

## BUY

Date: 12 Aug 2015  
HSI: 24,498.21

Share Price: HK\$1.50  
12-Mth Target Price: HK\$1.87  
Upside Potential: +25%

## China Property

### SHARE INFORMATION

Stock code	3883 HK
Market cap.	HK\$4,176m
Issued shares	2,784m
Ent value	HK\$10,367m
Net debt to equity	88%
3-yr core EPS CAGR	25%
BVPS	HK\$3.48
Price/BVPS	0.43X
Avg daily T/O	HK\$13.55m
Estimated free float	40%
ROE	10.8%
ROA	2.4%
12-mth high/low	HK\$2.45 / 1.14
Major shareholder	Guo Zi Wen – 48%
Exchange rate	RMB1 = HK\$1.21 US\$1 = HK\$7.75

### SHARE PRICE CHART



Source: Bloomberg, South China Research

	1mth	3mths	6mths	12mths
Share price chg	-2.6%	-15.7%	+22.0%	+5.6%
Relative to HSI	-1.0%	-4.7%	+21.0%	+6.3%

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**Important:** please refer to our disclosures and disclaimers at the end of this report

## CHINA AOYUAN

### Satisfactory interim results

- **Core interim profit rises 50%, in line with expectation** – Excluding fair value changes of investment properties, core profit rose 50% YoY to RMB445m in 1H15, in line with our expectation. The company's full-year core profit is anticipated to meet our forecast of RMB893m. The declaration of a special interim dividend of RMB0.018/share is also a positive surprise.
- **RMB plunge to cause RMB225m exchange loss** – As of 30 June 2015, total debt of China Aoyuan amounted to RMB13.8bn, half of which are denominated either in US\$ or HK\$. The exchange rate of RMB has depreciated by about 3.3% against the US\$ over the past 2 days, which is expected to cause an exchange loss of RMB225m to the company, representing 23% of net profit before exchange rate changes for 2015. Nonetheless, this will not affect the core profit.
- **Better-than-expected gross margin and core net margin** – Gross margin for 1H15 went down 1.2ppt YoY to 29.4%, but still higher than our projection of 27% for the full-year. Core net margin edged 0.2ppt higher to 11.3% in 1H15 and was above our full-year forecast of 10%. The higher-than-expected gross and core net margins provide strong buffer to the full-year results of the company.
- **Net gearing ratio climbs higher to 88%** – China Aoyuan acquired 6 land parcels in 1H15, driving up its net gearing ratio to 88% from 72% at end-2014. We are concerned if the company would slow down its land acquisitions given its relatively high gearing comparing to peers.
- **Maintain BUY and target price** – We estimate that the company still had contracted sales of RMB13.3bn not yet recognized as of 30 June 2015, equivalent to 150% of property sales revenue expected for 2015. This should help support core profit growth over the next 2 years. As we project core profit to increase 21% and 33% YoY in 2015 and 2016, we maintain our BUY recommendation and target price.

**COMPANY BACKGROUND:** China Aoyuan is principally engaged in developing residential and commercial properties in China.

### EARNINGS DATA

Year to 31 Dec		2014A	2015E	2016E	2017E
<b>Core profit</b>	RMBm	<b>736</b>	<b>893</b>	<b>1,186</b>	<b>1,428</b>
Change	%	+12.1	+21.3	+32.8	+20.5
<b>Core EPS</b>	RMB	<b>0.264</b>	<b>0.321</b>	<b>0.426</b>	<b>0.513</b>
Change	%	+8.1	+21.3	+32.8	+20.5
Net profit	RMBm	809	817	1,186	1,428
EPS	RMB	0.291	0.294	0.426	0.513
DPS	RMB	0.087	0.096	0.128	0.154
<b>Core PER</b>	X	<b>4.7</b>	<b>3.9</b>	<b>2.9</b>	<b>2.4</b>
Yield	%	7.0	7.8	10.3	12.4

### EARNINGS FORECAST

Year to 31 Dec	2013A	2014A	2015E	2016E	2017E
	RMBm	RMBm	RMBm	RMBm	RMBm
<b>Turnover</b>	<b>5,729</b>	<b>6,976</b>	<b>9,076</b>	<b>11,334</b>	<b>13,491</b>
EBITDA	1,237	1,432	1,769	2,300	2,746
Depreciation & amortization	(34)	(25)	(28)	(31)	(34)
EBIT	1,204	1,407	1,741	2,269	2,712
Net interest expense	(44)	(65)	(57)	(43)	(35)
Exceptional	106	98	(100)	0	0
Share of results of associates	(0)	9	0	0	0
Profit before tax	1,265	1,449	1,584	2,227	2,677
Tax	(513)	(666)	(748)	(1,015)	(1,217)
Minority interests	(16)	26	(18)	(26)	(32)
Net profit	736	809	817	1,186	1,428
Exceptionals after tax	(79)	(73)	75	0	0
<b>Core profit</b>	<b>657</b>	<b>736</b>	<b>893</b>	<b>1,186</b>	<b>1,428</b>

**Note:** All prices in this report are based on the 11 Aug 2015 close

## Satisfactory interim results

## INTERIM RESULTS

	1H15 RMBm	1H14 RMBm	Change %	
Property development	3,838	2,584	+48.5	
Property investment	31	27	+11.8	
Others	67	47	+41.6	
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<b>Mainly due to increase in property sales</b>	<b>Revenue</b>	<b>3,935</b>	<b>2,658</b>	<b>+48.0</b>
	Cost of sales	(2,779)	(1,846)	+50.5
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<b>Gross margin declined 1.2ppt to 29.4%</b>	Gross profit	1,156	812	+42.4
	Other income, gains and losses	80	15	+417.9
	Selling and distribution expenses	(101)	(100)	+1.5
	Administrative expenses	(178)	(143)	+25.1
	Finance cost	(59)	(35)	+69.7
	Change in fair value of investment properties	125	18	+581.0
	Shares of results of JVs	(2)	1	-418.0
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	Profit before tax	1,020	569	+79.3
	Income tax expense	(465)	(249)	+86.4
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	Profit after tax	555	320	+73.7
	Non-controlling interests	(17)	(10)	+64.5
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	<b>Net profit</b>	<b>538</b>	<b>309</b>	<b>+74.0</b>
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<b>Core net margin edged 0.2ppt higher to 11.3%</b>	<b>Core profit</b>	<b>445</b>	<b>296</b>	<b>+50.4</b>

Sources: Company, South China Research



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