

China Aoyuan Property

1H17 Result beats expectation, core profit surged 36.8% yoy

Revenues surged by 25.8% yoy with GPM improved to 26.9%, core profit surged by 36.7% yoy.

1H17 revenue increased by 25.8% yoy to Rmb 8.2bn, beating our expectation of Rmb 7 bn. The profitability improvement is mainly contributed by higher GPM of residential project (improved 2.9 pts) and more commercial projects, which are higher GPM, booked in 1H17 (increased to 20.5% of total revenue). Thanks to GPM improvement by 1.8 pts to 26.9%, net profit surged by 30.9% yoy to Rmb 760 mn and core profit increased to Rmb 666 mn, up 36.8% yoy. This beats our core profit expectation of Rmb 500 mn. Core NPM also improved to 8.2%, up 0.7 pts.

Contracted sales in first 7 months surged by 62% yoy to Rmb 19 bn.

Sales from Jan. to July 2017 reached Rmb 19 bn. ASP is around 10,571 per sq.m. We believe Aoyuan will achieve its target by the end of this year, backed by RMB14.6 bn saleable resource in 2016 and RMB29.5 bn in 2017 with moderate sale-through rate of 62%. The company acquired 3.70 mn sq.m landbank in 1H2017; total landbank increased to 17.12 mn sq.m with average cost at only Rmb 1,992 per sq.m. We believe the low land cost will convert to be high margin in the future (land cost is only 18.8% of average land cost).

Aoyuan entered SZ-HK Stock Connect list, which will be effective on 4th September 2017

Aoyuan entered the next batch of HK-China Stock Connect list, which will enhance the stock' liquidity through enlarged investor base from China. This is positive for the stock in terms of liquidity. Mainland investors can trade Aoyuan's stock on 4th Sept 2017.

Funding cost lower to 7.6% in 1H17, from 8.1% at the end of 2016

As more construction expenditure in 1H increased net gearing from Rmb 7.4 bn 2016 to Rmb 11.7 bn, net gearing ratio increased by 13.6 pts to 64.3%, which is in line with our expectation. We believe the net gearing ratio will slightly improve to 61.9% in 2H17, thanks to more contracted sales in 2H17 (Golden Sept. & Silver Oct.) and less construction expense in 2H17.

Reiterate Buy and price target of HK\$3.65, 20% upside

Aoyuan is one of the most active developers whose biggest landbank in Greater Bay Area (58% of land bank located in Guangdong). High expectation of more immigrants from West Guangdong to Zhuhai, Zhongshan and Foshan will boost home prices in these cities, which is positive for Aoyuan. Moreover, we expect SZ-HK Stock Connect is a long-term support for the share price. What is more, we expect Aoyuan's to achieve high sales growth with decent GPM expectation in 2017. Therefore, we maintain target price of HK\$3.65, 50% of NAV discount to Dec-17 NAV, which implies 6.8x 2017 core PE and 5.0x 2018 core PE. The stock is trading at 58% discount to NAV, 5.7x 2017 core PE and 0.7x 2017e PB.

Stock code: 3883.HK

Rating: Buy

Price target (HK\$)	3.65
Current price (HK\$, 17 Aug 2017)	3.03
Upside/downside %	20%
Market cap (HK\$ m)	8,183
Market cap (US\$ m)	1,041
Avg daily turnover (HK\$ m)	21.98

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2016	2017e	2018e	2019e
Revenue	11,827	16,322	21,784	27,985
yoy %	24%	38%	33%	28%
Net profit	881	1,290	1,750	2,256
yoy %	8%	46%	36%	29%
Adjusted NP	678	1,290	1,750	2,256
yoy %	18%	90%	36%	29%
Gross margin	27.7%	28.3%	28.6%	28.3%
Net gearing	50.7%	61.9%	61.6%	57.9%
EPS	0.33	0.48	0.65	0.84
DPS	0.10	0.14	0.19	0.25
BPS	3.34	3.82	4.48	5.32

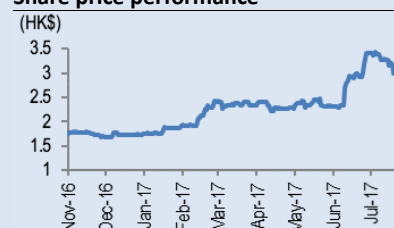
Source: Company data, AMTD Equity Research

Valuation

	2016	2017e	2018e	2019e
P/E	8.30	5.67	4.18	3.24
P/BV	0.82	0.72	0.61	0.51
Div. yield	5.5%	5.2%	7.0%	9.1%
ROA	1.5%	1.8%	2.0%	2.3%
ROE	10.3%	13.5%	15.8%	17.2%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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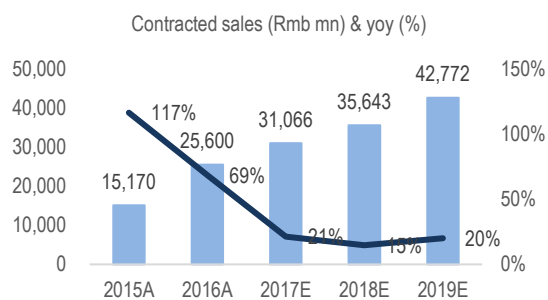
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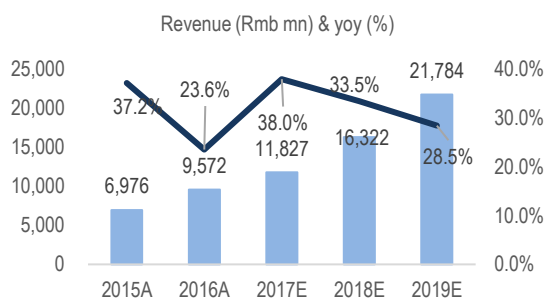
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Figure 1: Contracted Sales & yoy



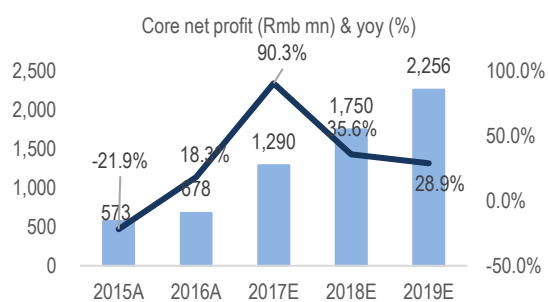
Source: Company Data, AMTD Equity Research

Figure 2: Revenue & yoy



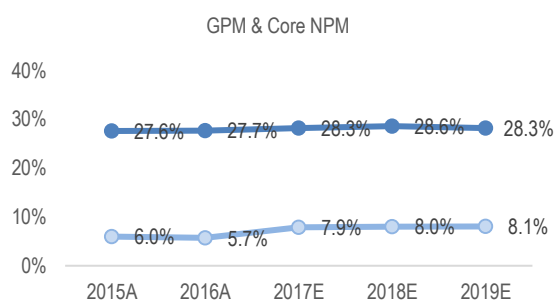
Source: Company Data, AMTD Equity Research

Figure 3: Core Net Profit & yoy



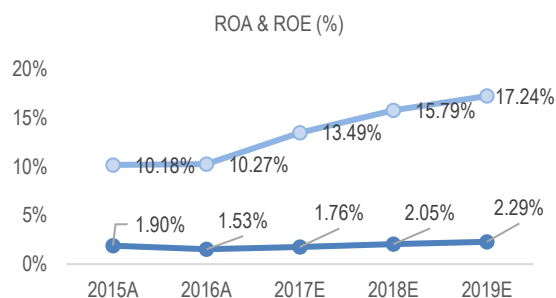
Source: Company Data, AMTD Equity Research

Figure 4: GPM & Core NPM



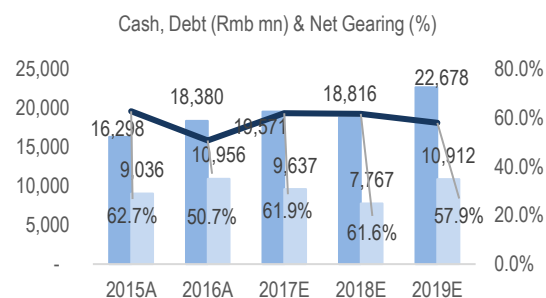
Source: Company Data, AMTD Equity Research

Figure 5: ROA & ROE



Source: Company Data, AMTD Equity Research

Figure 6: Cash, Debt & Net Gearing Ratio



Source: Company Data, AMTD Equity Research

Figure 7:P&L forecast and key ratios

PnL, RMB mn	2015	2016	2017e	2018e	2019e	YoY growth				
						2015	2016	2017e	2018e	2019e
Revenue	9,572	11,827	16,322	21,784	27,985	37.2%	23.6%	38.0%	33.5%	28.5%
Sale of properties	9,295	11,240	15,676	21,073	27,203					
Cost of sales	(6,926)	(8,550)	(11,711)	(15,544)	(20,074)					
Gross profit	2,646	3,277	4,611	6,240	7,910	28.0%	23.8%	40.7%	35.3%	26.8%
Selling expenses	(489)	(592)	(719)	(1,069)	(1,360)	28.8%	21.2%	21.4%	48.8%	27.2%
Administrative expenses	(402)	(489)	(594)	(927)	(1,283)	2.8%	21.8%	21.4%	56.1%	38.5%
Share of post-tax loss of an associate	-	-	-	-	-					
Share of post-tax (losses)/profits of joint ventures	28	(32)	(32)	(32)	(32)					
Finance costs	(91)	(157)	(157)	(168)	(161)	40.4%	72.1%	0.0%	6.5%	-3.9%
Profit before tax	1,884	2,085	2,879	3,814	4,843	30.1%	10.6%	38.1%	32.5%	27.0%
Income tax expense	(977)	(1,078)	(1,463)	(1,938)	(2,461)					
Profit for the year	907	1,007	1,416	1,876	2,382	15.9%	10.9%	40.6%	32.5%	27.0%
Profit for the year attributable to:										
Net profit	812	881	1,290	1,750	2,256	0.3%	8.5%	46.4%	35.6%	28.9%
Core net profit	573	678	1,290	1,750	2,256	21.9%	18.3%	90.3%	35.6%	28.9%
Non-controlling interests	95	126	126	126	126					
Dividends	245	259	379	515	664					
	50	142	-	-	-					
EPS - basic										
EPS-underlying	0.29	0.33	0.48	0.65	0.84					
DPS - basic	0.21	0.25	0.48	0.65	0.84					
BVPS	0.11	0.15	0.14	0.19	0.25					
Key Ratios, RMB mn	2015	2016	2017e	2018e	2019e					
GPM	29.6%	27.6%	27.7%	28.3%	28.6%					
NPM	11.6%	8.5%	7.4%	7.9%	8.0%					
Core NPM	10.5%	6.0%	5.7%	7.9%	8.0%					
ROA	2.2%	1.9%	1.5%	1.8%	2.0%					
ROCE	3.9%	3.4%	2.9%	3.8%	4.8%					
ROE	10.5%	10.2%	10.3%	13.5%	15.8%					
Total Debt / EBITDA	7.9x	8.6x	8.2x	6.4x	4.7x					
Total Debt / Equity	127.3%	140.8%	125.6%	122.0%	105.0%					
Total Debt / Capitalization	56.0%	58.5%	55.7%	54.9%	51.2%					
Net Debt / EBITDA	3.8x	3.8x	3.3x	3.3x	2.8x					
Net Debt / Equity	61.8%	62.7%	50.7%	61.9%	61.6%					
Net Debt / Capitalization	27.2%	26.1%	22.5%	27.9%	30.1%					
Current Ratio	162.7%	189.7%	165.5%	144.1%	148.5%					
Cash / Total Assets	16.1%	18.5%	16.5%	12.0%	8.6%					
Inventory / Total Assets	55.7%	65.3%	66.1%	73.5%	78.7%					
Net debt / Net Inventory	27.2%	22.8%	16.9%	16.9%	15.5%					
Quick Ratio	133.6%	150.0%	135.2%	125.2%	134.8%					
Cash Ratio	29.0%	39.7%	30.3%	18.9%	13.7%					
Interest Coverage	1.2x	1.4x	1.3x	1.7x	2.1x					

Source: Company data, AMTD Equity Research

Figure 8: Balance sheet forecast & Cash flow forecast

Balance Sheet, RMB mn	2015	2016	2017e	2018e	2019e
Non-current assets	5,629	6,589	6,589	6,589	6,589
Current assets	43,198	59,830	73,477	84,177	100,003
Properties held under development	31,792	43,487	58,453	71,024	83,704
Pledged bank deposits	1,267	486	486	486	486
Bank balances and cash	7,769	10,471	9,152	7,281	10,427
Others	2,265	5,000	5,000	5,000	5,000
Current liabilities	22,770	36,143	51,000	56,693	62,495
Advanced proceeds received from customers	9,823	20,524	31,565	41,145	50,726
Senior note and bond	-	1,508	-	-	-
Borrowings	2,570	2,997	8,322	4,435	656
Others	10,376	11,113	11,113	11,113	11,113
Non-current liabilities	14,481	15,645	13,019	16,151	23,792
Borrowings	4,803	3,795	11,249	14,381	22,022
Senior notes	8,924	10,079	-	-	-
Others	754	1,770	1,770	1,770	1,770
Capital and reserves	8,243	8,918	10,208	11,958	14,214
Equity attributable to owners of the Company	3,333	5,713	5,839	5,964	6,090
Total equity	11,576	14,631	16,047	17,922	20,304
Cash Flow Statement, RMB mn	2015	2016	2017e	2018e	2019e
Operating activities					
Profit before income tax	1,884	2,085	2,879	3,814	4,843
Operating cash flows before movements in working capital	1,827	2,268	3,036	3,981	5,004
Increase in inventories	-	(26)	-	-	-
Increase in properties for sale	(4,908)	(1,676)	(14,967)	(12,571)	(12,680)
Increase in deposits paid for acquisition of land use rights	-	(147)	-	-	-
(Increase) decrease in trade and other receivables	54	(1,705)	-	-	-
(Decrease) increase in trade and other payables	207	(365)	-	-	-
Increase in deposits received for sale of properties	1,478	10,012	11,041	9,580	9,581
Cash (used in) from operations	(1,342)	8,360	(889)	990	1,906
PRC Income tax paid	(480)	(880)	(1,463)	(1,938)	(2,461)
Interest paid	(1,201)	(1,535)	(1,614)	(1,719)	(1,652)
Net cash (used in) from operating activities	(3,023)	5,945	(3,966)	(2,667)	(2,208)
Net cash used in investing activities	(1,428)	(924)	(4,069)	(157)	(168)
Financing activities	6,006	5,245	6,394	7,567	8,298
New bank and other borrowings raised	(6,318)	(5,916)	(5,203)	(8,322)	(4,435)
Repayment of bank and other borrowings	6,804	808	2,804	964	5,515
Net cash from (used in) financing activities	2,856	2,683	(1,319)	(1,870)	3,146
Net increase in cash and cash equivalents	61	18	-	-	-
Effect of foreign exchange rate changes	4,852	7,769	10,471	9,152	7,281
Cash and cash equivalents at beginning of the year	7,769	10,471	9,152	7,281	10,427
Cash and cash equivalents at end of the year	6,006	5,245	6,394	7,567	8,298

Source: Company data, AMTD Equity Research

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Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

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