



Asia  
China

HY Corporate Credit  
Real Estate

Company  
**China Aoyuan  
Property Group Ltd**

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## Buy CAPG 2020s on recent bond price weakness

### Initiate on CAPG 2020s with Buy

After the past few weeks' bond price weakness and recent heavy supply in the China property HY space (by our tally, over USD20bn of YTD gross issuance), we believe China Aoyuan 2020s (ask price: 100.6, YTW: 6.1%, Z-sprd: 441bp) look attractive for a 3-year paper and initiate on them with a Buy recommendation. These bonds (rated B2/B-/BB- by Moody's/S&P/Fitch) have dropped over 3ppt from its YTD highs in dollar price. CAPG 2020s provide a Z-spread pick-up of 36bp to CAPG 2019s (ask price: 101.5, YTW: 5.6%) for an extension of 8.5 months in maturity. We have witnessed a widening of the single-B space following higher-than-expected supply of China property HY bonds (especially with the mega-size Evergrande issuance last month), tighter credit environment onshore, and news on Wanda. Aoyuan has shown good improvements in operating scale and disciplined landbanking strategy, which we like and believe this is one of the names to add upon weakness.

### Good overseas execution and robust YTD contract sales

According to CRIC data, Aoyuan achieved RMB16.5bn of property sales in 1H17 (ranked #47 in property sales amount in China), up 57% YoY, or on an attributable basis, RMB14.0bn (ranked #52). Though there could be some discrepancy between CRIC's data and the company's official figures, the trend is still quite encouraging. Aoyuan's Australia execution has been satisfactory, after its entrance in Sydney in 2015 with the One30 Hyde Park Project. Subsequently, its other projects have achieved high sell-through ratios in Australia. In March of this year, Aoyuan acquired a 90% stake in its first project in Canada (in Vancouver) for RMB161mn. Furthermore, Aoyuan's total landbank was approximately 13.8 mn sq m of GFA, which we estimate as sufficient for about four years' development.

### Potential beneficiary of Guangdong-Hong Kong-Macau Greater Bay Area

Aoyuan's landbank has meaningful exposure to the Big Bay Area in China and it could benefit from developments in the area.

### Bond recommendations and risks

We like China Aoyuan as it is growing as a developer and has managed a good balance between growth and leverage. We recommend buying its 2020 bonds, which offer over 6% yield for short-dated paper. Downside risks to our call include more aggressive land acquisitions than expected, tougher property policy, and faster US rate hikes. Upside risks include better-than-expected sales or margin, faster-than-expected credit rating upgrade from S&P, and stronger-than-expected policy and liquidity support.

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