



## Company Report: China Aoyuan (03883 HK)

公司报告: 中国奥园(03883 HK)

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# Rapid Growth with Low Valuation, Maintain “Accumulate”

快速增长且估值低，维持“收集”

- **2015 net profit missed our expectation.** Total revenue increased by 37.2% YoY to RMB9,572 mn in 2015. Due to a decline in margins and exchange losses of RMB278 mn, the net profit increased 0.3% YoY to RMB812 mn.
- **Contracted sales continued to show fast growth.** From Jan. to Feb. 2016, the Company achieved RMB2.211 bn in contracted sales, up 25.1% YoY. Meanwhile, the issuing of domestic corporate bonds and the redemption of USD senior notes showed an improvement in the debt structure.
- The fast growth of contracted sales will ultimately result in a rapid increase in revenue. The improving debt structure will decrease its risk exposure to RMB depreciation and financial costs. As we revise down underlying net profit, we revise down our target price from HK\$2.09 to HK\$1.80, representing a 65% discount to 2016E NAV of HK\$5.16 per share, 4.2x 2016 underlying PER and 0.5x 2016 PBR. Moreover, the Company's share price is undervalued. **Therefore, we maintain China Aoyuan's investment rating at “Accumulate”.** **Risk factors:** lower than expected contracted sales, possible operation failure of commercial projects and further depreciation of RMB.
- **2015 年净利低于预期。**总收入同比增长 37.2%到人民币 9,527 百万元。由于利润率的下降及人民币 278 百万元的汇兑损益，净利同比上升 0.3%到人民币 812 百万元。
- **合约销售保持快速增长。**2016 年 1-2 月，公司录得人民币 22.11 亿元的合约销售，同比增长 25.1%。与此同时，境内公司债的发行以及美元优先票据的赎回表明债务结构的改善。
- 合约销售的快速增长最终会转化为收入的快速增长。改善的债务结构将减少对人民币贬值的风险和财务成本。公司股价被低估。由于我们调低了核心净利，我们将我们的目标价从 2.09 港元调低到 1.80 港元，相当于较 5.16 港元每股净资产有 65% 的折让，也分别相当于 4.2 倍 2016 年核心市盈率及 0.5 倍 2016 年市净率。**因此，我们维持中国奥园的投资评级为“收集”。****风险：**低于预期的合约销售，商业项目可能的运营失败和人民币的进一步贬值。

Rating:

**Accumulate**

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

**HK\$1.80**

Revised from 原目标价:

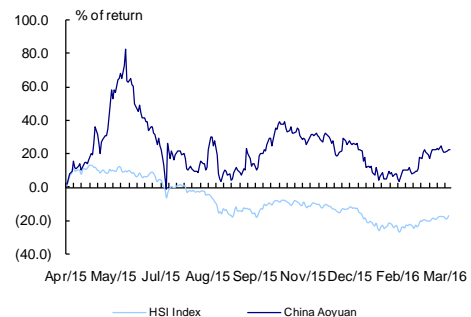
HK\$2.09

Share price 股价:

HK\$1.580

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. %			
绝对变动 %	11.3	(3.1)	16.3
Rel. % to HS index			
相对恒指变动 %	2.6	2.1	32.8
Avg. share price(HK\$)			
平均股价 (港元)	1.6	1.5	1.6

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2014A	6,976	809	0.291	6.0	4.3	2.773	0.5	0.080	6.3	9.8
2015A	9,572	812	0.292	0.3	4.5	2.961	0.4	0.105	7.9	7.9
2016F	12,792	1,017	0.365	25.3	3.7	3.238	0.4	0.132	9.8	8.5
2017F	16,296	1,375	0.494	35.1	2.7	3.612	0.4	0.178	13.2	10.5
2018F	19,640	1,722	0.619	25.3	2.2	4.080	0.3	0.223	16.6	11.9

Shares in issue (m) 总股数 (m)	2,783.8	Major shareholder 大股东	Ace Rise Profits 50.0%
Market cap. (HK\$ m) 市值(HK\$ m)	4,398.5	Free float (%) 自由流通比率(%)	37.9
3 month average vol. 3 个月平均成交股数('000)	1,328.2	FY16 Net gearing (%) FY16 净负债/股东资金(%)	49.0
52 Weeks high/low (HK\$) 52 周高/低	2.413 / 1.123	FY16 Est. NAV (HK\$) FY16 每股估值 (港元)	5.2

Source: the Company, Guotai Junan International.

**2015 net profit missed our expectation.** Total revenue increased by 37.2% YoY to RMB9,572 mn in 2015. The gross profit amounted to RMB2,646 mn, up 28.0% YoY. Due to the decline in margins and exchange losses of RMB278 mn, the net profit slightly increased 0.3% YoY to RMB812 mn, which missed our expectation. If excluding fair value gains on investment properties and exchange losses, the underlying net profit increased 3.3% YoY to RMB778 mn, also missing our expectation. The GPM dropped 2.0 ppts YoY to 27.6%. Net profit margin declined 1.7 ppts YoY to 9.5%. Net gearing ratio increased 1.0 ppts YoY. Cash increased 52.7% YoY to RMB9,036 mn due to an enlarged debt scale and a cash collection from contracted sales increase.

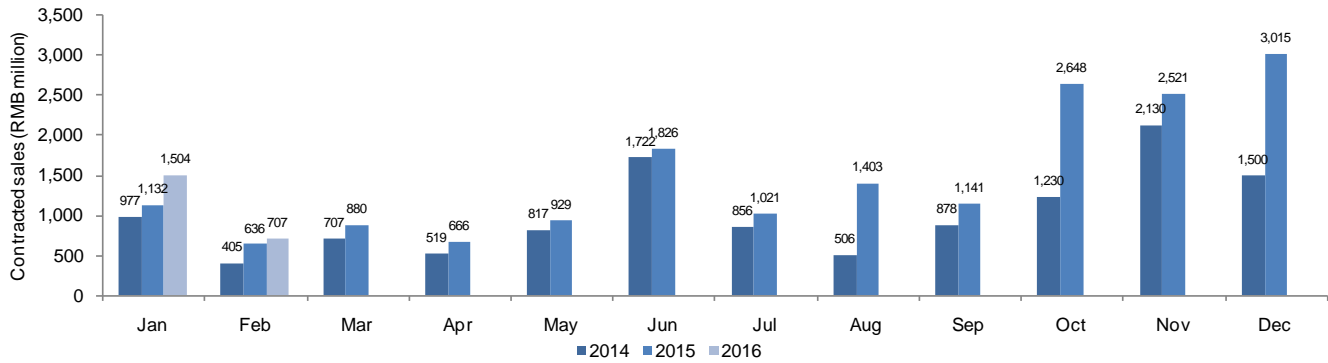
**Table-1: Comparison of the Company's Balance Sheet and Income Statement in 2014 and 2015**

RMB mn	2014	2015	Change
Total revenue	6,976	9,572	37.2%
Gross Profit	2,067	2,646	28.0%
GPM	29.6%	27.6%	- 2.0 ppts
Net Profit	809	812	0.3%
Net Profit (Ex. after-tax fair value gains on IP and exchange losses)	753	778	3.3%
NPM	11.2%	9.5%	- 1.7 ppts
NPM (Ex. after-tax fair value gains on IP and exchange losses)	10.8%	8.1%	- 2.7 ppts
DPS (RMB)	0.080	0.105	31.3%
Underlying EPS (RMB)	0.271	0.280	3.3%
Land Appreciation Tax	305	372	21.9%
Total Cash on Hand	5,917	9,036	52.7%
Total Asset	36,786	48,827	32.7%
Properties for Sale	24,947	31,792	27.4%
Total Debt	11,497	16,298	41.8%
Shareholders' Equity	7,719	8,243	6.8%
ROE	9.8%	7.9%	- 1.9 ppts
Net Gearing Ratio	61.8%	62.7%	1.0 ppts

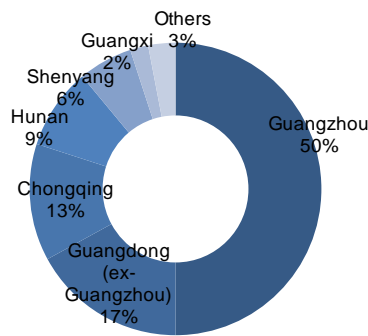
Source: the Company, Guotai Junan International.

**The favorable policies and monetary accommodation environment nationwide was unchanged, supporting home sales.** From Feb. 2016, the minimum down payment ratio has decreased in cities without HPR and the deed tax and business tax of house transactions has adjusted for specific home types. A RRR cut and other favorable policies are expected to bring positive effects on the property market. We have seen a notable recovery in property markets. During Jan. to Feb. 2016, the cumulative sales amount of commodity houses amounted to RMB857.7 bn, increased 43.6% YoY, which extended by 29.2 ppts that of Jan. to Dec. 2015. Since the government implements differentiated policies in different cities, the HPR is further tightened only in Shanghai and Shenzhen. We think it will not change the favorable policies and credit loosening environment nationwide, which will support home sales.

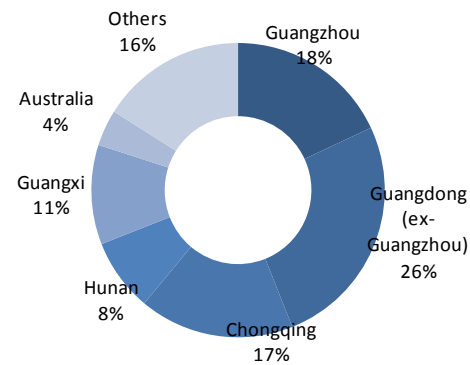
**The Company's contracted sales continued to show fast growth.** The management expects the 2016 contracted sales to record 10%-15% YoY growth. In Jan. to Feb. 2016, the Company achieved RMB2.211 bn in contracted sales, up 25.1% YoY. We think the contracted sales will maintain fast growth amidst the notable recovery in the property market in China with the expectation that the 2016 sales targets will be achievable.

**Figure 1: Aoyuan Contracted Sales Comparison During 2014-Feb. 2016**


Source: the Company.

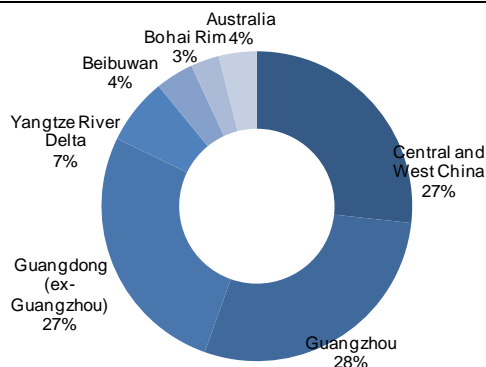
**Figure-2: China Aoyuan's Contracted Sales Breakdown by Regions in 2014**


Source: the Company, Guotai Junan International.

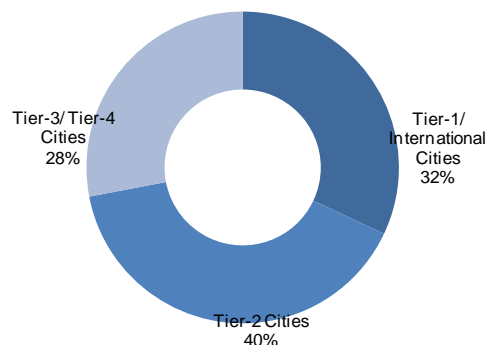
**Figure-3: China Aoyuan's Contracted Sales Breakdown by Regions in 2015**


Source: the Company, Guotai Junan International.

The Company's land reserves are mainly exposed to tier-1/tier-2 cities, which is favorable under the market divergence. In 2015, the Company had a total GFA of 13.33 million sq.m, 72% of its land banks are located in tier-1/ tier-2/ international cities.

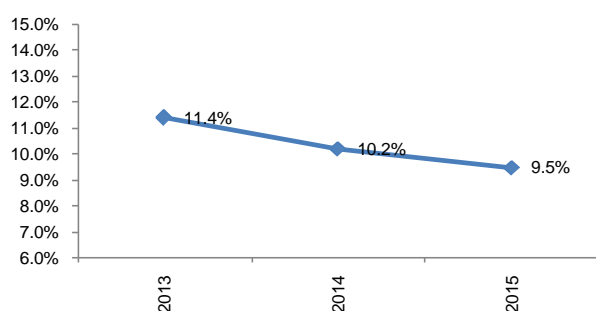
**Figure-4: China Aoyuan's Land Exposure by Regions in 2015**


Source: the Company, Guotai Junan International.

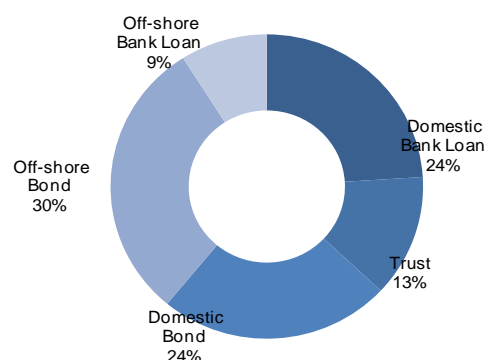
**Figure-5: China Aoyuan's Land Exposure by Cities in 2015**


Source: the Company, Guotai Junan International.

We expect the average financial costs to decline and the debt structure is improving. The average financial costs declined to 9.5% in 2015. Under the loosening credit environment, average financial costs are likely to further decline as the repayment of the high-yield debts. In Jul. 2015 – Feb. 2016, the Company issued domestic corporate bonds amounting to RMB4.4 bn. During Nov. 2015 – Feb. 2016, the Company redeemed senior notes amounting to USD225 mn. With the rapid growth of contracted sales, we believe off-shore bonds and bank loans will decline further. Therefore, the risk exposure to RMB depreciation is likely to decline.

**Figure-6: China Aoyuan's Average Financial Costs**


Source: the Company, Guotai Junan International.

**Figure-7: China Aoyuan's Debt Structure in 2015**


Source: the Company, Guotai Junan International.

**We revise up revenue estimation, but revise down underlying profit estimation.** We expect that China Aoyuan's contracted sales will speed up in the next two years due to the notable recovery of the China property market and smooth operation of its oversea projects. We revise up the 2016F and 2017F revenue by 13.7% and 22.9% to RMB12,792 mn and RMB16,296 mn, respectively. However, because of the unexpected GPM decline in 2015, we revise down the GPM in 2016 and 2017. Due to the higher-than-expected effective tax rate in 2015, we revise up the effective tax rate in 2016 and 2017. As a result, we revise down the 2016F and 2017F underlying net profit by 9.1% and 0.8% to RMB1,019 mn and RMB1,328 mn, respectively.

**Table-2: Revision of 2016-2018 Profit Estimation**

	New estimation			Old estimation			Change		
	2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
Total revenue	12,792	16,296	19,640	11,248	13,258	n.a.	13.7%	22.9%	n.a.
Gross Profit	3,461	4,425	5,384	3,270	3,850	n.a.	5.8%	14.9%	n.a.
Operating profit	2,423	3,205	3,956	2,291	2,697	n.a.	5.8%	18.9%	n.a.
Net Profit	1,137	1,536	1,924	1,237	1,473	n.a.	-8.1%	4.2%	n.a.
Underlying Profit	1,019	1,328	1,649	1,120	1,338	n.a.	-9.1%	-0.8%	n.a.
Gross Margin	27.1%	27.2%	27.4%	29.1%	29.0%	n.a.	- 2.0 ppts	- 1.9 ppts	n.a.
Operating Profit Margin	18.9%	19.7%	20.1%	20.4%	20.3%	n.a.	- 1.4 ppts	- 0.7 ppts	n.a.
Net Profit Margin	8.9%	9.4%	9.8%	11.0%	11.1%	n.a.	- 2.1 ppts	- 1.7 ppts	n.a.
Underlying Net Profit Margin	8.0%	8.1%	8.4%	10.0%	10.1%	n.a.	- 2.0 ppts	- 1.9 ppts	n.a.
ROE	8.5%	10.5%	11.9%	11.3%	12.3%	n.a.	- 2.9 ppts	- 1.8 ppts	n.a.
ROCE	3.6%	4.7%	5.6%	5.1%	5.9%	n.a.	- 1.5 ppts	- 1.2 ppts	n.a.
ROA	2.0%	2.4%	2.7%	2.7%	3.1%	n.a.	- 0.7 ppts	- 0.7 ppts	n.a.
Net Gearing Ratio	49.0%	42.1%	35.9%	53.6%	47.0%	n.a.	- 4.6 ppts	- 4.9 ppts	n.a.

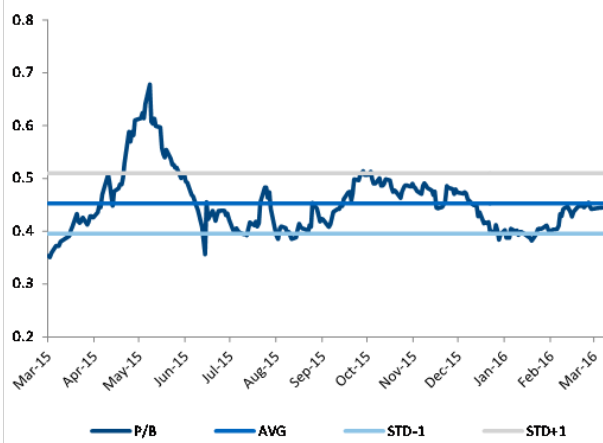
Source: Guotai Junan International.

**Maintain "Accumulate" investment rating for Aoyuan.** The Company's contracted sales are expected to maintain fast growth amidst the notable recovery of the China property market. Land reserves are mainly exposed to tier-1/ tier-2/ international cities. The debt structure is improving, decreasing its risk exposure to the RMB depreciation and financial costs. As we revise down underlying net profit, we revise down our target price from HK\$2.09 to HK\$1.80, representing a 65% discount to 2016E NAV of HK\$5.16 per share, 4.2x 2016 underlying PER and 0.5x 2016 PBR. Moreover, the Company's share price is undervalued as the implied PBR in 2016, 2017 and 2018 are only 0.4x, 0.4x and 0.3x, respectively. Therefore, we rate Aoyuan "Accumulate". Risk factors include lower-than-expected contracted sales, possible operations failure of commercial projects and further depreciation of RMB.

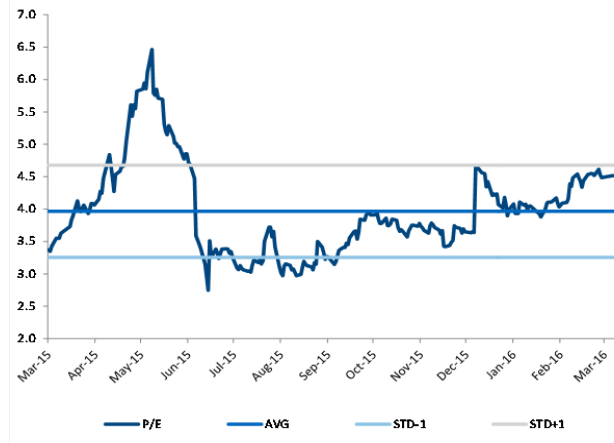
**Table 3: Breakdown of China Aoyuan's 2016 NAV**

NAV summary results	2016F
Development properties (RMB mn)	16,001
Investment properties (RMB mn)	2,308
<b>Total gross asset value (RMB mn)</b>	<b>18,308</b>
(Net debt)/net cash(RMB mn)	(6,108)
NAV (RMB mn)	12,202
<b>NAV/share (RMB)</b>	<b>4.38</b>
<b>NAV/share (HK\$)</b>	<b>5.16</b>
TP discount to NAV	65%
Price target (HK\$)	<b>1.80</b>

Source: the Company, Guotai Junan International.

**Figure-8: China Aoyuan 12 Months Historical P/B**


Source: Bloomberg, Guotai Junan international.

**Figure-9: China Aoyuan 12 Months Historical P/E**


Source: Bloomberg, Guotai Junan international.

**Table 4: Peers Comparison**

Company	Stock Code	Mkt Cap (HKD m)	Last Price HKD	PE			PB			D/Y%	ROE	EV/EBITDA
				2016F	2017F	2018F	2016F	2017F	2018F	2016F	2016F	2016F
<b>HK listed large developers with major revenue from mainland</b>												
China Overseas Land & Invest	00688 HK	242,077.3	24.550	8.9	7.8	7.3	1.6	1.2	1.1	2.2	19.2	8.8
Evergrande Real Estate Group	03333 HK	81,918.3	5.990	7.8	9.7	8.8	1.1	1.0	1.0	4.1	15.9	11.0
China Resources Land Ltd	01109 HK	137,925.7	19.900	10.3	9.3	8.1	1.2	1.1	1.0	2.5	12.6	9.6
Bbmg Corporation-H	02009 HK	52,040.6	5.990	7.8	12.0	9.3	0.8	0.7	0.7	1.4	10.8	11.4
Country Garden Holdings Co	02007 HK	68,983.0	3.080	5.0	5.8	5.7	0.9	0.8	0.8	6.9	19.5	7.3
Longfor Properties	00960 HK	64,525.6	11.060	7.5	7.0	6.6	1.2	1.0	0.9	2.6	16.6	7.9
Agile Property Holdings Ltd	03383 HK	16,960.8	4.330	3.2	4.6	5.0	0.4	0.4	0.4	7.7	12.4	5.5
Soho China Ltd	00410 HK	19,238.2	3.700	7.3	16.5	28.1	0.4	0.4	0.4	8.2	6.4	6.8
Shimao Property Holdings Ltd	00813 HK	39,865.1	11.480	3.9	4.2	4.4	0.7	0.6	0.6	7.7	18.5	6.2
Guangzhou R&F Properties - H	02777 HK	35,832.7	11.120	5.7	5.4	4.8	0.7	0.7	0.6	5.6	14.5	6.9
Sino-Ocean Land Holdings	03377 HK	27,575.3	3.670	6.4	6.3	6.5	0.5	0.5	0.5	6.1	8.7	7.6
Franshion Properties	00817 HK	23,051.1	2.160	6.3	7.2	6.5	0.6	0.6	0.6	4.8	9.3	7.4
Shui On Land Ltd	00272 HK	16,775.7	2.090	21.8	7.6	8.6	0.3	0.3	0.3	2.4	1.7	19.5
New World China Land Ltd	00917 HK	68,660.4	7.890	17.5	22.9	20.5	1.2	1.1	0.9	0.9	7.7	14.8
Kwg Property Holding Ltd	01813 HK	15,282.1	5.100	4.3	4.2	4.0	0.6	0.6	0.5	7.0	15.1	7.6
Yuexiu Property Co Ltd	00123 HK	13,889.5	1.120	5.6	6.6	7.2	0.4	0.4	0.4	6.9	7.1	8.0
Shenzhen Investment Ltd	00604 HK	22,742.8	3.080	11.2	9.5	6.9	0.5	0.6	0.6	4.9	7.4	n.a.
Hopson Development Holdings	00754 HK	17,105.7	7.670	13.7	14.9	12.7	n.a.	n.a.	n.a.	-	2.5	n.a.
Beijing North Star Co Ltd-H	00588 HK	15,097.0	2.410	6.7	7.4	8.6	n.a.	0.5	0.5	n.a.	n.a.	n.a.
Yuexiu Real Estate Investmen	00405 HK	12,260.1	4.310	30.0	26.2	25.9	0.8	0.8	0.8	6.4	2.8	21.9
Redco Properties Group Ltd	01622 HK	9,944.5	5.600	19.5	n.a.	n.a.	n.a.	n.a.	n.a.	1.5	23.0	n.a.
Greentown China Holdings	03900 HK	13,212.4	6.110	3.3	4.4	4.9	0.4	0.4	0.4	6.1	12.7	8.7
China Vanke Co Ltd-H	02202 HK	209,964.3	19.020	10.0	9.8	8.4	2.0	1.8	1.5	3.0	20.6	7.4
Dalian Wanda Commercial Pr-H	03699 HK	208,031.6	45.950	10.9	10.0	8.8	1.1	1.0	0.9	1.9	13.9	6.4
Median				7.6	7.6	7.3	0.7	0.7	0.6	4.8	12.6	7.8
Simple Average				9.8	9.5	9.4	0.8	0.7	0.7	4.4	12.1	9.5
Weighted Average				9.5	9.4	8.6	1.2	1.0	0.9	3.2	15.0	8.3
<b>HK listed mid-small developers with major revenue from mainland</b>												
China Overseas Grand Oceans	00081 HK	5,979.5	2.620	3.2	4.0	3.9	0.5	0.4	0.4	2.9	14.7	4.9
Poly Property Group Co Ltd	00119 HK	7,762.5	2.120	4.0	41.6	23.3	0.2	0.3	0.3	8.2	6.5	8.6
Sh Ind Urban	00563 HK	7,024.5	1.460	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Modern Land China Co Ltd	01107 HK	3,163.3	1.520	n.a.	3.8	3.6	n.a.	0.6	0.6	n.a.	n.a.	n.a.
Powerlong Real Estate Holdin	01238 HK	6,475.6	1.620	5.0	4.2	3.2	n.a.	0.3	0.3	3.8	8.1	n.a.
China Aoyuan Property Group	03883 HK	4,398.5	1.580	n.a.	3.7	3.3	n.a.	0.4	0.4	n.a.	n.a.	n.a.
C C Land Holdings Ltd	01224 HK	5,978.8	2.310	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.1	n.a.
Fantasia Holdings Group Co	01777 HK	5,646.0	0.980	4.5	3.8	2.8	0.5	0.4	0.4	4.5	11.7	7.6
Yuzhou Properties Co	01628 HK	7,784.6	2.040	3.7	4.7	3.9	0.7	0.7	0.6	6.8	20.4	4.8
Central China Real Estate	00832 HK	3,614.6	1.480	2.7	3.8	3.3	0.4	0.4	0.4	11.2	16.9	2.6
China Sce Property Holdings	01966 HK	5,683.6	1.660	n.a.	7.7	4.5	n.a.	0.7	0.6	n.a.	n.a.	n.a.
Top Spring International Hid	03688 HK	4,135.5	3.500	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Beijing Capital Land Ltd-H	02868 HK	9,780.3	3.230	3.5	4.1	5.1	n.a.	0.6	0.6	8.5	15.7	n.a.
Zhong An Real Estate Ltd	00672 HK	1,714.5	0.730	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Kaisa Group Holdings Ltd	01638 HK	8,011.3	1.560	2.4	2.2	1.8	0.4	0.3	0.3	5.8	18.9	n.a.
Glorious Property Holdings	00845 HK	7,091.3	0.910	5.3	8.0	7.2	0.3	0.4	0.4	0.0	n.a.	14.1
Median				3.7	4.1	3.7	0.4	0.4	0.4	5.8	14.7	6.2
Simple Average				3.8	7.6	5.5	0.4	0.5	0.4	5.7	13.1	7.1
Weighted Average				2.5	6.7	4.8	0.2	0.4	0.3	3.8	8.6	3.0

Source: Bloomberg, Guotai Junan international.

Note: Above earnings estimates are based on the market consensus as at 31. Mar. 2016.

**Financial Statements and Ratios**

Income Statement					
Year End Dec (RMB mn)	2014A	2015A	2016F	2017F	2018F
<b>Total revenue</b>	<b>6,976</b>	<b>9,572</b>	<b>12,792</b>	<b>16,296</b>	<b>19,640</b>
yoy	21.8%	37.2%	33.6%	27.4%	20.5%
Sales of properties	6,803	9,295	12,455	15,900	19,187
Other Income	173	278	337	396	454
Cost of Sales	(4,909)	(6,926)	(9,332)	(11,871)	(14,257)
<b>Gross Profit</b>	<b>2,067</b>	<b>2,646</b>	<b>3,461</b>	<b>4,425</b>	<b>5,384</b>
yoy	17.6%	28.0%	30.8%	27.9%	21.7%
- Fair value gains on investment properties	98	356	135	149	164
- SG&A	(770)	(890)	(1,177)	(1,467)	(1,728)
- Other gains net	110	(131)	5	97	137
<b>Operating profit</b>	<b>1,505</b>	<b>1,981</b>	<b>2,423</b>	<b>3,205</b>	<b>3,956</b>
- Finance income/(costs), net	(65)	(91)	(86)	(80)	(76)
- Share profits of JVs	9	28	25	24	24
- Losses on sales of a subsidiary	0	(33)	0	0	0
<b>Profit before income tax</b>	<b>1,449</b>	<b>1,884</b>	<b>2,363</b>	<b>3,149</b>	<b>3,904</b>
- Income tax expense	(666)	(977)	(1,226)	(1,613)	(1,980)
<b>Profit for the period</b>	<b>783</b>	<b>907</b>	<b>1,137</b>	<b>1,536</b>	<b>1,924</b>
Profit attributable to					
- <b>Shareholders (Net income)</b>	<b>809</b>	<b>812</b>	<b>1,017</b>	<b>1,375</b>	<b>1,722</b>
yoy	10.0%	0.3%	25.3%	35.1%	25.3%
- Minority interest	(26)	95	119	161	202
- <b>Shareholders (Underlying Profit)</b>	<b>753</b>	<b>778</b>	<b>1,019</b>	<b>1,328</b>	<b>1,649</b>
EPS (RMB)	0.29	0.29	0.37	0.49	0.62
Underlying EPS (RMB)	0.27	0.28	0.37	0.48	0.59
yoy	9.4%	3.3%	30.9%	30.3%	24.2%
DPS (RMB)	0.08	0.11	0.13	0.18	0.22
Dividend payout ratio	27.5%	36.0%	36.0%	36.0%	36.0%
Balance Sheet					
Year End Dec (RMB mn)	2014A	2015A	2016F	2017F	2018F
Investment Properties	2,728	4,505	4,969	5,480	6,042
Property, Plant and Equipment	501	494	519	485	482
Other current assets	407	630	656	684	714
<b>Total non-current assets</b>	<b>3,636</b>	<b>5,629</b>	<b>6,143</b>	<b>6,649</b>	<b>7,238</b>
Properties for Sale	24,947	31,792	34,839	39,943	44,963
Trade and other receivables	1,849	1,753	1,854	1,919	1,986
Restricted Cash	3,928	1,267	1,697	2,167	2,615
Bank Balances and Cash	1,989	7,769	8,141	8,249	8,262
Other non-current assets	437	617	631	640	645
<b>Total current assets</b>	<b>33,150</b>	<b>43,198</b>	<b>47,162</b>	<b>52,919</b>	<b>58,471</b>
<b>Total assets</b>	<b>36,786</b>	<b>48,827</b>	<b>53,305</b>	<b>59,568</b>	<b>65,709</b>
Trade and other payables	3,501	5,348	5,696	6,714	7,675
Deposits received on sale of properties	8,772	9,823	13,128	16,723	20,155
Short-term bank loans	4,464	2,570	2,493	2,418	2,346
Provision	1,577	1,597	1,613	1,630	1,597
Current income tax liabilities	1,790	2,202	2,422	2,592	2,670
Other current liabilities	273	1,228	1,295	1,359	1,424
<b>Total current liabilities</b>	<b>20,378</b>	<b>22,770</b>	<b>26,648</b>	<b>31,436</b>	<b>35,867</b>
Long-term bank loans	3,776	4,803	4,707	4,566	4,429
Senior notes	3,257	8,924	8,746	9,183	9,551
Other non-current liabilities	341	754	739	714	688
<b>Total non-current liabilities</b>	<b>7,374</b>	<b>14,481</b>	<b>14,191</b>	<b>14,463</b>	<b>14,667</b>
<b>Total liabilities</b>	<b>27,752</b>	<b>37,251</b>	<b>40,839</b>	<b>45,900</b>	<b>50,534</b>
Total common equity	7,719	8,243	9,013	10,055	11,359
Minority interest	1,315	3,333	3,452	3,614	3,816
<b>Total equity &amp; liabilities</b>	<b>36,786</b>	<b>48,827</b>	<b>53,305</b>	<b>59,568</b>	<b>65,709</b>

Source: the Company, Guotai Junan International.

Cash Flow Statement					
Year End Dec (RMB mn)	2014A	2015A	2016F	2017F	2018F
<b>Profit before taxation</b>	<b>1,449</b>	<b>1,884</b>	<b>2,363</b>	<b>3,149</b>	<b>3,904</b>
- Adjustments for:					
- Finance costs	65	91	86	80	76
- Depreciation	25	26	27	27	27
- Fair value gain on IPs	(98)	(356)	(135)	(149)	(164)
- Others	(79)	149	17	(72)	(108)
After above adjustments:	1,363	1,794	2,357	3,035	3,734
Changes in working capital:	(1,430)	68	1,339	766	539
<b>Net cash from operations</b>	<b>(67)</b>	<b>1,862</b>	<b>3,696</b>	<b>3,802</b>	<b>4,274</b>
Income taxes and Interest paid	(1,578)	(1,899)	(1,896)	(2,012)	(2,127)
<b>Net cash from operating activities</b>	<b>(1,645)</b>	<b>(37)</b>	<b>1,800</b>	<b>1,790</b>	<b>2,146</b>
Purchase of investment properties	(211)	(2,133)	(599)	(660)	(727)
Increase in restricted bank deposits	(2,121)	2,662	(231)	(469)	(448)
Other investing cash flow	704	778	(97)	(103)	(97)
<b>Cash flow from investments</b>	<b>(1,628)</b>	<b>1,307</b>	<b>(927)</b>	<b>(1,233)</b>	<b>(1,272)</b>
Debt raised/(repaid)	2,793	4,800	(352)	221	158
Dividend Paid	(223)	(292)	(366)	(495)	(620)
Other financing cash flow	(142)	65	247	(159)	(402)
<b>Cash flow from financing</b>	<b>2,429</b>	<b>4,573</b>	<b>(471)</b>	<b>(432)</b>	<b>(864)</b>
Net Increase (Decrease) in Cash	(844)	5,843	403	125	9
Beginning Cash Balance	2,812	1,989	7,769	8,141	8,249
Exchange losses on cash equivalents	21	(63)	(32)	(16)	3
Ending Cash Balance	1,989	7,769	8,141	8,249	8,262
Ratio					
	2014A	2015A	2016F	2017F	2018F
ROE	9.8%	7.9%	8.5%	10.5%	11.9%
ROCE	4.3%	3.4%	3.6%	4.7%	5.6%
ROA	2.4%	1.9%	2.0%	2.4%	2.7%
Net Gearing Ratio	61.8%	62.7%	49.0%	42.1%	35.9%
Debt to Equity Ratio	127.3%	140.8%	127.9%	118.3%	107.6%
Current Ratio	162.7%	189.7%	177.0%	168.3%	163.0%
Cash / Total Assets	5.4%	15.9%	15.3%	13.8%	12.6%
Valuation					
	2014A	2015A	2016F	2017F	2018F
Underlying PER (Diluted) (x)	4.35	4.54	3.68	2.72	2.17
PER (Basic) (x)	4.35	4.54	3.68	2.72	2.17
PER (Diluted) (x)	4.35	4.54	3.68	2.72	2.17
PBR (x)	0.46	0.45	0.41	0.37	0.33
Dividend Yield (%)	6.32	7.94	9.79	13.23	16.58
Margins					
	2014A	2015A	2016F	2017F	2018F
Gross Margin	29.6%	27.6%	27.1%	27.2%	27.4%
Operating Profit Margin	21.6%	20.7%	18.9%	19.7%	20.1%
Underlying Net Profit Margin	10.8%	8.1%	8.0%	8.1%	8.4%
EBIT Margin	21.6%	20.7%	18.9%	19.7%	20.1%

### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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