

## Company Report

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

### China Aoyuan (3883 HK)

#### A better 2H17 with two positive catalysts

■ Aoyuan's 1H17 core profit +26% YoY, driven by +26% YoY revenue and improvements in GP margins

■ In 2H17, company's contracted sales is set to accelerate to RMB21.1bn (1H17: RMB16.5bn) as saleable resources will be +38% HoH to RMB43bn in 2H

■ The inclusion to SZ-HK Stock Connect should also support share price performance in near-term. Maintain BUY, TP HK\$3.71

#### Results highlight

Aoyuan's 1H17 core net profit (excluding fair value gains & one-off items) surged 27% YoY to RMB832mn, driven by +26% YoY increase in revenue. GP margin improved 1.9pp YoY to 26.9%, but offset by higher SG&A expenses. Core net profit margin was 10.2% in 1H17 (1H16: 10.1%). No interim dividends were declared, as in previous years.

#### Leveraged up

Company's net debts over shareholders' equity rose +41pp HoH/ +31pp YoY to 124% at Jun17, with net debts rose +55% HoH/ +43% YoY to RMB11.5bn (Jun17), due to its accelerated land acquisitions in 1H17 (+57% YoY in attributable RMB) and prepaid deposits.

#### 2H sales to accelerate

Aoyuan has achieved RMB16.5bn contracted sales in 6M17 (+57% YoY), and another RMB2.5bn in Jul17. Its sales should accelerate in remaining months as saleable resources will be +38% HoH to RMB43bn in 2H17. We expect company to achieve RMB21.1bn contracted sales in 2H (+38% HoH), based on sell-through rate of 49% (1H17: 49%).

#### Inclusion to SZ-HK Stock Connect

On 17 August, it is confirmed that the stock will be included for SZ-HK Stock Connect Southbound Link, effective from 4 Sep 2017. This should provide near-term support for share price. We maintain BUY on the stock, TP HK\$3.71 is set at 4.5x P/E on 18E EPS.

#### Financials

RMB mn	2015	2016	2017E	2018E	2019E
Revenue	9,572	11,827	18,701	26,758	35,263
Growth (%)	37.2%	23.6%	58.1%	43.1%	31.8%
Core profit	823	1,035	1,297	1,914	2,383
Growth (%)	11.8%	25.8%	25.3%	47.6%	24.5%
Core EPS (RMB)	0.30	0.38	0.49	0.72	0.89
CMS/consensus	-	-	102	113	105
Core P/E (x)	9.3	7.2	5.7	3.8	3.1
Dividend yield (%)	3.9	5.5	6.2	9.1	11.4
Net gearing (%)	88.1	83.2	73.9	70.6	73.0

Sources: Company data, CMS (HK) estimates

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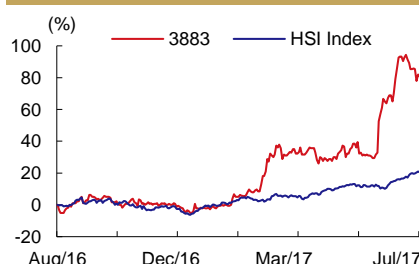
#### WHAT'S NEW

No change in rating/TP/estimates

#### BUY

Previous	BUY
Price	HK\$3.16
12-month Target Price (Potential up/downside)	HK\$3.71 (+17%)
Previous	HK\$3.71

#### Price Performance



Source: Bigdata

%	1m	6m	12m
3883 HK	5.7	68.1	83.7
HSI	3.9	13.7	19.6

Sector: Property	
Hang Seng Index	27409
HSCEI	10818

Key Data	
52-week range (HK\$)	1.65-3.55
Market cap (HK\$ mn)	8442
Avg. daily volume (mn)	5.37
BVPS (HK\$)	3.34

Shareholding Structure	
Guo's Family	54.11%
Cathay Capital	6.82%

No. of shares outstanding (mn)	2672
Free float	39.07%

Sources: Bloomberg, Big data

#### Related Research

1. China Aoyuan (3883 HK) – Progressing and prospering (2017/07/10)

## 1H17 results review

Aoyuan's 1H17 core net profit (excluding fair value gains & one-off items) was up 27% YoY to RMB832mn, driven by +26% YoY increase in revenue. Property sales revenue was +22% YoY to RMB7.7bn, with GFA delivered was +35% YoY to 1.11mn sqm, offset by -10% YoY in booked ASP to RMB6,914psm. The decrease in booked ASP was a result of product mix, as revenue from higher-ASP retail shops and commercial apartments reduced from 39.6% in 1H16 to 25.2% in 1H17.

GP margin improved by +1.9pp YoY to 26.9% in 1H17 thanks to gross profit margin of residential apartments with largest share increased by +2.9pp from 1H16. The GP margin recovery was offset by higher SG&A expenses. As a result, core net profit margin improved by 0.1pp to 10.2% in 1H17 (1H16: 10.1%).

No interim dividends were declared, as in previous years.

Figure 1: Summary P&L

RMB mn	1H16	1H17	YoY
<b>Revenue</b>	<b>6,480</b>	<b>8,154</b>	<b>+26%</b>
- Property development	6,306	7,675	+22%
- Property investment	45	51	+12%
- Property mgt & others	128	429	+236%
COGS	(4,857)	(5,963)	+23%
<b>Gross profit</b>	<b>1,622</b>	<b>2,191</b>	<b>+35%</b>
Other income	(120)	30	-124%
Fair value gain on invest prop	130	142	+10%
Selling exp	(192)	(346)	+80%
Admin exp	(238)	(332)	+40%
Finance costs (net)	(79)	(118)	+50%
JCEs	(11)	(39)	+250%
<b>Profit before tax</b>	<b>1,112</b>	<b>1,528</b>	<b>+37%</b>
Income tax	(511)	(669)	+31%
- Profits & deferred tax	(318)	(431)	+35%
- Land appreciation tax	(193)	(238)	+24%
<b>Profit for the year</b>	<b>601</b>	<b>858</b>	<b>+43%</b>
Minority interest	(10)	(108)	+943%
<b>Profit attr to shareholders</b>	<b>591</b>	<b>750</b>	<b>+27%</b>
Fair value gains on IP	(130)	(142)	+10%
Estimated tax on fair value gains	32	36	+10%
Exchange gain/loss	149	(143)	-196%
Others	10	331	+3109%
<b>Core net profit</b>	<b>653</b>	<b>832</b>	<b>+27%</b>

Sources: Company data, CMS (HK)

Figure 2: Cost/ ratios analysis

As % of revenue	1H16	1H17
GP margin	25.0	26.9
Other income & disposals	(1.9)	0.4
Fair value gains	2.0	1.7
Selling exp	(3.0)	(4.2)
Admin exp	(3.7)	(4.1)
Fin costs	(1.2)	(1.4)
Asso & JCEs	(0.2)	(0.5)
LAT	(3.0)	(2.9)
Profits tax	(4.9)	(5.3)
Minority interest	(0.2)	(1.3)
Non-recurring items	1.0	1.0
U/L net margin	10.1	10.2

Sources: Company data, CMS (HK)

Net gearing ratio increased by +41pp HoH/ +31pp YoY to 124% at Jun17, with net debts rose +55% HoH/ +43% YoY to RMB11.5bn, due to its accelerated land acquisitions in 1H17 (+57% YoY to RMB8.3bn on attributable basis) and prepaid deposits for project acquisitions. It is expected net gearing to ease to 90-100% by end-17.

Figure 3: Balance sheet/ net gearing ratios

RMB mn	Dec-14	Jun-15	Dec-15	Jun-16	Dec-16	Jun-17
S-term debts	4,464	4,091	2,570	4,111	4,506	9,761
L-term debts	7,033	9,707	13,727	14,177	13,875	16,565
Gross debts	11,497	13,798	16,298	18,289	18,380	26,326
Cash	1,989	4,154	7,769	10,186	10,471	13,734
Restricted cash	3,928	2,577	1,267	25	486	1,080
Net debts	5,580	7,067	7,262	8,077	7,424	11,512
Shareholders' equity	7,719	8,006	8,243	8,636	8,918	9,264
Net gearing ratios	72%	88%	88%	94%	83%	124%
Unrestricted cash to s-term debts (x)	0.4	1.0	3.0	2.5	2.3	1.4

Sources: Company data, CMS (HK)

Company has achieved RMB16.5bn contracted sales in 1H17, and another RMB2.5bn in Jul17. Contracted sales should accelerate in 2H17, as saleable resources in 2H17 will be +38% HoH to RMB43.1bn. Our RMB37.6bn 17E contracted sales forecast for the full-year is based on RMB16.5bn achieved in 1H and RMB21.1bn expected in 2H based on sell-through rate of 49% (1H17: 49%).

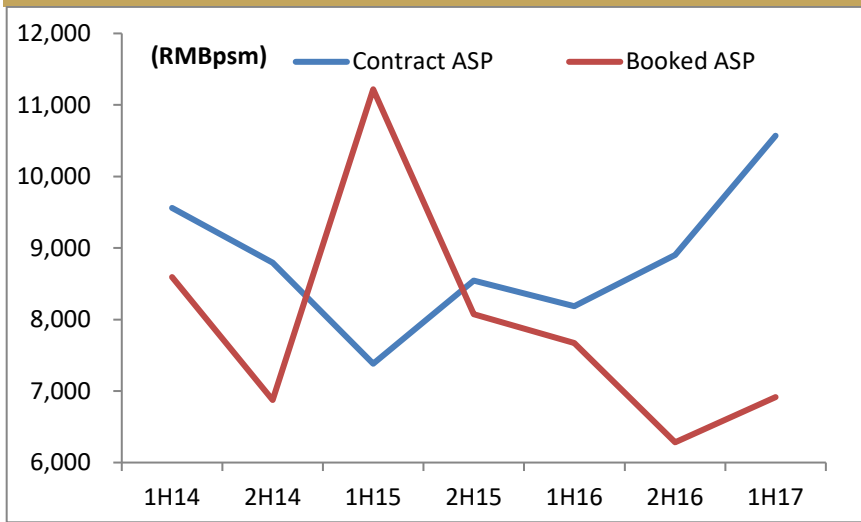
Figure 4: Saleable pipeline

(RMBbn)	Inventory b/f	New saleable	Total saleable	Contract sales	Sell-thru rate (%)
FY16	?	?	39.6	25.0	63%
1H17	14.6	19	33.6	16.5	49%
2H17E	17.1	26.0	43.1	21.1*	49%

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

Contracted ASP of RMB10,569psm in 1H17 is 53% higher than the booked ASP of RMB6,914psm in 1H17, which suggests upside on GP margin (1H17: 26.9%). We estimate GP margin for the full-year 17E to be 27.2%.

Figure 5: Booked ASP vs contracted ASP

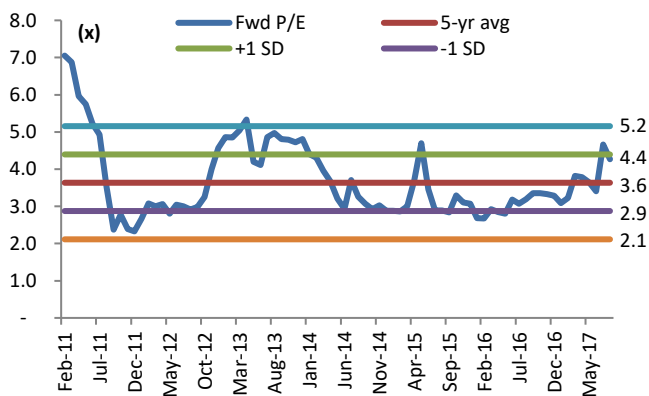


Source: Company data, CMS (HK)

Stock is currently trading at 5.7x/ 3.8x P/E on FY17E/ 18E EPS. The inclusion into SZ-HK Stock Connect effective from 4 Sep 2017 should provide support to share price performance in the near-term.

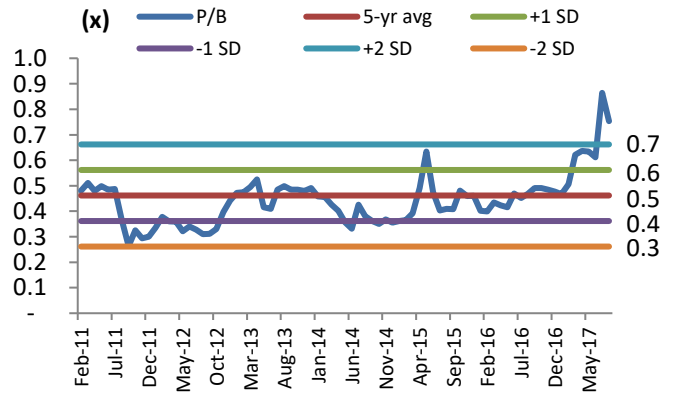
Our TP of HK\$3.71 is set at 4.5x target P/E on 18E EPS. Maintain BUY.

Figure 6: Aoyuan's 1-year fwd P/E



Source: Company data, Bloomberg, CMS (HK)

Figure 7: Aoyuan's P/B ratio



Source: Company data, Bloomberg, CMS (HK)

Figure 8: China property valuation summary

Company	Ticker	Rating	Curr. Price (HK\$)	Target price (HK\$)	Upside	17E P/E (x)	18E P/E (x)	19E P/E (x)	17E div yld (%)	18E div yld (%)	19E div yld (%)
<b>H-Large caps</b>											
COLI	688 HK	Under review	25.30	U-R	N/A	8.2	7.3	6.7	3.7	4.1	4.5
Longfor	960 HK	Buy	18.56	20.55	11%	9.1	6.8	5.3	4.4	5.9	7.6
Ctry Garden	2007 HK	Neutral	9.34	6.63	N/A	12.3	9.2	7.3	2.8	3.8	4.8
CRLand*	1109 HK	N-R	22.80	N/A	N/A	8.3	7.1	6.3	3.5	4.1	4.6
Vanke H*	2202 HK	N-R	21.80	N/A	N/A	8.2	7.0	6.2	5.0	5.8	6.5
<b>Average</b>						<b>9.0</b>	<b>7.3</b>	<b>6.2</b>	<b>4.0</b>	<b>4.9</b>	<b>5.8</b>
<b>H-Mid caps</b>											
Yuzhou	1628 HK	Buy	4.50	4.99	11%	6.2	4.6	4.2	5.7	6.3	7.0
Aoyuan	3883 HK	Buy	3.16	3.71	17%	5.5	3.7	3.0	6.4	9.3	11.7
Agile*	3383 HK	N-R	8.20	N/A	N/A	7.1	6.1	5.5	4.9	5.5	6.0
Shimao*	813 HK	N-R	13.46	N/A	N/A	5.8	5.0	4.5	5.4	6.2	6.8
Sunac*	1918 HK	N-R	18.48	N/A	N/A	22.7	10.3	7.2	1.3	2.3	3.4
R&F*	2777 HK	N-R	15.26	N/A	N/A	5.8	5.2	4.7	6.3	6.8	7.5
KWG*	1813 HK	N-R	5.39	N/A	N/A	4.2	3.8	3.4	7.4	8.3	9.4
Sino Ocean*	3377 HK	N-R	4.10	N/A	N/A	7.3	6.2	5.6	4.7	5.3	6.1
Shui On*	272 HK	N-R	1.80	N/A	N/A	6.6	7.1	6.1	2.4	2.4	2.8
<b>Average</b>						<b>7.9</b>	<b>5.8</b>	<b>4.9</b>	<b>4.9</b>	<b>5.8</b>	<b>6.7</b>
<b>A-Large caps</b>			<b>(RMB)</b>								
Vanke A*	000002 CH	N-R	21.86	N/A	N/A	9.5	8.1	7.1	4.3	5.0	5.6
Poly A*	600048 CH	N-R	9.89	N/A	N/A	7.6	6.5	5.8	3.9	4.4	4.9
<b>Average</b>						<b>8.5</b>	<b>7.3</b>	<b>6.4</b>	<b>4.1</b>	<b>4.7</b>	<b>5.3</b>
<b>A-Mid caps</b>											
Hebei Fortune*	600340 CH	N-R	32.16	N/A	N/A	11.4	8.6	6.9	2.4	3.1	3.5
Gemdale*	600383 CH	N-R	11.14	N/A	N/A	8.8	7.9	6.8	4.9	5.4	6.1
Financial Street*	000402 CH	N-R	11.20	N/A	N/A	10.6	8.6	7.4	4.0	4.7	5.8
Risesun*	002146 CH	N-R	10.68	N/A	N/A	9.5	8.0	7.1	3.9	4.7	5.5
Jinke*	000656 CH	N-R	5.06	N/A	N/A	14.7	12.7	10.3	0.6	0.7	-
Tahoe*	000732 CH	N-R	16.21	N/A	N/A	8.2	6.3	8.7	-	-	-
<b>Average</b>						<b>10.5</b>	<b>8.7</b>	<b>7.9</b>	<b>2.6</b>	<b>3.1</b>	<b>3.5</b>

\*Bloomberg consensus. Price valuation as of 16 August 2017 market close. Source: Company data, Bloomberg, CMS (HK) estimates

## Financial Summary

### Balance Sheet

RMB mn	2015	2016	2017E	2018E	2019E
<b>Non-current assets</b>	<b>5,629</b>	<b>6,589</b>	<b>7,106</b>	<b>7,625</b>	<b>8,134</b>
Property, plant and equipment	15	15	15	15	15
Prepaid lease payments	494	506	526	546	566
Investment properties	4,505	5,425	5,925	6,425	6,925
Asso & JCEs	217	164	165	164	154
Others	398	480	475	475	475
<b>Current assets</b>	<b>43,198</b>	<b>59,829</b>	<b>71,686</b>	<b>87,307</b>	<b>105,672</b>
Property inventories	31,792	43,660	52,732	63,352	76,181
Receivables	1,753	3,604	7,475	12,353	18,499
Cash	7,769	10,471	9,347	9,431	8,779
Other current assets	1,883	2,094	2,132	2,172	2,213
<b>Total assets</b>	<b>48,826</b>	<b>66,418</b>	<b>78,792</b>	<b>94,932</b>	<b>113,807</b>
<b>Current liabilities</b>	<b>22,770</b>	<b>36,143</b>	<b>49,971</b>	<b>66,111</b>	<b>84,249</b>
Payables	15,172	27,318	42,231	57,643	75,308
Borrowings	2,570	4,506	3,422	4,150	4,623
Others	5,028	4,318	4,318	4,318	4,318
<b>Long-term liabilities</b>	<b>14,481</b>	<b>15,645</b>	<b>14,403</b>	<b>13,675</b>	<b>13,202</b>
Borrowings	13,727	13,875	12,633	11,905	11,432
Others	754	1,770	1,770	1,770	1,770
<b>Total liabilities</b>	<b>37,251</b>	<b>51,787</b>	<b>64,374</b>	<b>79,786</b>	<b>97,452</b>
Share capital	26	25	25	25	25
Reserves	8,216	8,893	8,399	8,672	9,282
Minority interests	3,333	5,713	5,994	6,449	7,048
<b>Total equity</b>	<b>11,576</b>	<b>14,631</b>	<b>14,418</b>	<b>15,146</b>	<b>16,355</b>
<b>Equity &amp; liabilities</b>	<b>48,827</b>	<b>66,418</b>	<b>78,792</b>	<b>94,932</b>	<b>113,807</b>
<b>Non-current assets</b>	<b>5,629</b>	<b>6,589</b>	<b>7,106</b>	<b>7,625</b>	<b>8,134</b>

### Cashflow Statement

RMB mn	2015	2016	2017E	2018E	2019E
<b>Operating cashflow</b>	<b>(3,023)</b>	<b>5,945</b>	<b>2,122</b>	<b>1,058</b>	<b>538</b>
Net profit	1,884	2,085	2,992	4,510	5,626
Adjusting items	(57)	183	152	138	150
Working capital changes	(3,170)	6,092	1,943	(85)	(1,310)
Tax & interest paid	(1,681)	(2,415)	(2,965)	(3,505)	(3,928)
<b>Investing cashflow</b>	<b>(924)</b>	<b>(4,069)</b>	<b>(520)</b>	<b>(520)</b>	<b>(520)</b>
Capital expenditure	(662)	(4,658)	(500)	(500)	(500)
Other investments	(262)	588	(20)	(20)	(20)
<b>Financing cashflow</b>	<b>6,804</b>	<b>808</b>	<b>(2,726)</b>	<b>(454)</b>	<b>(670)</b>
Net borrowings	5,617	2,905	(1,508)	-	-
Dividends	(346)	(572)	(401)	(454)	(670)
Others	1,533	(1,525)	(817)	-	-
<b>Net cash flow</b>	<b>2,856</b>	<b>2,683</b>	<b>(1,124)</b>	<b>84</b>	<b>(652)</b>

### Profit & Loss Statement

RMB mn	2015	2016	2017E	2018E	2019E
<b>Revenues</b>	<b>9,572</b>	<b>11,827</b>	<b>18,701</b>	<b>26,758</b>	<b>35,263</b>
Cost of sales	(6,926)	(8,550)	(13,615)	(19,667)	(26,271)
Selling expenses	(489)	(592)	(937)	(1,340)	(1,766)
Administrative expenses	(402)	(489)	(774)	(1,124)	(1,481)
Other income/ loss	(131)	(231)	(231)	20	20
Fair value gains & disposals	323	310	-	-	-
Finance costs	(91)	(157)	(155)	(136)	(128)
Associates & JCEs	28	(32)	2	(1)	(10)
<b>PBT</b>	<b>1,884</b>	<b>2,085</b>	<b>2,992</b>	<b>4,510</b>	<b>5,626</b>
Taxes	(977)	(1,078)	(1,415)	(2,141)	(2,644)
<b>Profit after tax</b>	<b>907</b>	<b>1,007</b>	<b>1,577</b>	<b>2,369</b>	<b>2,982</b>
Minority interests	(95)	(126)	(281)	(455)	(599)
<b>Net profit</b>	<b>812</b>	<b>881</b>	<b>1,297</b>	<b>1,914</b>	<b>2,383</b>
Non-recurring items	11	154	-	-	-
<b>Core net profit</b>	<b>823</b>	<b>1,035</b>	<b>1,297</b>	<b>1,914</b>	<b>2,383</b>
<b>Adjusted EPS (RMB)</b>	<b>0.30</b>	<b>0.38</b>	<b>0.49</b>	<b>0.72</b>	<b>0.89</b>
<b>DPS (RMB)</b>	<b>0.11</b>	<b>0.15</b>	<b>0.17</b>	<b>0.25</b>	<b>0.31</b>
Div payout (%)	35.9	39.5	35.0	35.0	35.0

### Financial Ratios

	2015	2016	2017E	2018E	2019E
<b>Contracted sales</b>					
Contracted sales (RMBm)	15,171	25,602	32,259	40,646	51,214
Sales growth (%)	24.1	68.8	26.0	26.0	26.0
<b>Growth YoY</b>					
Revenue (%)	37.2	23.6	58.1	43.1	31.8
Core profit (%)	11.8	25.8	25.3	47.6	24.5
<b>Profitability</b>					
GP margin (%)	27.6	27.7	27.2	26.5	25.5
Core profit margin (%)	8.6	8.8	6.9	7.2	6.8
<b>Balance sheets</b>					
Net debt / equity ratio (%)	88.1	83.2	73.9	70.6	73.0
Adj. ROE (%)	8.9	9.2	12.3	14.9	20.6
Adj. ROA (%)	1.5	1.2	1.3	1.4	1.7
<b>Valuation analysis</b>					
Adj. P/E (x)	9.3	7.2	5.7	3.8	3.1
Adj. P/B (x)	0.9	0.9	0.9	0.8	0.8
Div yield (%)	3.9	5.5	6.2	9.1	11.4

Sources: Company data, CMS (HK) estimates

## 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

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