CMS(HK) 招商证券(香港)

Thursday, September 15, 2016

# Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

# China Aoyuan (3883 HK)

## Strong earnings growth and attractive valuation

- **Aoyuan recent major-city expansion bearing fruit. We expect 20%+ earnings growth in FY16/17E, driven by robust contracted sales and success in new projects in Tier-1/2 cities**
- **Company and chairman have been buying back shares, and we think they have incentives to do more given distressed valuations**
- **Stock at an attractive 75% discount to NAV (vs. its mid-sized peers' 55% discount) and FY17E yield at 10%. We initiate BUY with TP of HK$2.8, based on 61% discount to its end-FY17E NAV**

### Strategic landbank expansion in Tier-1/2 cities

China Aoyuan is a mid-sized developer with 13.8mn sqm of landbanks in 23 cities. Historically, Aoyuan's landbanks in Tier-3/4 cities accounted for over 50% of the GAV (vs about 30% now). It has strategically increased new investments in large cities (Shenzhen, Guangzhou, Zhuhai, Foshan and Sydney) in recent years and speeded up inventory clearance in Tier-3/4 cities. We believe these investments would start harvesting and bring 20%+ annual contracted sales and profit growth in the next two years. The upcoming pre-sale launch of Shenzhen Aoyuan Jade Bay should boost market confidence on Aoyuan's sales capabilities in large cities.

### Expect 23% earnings CAGR in FY15-18E

With the efforts on increasing sales in Tier-1/2 cities and clearing Tier-3/4 inventories, Aoyuan's FY16E revenue will grow 28% YoY to RMB12.3bn (RMB11bn locked in through accumulated presales) and boost core earnings by 26% YoY to RMB1bn. In FY17-18E, we expect the contracted sales and profit growth to keep at double-digits thanks to larger development and construction scale in large cities. Aoyuan's core earnings CAGR would reach 23% in FY15-18E, above its peers' 16%.

### Deep NAV discount at 75% and FY17E 0.4x P/B

We estimate Aoyuan's end-FY17E NAV at HK$19.1bn, or HK$7.1 per share. We initiate BUY and set our TP at HK$2.8, based on 61% discount to NAV, 6ppts more than mid-sized developers' average at 55%. Re-rating catalysts: 1) contracted sales and earnings surprises; 2) continuous share buybacks (83mn or 3% issued shares bought back in 1H16); and 3) more industry M&As would trigger re-rating on mid-small property developers including Aoyuan.

### Financials

| RMB mn | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| Revenue | 6,976 | 9,572 | 12,284 | 14,166 | 17,442 |
| Revenue growth (%) | 22% | 37% | 28% | 15% | 23% |
| Core net profit | 733 | 823 | 1,035 | 1,270 | 1,514 |
| Core profit growth (%) | 15% | 12% | 26% | 23% | 19% |
| Core EPS (HK$) | 0.33 | 0.35 | 0.43 | 0.54 | 0.64 |
| Net gearing (%) | 61.8% | 62.7% | 65.4% | 68.6% | 68.2% |
| P/E (core EPS) | 5.4x | 5.0x | 4.1x | 3.3x | 2.8x |
| P/B | 0.5x | 0.5x | 0.5x | 0.4x | 0.4x |
| Dividend yield (%) | 6.1% | 7.0% | 8.1% | 10.6% | 12.6% |

*Sources: Company data, CMS (HK) estimates*


John So, CPA
+852 3189 6357
johnso@cmschina.com.hk

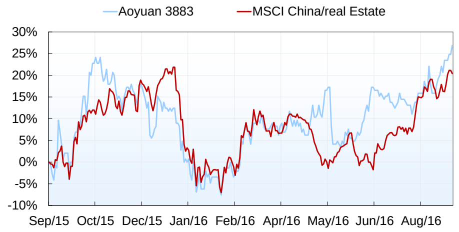
Hayden Zhang
+852 3189 6354
haydenzhang@cmschina.com.hk


Initiation

## BUY

| | |
|---|---|
| Price | HK$1.82 |
| 12-month Target Price (Potential upside) | HK$2.8 (+54%) |

Price Performance




*Source: Capital IQ*

| % | 1m | 6m | 12m |
|---|---|---|---|
| 3883HK | 9.5 | 18.7 | 26.9 |
| HSI Index | 4.7 | 10.9 | 20.4 |

| Property | |
|---|---|
| Hang Seng Index | 23,191 |
| HSCEI | 9,543 |
| **Key Data** | |
| 52-week range (HK$) | 1.33-1.88 |
| Market cap (HK$ mn) | 4,916 |
| Avg. daily volume (mn) | 3.14 |
| BVPS (HK$) at 2016E y.e. | 3.86 |
| **Shareholdings Structure** | |
| Guo's family | 51.5% |
| Cathay Capital | 12.4% |
| | |
| Free float | 36.1% |

## Investment Summary

### Stable dividend policy and continuous share buybacks

In 1H16, Aoyuan repurchased about 83mn shares or about 3% of total issued shares. In 2014 and 2015, Chairman Guo Zi Wen also increased his stake by adding about 95mn shares during 2014-2015. In our view, Aoyuan has incentives to continue share buybacks under the currently distressed valuation at 75% discount to end-FY17E NAV and FY17E 0.4x P/B.

Management is dedicated to uphold a stable dividend policy with 30% payout, in our view. Except for FY08 global financial crisis, Aoyuan had kept paying dividends every year since IPO in 2007.

### Big progress in funding power

Aoyuan has been actively optimizing its loan structure through a broad range of re-financing in both offshore and onshore borrowings. We estimate that the funding cost will be improved to about 8% at FY16E y.e. vs about 9.5% at FY15 y.e. In Nov/15, Feb/16 and May/16, Aoyuan had successfully redeemed total US$325mn senior notes at expensive coupon rates (US$:225mn at 13.875% and US$100mn at 9.25%).

In January 2016, Fitch upgraded Aoyuan's credit outlook to Positive with B+ credit rating which also helped Aoyuan re-financing with cheaper loans. It raised US$250mn and AU$197mn new offshore loans at 6.525% and about 5% coupon rate respectively during the year. Meanwhile, it also got new funding through domestic corporate bonds and a project loan from Ping An with total RMB1.08bn at about 7-8% only.

### Strategic landbank expansion in Tier-1/2 cities to support 23% core earnings CAGR in FY15-18E

Aoyuan strategically increased its new landbank investments in large cities including Shenzhen, Guangzhou, Zhuhai, Foshan and Sydney in the past two years. The steady contracted sales, cashflows and profit growth showed that it had taken the right move. The recent land acquisitions in Shenzhen and Sydney should help boost Aoyuan's contracted sales and earnings growth in the next two years.

We expect its FY16E core earnings to grow at 26% YoY to RMB1bn. In FY17-18E, we expect that the contracted sales and profit will maintain double-digit growth thanks to larger development and construction scale, especially in Guangzhou, Shenzhen and Sydney. Aoyuan's core earnings CAGR would reach 23% in FY15-18E, better than its peers' 16%.

### Cultural project development, icing on the cake

Aoyuan has been developing a famous cultural development project in Shaoguan with total GFA of about 679k sqm (initial land capex about RMB950mn). As early as in 2015, Aoyuan had collaborated with Shanshui Scenery Culture to develop Aoyuan Shaoguan Impression (韶关印象岭南) into the first world-class cultural tourism complex in South China. Shaoguan sits at the conjunction of Guangdong, Hunan and Jiangxi. It has various famous cultural heritages and natural landscapes, including Nanhua Temple (the birthplace of Southern Zen Buddhism) and Mount Danxia (a UNESCO World Natural Heritage site). Shaoguan attracts over 20mn visitors every year.

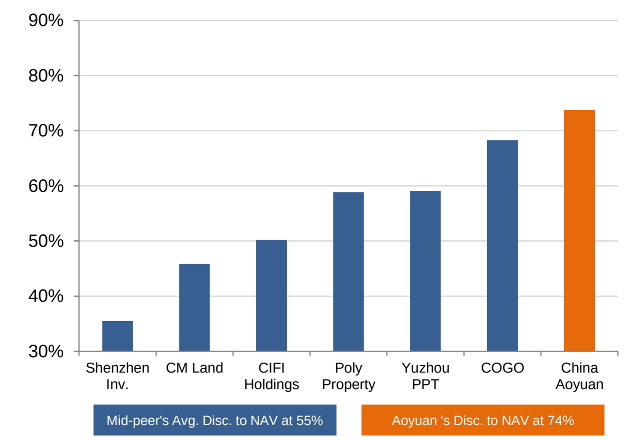
In our base case, we prudently estimate Shaoguan's GAV at about RMB1bn only, equivalent to the land cost. Any positive surprise in contracted sales and developments could significantly enhance the project value.

### Three catalysts to narrow current deep NAV discount

We estimate Aoyuan's end-FY17E NAV at HK$19.1bn, or HK$7.1 per share. Our target price, HK$2.8, is based on 61% discount to NAV, 6ppts deeper than mid-sized developers' average at 55%. We judge that it should have some valuation discount to its peers due to its lower trading liquidity (3-month daily average trading: HK$5mn). That said, we see three re-rating drivers: 1) contracted sales and earnings surprises; 2) continuous share buybacks; and 3) more industry M&As to trigger re-rating on mid-small property developers including Aoyuan. Recent property takeovers are generally above 1x P/B vs Aoyuan's current valuation at 0.4x FY17E P/B.

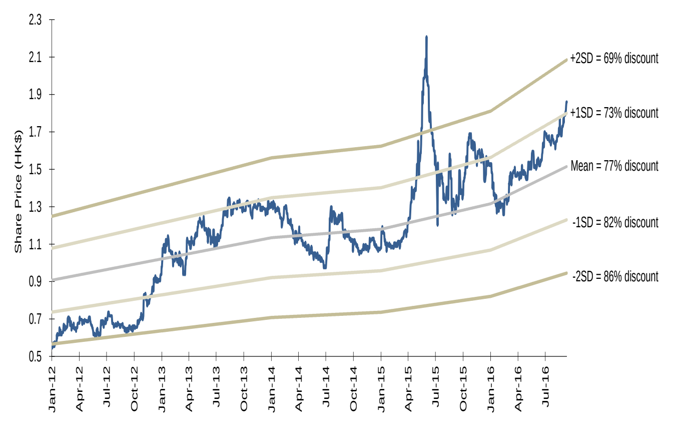
## Focus charts

### Figure 1: NAV discount vs its close peers



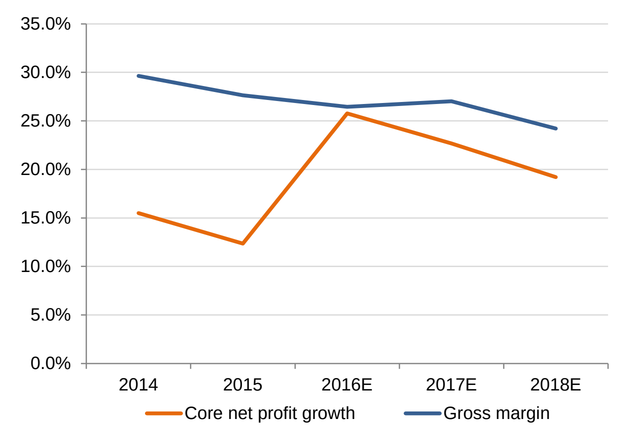

Source: CMS (HK)

### Figure 2: Aoyuan's share price vs. NAV band



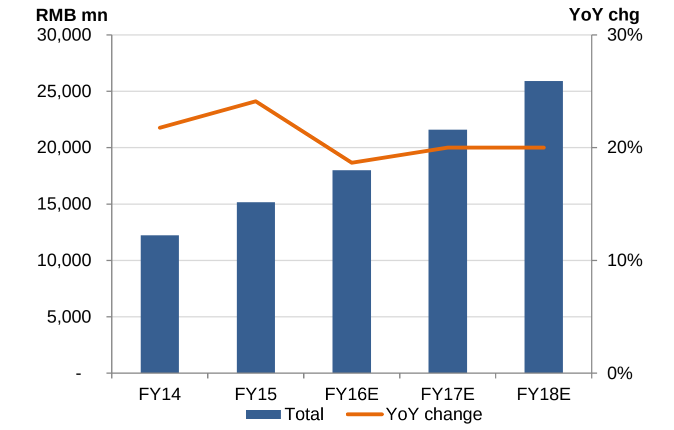

Sources: Bloomberg, CMS (HK)

### Figure 3: Profit and gross margin



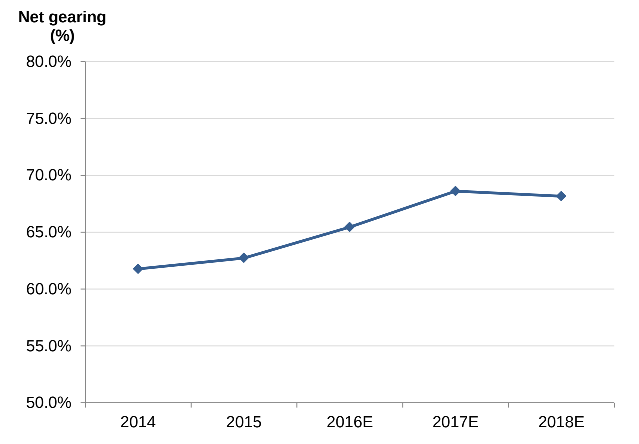

Sources: Company data, CMS (HK)

### Figure 4: Aoyuan's contracted sales



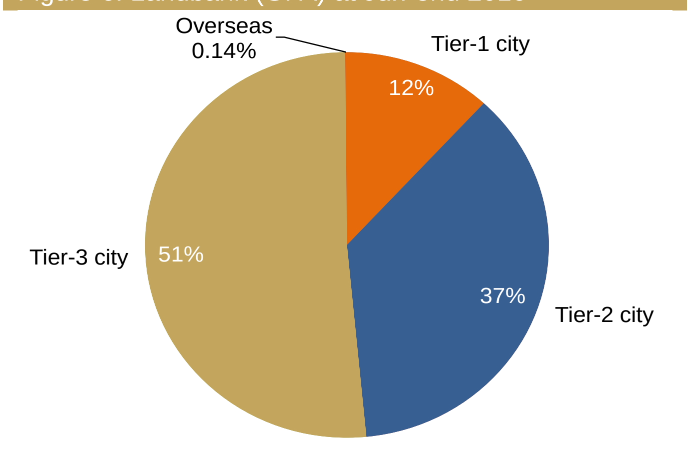

Sources: Company data, CMS (HK)

### Figure 5: Net gearing




Sources: Company data, CMS (HK)

### Figure 6: Landbank (GFA) at Jun-end 2016




Sources: Company data, CMS (HK)

# Contents

## Company background

China Aoyuan was founded in 1996. In 2007, the company was listed on the Main Board of Hong Kong Stock Exchange. Aoyuan was initially a Guangdong focused developer specializing in residential projects and gradually expanded its exposure outside Guangdong area with more complex projects involved. Currently, Aoyuan's development strategy is to implement regional focus on the five major economic circles as its core regions in China, namely Pearl River Delta, Yangtze River Delta, Bohai Rim, core region of Central and Western China and Beibuwan In 1H16, its contracted sales outside Guangdong has accounted for c.50% of its total contracted sales. In addition, the company has successfully entered the overseas markets in Sydney, Australia with two projects, One30 Hyde Park and Maison 188 Maroubra Sydney.

Figure 7: China Aoyuan – Company Milestone

| Year | Milestone |
|---|---|
| **1997** | ● Panyu Jin Ye was founded for the development of Panyu Aoyuan project in Guangzhou |
| **1998** | ● Aoyuan Limited was founded as an intermediate holding company for PRC operating subsidiaries |
| **2006** | ● Cathay Capital acquired 20.5% of Aoyuan as a pre-IPO strategic investor and currently is still holding 12.4% stake |
| **2007** | ● Geographical reach extended beyond Guangdong by entering into Guangxi, Shenyang and Chongqing. Listed in HK as China Aoyuan Property Group Limited (Stock Code: 3883 HK) in Oct |
| **2011** | ● Entered Jiangsu to take advantage of the growth in the Yangtze River Delta Region |
| **2015** | ● Announced the first overseas project, One30 Hyde Park Sydney, Australia |
| **2015-2016** | ● Entered Shenzhen, Zhuhai and Chengdu, expanding landbanks in Tier-1 and 2 cities |

*Source: CMS (HK)*

## Landbanks – increasing exposure in large cities

**Aoyuan has a landbank with total GFA of 13.8mn sqm (attributable 12mn sqm),** of which completed/under construction accounted for 1.9mn/5.1mn sqm, respectively. It currently has about 50 projects under development, among which 25 projects are located at Guangdong Province, 23 projects outside Guangdong and 2 projects in Sydney, Australia. Meanwhile, it has 11 completed projects for sales and/or for held as rental properties. The projects in Tier-1/2 cities accounted for about 60% of the GAV, though they only accounted for 43% of the landbank GFA. We expect that its current landbank is sufficient to satisfy its development needs for the next 4-5 years.

**Guangdong focused and geographic diversification continues.** Aoyuan's core market is in Guangdong Province, accounting for 44% of its total GFA, among which over 1/3 projects (including completed rental properties) are in Guangzhou City. We believe that Aoyuan is currently increasing new landbank investments in Tier-1/2 cities such as Shenzhen and Sydney, where it can achieve better sales visibility and profitability.

In 2015, Aoyuan acquired 13 projects at a consideration of RMB4.6bn with attributable GFA of 1.9mn sqm. Tier-1/2 cities account for 75% of the consideration. In 1H16, it further added four land sites by spending RMB5.3bn (Tier-1/2: 92% of total) to add its new exposure in Shenzhen and Chengdu.

**Overseas expansion in Australia**. In 2015, Aoyuan acquired 2 prime located projects, One30 Hyde Park and 188 Maroubra, in Sydney, Australia, with a total GFA of 21k sqm. The contracted sales were highly successful in Australia with One30 Hyde Park presales over RMB1.57bn (2015 – Aug 2016) or RMB128,500 psm.

Figure 8: China Aoyuan land bank as of 2016 Jun-end (by cities)

| City | Total (k sqm) | Attributable (k sqm) | Attr. % |
|---|---|---|---|
| Guangzhou | 1,705 | 1,269 | 10.6% |
| Shenzhen | 218 | 152 | 1.3% |
| **Tier-1 subtotal** | **1,923** | **1,422** | **11.9%** |
| | | | |
| Shenyang | 1,687 | 1,687 | 14.1% |
| Chongqing | 1,155 | 1,155 | 9.6% |
| Chengdu | 644 | 451 | 3.8% |
| Foshan | 537 | 455 | 3.8% |
| Nanning | 284 | 160 | 1.3% |
| Changsha | 149 | 149 | 1.2% |
| Zhuhai | 271 | 252 | 2.1% |
| Suzhou | 82 | 82 | 0.7% |
| **Tier-2 subtotal** | **4,808** | **4,389** | **36.6%** |
| | | | |
| Yulin | 1,458 | 1,458 | 12.2% |
| Qingyuan | 1,263 | 1,240 | 10.3% |
| Shaoguan | 679 | 679 | 5.7% |
| Zhuzhou | 873 | 529 | 4.4% |
| Meizhou | 526 | 526 | 4.4% |
| Bengbu | 758 | 417 | 3.5% |
| Ganzhou | 345 | 345 | 2.9% |
| Yangjiang | 362 | 290 | 2.4% |
| Yunfu | 255 | 255 | 2.1% |
| Jiaxing | 202 | 202 | 1.7% |
| Zhongshan | 153 | 153 | 1.3% |
| Jiangmen | 137 | 70 | 0.6% |
| **Tier-3 subtotal** | **7,012** | **6,163** | **51.4%** |
| | | | |
| Sydney | 21 | 16 | 0.1% |
| **Overseas** | **21** | **16** | **0.1%** |
| | | | |
| **Total** | **13,763** | **11,991** | **100%** |

*Sources: Company, CMS (HK)*

## Key projects under construction at a glance

### Project I: Guangzhou Aoyuan International Center (广州奥园国际中心)

**Location: Wanbo CBD, Guangzhou (65%-owned)**

**Key details: Remaining GFA at 248k sqm, residential & commercial**

**Financials: RMB1.25bn or 5% of the GAV; prevailing ASP (serviced apartment) at RMB27,100 psm**

**Land cost: about RMB9,500 psm**

**Contracted sales: RMB1bn in 7M16**

Located at the heart of Wanbo CBD, Guangzhou Aoyuan International Center (广州奥园国际中心) has a total GFA of about 250k sqm, integrating grade-A offices, boutique apartments, a hotel and a shopping street, targeting mid-to-high end buyers in surrounding regions. It should take 10-20 minutes by Metro Line #7 (under construction) to Haizhu/Tianhe prime area. Serviced apartments were launched for presales this year and Aoyuan planned to launch offices for pre-sales in 2017.

Figure 9: Guangzhou Aoyuan International Center


Source: Soufun

Figure 10: Guangzhou Aoyuan International Center

Source: Company

## Project II: Shenzhen Aoyuan Jade Bay (深圳奥园翡翠东湾)

**Location: Pingshan New District, Shenzhen (70%-owned)**

**Key details: Remaining GFA at 218k sqm, residential**

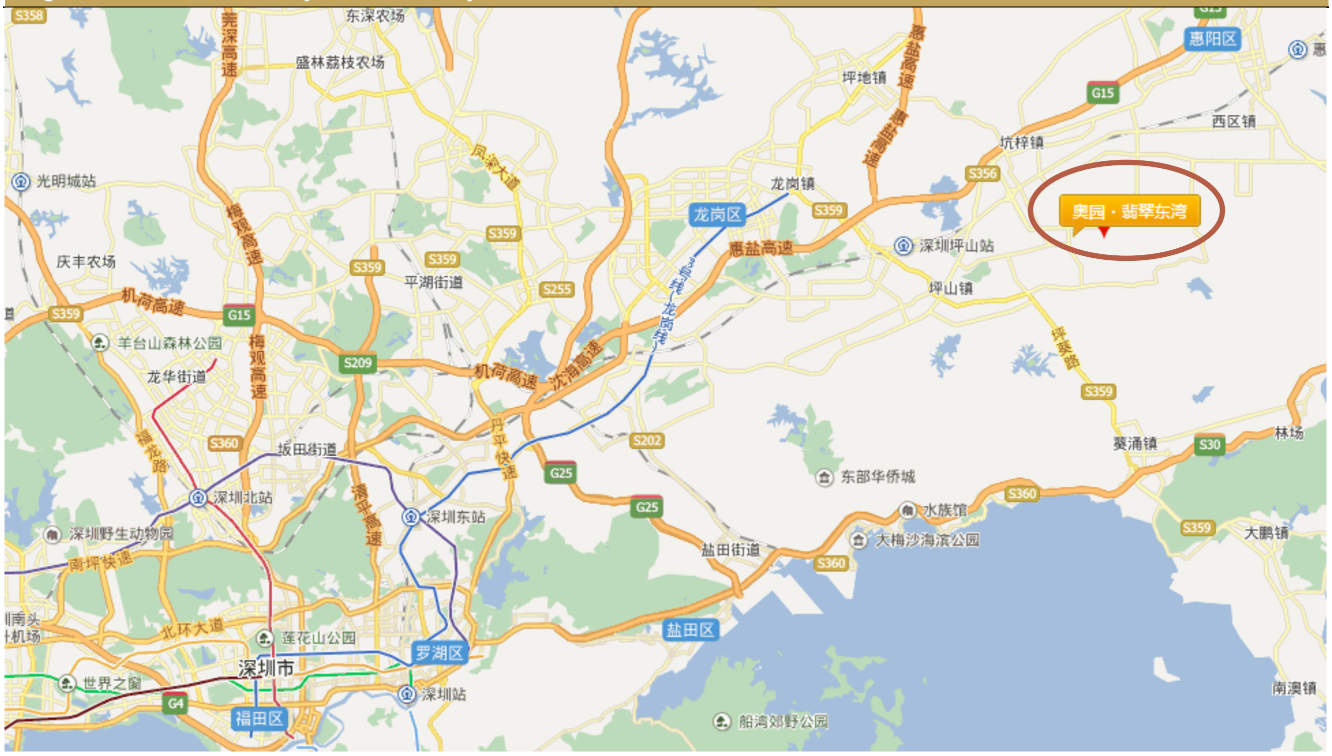
**Financials: RMB2.4bn or 10% of the GAV; our estimated ASP at RMB27,000-29,000 psm**

**Land cost: about RMB15,000 psm**

**Contracted sales: RMB1.6bn in 2017E**

Aoyuan acquired 70% equity interest of this land site through the equity acquisition in 2016 at a consideration of RMB2.29bn. Shenzhen Aoyuan Jade Bay project is located at Pingshan New District, Shenzhen, about 5-min drive to Pingshan high-speed train station. After completion of Metro Line #14 and #16, it should take less than an hour travelling to the city area. The project will comprise of 6 high-rise residential buildings (1,170 units), and its first phase will be launched for presales in 4Q16E or 1Q17E. The project will be completed in 2018E.

Figure 11: Shenzhen Aoyuan Jade Bay




Source: Google map

**Project III: Zhuhai Aoyuan Plaza (珠海奥园广场)**

**Location: Xiangzhou district, Zhuhai (93%-owned)**

**Key details: Remaining GFA at 271k sqm, residential and commercial mixed**

**Financials: RMB1.5bn or 6% of the GAV; ASP at RMB21,000 psm in 8M16**

**Land cost: about RMB2,700 psm**

**Contracted sales: RMB975mn in 2015, we estimate RMB1.8bn (RMB1.3bn in 8M16) in 2016E**

Zhuhai Aoyuan Plaza (珠海奥园广场) is located at Xiangzhou district, Zhuhai, the new administrative center. Once the HK-Macau-Zhuhai Bridge is completed, the location is about 1-hr drive to Hong Kong and Shenzhen. Awarded by the Zhuhai Municipal People's Government Office as "Pilot Residential Project," it is surrounded by three famous attractions (Meixi Scenic Area, a tourism farm and Putuo Temple). The project comprises a shopping street, a mall, grade A offices, a hotel and serviced apartments. Currently, the residential high-rise, serviced apartments and the shopping street retail shops are on presales and construction. We expect that the project will be a key revenue contributor (RMB1.3-1.6bn annual sales revenue) to Aoyuan in FY17-18E.

Figure 12: Zhuhai Aoyuan Plaza

*Source: Soufun*

Figure 13: Zhuhai Aoyuan Plaza

*Source: Soufun*

### Project IV: One30 Hyde Park Sydney

**Location: Sydney CBD (70%-owned)**

**Key details: Remaining GFA at 15k sqm, residential**

**Financials: RMB582mn or 3% of the GAV; ASP at about RMB128,000 psm**

**Land cost: about RMB40,000 psm**

**Contracted sales: over 80% of the project has been presold YTD, at RMB1.57bn**

Located at Sydney CBD (at the junction of Liverpool St. and Elizabeth St.), One 30 Hyde Park is Aoyuan's first overseas project in Australia. The site looks north over Hyde Park to the Opera House and Sydney Harbour, enjoying a stunning 280-degree view. The project is co-developed with Ecove, an Australian local developer. It was designed as a 38-storey building with 140 residential units (size ranges from 1 bedroom to 3 bedrooms) and 2 retail shops. As of August-end, it was over 80% presold. Local buyers accounted for the majority of 75%.

In 2016E, we expect its contracted sales at RMB571mn. We estimate the project's GPM will reach 28% or above, higher than the company's average GPM of 25% in China. It is scheduled to complete in late 2018.

Figure 14: One30 Hyde Park Sydney


Source: Company website

Figure 15: One30 Hyde Park Sydney

Source: Company website

## Project V: Chongqing Aoyuan Panlong Yihao (重庆奥园盘龙壹号)

**Location: Jiulongpo District, Chongqing (100%-owned)**

**Key details: Remaining GFA at 455k sqm, residential and commercial mixed**

**Financials: RMB1.4bn or 6% of the gross NAV; prevailing ASP at RMB7,400 psm**

**Land cost: about RMB3,250 psm**

**Contracted sales: RMB1bn in 8M16**

Chongqing Aoyuan Panlong Yihao is located at Panlong New Town, Jiulongpo District, Chongqing, which is a well-developed residential, business and commercial zone, adjacent to a full range of ancillary facilities including healthcare institutions, schools and parks. With GFA of c.455k sqm, the project is comprised of a boutique hotel, residential apartments, grade A offices, a shopping mall and a shopping street.

The project has a mature transportation network with quick access to Light Rail Lines #2 and #5, the ring road and 70 bus routes. It takes about 30-min drive to Jiefangbei CBD.

Figure 16: Chongqing Aoyuan Panlong Yihao


*Source: focus.cn*

Figure 17: Chongqing Aoyuan Panlong Yihao

*Source: Company*

## Contracted sales outlook: 19%/20% YoY growth in FY16/17E

Aoyuan reported contracted sales of RMB15.2bn/13.2bn in FY15/8M16, +24%/55% YoY. The contracted sales growth was largely due to the increase in project launching with GFA sales volume +40%/+51% YoY in FY15/8M16. Contracted sales in Guangdong Province accounted for 44%/50% of Aoyuan's total contracted sales in FY15/1H16.

The expansion into non-Guangdong region started harvesting. We expect projects outside Guangzhou will contribute c.50% of its total contracted sales in FY16E, with Chongqing Aoyuan Panlong Yihao contributing RMB1.3bn (RMB1bn in 8M16) and Sydney One30 Hyde Park of RMB571mn (RMB497mn in 8M16).

### Growth driver: more new projects launching for pre-sales

Aoyuan had saleable resources of about RMB19.2bn in 2H16E with new launches of RMB11.5bn, including projects in Guangzhou, Shenzhen, Foshan, Chengdu and overseas project in Sydney. The new launches mainly consist of mixed projects, including residential, office, commercial and loft.

Aoyuan is now more major-city focused. We expect those projects in major cities, namely, Zhuhai Aoyuan Plaza Shenzhen Aoyuan Jade Bay, and Guangzhou Aoyuan International Center will be key contracted sales contributors in 2016E and 2017E. In addition, we expect Aoyuan to continue its efforts in destocking in Tier-3/4 cities amid a loosening credit environment. Overall, we expect Aoyuan to make RMB18.0bn/RMB21.6bn in FY16E/17E, +19%/20% YoY.

The FY16E ASP assumptions are based on our checking against its previous phases and nearby projects. The FY17E contracted ASP is based on a general 3% YoY price increase assumption.

Figure 18: Our estimates on Aoyuan's contracted sales in 2016E (by projects)

| Project | City | Stake | ASP (RMB psm) | Total (RMB mn) | % of Total |
|---|---|---|---|---|---|
| Zhuhai Aoyuan Plaza | Zhuhai | 93% | 22,529 | 1,802 | 10% |
| Chongqing Aoyuan Panlong Yihao | Chongqing | 100% | 7,384 | 1,625 | 9% |
| Guangzhou Aoyuan International Center | Guangzhou | 65% | 27,737 | 1,526 | 8% |
| Foshan Aoyuan Central Parkview | Foshan | 100% | 10,087 | 1,210 | 7% |
| Foshan Aoyuan The Prime Palace | Foshan | 100% | 20,000 | 1,000 | 6% |
| Guangzhou Luogang Aoyuan Plaza | Guangzhou | 59% | 14,258 | 998 | 6% |
| Nanning Aoyuan Hanlin MingMen | Nanning | 55% | 6,424 | 771 | 4% |
| Chongqing Aoyuan City Plaza | Chongqing | 100% | 7,500 | 750 | 4% |
| One 30 Hyde Park Sydney | Sydney | 70% | 114,271 | 686 | 4% |
| Zhongshan Aoyuan | Zhongshan | 100% | 5,114 | 614 | 3% |
| **Subtotal** | | | | **10,981** | **61%** |
| Others | | | | 7,019 | 39% |
| **Total** | | | | **18,000** | **100%** |

*Source: CMS (HK)*

Figure 19: Our estimates on Aoyuan's contracted sales in 2017E (by projects)

| Project | City | Stake | ASP (RMB psm) | Total (RMB mn) | % of Total |
|---|---|---|---|---|---|
| Zhuhai Aoyuan Plaza | Zhuhai | 93% | 26,780 | 2,678 | 12% |
| Guangzhou Aoyuan International Center | Guangzhou | 65% | 28,575 | 2,143 | 10% |
| Shenzhen Aoyuan Jade Bay | Shenzhen | 70% | 26,780 | 1,607 | 7% |
| Chongqing Aoyuan Panlong Yihao | Chongqing | 100% | 8,240 | 1,483 | 7% |
| Foshan Aoyuan Central Parkview | Foshan | 100% | 12,360 | 1,236 | 6% |
| Foshan Aoyuan The Prime Palace | Foshan | 100% | 20,600 | 1,236 | 6% |
| Guangzhou Luogang Aoyuan Plaza | Guangzhou | 59% | 15,965 | 958 | 4% |
| Chengdu Chenghua Aoyuan Plaza | Chengdu | 70% | 10,300 | 824 | 4% |
| Chongqing Aoyuan City Plaza | Chongqing | 100% | 7,725 | 773 | 4% |
| Zhuzhou Aoyuan Shennong Health City | Zhuzhou | 60% | 5,974 | 597 | 3% |
| **Subtotal** | | | | **13,535** | **63%** |
| Others | | | | 8,065 | 37% |
| **Total** | | | | **21,600** | **100%** |

*Source: CMS (HK)*

Figure 20: Our estimates on Aoyuan's contracted sales in 2016E (by cities)

| City | GFA (sqm) | Total (RMB mn) | % of Total |
|---|---|---|---|
| Chongqing | 450 | 3,409 | 19% |
| Guangzhou | 195 | 3,374 | 19% |
| Foshan | 210 | 2,550 | 14% |
| Zhuhai | 80 | 1,802 | 10% |
| Sydney | 11 | 986 | 5% |
| Zhongshan | 160 | 934 | 5% |
| Bengbu | 160 | 907 | 5% |
| Nanning | 120 | 771 | 4% |
| Chengdu | 60 | 600 | 3% |
| **Subtotal** | **1,546** | **15,793** | **88%** |
| Others | 497 | 2,207 | 12% |
| **Total** | **2,043** | **18,000** | **100%** |

*Source: CMS (HK)*

Figure 21: Peers comparison: contracted sales in 7M16

| Company | Ticker | 7M16 (RMB mn) | YoY growth (%) | 2015 (RMB mn) | 2016E (RMB mn) | YoY growth (%) |
|---|---|---|---|---|---|---|
| Agile | 3383 HK | 32,030 | 39% | 44,250 | 48,000 | 8% |
| **Aoyuan** | **3883 HK** | **11,750** | **65%** | **15,180** | **18,000** | **19%** |
| COLI | 688 HK | 90,317 | 17% | 146,448 | 172,778 | 18% |
| China Vanke | 000002 CH | 217,100 | 62% | 261,470 | 290,000 | 11% |
| CIFI Holdings | 884 HK | 32,610 | 174% | 30,230 | 45,000 | 49% |
| CR Land | 1109 HK | 63,970 | 31% | 85,160 | 103,500 | 22% |
| COGO | 81 HK | 11,033 | 16% | 17,844 | 19,130 | 7% |
| Country Garden | 2007 HK | 149,420 | 143% | 140,160 | 230,000 | 64% |
| Evergrande | 3333 HK | 184,780 | 83% | 201,320 | 300,000 | 49% |
| Gemdale | 600383 CH | 52,060 | 94% | 61,660 | 74,000 | 20% |
| Greentown China | 3900 HK | 52,000 | 43% | 71,900 | 75,000 | 4% |
| Longfor | 960 HK | 47,270 | 81% | 54,540 | 70,000 | 28% |
| Poly Property | 119 HK | 19,600 | 9% | 30,000 | 30,000 | 0% |
| Poly Real Estate | 600048 CH | 122,772 | 43% | 154,102 | 180,000 | 17% |
| Shimao | 813 HK | 39,470 | 11% | 67,039 | 67,000 | 0% |
| Sino Ocean | 3377 HK | 24,200 | 51% | 40,480 | 44,000 | 9% |
| Sunac | 1918 HK | 65,080 | 100% | 68,210 | 90,000 | 32% |
| Yuzhou | 1628 HK | 14,823 | 121% | 14,018 | 21,500 | 53% |
| **Total (22 companies)** | | **1,358,380** | **55%** | **1,767,514** | **2,096,541** | **19%** |

*Sources: CMS (HK), Company data*

# Financial analysis and forecasts

## Income Statement: Steady earnings growth driven by sales volume growth

### 26% YoY profit growth in FY16E

In 1H16, Aoyuan had reported RMB6.5bn revenue and RMB619mn core net profit, +52% YoY. As of Jun-end/2016 year-end, Aoyuan had about RMB12bn unbooked presales received in advance. For FY16E, about RMB11bn (including 1H: RMB6.5bn) property sales revenue has been locked-in as of Aug-end 2016.

In FY16E, we expect its revenue to reach RMB12.3bn, +28% YoY supported by 44% YoY growth in GFA booking to 1.44mn sqm. The overall gross margin will be trimmed slightly by 1.1ppts YoY to 26.5% in FY16E (property sales revenue only: 26.8%) due to more bookings of projects in Tier-3/4 cities. Overall, it would boost the core earnings growth by 26% YoY to RMB1bn.

Key revenue and profit contributors include Guangzhou Luogang Aoyuan Plaza, Guangzhou Aoyuan City Plaza, Foshan Aoyuan Central Parkview and Guangzhou Aoyuan Kangwei Plaza. Based on our estimates, these four projects should account for 52% and 48% of the revenue and gross profits respectively.

Figure 22: FY16E Aoyuan's property sales revenue and gross profit breakdown by projects

| Project | City | Stake | FY16E ASP (RMB psm) | FY16E Revenue (RMB mn) | % of Total | FY16E Gross profit (RMB mn) | GPM (%) | % of Total |
|---|---|---|---|---|---|---|---|---|
| Guangzhou Luogang Aoyuan Plaza | Guangzhou | 59% | 13,000 | 1,950 | 16% | 409 | 21% | 13% |
| Guangzhou Aoyuan City Plaza | Guangzhou | 54% | 17,704 | 1,682 | 14% | 497 | 30% | 16% |
| Foshan Aoyuan Central Parkview | Foshan | 100% | 9,300 | 1,395 | 12% | 236 | 17% | 7% |
| Guangzhou Aoyuan Kangwei Plaza | Guangzhou | 51% | 10,000 | 1,200 | 10% | 380 | 32% | 12% |
| Zhongshan Aoyuan | Zhongshan | 100% | 6,500 | 845 | 7% | 290 | 34% | 9% |
| Zhuzhou Aoyuan Plaza | Zhuzhou | 60% | 16,700 | 768 | 6% | 517 | 67% | 16% |
| Meizhou Aoyuan Peninsula View | Meizhou | 100% | 6,000 | 720 | 6% | 269 | 37% | 8% |
| Bengbu Aoyuan Hanlin Ginza | Bengbu | 55% | 5,800 | 522 | 4% | 120 | 23% | 4% |
| Shenyang Aoyuan The Metropolis | Shenyang | 100% | 5,000 | 500 | 4% | 139 | 28% | 4% |
| Chongqing Aoyuan The Metropolis | Chongqing | 100% | 6,000 | 480 | 4% | 26 | 5% | 1% |
| **Subtotal** | | | | **10,062** | **84%** | **2,883** | **28.7%** | **90%** |
| Others | | | | 1,857 | 16% | 307 | 16.5% | 10% |
| **Total** | | | | **11,919** | **100%** | **3,190** | **26.8%** | **100%** |

*Source: CMS (HK)*

### 23%/19% earnings growth in FY17/18E

Backed by larger development and completion scale, including the first Australian project, we expect the sales revenue to grow 15%/23% YoY to RMB14.2bn/17.4bn in FY17/18E. We expect the GPM at 27.0%/24.2% in FY17/18E based on the assumptions that 1) more lower-margin projects in Tier-3/4 cities will be recognized in FY18E and 2) we only forecast a general 3% annual increase in the project selling prices in FY17/18E.

Overall, we estimate FY17/18E core earnings will reach RMB1.3/1.5bn, +23%/19% respectively, mainly driven by the total GFA sales volume increase.

Figure 23: FY17E Property sales revenue and gross profit breakdown by projects

| Project | City | Stake | FY17E ASP (RMB psm) | FY17E Revenue (RMB mn) | % of Total | FY17E Gross profit (RMB mn) | GPM (%) | % of Total |
|---|---|---|---|---|---|---|---|---|
| Zhuhai Aoyuan Plaza | Zhuhai | 93% | 22,600 | 1,582 | 11% | 776 | 49% | 21% |
| Chongqing Aoyuan Panlong Yihao | Chongqing | 100% | 7,600 | 1,140 | 8% | 71 | 6% | 2% |
| Guangzhou Aoyuan International Ce | Guangzhou | 65% | 27,743 | 971 | 7% | 303 | 31% | 8% |
| Meizhou Aoyuan Peninsula View | Meizhou | 100% | 6,400 | 768 | 6% | 321 | 42% | 9% |
| Guangzhou Luogang Aoyuan Plaza | Guangzhou | 59% | 14,000 | 700 | 5% | 184 | 26% | 5% |
| Nanhai Aoyuan | Foshan | 55% | 8,500 | 680 | 5% | 328 | 48% | 9% |
| Chongqing Aoyuan City Plaza | Chongqing | 100% | 7,500 | 675 | 5% | 66 | 10% | 2% |
| Zhongshan Aoyuan Jinyu | Zhongshan | 100% | 8,000 | 560 | 4% | 275 | 49% | 7% |
| Bengbu Aoyuan Hanlin Ginza | Bengbu | 55% | 6,104 | 488 | 4% | 134 | 27% | 4% |
| Shaoguan Lingnan Impression | Shaoguan | 100% | 5,700 | 456 | 3% | 99 | 22% | 3% |
| **Subtotal** | | | | **8,020** | **58%** | **2,557** | **31.9%** | **68%** |
| Others | | | | 5,744 | 42% | 1,210 | 21.1% | 32% |
| **Total** | | | | **13,765** | **100%** | **3,768** | **27.4%** | **100%** |

*Source: CMS (HK)*

Figure 24: Key financials

| (RMB mn) | FY14 | FY15 | FY16E | FY17E | FY18E |
|---|---|---|---|---|---|
| Total GFA delivered (k sqm) (1) | 914 | 1,018 | 1,463 | 1,795 | 1,951 |
| Average selling price booked (RMB psm) (2) | 7,443 | 9,132 | 8,149 | 7,668 | 8,713 |
| Property sales (1) x (2) | 6,803 | 9,296 | 11,919 | 13,765 | 17,000 |
| Others | 173 | 278 | 365 | 402 | 442 |
| **Total Revenue** | **6,976** | **9,574** | **12,284** | **14,166** | **17,442** |
| Gross profit | 2,067 | 2,646 | 3,250 | 3,827 | 4,222 |
| Reported net profit | 809 | 812 | 984 | 1,270 | 1,514 |
| **Core net profit** | **733** | **823** | **1,035** | **1,270** | **1,514** |
| **Total contracted sales** | **12,223** | **15,170** | **18,000** | **21,600** | **25,920** |
| **YoY changes (In %)** | | | | | |
| GFA delivered | 12.0% | 11.4% | 43.7% | 22.7% | 8.7% |
| Average selling price | 8.5% | 22.7% | -10.8% | -5.9% | 13.6% |
| Revenue | 21.7% | 37.2% | 28.3% | 15.3% | 23.1% |
| Gross profit | 17.5% | 28.0% | 22.8% | 17.7% | 10.3% |
| Reported net profit | 9.9% | 0.4% | 21.1% | 29.1% | 19.2% |
| Core net profit | 15.5% | 12.4% | 25.8% | 22.7% | 19.2% |
| Total contracted sales | 21.8% | 24.1% | 18.7% | 20.0% | 20.0% |
| **Margin ratios (In %)** | | | | | |
| Gross margin | 29.6% | 27.6% | 26.5% | 27.0% | 24.2% |
| Reported net profit margin | 11.6% | 8.5% | 8.0% | 9.0% | 8.7% |
| Core net profit margin | 10.5% | 8.6% | 8.4% | 9.0% | 8.7% |

*Sources: Company data, CMS (HK)*

## Balance Sheet: Net gearing to maintain at below 70% in FY16-18E

We expect Aoyuan to maintain its total cash level at above RMB10bn at FY16E year-end and its net gearing will be controlled below 70%. It would also maintain a relatively low proportion of short-term loans as a % of total loans (about 20%) and thus achieve about 3x cash/short-term debt ratio. The buoyant bond market environment would also facilitate Aoyuan to re-finance old loans at cheaper rates in coming 1-2 quarters.

Figure 25: Balance sheet highlights

| (RMB mn) | FY14 | FY15 | FY16E | FY17E | FY18E |
|---|---|---|---|---|---|
| Total cash | 5,917 | 9,036 | 12,710 | 15,404 | 18,611 |
| Total borrowings | 11,497 | 16,297 | 22,574 | 26,574 | 30,574 |
| Net debts | 5,580 | 7,261 | 9,864 | 11,170 | 11,963 |
| | | | | | |
| **Net debts to total equity (%)** | **61.8%** | **62.7%** | **65.4%** | **68.6%** | **68.2%** |
| | | | | | |
| Unrestricted cash | 4,852 | 7,769 | 12,685 | 15,379 | 18,586 |
| Short-term borrowings | 4,464 | 2,570 | 4,111 | 4,111 | 4,111 |
| **Cash / short-term debts ratio (x)** | **1.1** | **3.0** | **3.1** | **3.7** | **4.5** |

*Source: CMS (HK)*

### Big progress in funding power

Aoyuan has been actively optimizing its loan structure through a broad range of re-financing in both offshore and onshore borrowings. We estimate that the funding cost will be improved to about 8% at FY16E y.e. vs about 9.5% at FY15 y.e. In Nov/15, Feb/16 and May/16, Aoyuan had successfully redeemed total US$325mn senior notes at expensive coupon rates (US$:225mn at 13.875% and US$100mn at 9.25%).

In January 2016, Fitch upgraded Aoyuan's credit outlook to Positive with B+ credit rating which also helped Aoyuan re-financing with cheaper loans. It raised US$250mn and A$197mn new offshore loans at 6.525% and about 5% coupon rate respectively during the year. Meanwhile, it also got new funding through domestic corporate bonds and a project loan from Ping An with total RMB1.08bn at about 7-8% only.

## Cash Flow Statement: Smooth cashflow collection from contracted sales in FY16E

Under a loosening credit environment especially in major cities, we expect smooth cash collection from contracted sales. In FY16E, we estimate the cash inflows from contracted sales at RMB16.5 bn, +32% YoY. We also expect that Aoyuan would not have significant cash outlays for land capex (1H16: RMB2.5bn) in FY16E.

Figure 26: Cashflows highlights

| (RMB mn) | FY14 | FY15 | FY16E | FY17E | FY18E |
|---|---|---|---|---|---|
| **Cash proceeds from contracted sales** | **9,800** | **12,500** | **16,500** | **17,280** | **20,736** |
| Capex - land purchases | (2,730) | (5,400) | (4,500) | (6,500) | (8,000) |
| Capex - construction & others | (5,900) | (6,843) | (7,500) | (7,875) | (9,450) |
| Interest, income tax/LAT, SG&A | (1,957) | (2,171) | (3,074) | (3,808) | (4,212) |
| Others | (1,286) | (834) | 1,292 | (58) | 577 |
| | | | | | |
| **Cashflows before financing activities** | **(2,073)** | **(2,748)** | **2,718** | **(961)** | **(349)** |

*Source: CMS (HK)*

*Note: we deduce the historical breakdowns based on the information provided from annual reports and presentation materials*

## Valuation attractive at 75% discount to end-FY17E NAV

### We use targeted NAV discount to arrive at our TP

We estimate Aoyuan's end-FY17E NAV at HK$19.1bn, or HK$7.1 per share. Our NAV calculation for Aoyuan incorporates: i) its landbank and properties under development, ii) its investment properties completed and under development, and iii) its net debts. After the active expansion in Tier-1/2 cites in recent years, the GAV from large cities (including Sydney and Foshan) contributed about 70% of the GAV.

Our NAV estimate on its landbanks and properties under development equals to the sum of its discounted profits stream and book cost. We calculate its discounted profits in the next five years by applying a weighted average cost of capital (WACC) of 13.4%. In our financial model, FY16/17E booked selling prices are mostly based on the contracted selling prices (checked from Soufun and company's financial reports) of its projects. We also assume 3% annual price growth during FY17-20E.

### Target price at 61% NAV discount. Three catalysts to narrow the discount

Our target price, HK$2.8, is based on 61% discount to NAV, or 6ppts deeper than mid-sized developers' average of 55%. We judge that it should have some discount against peers due to its lower stock trading liquidity (3-month daily average trading: HK$5mn).

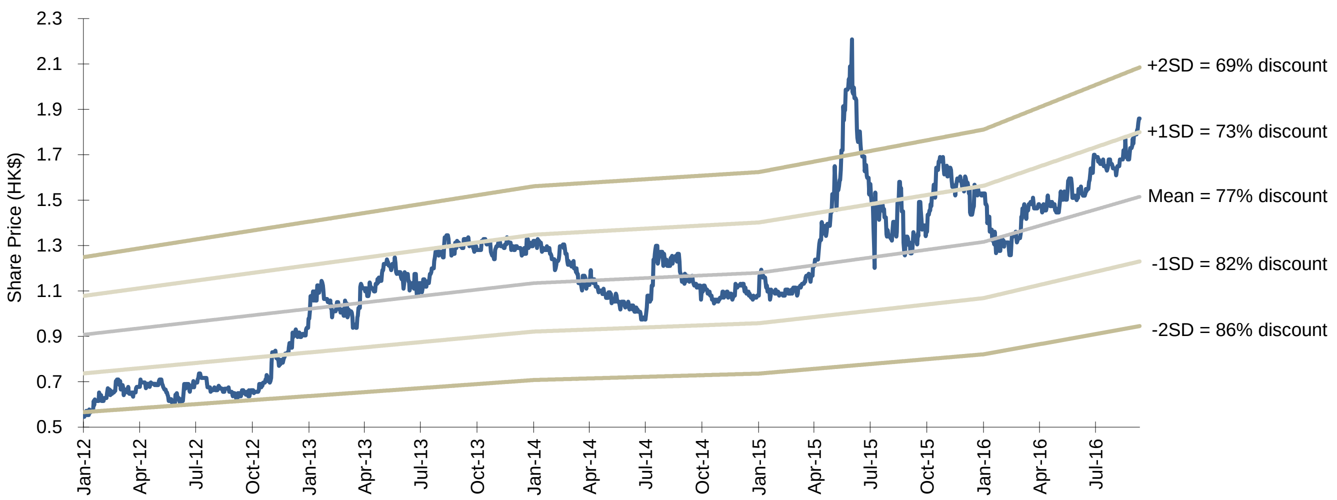
Looking ahead, we expect three catalysts to narrow the discount: 1) contracted sales and earnings surprises; 2) continuous share buybacks; and 3) more industry M&As to trigger re-rating on mid-small property developers including Aoyuan. Recent property takeovers are generally above 1x P/B vs Aoyuan's current valuation at 0.4x FY17E P/B.

Figure 27: Aoyuan's end-FY17E NAV

| Details | Total HK$ mn | HK$/share |
|---|---|---|
| Landbank and properties under development | 26,611 | 9.9 |
| Investment properties | 5,314 | 2.0 |
| Net debts at FY17E year-end | (12,845) | (4.8) |
| **Total** | **19,080** | **7.1** |

*Source: CMS (HK)*

Figure 28: Aoyuan's discount to 1-year forward NAV band (from Jan 2012 onwards)




*Sources: CMS (HK), Bloomberg*

Figure 29: Aoyuan's end-FY17E GAV breakdown by projects

| Project | City | Stake | Total profits (RMB mn) | As % of total |
|---|---|---|---|---|
| Shenzhen Aoyuan Jade Bay | Shenzhen | 70% | 2,438 | 11% |
| Chongqing Aoyuan Panlong Yihao | Chongqing | 100% | 1,496 | 6% |
| Chengdu Chenghua Aoyuan Plaza | Chengdu | 70% | 1,378 | 6% |
| Zhuhai Aoyuan Plaza | Zhuhai | 93% | 1,370 | 6% |
| Foshan Aoyuan The Prime Palace | Foshan | 100% | 1,291 | 6% |
| Chongqing Aoyuan Beyond Era | Chongqing | 100% | 1,289 | 6% |
| Guangzhou Aoyuan International Center | Guangzhou | 65% | 1,260 | 5% |
| Shaoguan Lingnan Impression | Shaoguan | 100% | 1,099 | 5% |
| Foshan Aoyuan Central Parkview | Foshan | 100% | 997 | 4% |
| Lianhua Hill Aoyuan | Guangzhou | 100% | 965 | 4% |
| Guangzhou Luogang Aoyuan Plaza | Guangzhou | 59% | 675 | 3% |
| Chongqing Aoyuan City Plaza | Chongqing | 100% | 621 | 3% |
| One30 Hyde Park Sydney | Sydney | 70% | 564 | 2% |
| Shenyang Aoyuan The Metropolis | Shenyang | 100% | 475 | 2% |
| Bengbu Aoyuan Hanlin Ginza | Bengbu | 55% | 461 | 2% |
| **Subtotal** | | | **16,379** | **71%** |
| Others | | | 6,750 | 29% |
| **Total** | | | **23,129** | **100%** |
| **Total in HK$ mn** | | | **26,611** | **100%** |

*Source: CMS (HK)*

Figure 30: Aoyuan's end-FY17E GAV breakdown by cities

| City | (RMB mn) | % of total |
|---|---|---|
| Guangzhou | 3,900 | 17% |
| Chongqing | 3,735 | 16% |
| Foshan | 2,469 | 11% |
| Shenzhen | 2,438 | 11% |
| Zhuhai | 1,370 | 6% |
| Chengdu | 1,378 | 6% |
| Shaoguan | 1,099 | 5% |
| Meizhou | 865 | 4% |
| Yulin | 704 | 3% |
| Sydney | 720 | 3% |
| Shenyang | 694 | 3% |
| Zhuzhou | 874 | 4% |
| Bengbu | 698 | 3% |
| Zhongshan | 315 | 1% |
| Nanning | 425 | 2% |
| Jiaxing | 316 | 1% |
| Qingyuan | 332 | 1% |
| Yangjiang | 244 | 1% |
| Jiangmen | 137 | 1% |
| Suzhou | 150 | 1% |
| Ganzhou | 115 | 0% |
| Changsha | 115 | 0% |
| Yunfu | 36 | 0% |
| **Total** | **23,128** | **100%** |
| **Total in HK$ mn** | **26,611** | **100%** |

*Source: CMS (HK)*

## Sector valuation

### Figure 31: HK-listed peers - valuation comparison (based on closing prices as of 9 Sep 2016)

| Company | Ticker | Price (HK$) | Mkt Cap (US$ mn) | 3-mth avg t/o (US$ mn) | * NAV (HK$) | Discount to NAV (%) | FY15 P/E (x) | FY16E P/E (x) | FY15 yield (%) | FY16E yield (%) | FY15 P/B (x) | FY16E P/B (x) | Net gearing FY15 (%) | Net gearing FY16E (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Large peers average** | | | | | | **25.8** | **10.2** | **8.6** | **4.2** | **4.1** | **1.3** | **1.1** | **78.7** | **83.4** |
| China Overseas | 688 HK | 27.45 | 34,894 | 62.0 | 32.2 | 14.8 | 9.6 | 9.1 | 3.4 | 2.5 | 1.4 | 1.2 | 6.6 | 22.9 |
| CR Land | 1109 HK | 23.55 | 21,042 | 34.5 | 31.8 | 25.9 | 11.4 | 9.4 | 2.4 | 2.9 | 1.4 | 1.3 | 24.1 | 30.9 |
| Country Garden | 2007 HK | 4.20 | 12,026 | 9.5 | 5.6 | 25.0 | 7.8 | 7.6 | 3.7 | 4.0 | 1.2 | 1.1 | 87.9 | 114.4 |
| Evergrande | 3333 HK | 5.56 | 9,808 | 18.9 | 8.8 | 36.8 | 11.3 | 9.2 | 8.1 | 6.4 | 1.4 | 1.1 | 314.2 | 310.2 |
| *Longfor | 960 HK | 12.42 | 9,349 | 13.3 | 14.6 | 14.9 | 9.0 | 7.8 | 3.4 | 3.7 | 1.1 | 1.0 | 55.0 | 51.8 |
| Shimao Property | 813 HK | 11.78 | 5,213 | 8.0 | 26.6 | 55.7 | 5.5 | 5.6 | 5.9 | 5.9 | 0.7 | 0.7 | 58.1 | 58.6 |
| *Wanda | 3699 HK | 52.60 | 30,700 | 15.7 | 70.0 | 24.9 | 16.1 | 10.6 | 2.4 | 2.7 | 1.1 | 1.1 | 64.5 | 65.7 |
| *China Vanke | 2202 HK | 20.20 | 37,078 | 48.8 | 22.0 | 8.2 | 10.6 | 9.4 | 4.2 | 4.7 | 2.0 | 1.7 | 19.3 | 12.4 |
| **Mid peers average** | | | | | | **54.6** | **9.6** | **9.1** | **4.5** | **4.1** | **0.7** | **0.6** | **74.5** | **67.1** |
| *Sino Ocean | 3377 HK | 3.92 | 3,797 | 3.5 | 8.0 | 51.0 | 8.3 | 7.8 | 3.2 | 4.4 | 0.6 | 0.6 | 58.5 | 58.1 |
| *China Jinmao | 817 HK | 2.62 | 3,605 | 2.0 | 4.5 | 41.8 | 9.1 | 8.1 | 3.1 | 3.9 | 0.8 | 0.7 | 60.6 | 83.9 |
| *Shenzhen Inv. | 604 HK | 3.87 | 3,810 | 5.8 | 6.0 | 35.5 | 9.5 | 9.5 | 4.1 | 4.8 | 0.9 | 0.8 | 45.8 | 2.1 |
| *SOHO China | 410 HK | 4.72 | 3,164 | 3.2 | 8.6 | 45.1 | 50.2 | 37.3 | 17.7 | 5.4 | 0.6 | 0.6 | 25.1 | 33.1 |
| *Sunac | 1918 HK | 5.89 | 2,584 | 11.7 | 12.4 | 52.5 | n.a. | 8.4 | 3.9 | 2.4 | 0.9 | 0.8 | 75.9 | 66.5 |
| Agile Property | 3383 HK | 4.66 | 2,353 | 3.6 | 10.6 | 56.0 | 6.2 | 6.3 | 8.5 | 4.3 | 0.5 | 0.4 | 83.7 | 85.7 |
| *Shui On Land | 272 HK | 2.24 | 2,318 | 2.0 | n.a. | n.a. | 19.3 | 9.4 | 1.7 | 2.4 | 0.4 | 0.4 | 96.8 | 72.8 |
| *BJ North Star | 588 HK | 2.72 | 1,944 | 0.4 | n.a. | n.a. | 10.4 | 8.1 | 2.6 | 2.6 | 0.5 | 0.5 | 127.7 | N/A |
| CIFI Holdings | 884 HK | 2.69 | 2,332 | 2.2 | 5.4 | 50.2 | 6.5 | 5.7 | 5.2 | 5.9 | 1.2 | 1.1 | 59.2 | 58.4 |
| Yuexiu Property | 123 HK | 1.27 | 2,030 | 5.7 | 4.5 | 71.8 | 11.5 | 11.9 | 3.8 | 3.2 | 0.4 | 0.4 | 73.1 | 61.4 |
| Greentown China | 3900 HK | 7.09 | 1,977 | 2.4 | 18.0 | 60.6 | 10.1 | 5.7 | 0.0 | 3.4 | 0.5 | 0.5 | 88.5 | 95.7 |
| Yuzhou PPT | 1628 HK | 2.70 | 1,328 | 2.4 | 6.6 | 59.1 | 5.7 | 5.0 | 6.7 | 7.6 | 0.9 | 0.8 | 79.4 | 80.2 |
| *Poly Property | 119 HK | 2.47 | 1,166 | 3.4 | 6.0 | 58.8 | N/A | N/A | 0.0 | 0.4 | 0.4 | 0.3 | 114.9 | 98.7 |
| COGO | 81 HK | 2.54 | 747 | 0.7 | 8.0 | 68.3 | 6.8 | 4.3 | 0.0 | 2.3 | 0.5 | 0.5 | 48.0 | 7.1 |
| **China Aoyuan** | **3883 HK** | **1.86** | **648** | **0.6** | **7.1** | **73.8** | **5.2** | **4.3** | **6.8** | **7.8** | **0.5** | **0.5** | **62.7** | **65.4** |
| **Average** | | | | | | **45.4** | **10.0** | **7.9** | **4.4** | **4.1** | **0.8** | **0.8** | **75.7** | **72.3** |

*Sources: CMS (HK), * data sourced from Bloomberg*
*Note: We have excluded outliers (SOHO China & Poly Property) when measuring average P/E*

## Appendix

Figure 32: China Aoyuan – Directors and senior management

**Mr. Guo Zi Wen, 郭梓文先生 (*Chairman*)**

Guo Zi Wen, aged 51, is the founder. He is an Executive Director, the Chairman of the Board. Mr. Guo is mainly responsible for the formulation of development strategies of the Company, as well as giving guidance to the Group's project planning, financing and investment.

**Mr. Guo Zi Ning 郭梓宁先生, (*Vice Chairman and Chief Executive Officer*)**

Guo Zi Ning, aged 54, is an Executive Director, a Vice Chairman and the Chief Executive Officer. He holds a Doctorate degree in Business Administration. Mr. Guo Zi Ning participated in the preparation of the Group in 1996, now primarily responsible for legal affairs, commercial property investment, development and operation, and leads the overall administration management of the Group.

**Ms. Zhong Ping 钟平女士, (*Chief Financial Officer*)**

Zhong Ping, aged 47, is an Executive Director, Chief Financial Officer, Director of Finance Centre and Director of Personnel Assessment Centre. Ms. Zhong obtained a Master's degree of Accountancy from Jinan University and is a certified tax advisor and certified accountant. Ms. Zhong joined Aoyuan in August 2003 and is mainly responsible for the finance, internal audit, administration and human resources management.

**Mr. Ma Jun 马军先生, (*Chief Operating Officer*) (*appointed on 28 August 2015*)**

Mr. Ma Jun, aged 39, is an Executive Director and Chief Operating Officer of the Group. Mr. Ma is mainly responsible for the management of real estate business operations of the Group. Mr. Ma has more than 15 years of experience in the real estate industry. Before joining Aoyuan in Mar. 2015, Mr. Ma worked at COLI (Tianjin) (中海地产天津公司) as Deputy General Manager and Shenzhen Ao Chen Property as an Executive Vice President. Mr. Ma obtained a Bachelor degree in Environmental Engineering awarded by Tianjin University in the PRC.

**Mr. Chan Ka Yeung Jacky 陈嘉扬先生, (*Vice president*)**

Chan Ka Yeung Jacky, aged 36, is a vice president of the Group, the president of Australia Company and the head of corporate finance and investor relations. He graduated from the University of Illinois at Urbana-Champaign in the United States of America with Bachelor's degree in Economics. He has extensive experience in financial services and investor relations. He had previously been the CIO and investor relations director of Zhong An Real Estate (672 HK) and the deputy head and responsible officer of the capital markets department of Agile Property (3383 HK). He joined Aoyuan in October 2013 and is now mainly responsible for the operation and management of Hong Kong and Australia office, development of overseas projects, corporate finance, investor relations, as well as other capital markets related affairs.

**Mr. Chen Yong 陈勇先生, (*Vice president*)**

Chen Yong, aged 40, is a vice president of the Group and head of investment and financing department. He obtained a Bachelor degree from Zhongnan University of Economics and Law. He has extensive experience in fund management. He had served in large developers including Vanke, Gemdale and Logan Property. He joined Aoyuan in June 2014, and is now mainly responsible for the investment and financing business.

*Source: Company data*

# Financial Summary

## Balance Sheet

| RMB mn | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| **Current Assets** | **33,150** | **43,198** | **57,656** | **66,603** | **75,341** |
| Cash | 4,852 | 7,769 | 12,685 | 15,379 | 18,586 |
| Restricted cash | 1,065 | 1,267 | 25 | 25 | 25 |
| Current receivables | 1,849 | 1,753 | 2,098 | 2,098 | 2,098 |
| PUD & inventories | 24,947 | 31,792 | 41,209 | 47,462 | 54,240 |
| Other current assets | 437 | 617 | 1,639 | 1,639 | 392 |
| **Non-current assets** | **3,636** | **5,629** | **5,836** | **6,012** | **6,184** |
| Fixed Assets | 3,245 | 5,014 | 5,261 | 5,437 | 5,609 |
| Investment in associates / JCEs | 63 | 217 | 196 | 196 | 196 |
| Other non-current assets | 328 | 398 | 379 | 379 | 379 |
| **Total assets** | **36,786** | **48,827** | **63,492** | **72,616** | **81,524** |
| **Current liabilities** | **20,378** | **22,770** | **29,499** | **33,413** | **37,051** |
| Bank and other loans | 4,464 | 2,570 | 4,111 | 4,111 | 4,111 |
| Presales receipts in advance | 8,772 | 9,823 | 13,204 | 16,719 | 20,456 |
| Trade and other payables | 3,501 | 5,348 | 7,955 | 8,455 | 8,455 |
| Other current liabilities | 3,641 | 5,029 | 4,229 | 4,127 | 4,030 |
| **Non-current Liabilities** | **7,374** | **14,481** | **18,921** | **22,921** | **26,921** |
| Bank and other loans | 7,033 | 13,727 | 18,463 | 22,463 | 26,463 |
| Others | 341 | 754 | 458 | 458 | 458 |
| **Total Liabilities** | **27,752** | **37,251** | **48,420** | **56,334** | **63,972** |
| Shareholders' Equity | 7,719 | 8,243 | 9,053 | 9,978 | 11,047 |
| Minority interests | 1,315 | 3,333 | 6,020 | 6,304 | 6,504 |
| **Total equity & Liabilities** | **36,786** | **48,827** | **63,492** | **72,616** | **81,524** |

*Note: Total cash includes both cash and restricted cash*

## Cashflow Statement

| RMB mn | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| **Operating cashflow** | **1,085** | **2,376** | **8,624** | **5,649** | **7,761** |
| Profit before tax | 1,449 | 1,884 | 2,163 | 2,551 | 2,665 |
| Working capital chg | 1,301 | 2,231 | 8,871 | 6,137 | 8,376 |
| Tax paid | (473) | (480) | (1,006) | (1,098) | (1,048) |
| Interest paid | (1,105) | (1,202) | (1,577) | (2,083) | (2,412) |
| Other operating cashflow | (87) | (57) | 173 | 142 | 180 |
| **Investing cashflow** | **(3,158)** | **(5,124)** | **(5,906)** | **(6,610)** | **(8,110)** |
| Fixed assets additions | (324) | (871) | (213) | (200) | (200) |
| Deposits paid for land purchase | (2,730) | (5,400) | (6,500) | (6,500) | (8,000) |
| Subsidiary acquisitions / disposals | 868 | 1,262 | (435) | 0 | 0 |
| JCE / Associates | 0 | 103 | (79) | 0 | 0 |
| Other Investing cashflow | (972) | (218) | 1,321 | 90 | 90 |
| **Financing cashflow** | **2,433** | **5,604** | **2,186** | **3,656** | **3,556** |
| Dividend paid | (223) | (292) | (245) | (344) | (444) |
| Increase/Decrease in Loans | 2,793 | 4,850 | 4,673 | 4,000 | 4,000 |
| Other financing cashflow | (137) | 1,046 | (2,242) | 0 | 0 |
| | | | | | |
| **Cashflows for the year** | **360** | **2,856** | **4,904** | **2,694** | **3,207** |
| Cash at the beginning | 4,471 | 4,852 | 7,769 | 12,685 | 15,379 |
| Exchange difference | 21 | 61 | 12 | 0 | 0 |
| **Cash at the end** | **4,852** | **7,769** | **12,685** | **15,379** | **18,586** |

*Note: We reclassify land capex from operating cashflows into investing cashflows, which is different from the company's financial statements.*

*Sources: Company data, CMS (HK) estimates*

## Profit & Loss Statement

| RMB mn | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| **Gross Revenue** | **6,976** | **9,572** | **12,284** | **14,166** | **17,442** |
| Cost of goods sold | (4,909) | (6,926) | (9,034) | (10,339) | (13,220) |
| **Gross Profit** | **2,067** | **2,646** | **3,250** | **3,827** | **4,222** |
| Selling expenses | (379) | (489) | (491) | (626) | (752) |
| Admin and others | (391) | (402) | (470) | (531) | (654) |
| Finance cost | (65) | (91) | (175) | (208) | (241) |
| Share of JCE / Asso | 9 | 28 | (11) | 0 | 0 |
| Others | 208 | 192 | 60 | 90 | 90 |
| Pre-tax profit | **1,449** | **1,884** | **2,163** | **2,551** | **2,665** |
| Income tax | (666) | (977) | (922) | (997) | (950) |
| Minority interest | 26 | (95) | (257) | (284) | (201) |
| **Reported net profit** | **809** | **812** | **984** | **1,270** | **1,514** |
| | | | | | |
| **Core profit** | **733** | **823** | **1,035** | **1,270** | **1,514** |
| | | | | | |
| Core EPS (RMB) | 0.26 | 0.30 | 0.38 | 0.47 | 0.56 |
| DPS (RMB) | 0.087 | 0.106 | 0.126 | 0.165 | 0.196 |

*Note: We deduct property revaluations and other exceptional items to arrive at core net profit*

## Ratios

| % | 2014 | 2015 | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|
| **Growth (%)** | | | | | |
| Revenue | 21.8% | 37.2% | 28.3% | 15.3% | 23.1% |
| Gross profit | 17.5% | 28.0% | 22.8% | 17.7% | 10.3% |
| Core net profit | 15.5% | 12.4% | 25.8% | 22.7% | 19.2% |
| PUD and inventory | 21.7% | 27.4% | 29.6% | 15.2% | 14.3% |
| Contracted sales | 21.8% | 24.1% | 18.7% | 20.0% | 20.0% |
| | | | | | |
| **Profitability** | | | | | |
| Gross margin % | 29.6% | 27.6% | 26.5% | 27.0% | 24.2% |
| Core net profit margin | 10.5% | 8.6% | 8.4% | 9.0% | 8.7% |
| Effective tax rate % | 46.0% | 51.9% | 42.6% | 39.1% | 35.7% |
| ROE (%) | 9.8% | 10.3% | 12.0% | 13.3% | 14.4% |
| ROA (%) | 2.2% | 1.9% | 1.8% | 1.9% | 2.0% |
| Dividend payout % | 30% | 36% | 35% | 35% | 35% |
| | | | | | |
| **Liquidity** | | | | | |
| Free cashflow (RMB mn) | (1,101) | (2,530) | 1,397 | (1,051) | (439) |
| Total debt - total equity | 127.3% | 140.8% | 149.8% | 163.2% | 174.2% |
| Net debt - total equity | 61.8% | 62.7% | 65.4% | 68.6% | 68.2% |
| Interest coverage | 1.0 | 1.3 | 1.3 | 1.3 | 1.2 |

# Investment Ratings

| Industry Rating | Definition |
|---|---|
| OVERWEIGHT | Expect sector to outperform the market over the next 12 months |
| NEUTRAL | Expect sector to perform in-line with the market over the next 12 months |
| UNDERWEIGHT | Expect sector to underperform the market over the next 12 months |

| Company Rating | Definition |
|---|---|
| BUY | Expect stock to generate 10%+ return over the next 12 months |
| NEUTRAL | Expect stock to generate +10% to -10% over the next 12 months |
| SELL | Expect stock to generate loss of 10%+ over the next 12 months |

## Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

## Regulatory Disclosure

Please refer to the important disclosures on our website http://www.newone.com.hk/cmshk/en/disclosure.html.

## Disclaimer

## Important Disclosures for U.S. Persons

This research report was prepared by CMS HK, a company authorized to engage in securities activities in Hong Kong. CMS HK is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution solely to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 20 Broad Street 26th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through CMS HK. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

### Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

### Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither CMS HK nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

CMS HK may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of CMS HK.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by CMS HK with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of CMS HK and CMS HK accepts no liability whatsoever for the actions of third parties in this respect.

**Hong Kong**

China Merchants Securities (HK) Co., Ltd.

Address: 48/F, One Exchange Square, Central, Hong Kong

Tel: +852 3189 6888 Fax: +852 3101 0828