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Asia
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HY Corporate Credit
HY Strategy
Real Estate

Company
China Aoyuan Property Group Ltd

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Group meeting takeaways (revised)

This version amends the typo of maximum net gearing of Oct 23 version

We arranged a group meeting for Aoyuan ("CAPG") on Oct 22. Overall, we saw good interest from bond investors and questions were mainly focused on how the company can improve its debt maturity profile and funding channels, lower its costs of borrowing, and questions on landbanking strategy, sales and margins. We continue to like CAPG as it is growing as a developer and we believe its debt composition and costs of borrowing should improve.

Target to lower foreign FX debt and we see private on-shore corporate bond issuance as the next step

As of end-June, CAPG had 50% of foreign currency debt out of total debt, and the company previously guided to lower this portion. Management believes that it is possible to lower the USD and HKD debt portions to around 30% of total debt as of end-2015.

Similar to other Chinese developers (like EVERRE and YUZHOU), we expect CAPG to tap the private on-shore corporate bond market. CAPG's average cost of borrowing as of interim 2015 was 9.9% and that has further dropped to around 9% currently. Management expects its net gearing to be controlled at under 80% at end-2015 and commented that the company would still want to maintain the channel of off-shore corporate bond. Management expects FY15 cash collection ratio to be around 80-85%, a tad below 1H's 88%.

Sales and land acquisitions update

Aoyuan achieved good 9M15 contract sales of RMB9.63bn, up 30% YoY, outperforming the sector average. Its 9M15 contract sales ASP was down YoY to RMB7,849/sq m, which was partly attributable to less commercial portion sold. So far in October, its sales momentum picked up and this month's contract sales figure should be up MoM and YoY. In terms of 4Q, the planned new launches are Panyu Aoyuan International Center, Zhuhai, Shaoguan, and Jiaxing projects. Australia property sales were strong, with YTD sales of around RMB0.9bn and ~90% of the buyers of CAPG's Sydney project were Australia buyers. For its overall FY15 available for sale resources from China and Australia, the total is RMB25.4bn. On landbanking, CAPG had bought ~RMB3.9bn on a total basis (or ~RMB3.1bn on an attributable basis) up to late Oct (still within budget). For its Lianhuashan acquisition, it is not responsible for land premium payment but for development; and it has a profit-sharing arrangement with the commissioning party. In 2H so far, acquisitions have been focused on Tier-1 and 2 cities -- Guangzhou Panyu, Foshan, and Zhuhai.

Maintain BUY on CAPG'18 and CAPG'19C'17

We maintain our recommendations of BUY on CAPG'18 and CAPG'19'C17. Despite the bond prices' run-up, we still see good yield pick-up against some peers. For instance, CAPG'19C'17 provides around 52bps pick-up in YTM against LOGPH'19C17 and ~104bps pick-up against GZRFPR'19C17. Downside risks include severe RMB depreciation and unexpected macro changes.
