



Rating  
**Buy**

Asia  
China

Property  
Property

Company  
**Aoyuan**

Reuters 3883.HK    Bloomberg 3883 HK    Exchange HSI    Ticker 3883

Date  
2 January 2018

## Company Update

Price at 2 Jan 2018 (HKD)	4.95
Price target - 12mth (HKD)	7.00
52-week range (HKD)	5.23 - 1.60
HANG SENG INDEX	29,919

**Jeffrey Gao, CFA**    **Jason Ching, CFA**  
Research Analyst    Research Analyst  
(+852) 2203 6256    (+852) 2203 6205  
jeffrey.gao@db.com    jason.ching@db.com

**Stephen Cheung, CFA**  
Research Analyst  
(+852) 2203 6182  
stephen-a.cheung@db.com

**Foo Leung**  
Research Associate  
(+852) 2203 6239  
foo.leung@db.com

## Sales are on fire, earnings expected to follow suit

### Target price up to HKD7.00 with stronger-than-expected sales

We raise our target price for Aoyuan to HKD7.00 driven by: 1) better-than-expected sales of RMB45.6bn in 2017; 2) the new landbank acquisition in the last two months; and 3) higher sales and earnings estimates (raised FY18-19F earnings by 1-8%). We continue to favor the stock and reiterate it as one of our top picks among mid/small cap developers. The stock now trades at only 3.8x FY18F P/E and 65% discount to NAV (the cheapest name in our coverage), which we view is at a good defensive level compared with other small caps.

### Sales on fire in December, 2018F could further surprise on the upside

In December, Aoyuan recorded sales worth RMB11.2bn, making its full-year figure reach RMB45.6bn, up 78% y-y. We believe the company's strong sales momentum will continue to surprise on the upside; thus, we raise our 2018 sales forecast by 24% to RMB65bn.

### Quality M&As to help stable margin and asset turnover; potential redevelopment projects in Guangzhou/Zhuhai to be included in landbank

In the last two months, Aoyuan acquired another 1.5mn sqm of new projects, which contribute RMB12.8bn to saleable resources. Leveraging on its strong M&A capability (accounts for >80% of its landbanking since IPO), we believe it will remain proactive to acquire more projects via M&As (generate >30% gross margin and double-digit net margin), as well as expand its exposure in eastern and central regions. In addition, management expects two redevelopment sites in Zhuhai (1.46mn sqm GFA) and one in Guangzhou (310k sqm GFA) to likely be included into the landbank in 2018, which we estimate should add >RMB50bn to saleable resources.

### Significant earnings growth over next three years implies high ROE and dividend yield

With RMB55bn sold but unbooked revenue at end-2017 (after 2017F booking), we expect Aoyuan to achieve >50% earnings growth in 2018 and 2019, implying 24-29% ROE and 9-14% dividend yields over the next two years.

### One of the cheapest name under our coverage

Our TP is based on 50% of end-FY18F NAV of HKD14.00. The stock trades at 3.8x FY18F P/E and a 65% NAV discount, which we view as a good defensive level compared with other small-caps at 5-6x P/E and 40-50% NAV discounts. Key downside risks: 1) slower sales growth and 2) failure to acquire quality landbank.

### Key changes

TP	6.74 to 7.00	↑	3.9%
Op prof margin(FYE)	20.2 to 20.5	↑	1.5%
Net profit(FYE)	1,943.5 to 1,949.4	↑	0.3%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Aoyuan	14.6	13.5	198.2
HANG SENG INDEX	2.9	8.6	36.0

Source: Deutsche Bank

### Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	9,572.4	11,827.3	18,888.9	27,301.2	38,459.3
DB EPS FD (CNY)	0.34	0.45	0.68	1.08	1.63
DB EPS growth (%)	29.2	32.8	49.6	58.9	50.9
PER (x)	3.2	2.8	6.1	3.8	2.5
DPS (net) (CNY)	0.11	0.15	0.24	0.38	0.57
Yield (net) (%)	9.8	11.7	5.8	9.1	13.8

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/Hong Kong

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Model updated:02 January 2018

## Running the numbers

Asia

China

Property

## Aoyuan

Reuters: 3883.HK

Bloomberg: 3883.HK

## Buy

Price (2 Jan 18) HKD 4.95

Target Price HKD 7.00

52 Week range HKD 1.60 - 5.23

Market Cap (m) HKDm 13,249  
USDm 1,695

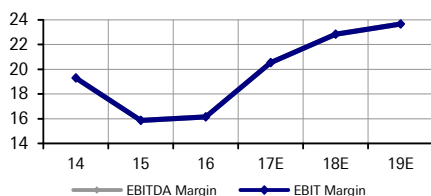
## Company Profile

Aoyuan was founded in 1996 and has been listed since October 2007. Aoyuan is regionally focused on the Pearl River Delta, Bohai Rim, Yangtze River Delta, the core region of Central and Western China, and Beibuwan, and has gradually developed overseas property markets, including Australia and Canada. As of 1H17, the company has a total land bank of 17msqm.

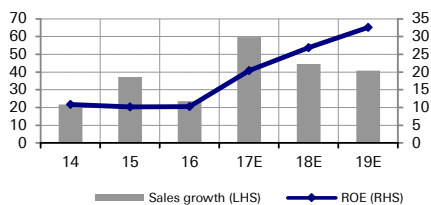
## Price Performance



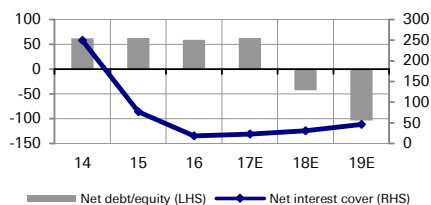
## Margin Trends



## Growth &amp; Profitability



## Solvency



Jeffrey Gao, CFA

+852 2203 6256

jeffrey.gao@db.com

Fiscal year end 31-Dec

## Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.26	0.34	0.45	0.68	1.08	1.63
Reported EPS (CNY)	0.29	0.29	0.32	0.73	1.13	1.67
DPS (CNY)	0.09	0.11	0.15	0.24	0.38	0.57
BVPS (CNY)	2.8	3.0	3.3	3.8	4.6	5.7
Weighted average shares (m)	2,784	2,784	2,728	2,673	2,677	2,677
Average market cap (CNYm)	2,354	3,005	3,496	11,041	11,041	11,041
Enterprise value (CNYm)	9,161	13,308	17,647	33,873	12,316	-5,321

## Valuation Metrics

P/E (DB) (x)	3.2	3.2	2.8	6.1	3.8	2.5
P/E (Reported) (x)	2.9	3.7	4.0	5.7	3.7	2.5
P/BV (x)	0.29	0.39	0.43	1.08	0.90	0.73
FCF Yield (%)	nm	nm	151.8	nm	214.1	181.9
Dividend Yield (%)	10.3	9.8	11.7	5.8	9.1	13.8
EV/Sales (x)	1.3	1.4	1.5	1.8	0.5	-0.1
EV/EBITDA (x)	6.8	8.8	9.2	8.7	2.0	-0.6
EV/EBIT (x)	6.8	8.8	9.2	8.7	2.0	-0.6

## Income Statement (CNYm)

Sales revenue	6,976	9,572	11,827	18,889	27,301	38,459
Gross profit	2,067	2,646	3,277	5,296	8,037	11,409
EBITDA	1,347	1,520	1,911	3,880	6,235	9,101
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	1,347	1,520	1,911	3,880	6,235	9,101
Net interest income/(expense)	-5	-20	-103	-168	-201	-197
Associates/affiliates	9	28	-32	36	-4	10
Exceptionals/extraordinaries	98	356	310	181	182	155
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,449	1,884	2,085	3,929	6,212	9,069
Income tax expense	666	977	1,078	1,864	2,758	3,675
Minorities	-26	95	126	115	432	925
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	809	812	881	1,949	3,022	4,470
DB adjustments (including dilution)	-73	139	357	-135	-136	-116
DB Net profit	736	951	1,238	1,814	2,886	4,354

## Cash Flow (CNYm)

Cash flow from operations	-1,581	-2,944	5,999	-6,728	23,837	20,538
Net Capex	-324	-867	-692	-780	-201	-453
Free cash flow	-1,905	-3,811	5,307	-7,507	23,636	20,085
Equity raised/(bought back)	1	0	-156	0	0	0
Dividends paid	-223	-292	-245	-635	-1,010	-1,524
Net inc/(dec) in borrowings	2,793	4,849	1,442	9,784	0	0
Other investing/financing cash flows	-306	2,111	-3,665	3,951	375	-1,328
Net cash flow	360	2,856	2,683	5,593	23,002	17,233
Change in working capital	-1,430	-3,170	6,092	-8,833	20,341	15,101

## Balance Sheet (CNYm)

Cash and other liquid assets	5,917	9,036	10,956	16,550	39,551	56,784
Tangible fixed assets	3,229	4,998	5,930	6,668	6,827	7,238
Goodwill/intangible assets	0	0	5	5	5	5
Associates/investments	88	292	173	195	192	202
Other assets	27,551	34,501	49,353	76,551	89,473	85,793
Total assets	36,786	48,827	66,418	99,969	136,047	150,021
Interest bearing debt	11,497	16,298	19,568	29,352	29,352	29,352
Other liabilities	16,254	20,953	32,219	50,159	82,784	94,206
Total liabilities	27,752	37,251	51,787	79,511	112,136	123,558
Shareholders' equity	7,719	8,243	8,918	10,233	12,245	15,191
Minorities	1,315	3,333	5,713	10,226	11,666	11,273
Total shareholders' equity	9,034	11,576	14,631	20,458	23,911	26,464
Net debt	5,580	7,262	8,611	12,802	-10,200	-27,432

## Key Company Metrics

Sales growth (%)	21.8	37.2	23.6	59.7	44.5	40.9
DB EPS growth (%)	5.7	29.2	32.8	49.6	58.9	50.9
EBITDA Margin (%)	19.3	15.9	16.2	20.5	22.8	23.7
EBIT Margin (%)	19.3	15.9	16.2	20.5	22.8	23.7
Payout ratio (%)	29.9	36.3	46.4	32.5	33.4	34.1
ROE (%)	10.8	10.2	10.3	20.4	26.9	32.6
Capex/sales (%)	4.6	9.1	5.9	4.1	0.7	1.2
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	61.8	62.7	58.9	62.6	-42.7	-103.7
Net interest cover (x)	249.6	77.1	18.6	23.1	31.0	46.2

Source: Company data, Deutsche Bank estimates



# Investment Thesis

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## Outlook

We raise our target price for Aoyuan to HKD7.00 on the back of: 1) better-than-expected sales of RMB45.6bn in 2017; 2) the new landbank acquisition in the last two months; and 3) higher sales and earnings estimates (raised FY18-19F earnings by 1-8%). We continue to favor the stock and reiterate it as one of our top picks among mid/small cap developers. The stock now trades at only 3.8x FY18F P/E and 65% discount to NAV (the cheapest name in our coverage), which we view is at a good defensive level compared with other small caps.

## Valuation

Our target price is based on 50% of end-FY18F NAV of HKD14.00/share. This comprises HKD9.04/share of development properties, HKD0.38/share of investment properties, and HKD4.58/share of net cash.

Our NAV estimate values the existing landbank and properties using a sum-of-the-parts methodology: 1) we use DCF to value the company's development properties, with a WACC of 11.7% (we apply a risk-free rate of 3.0%, beta of 2.0, risk premium of 6.0% and cost of debt of 7.6%); and 2) we use a cap-rate approach (5-9%) to value investment properties. We assume full prepayment of the land appreciation tax.

In terms of property price assumptions, we assume prices in T1, T2 and T3 cities should increase 5% in FY17 and remain flat thereafter.

Our target price implies 5.4x FY18F P/E (EPS: RMB1.08) and 1.5x FY17F P/B. The benchmark index for the stock is MSCI China.

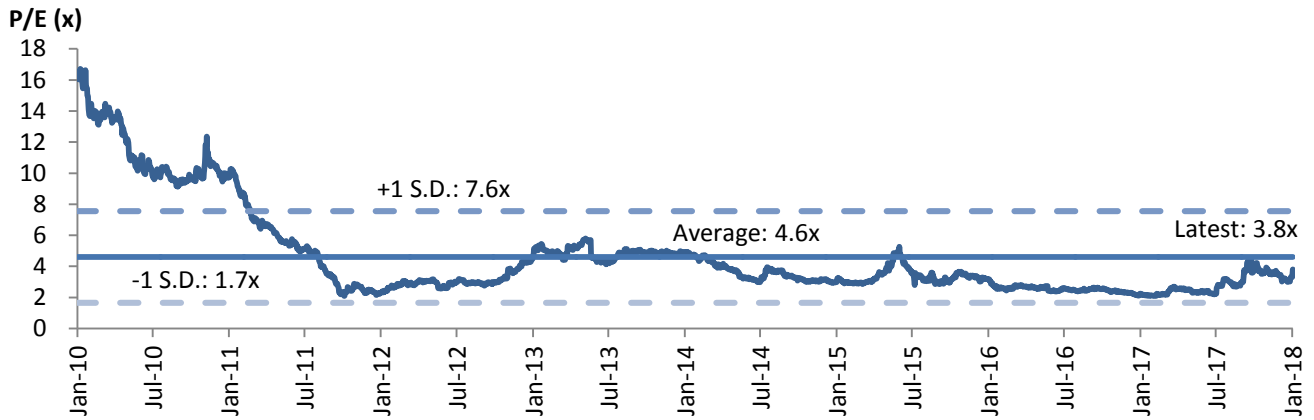
## Risks

**Macro risks:** The government's property tightening measures may be stricter than expected, resulting in volatility in housing transaction volumes, housing prices, land prices, and the financing available to developers and homebuyers. Unexpected economic fluctuations in the Chinese economy would also add risks to the sector.

**Company-specific:** The major downside risks are: 1) weaker sales due to further policy tightening; 2) faster margin contraction due to higher land prices; and 3) higher gearing due to aggressive land acquisitions.

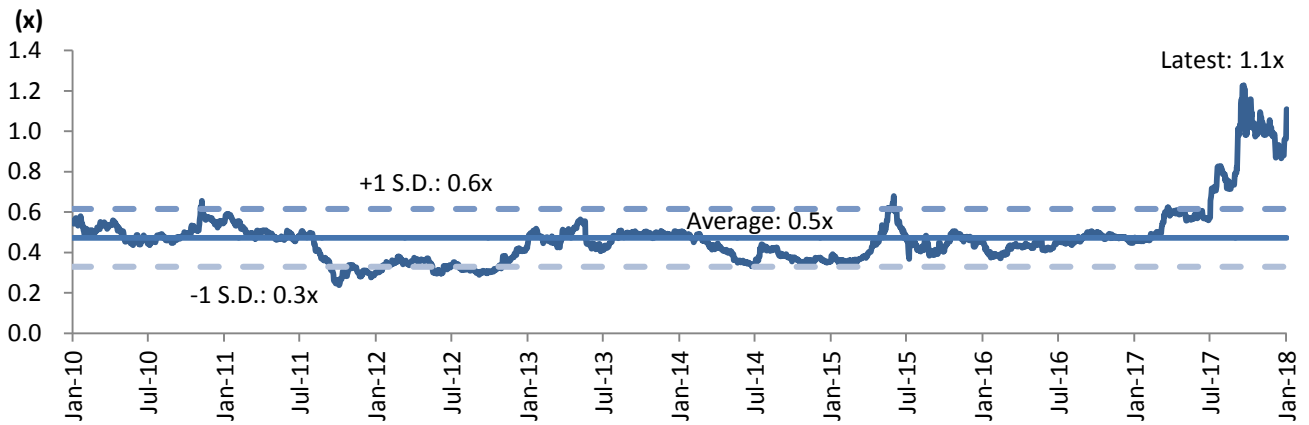


Figure 1: 12-month rolling forward P/E chart



Source: Bloomberg Finance LP, Company data, Deutsche Bank

Figure 2: P/B chart



Source: Bloomberg Finance LP, Company data, Deutsche Bank



# Appendix 1

## Important Disclosures

\*Other information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Aoyuan	3883.HK	4.95 (HKD) 2 Jan 18	1,7,13,14

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**Historical recommendations and target price: Aoyuan (3883.HK)**  
 (as of 1/2/2018)



**Previous Recommendations**

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

**Current Recommendations**

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9,2002

\*\*Analyst is no longer at Deutsche Bank

1. 26/10/2017: Upgrade to Buy, Target Price Change HKD6.74 Jeffrey Gao

**Equity rating key**

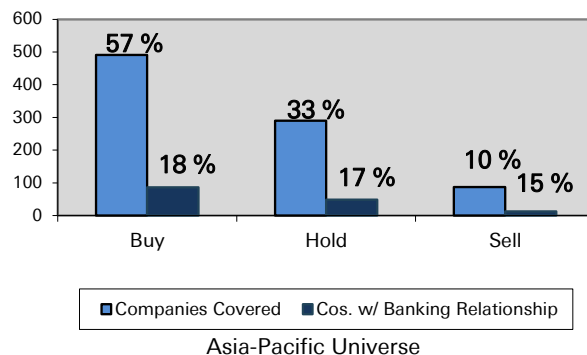
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

**Equity rating dispersion and banking relationships**





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## David Folkerts-Landau

Group Chief Economist and Global Head of Research

Raj Hindocha  
Global Chief Operating Officer  
Research

Michael Spencer  
Head of APAC Research  
Global Head of Economics

Steve Pollard  
Head of Americas Research  
Global Head of Equity Research

Anthony Klarman  
Global Head of  
Debt Research

Paul Reynolds  
Head of EMEA  
Equity Research

Dave Clark  
Head of APAC  
Equity Research

Pam Finelli  
Global Head of  
Equity Derivatives Research

Andreas Neubauer  
Head of Research - Germany

Spyros Mesomeris  
Global Head of Quantitative  
and QIS Research

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### International locations

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Mainzer Landstrasse 11-17  
60329 Frankfurt am Main  
Germany  
Tel: (49) 69 910 00

#### Deutsche Bank AG

Filiale Hongkong  
International Commerce Centre,  
1 Austin Road West, Kowloon,  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6770

#### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

#### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500

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