80,000	15%	-14%	122%	-5%
Sino-Ocean	3377 HK	9,100	35,000	26%	5,110	40,000	13%	-44%	33%	-33%
Sunac	1918 HK	8,010	45,000	18%	9,337	65,000	14%	17%	69%	28%
Yuexiu	123 HK	5,709	14,500	39%	4,360	22,000	20%	-24%	123%	-29%
Yuzhou	1628 HK	3,923	9,000	44%	2,201	13,000	17%	-44%	4%	-71%
<b>Mean</b>				<b>24%</b>			<b>18%</b>	<b>12%</b>	<b>64%</b>	<b>1%</b>
<b>Median</b>				<b>24%</b>			<b>15%</b>	<b>-9%</b>	<b>42%</b>	<b>-5%</b>

Source: Company Fubon Research (HK) \* COLI originally reports in HKD, converted into RMB



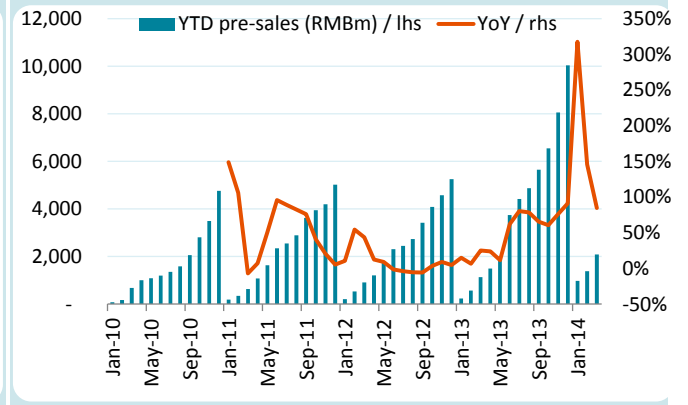
### Appendix – Aoyuan’s contracted sales performance

**Contracted sales value - monthly**



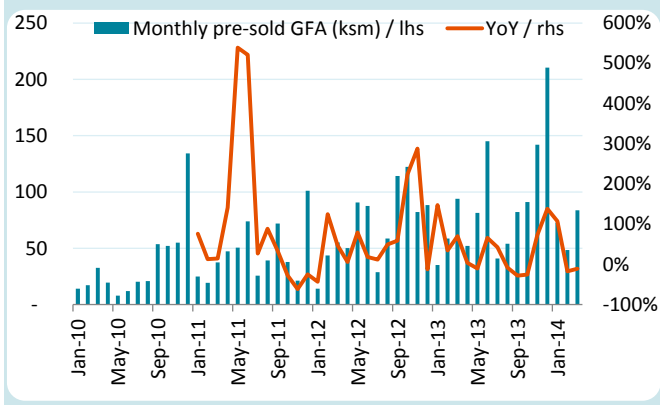
Source: Company, Fubon Research (HK)

**Contracted sales value – YTD**



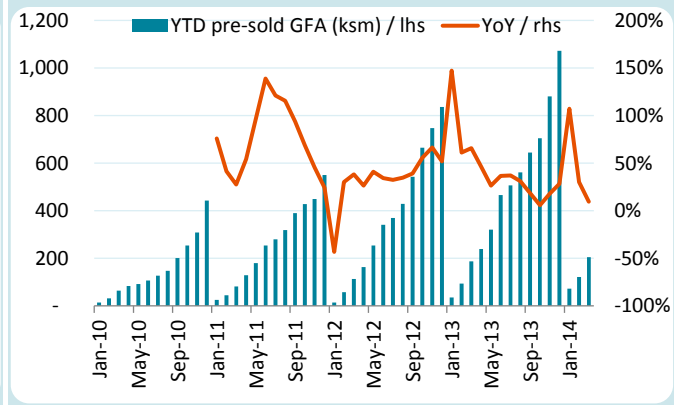
Source: Company, Fubon Research (HK)

**Contracted sales GFA - monthly**



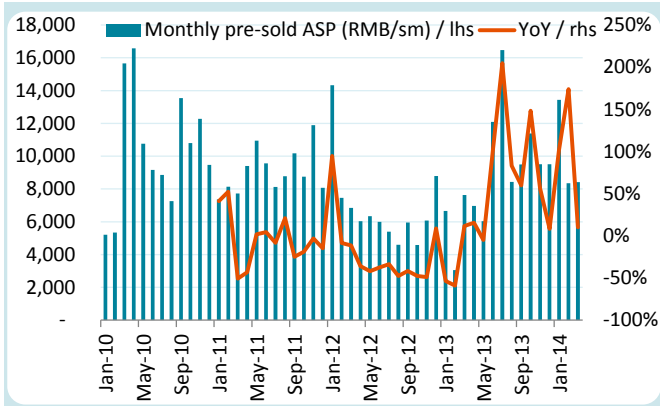
Source: Company, Fubon Research (HK)

**Contracted sales GFA - YTD**



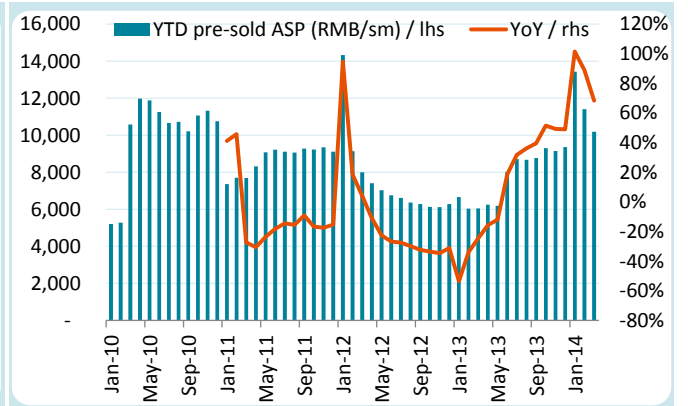
Source: Company, Fubon Research (HK)

**Contracted sales ASP - monthly**



Source: Company, Fubon Research (HK)

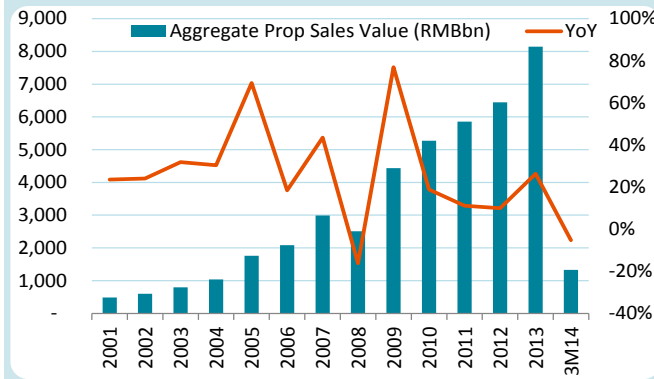
**Contracted sales ASP - YTD**



Source: Company, Fubon Research (HK)

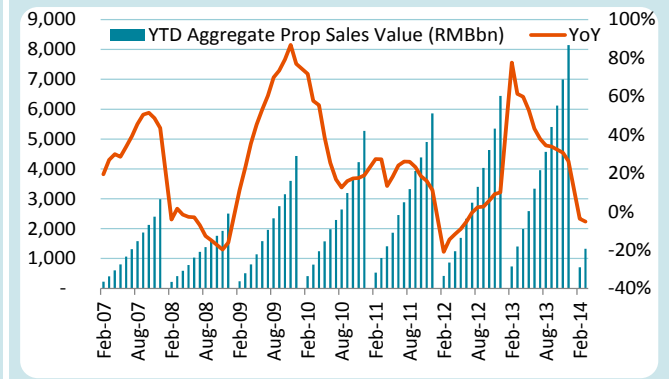
## Appendix – National Property Market

Sales value – Annual



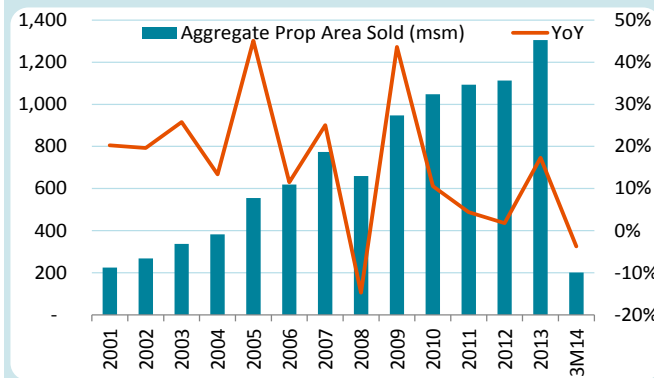
Source: NBS, Wind, Fubon Research (HK)

Sales value – YTD



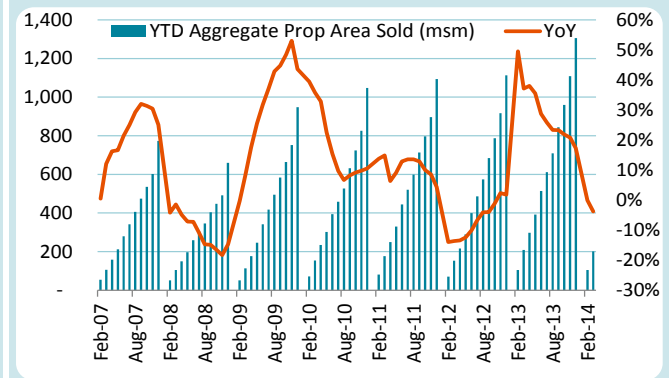
Source: NBS, Wind, Fubon Research (HK)

Area sold - Annual



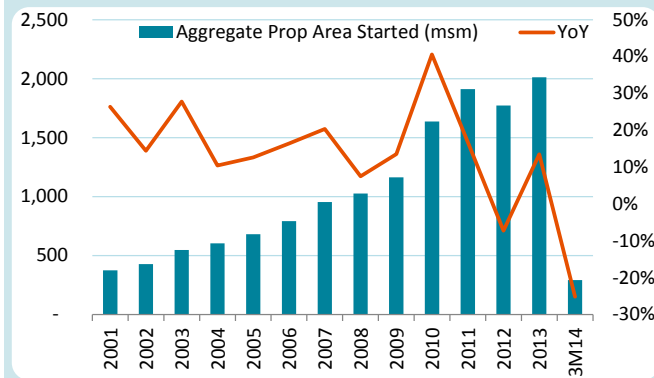
Source: NBS, Wind, Fubon Research (HK)

Area sold - YTD



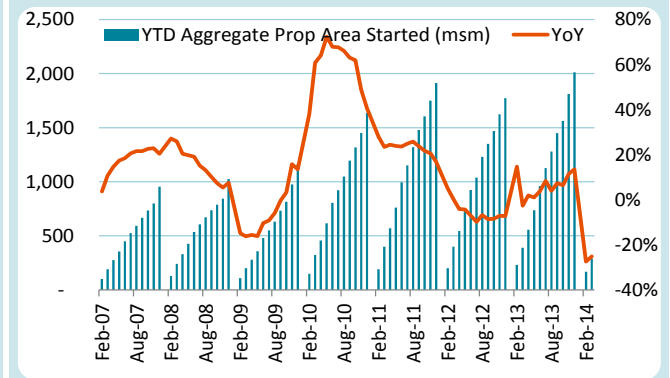
Source: NBS, Wind, Fubon Research (HK)

Area started - Annual



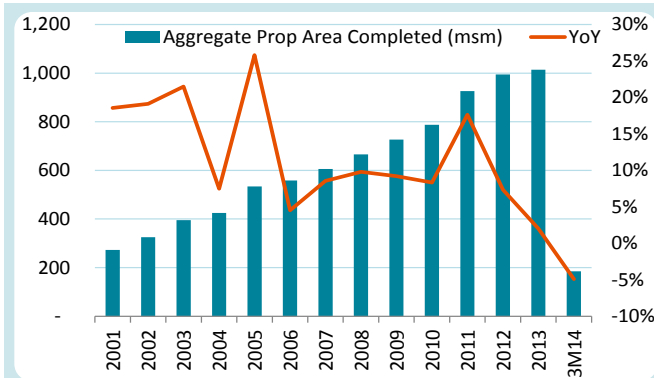
Source: NBS, Wind, Fubon Research (HK)

Area started - YTD



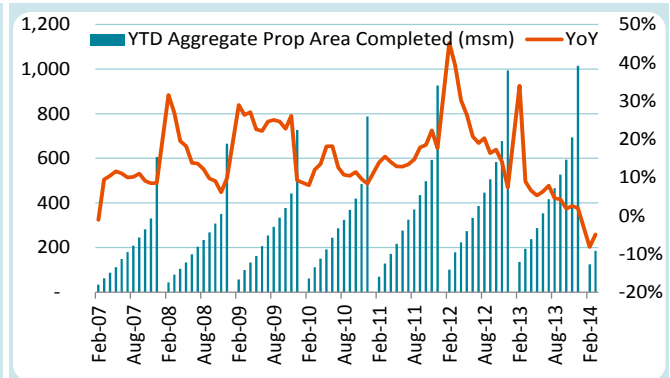
Source: NBS, Wind, Fubon Research (HK)

Area completed - Annual



Source: NBS, Wind, Fubon Research (HK)

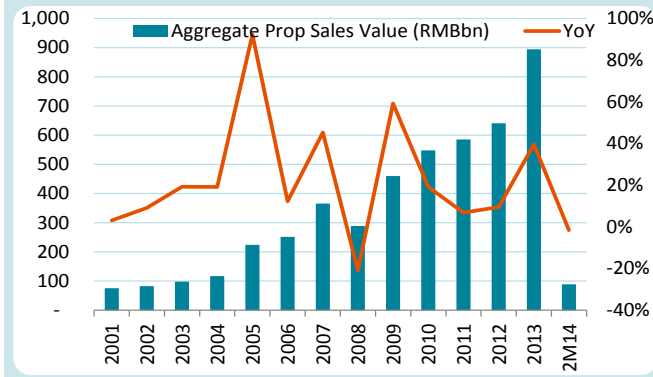
Area completed - YTD



Source: NBS, Wind, Fubon Research (HK)

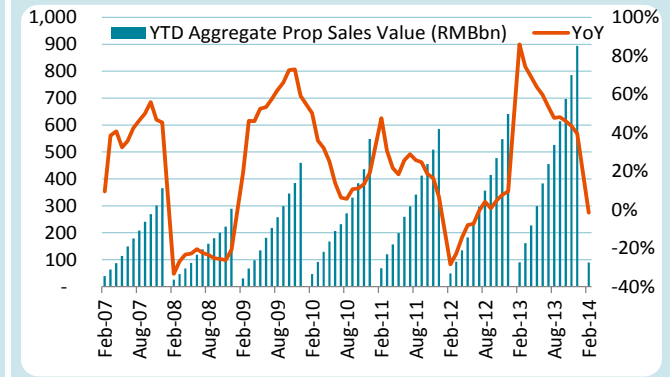
## Appendix – Guangdong Property Market

Sales value – Annual



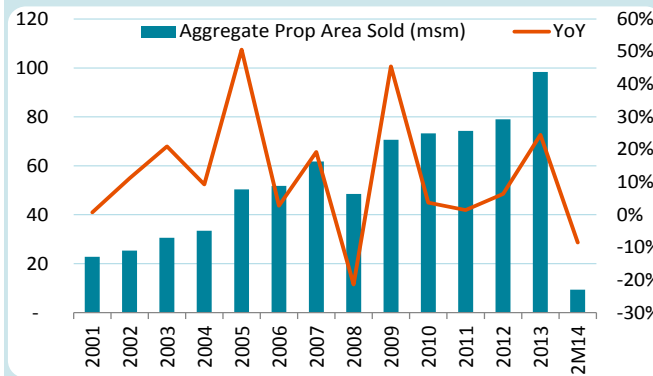
Source: NBS, Wind, Fubon Research (HK)

Sales value – YTD



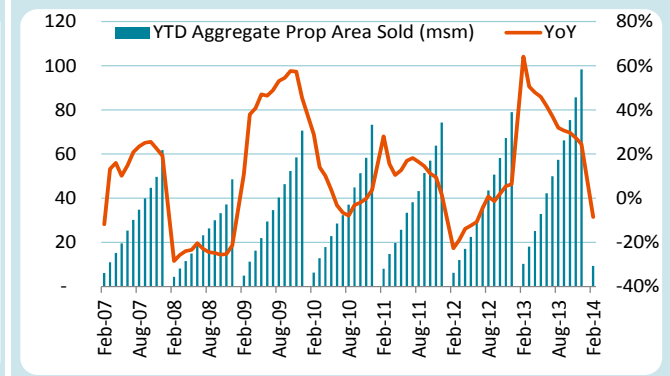
Source: NBS, Wind, Fubon Research (HK)

Area sold - Annual



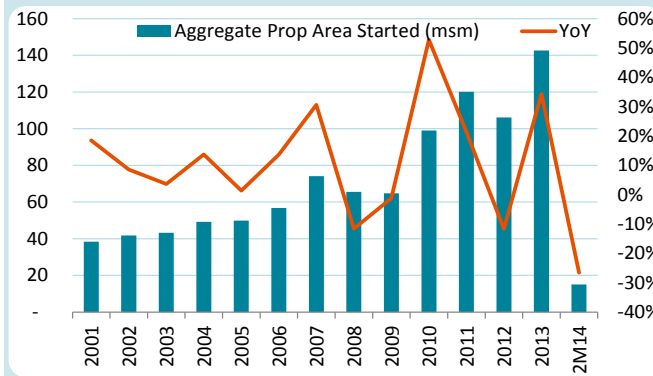
Source: NBS, Wind, Fubon Research (HK)

Area sold - YTD



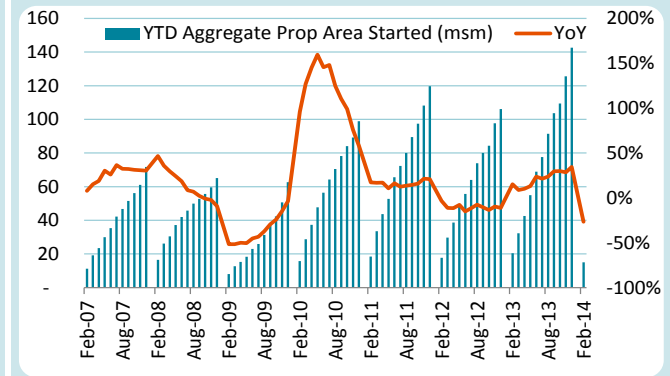
Source: NBS, Wind, Fubon Research (HK)

Area started - Annual



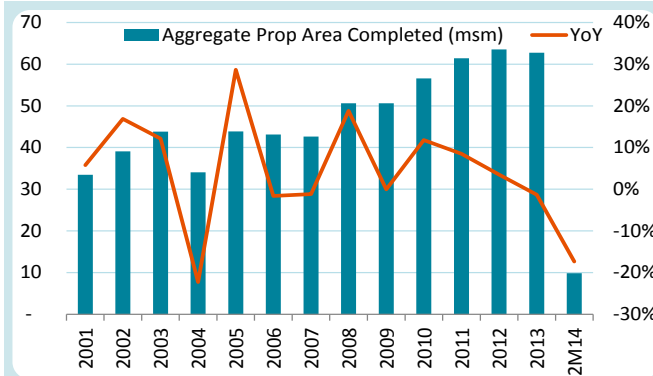
Source: NBS, Wind, Fubon Research (HK)

Area started - YTD



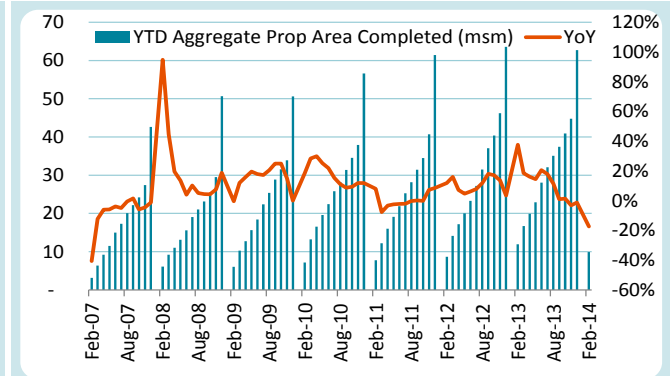
Source: NBS, Wind, Fubon Research (HK)

Area completed - Annual



Source: NBS, Wind, Fubon Research (HK)

Area completed - YTD



Source: NBS, Wind, Fubon Research (HK)



### **Regulatory Disclosure**

The analyst of this research report certifies that the view in this research report accurately expresses the personal view of the analyst.

The analyst also certifies that:

- (i) he/she does not serve as officer of and has no financial interest in connection with the listed corporation which is reviewed in this research report ; and
- (ii) his/her associate does not serve as an officer and has no financial interest in connection with the listed corporation which is reviewed in this research report .

The analyst also declares that neither the listed corporation which is reviewed nor any other person has provided or agreed to provided any compensation, benefit or interest to the analyst in relation to this research report

This disclosure is made under and pursuant to paragraph 16 of the “Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission”.

### **Disclaimer**

This report has been distributed by Fubon Securities (HK) Limited (“Fubon Securities”) in the conduct of Hong Kong regulated business. It is not intended for anyone other than the recipient and should not be distributed by the recipient to any other persons. This report is not intended for distribution to, or use by, any person or entity in United States, Canada, Australia or any jurisdiction or country where such distribution would be contrary to law or regulation. It may not be reproduced or further distributed in whole or in part except with prior written consent of Fubon Securities. This report does not constitute or form part of and shall not be construed as any offer for sale or subscription or solicitors or invitation of any offer to buy or subscribe for any securities.

The materials and data contained herein are for information only and, in any event, shall in no event be construed as an offer to sell or the solicitation of an offer to purchase or sell any securities in any jurisdiction. Investor may be prohibited from purchasing or selling the securities referred to herein. Fubon Securities does not make any representation, undertaking, warranty or guarantee as to the update, completeness, correctness, reliability or accuracy of the materials and data herein. All opinions, forecasts or estimation expressed herein are subject to change without prior notice. Fubon Securities and its parent and affiliates accepts no liability or responsibility whatsoever for any direct or consequential loss and/or damages arising out of or in relation to any use of opinions, forecasts, materials and data contained herein or otherwise arising in connection therewith. The opinions or forecasts herein are made without taking into account specific financial position, investment objective, investment experience or other need. It is, therefore, expected that investor shall not make investment decision in reliance on opinions, forecasts, materials and data herein without seeking independent and professional advice.

Fubon Securities is a subsidiary of Fubon Securities Co., Ltd which is part of the Fubon Financial Holdings Limited (collectively “Fubon Group”). Except as otherwise disclosed, Fubon Group has no interest in the securities of the companies discussed in this report or member companies within the same group of such companies as at the date of issuance of this report . The companies within the Fubon Group and/or their officers, directors and employees may have positions in and may trade for their own account in all or any of the securities or investments mentioned in this report . The companies within Fubon Group may have provided investment services (whether investment banking or non-investment banking related), may have underwritten, or may act as market maker in relation to these securities. Commission or other fees may be earned by Fubon Group in respect of the services provided by them relating to these securities or investments.

Except with Fubon Securities’ prior written consent, the opinions, forecasts, materials and data contained herein may not be copied, reproduced, distributed or published by any person for any purpose. The opinions, forecasts, materials and data herein are provided to the intended recipient only.

### **Risk**

The securities or investments referred to in this document may not be suitable for all investors. In particular, no consideration has been given to any particular investment objectives or experience, financial situation or other needs of any recipient. Accordingly, no representation or recommendation is made and Fubon Group accepts no liability with regard to the suitability or appropriateness of any of the securities and/or investments referred to herein for any particular person’s circumstances. Investors must make investment decisions in light of their own investment objectives, financial position and particular needs and where necessary consult their own professional advisers before making any investment. This report is not intended to provide any professional advice and should not be relied upon in that regard. The value of the investment may go up as well as down. Past performance is not indicative of futures performance. The risk disclosed herein is not intended to be an exhaustive list of risks associated with the investment. Investors should read and fully understand all the offering documents relating to such securities or investments and all the risk disclosure statements and risk warnings therein before making any investment decisions.

### **Fubon's Rating System**

Rating	Definition
Buy	Expected absolute return to be over 30% within the next 6 months
Add	Expected absolute return to be 10 – 30% within the next 6 months
Neutral	Expected absolute return to be level within the next 6 months
Reduce	Expected absolute return to be negative 10 – 30% within the next 6 months
Sell	Expected absolute return to be over negative 30% within the next 6 months
Not rated (NR)	Pursuant to Fubon acting in deals involving the company or there is not a sufficient fundamental basis for determining an investment rating
Under Review	Fubon is in the process of determining an investment rating and will assign a rating within the 3 – to 6- month horizon

Sector Rating	Definition
Overweight	Sector expected to outperform the broader market indexes within the next 6-12 months
Market Weight	Sector expected to perform in line with the broader market averages within the next 6-12 months
Underweight	Sector expected to underperform the broader market indexes within the next 6-12 months