Monday, November 19, 2018

Company Report

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

China Aoyuan (3883 HK)

Our Top Pick in Greater Bay Area

- **Aoyuan has decent exposure in GBA and is expanding quickly across the country, as well as overseas**
- **Aoyuan has good track record in urban redevelopment and M&A, securing the cheap land bank to fuel its high growth**
- **With the fast sales growth and high earnings visibility, we expect a re-rating in the NT. Top Buy among GBA plays**

From GBA to the world

Aoyuan is a Guangzhou-based developer with nationalised strategy. As at Jun 2018, it has a total landbank of 30m sqm with 25% in GBA, 26% in South China, 24% in Central & Western China and 16% in East China. It has exposure in Canada and Australia. Total saleable resources amounted to >RMB300bn (32% in GBA). Aoyuan is experienced in urban redevelopment in GBA, with potential saleable resources of ~RMB130bn.

First runner-ups to hit RMB100bn sales

Aoyuan set an ambitious 2018 sales target at RMB73bn (+60% YoY). Its run rate already reached 93% in 10M2018, being the highest among GBA plays. We expect its contracted sales to exceed RMB100bn in 2019E, one year earlier than the peers with similar scale in 2017. More importantly, Aoyuan has maintained its attribution ratio at over 70%.

Decent earnings outlook + prudent financial management

Aoyuan's experience in GBA and M&A help secure the cheap land bank. We expect its GPM to maintain at 26-28% in 2018-20E. As at Jun 2018, Aoyuan has unrecognised sales of RMB77bn, securing the earnings in the next 1-2 years. Management aims to maintain the net gearing <80%, which is reasonable in our view.

Our Top pick for GBA plays

Aoyuan is deeply traded at 60% discount to NAV, 3x 2019E P/E, 9-14% 2018-20E dividend yield. With its sales successfully scaled up and the GBA policies continue to unveil, we expect a re-rating in the NT. We initiate Aoyuan as our top BUY among the GBA plays. Our TP of HK$7.2 is based on 40% discount to NAV, which is 0.5-SD below its historical average. Key risks: further policy tightening, overly aggressive expansion.

Financials

RMB mn	2016	2017	2018E	2019E	2020E
Revenue	11,827	19,115	29,653	43,804	60,732
Growth (%)	24%	62%	55%	48%	39%
Core profit	967	1,228	2,406	3,569	4,994
Growth (%)	13%	27%	96%	48%	40%
Core EPS (RMB)	0.36	0.46	0.90	1.33	1.87
vs consensus (%)	-	-	1%	7%	11%
DPS (RMB)	0.15	0.25	0.38	0.54	0.59
P/E (x)	11.2	9.0	4.5	3.2	2.3
ROE (%)	7%	5%	8%	11%	13%

Sources: Bloomberg, CMS (HK); share price as of 16 Nov 2018

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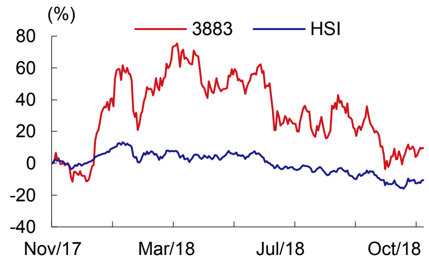
Initiation

BUY

Price	HK$4.75
12-month Target Price (Potential up/downside)	HK$7.2 (+52%)

Price Performance



Source: Bigdata

%	1m	6m	12m
3883 HK	8.0	(31.2)	3.4
HSI	2.8	(15.8)	(9.8)

Sector: Property	
Hang Seng Index	26184
HSCEI	10584
Key Data	
52-week range (HK$)	3.67-7.9
Market cap (HK$ mn)	12737
Avg. daily volume (mn)	13.45
BVPS (HK$)	4.01
Shareholding Structure	
GUO ZIWEN	55.32%
No. of shares outstanding (mn)	2682
Free float	44.68%

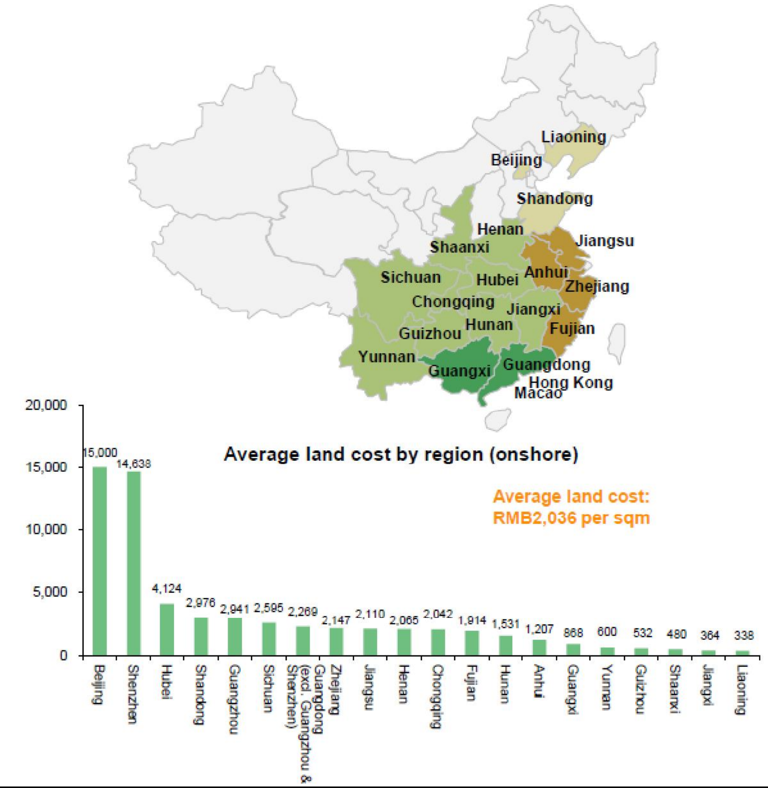
Sources: HKEx

Business overview

From Greater Bay Area to the world

Aoyuan is a relatively diversified play based in Guangzhou. As at Jun 2018, it has a total landbank of 30m sq m, of which 51% is located in South China (specifically, 25% in Greater Bay Area), 24% in Central & Western China, 16% in East China, 7% in North China, and 2% in Overseas (Australia, Canada, HK, Macao). In terms of saleable resources, Aoyuan has a total saleable resources of RMB328bn, of which 49% is located in South China (specifically, 32% in Greater Bay Area), 18% in Central & Western China, 18% in East China, 7% in North China, and 8% in Overseas.

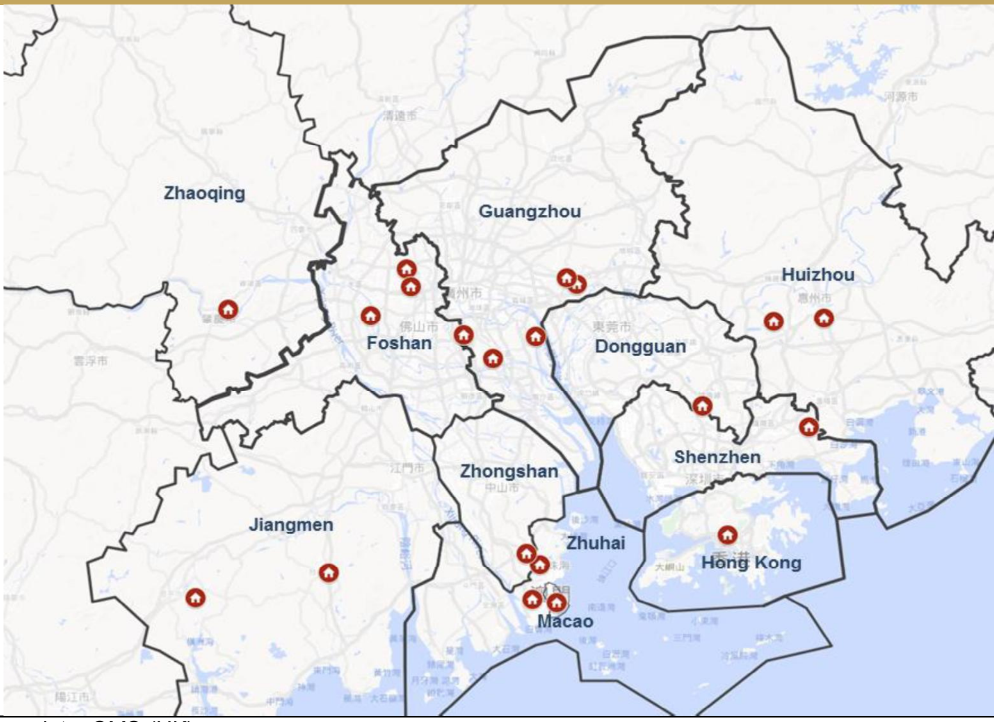
Figure 66: Aoyuan has 25% and 32% total landbank and saleable resources in GBA as at Jun 2018



Region	Province/ City	Contribution (by total GFA)	Total GFA ('000 sqm)	Expected Saleable Resources (RMB bn)
South China	Greater Bay Area		7,374	104.3
	Guangdong (excl. GBA)		3,694	24.0
	Guangxi (Nanning, Yulin, etc.)		4,349	30.8
	Subtotal	**51%**	**15,417**	**159.1**
Core region of Central & Western China	Chongqing		1,322	9.8
	Sichuan (Chengdu, etc.)		1,352	14.9
	Hunan (Changsha, Zhuzhou, etc)		2,444	17.3
	Hubei (Jingzhou)		333	3.6
	Shaanxi (Xi'an)		385	4.0
	Henan (Zhengzhou)		240	3.2
	Jiangxi (Ganzhou)		457	3.0
	Guizhou		302	1.2
	Yunnan (Kunming)		268	2.8
	Subtotal	**24%**	**7,103**	**59.8**
East China	Zhejiang (Ningbo, Jiaxing)		1,119	13.5
	Jiangsu (Nanjing, Yangzhou, etc.)		1,746	23.6
	Anhui (Bengbu,etc.)		947	12.8
	Fujian (Fuzhou, Quanzhou, etc.)		884	9.8
	Subtotal	**16%**	**4,696**	**59.7**
Bohai Rim	Liaoning (Shenyang)		1,386	9.0
	Beijing		176	4.8
	Shandong (Qingdao, etc.)		604	9.1
	Subtotal	**7%**	**2,166**	**22.9**
Offshore	Australia (Sydney)		328	9.8
	Canada (Toronto, Vancouver)		290	13.1
	Macao		8	1.0
	Hong Kong		5	2.1
	Subtotal	**2%**	**631**	**26.0**
	Grand total	**100%**	**30,013**	**327.5**

Sources: Company data, CMS (HK)

Figure 67: Aoyuan has full coverage in 11 cities in GBA



Sources: Company data, CMS (HK)

Figure 68: Aoyuan's key projects in Guangzhou

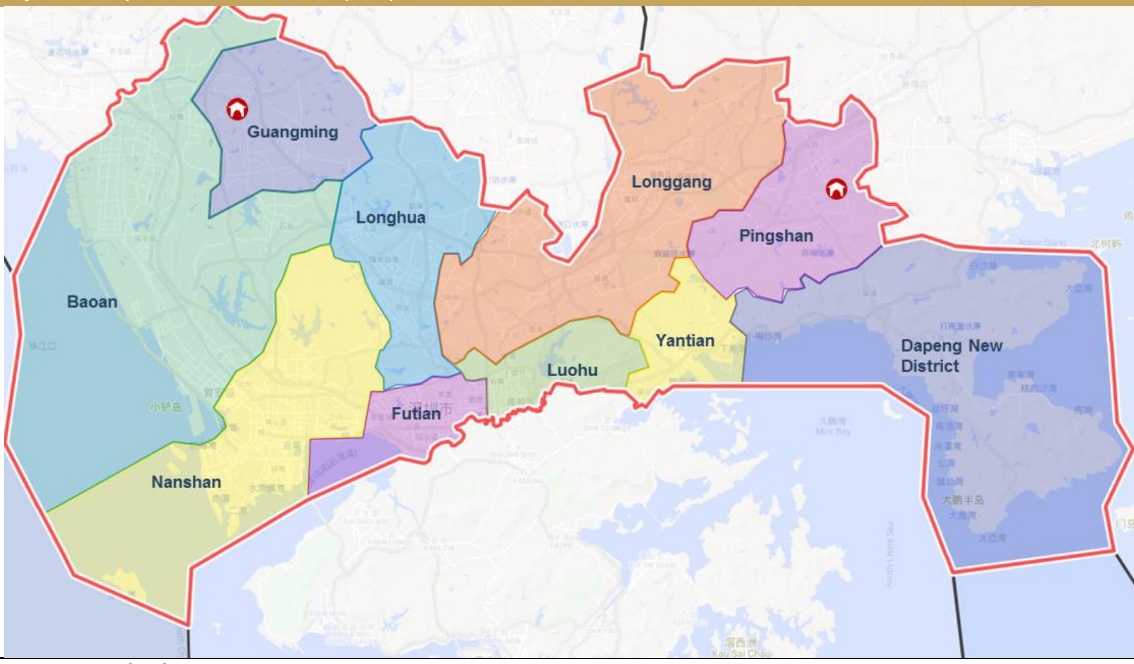
Project Name	Project Name (Chinese)	Attrib. GFA (sqm)	ASP (RMB/sqm)
Nanguo Aoyuan	广州南国奥园	147,922	30,312
›yuan International Center	广州奥园国际广场	130,801	19,270
Aoyuan Kangwei Plaza	广州奥园康威广场	113,777	15,000
›oyuan Glorious Mansion	广州奥园誉峰	138,263	21,500
Aoyuan Lianfeng State	广州奥园莲峰圣境	280,848	20,000

Sources: Company data, CMS (HK)

Differentiated land banking strategy

Differentiated strategy in T1/2 and T3/4 cities: In T1/2 cities, Aoyuan acquires land sites in peripheral areas, which are less prone to the impact of price cap. For example, its two projects, namely Shenzhen Aoyuan Jade Bay and Shenzhen Aoyuan SOHO, are located in Pingshan district and Guangming district respectively. In T3/4 cities, it only acquires land sites at core areas, which minimize the demand risk.

Figure 69: Aoyuan acquires land sites in peripheral areas in T1/2 cities - Shenzhen



Sources: Company data, CMS (HK)

Figure 70: Aoyuan acquires land sites in core areas in T3/4 cities - Huizhou

Sources: Company data, CMS (HK)

Long track record of M&A: Aoyuan acquired 65% of its land bank via M&A and 35% via public land auction. Since its IPO, it has acquired 156 projects with total GFA 38msqm for total land cost of RMB83bn. Unit land cost was merely RMB2,195/sqm.

Figure 71: Aoyuan has good track record on land banking

	No.	Avg. land cost (RMB/sqm)	Total GFA	Total cost (RMB mn)
2008	2	369	341,483	126
2009	4	876	3,583,868	3,138
2011	7	2,933	1,268,457	3,721
2012	8	2,178	1,874,914	4,084
2013	8	2,245	2,232,579	5,013
2014	8	1,715	2,657,445	4,557
2015	13	2,312	2,491,800	5,761
2016	17	3,170	3,138,700	9,950
2017	58	2,446	12,861,278	31,458
1H2018	31	2,065	7,270,742	15,017
Total	**156**	**2,195**	**37,721,266**	**82,825**

Sources: Company data, CMS (HK)

First-mover advantage in urban redevelopment: Aoyuan has over 20 years experience in property development in Guangdong province. It has secured 15 redevelopment projects at different phases with planned total GFA of ~8m sqm and estimated saleable resource of ~RMB129bn, which can increase its land bank and saelable resource by 27% and 39% respectively. We estimate these urban redevelopment can enlarge Aoyuan's NAV by 20%.

Figure 72: Aoyuan has 15 urban redevelopment projects

	Project	City	Type	Status	Site area ('000 sqm)	Planned total GFA ('000 sqm)	Estimated saleable GFA(' 000 mn)	Estimated saleable resources (RMB mn)
1	Guangzhou Panyu Nitrogen Fertilizer Plant	Guangzhou, Guangdong	Old factory	Redevelopment planning application	150	300	300	15,000
2	Zhuhai Cuiwei Village	Zhuhai, Guangdong	Old village	Approved as project developer by government	310	1,100	690	24,000
3	Zhuhai Shuiwengkeng Village	Zhuhai, Guangdong	Old village	Redevelopment planning application	80	230	130	5,300
4	Zhuhai Gongbei Lian'an Village	Zhuhai, Guangdong	Old village	Government approval; Compensation agreement	90	380	200	9,000
5	Zhuhai Gongbei Guanzha & Gaosha Village	Zhuhai, Guangdong	Old village	Government approval; Compensation agreement	120	570	260	11,700
6	Zhuhai Xiaxu Village	Zhuhai, Guangdong	Old village	Redevelopment planning application	140	450	300	10,500
7	Zhuhai Qianshan Anlian Road	Zhuhai, Guangdong	Old factory	Redevelopment planning application	10	80	80	2,300
8	Zhuhai Yafang Building	Zhuhai, Guangdong	Old factory	Redevelopment planning application	10	40	40	1,500
9	Zhuhai Pingsha Aoyuan Plaza	Zhuhai, Guangdong	Old factory	Redevelopment planning application	150	610	460	5,000
10	Dongguan Pailouji Village	Dongguan, Guangdong	Old village	Decision on early-stage partner	70	250	160	3,800
11	Dongguan Shimei Village	Dongguan, Guangdong	Old village	Redevelopment planning application	180	500	340	7,500
12	Nanning Nantang project	Nanning, Guangxi	Old village	Completed first phase of acquisition and demolition	280	720	720	8,700
13	Nanning Chendong Village	Nanning, Guangxi	Old village	Redevelopment planning application	1,050	2,370	1,570	20,400
14	Hebei Bazhou	Bazhou, Hebei	Old village	Redevelopment planning application	160	400	300	2,600
15	Hong Kong Robinson Road	Mid-levels, Hong Kong	Old building	Acquired more than half of the units	1	5	5	1,700
Total					**2,800**	**8,000**	**5,555**	**129,000**

Sources: Company data, CMS (HK)

Diversification and overseas land banking: Unlike many peers, Aoyuan has been proactive in expanding outside of GBA and even outside of China. It has completed its nationwide land bank exposure with 50/20/20/10 in South China/East China/Central & West China/North China & Overseas. It has full-coverage in GBA cities, including HK and Macao. Its debut launch in Australia and Canada received good response from local buyers. We believe Aoyuan's overseas expansion is an ambitious move, which can cater various goals i.e. 1) business diversification, 2) brand building (to homebuyers in overseas/China, as well as global investors), 3) additional financing source (all overseas projects are financed by local banks).

Figure 73: Aoyuan's overseas exposure

	Project name	Location	Product Type	land bank ('000 sqm)	Publishing date	Current Status	Total Units
			Hong Kong				
1	Hong Kong Ap Lei Chau Project	Hong Kong	Residential/villa	35	-	will publish	-
2	Hong Kong Kai Tak Project	Hong Kong	Residential	27	-	will publish	-
			Macau				
1	Macau S. Francisco Heights	Macau, China	High-rise apartments	7.8	-	will publish	-
			Australia				
1	One 30 Hyde Park Sydney	Sydney, Australia	High-rise apartments	15.0	2015	topping out	215
2	Maison 188 Maroubra Sydney	Sydney, Australia	Mid and high-rise apartments	5.8	2015	topping out	57
3	Mirabell Turramurra Sydney	Sydney, Australia	Mid and high-rise apartments	6.7	2015	topping out	79
4	Altessa 888 Gordon Sydney	Sydney, Australia	Mid and high-rise apartments	12.8	2017	constructing	144
5	Adela Burwood Sydney	Sydney, Australia	Mid and high-rise apartments	8.1	2017	presaling	107
6	Coomeroo Estate Sydney	Sydney, Australia	Villa planning	280.0	2017	presaling	-
			Canada				
1	The Granville Vancouver	Vancouver, Canada	Mid and high-rise apartments	5.5	-	will publish	-
2	Vancouver Burnaby Project	Vancouver, Canada	Mid and high-rise apartments	123.8	-	will publish	-
3	Vancouver Quebec Project	Vancouver, Canada	Mid and high-rise apartments	4.4	-	will publish	-
4	Toronoto North York Newtonbrook Project	Toronto, Canada	Mid and high-rise apartments	156.5	-	will publish	-

Sources: Company data, CMS (HK)

Earnings forecast

Ambitious sales target

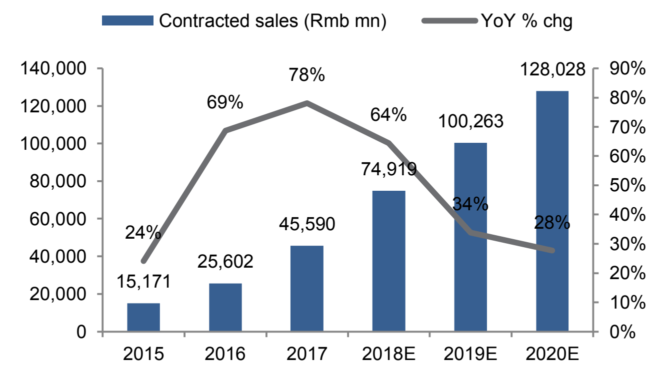
Aoyuan's contracted sales took off since 2017, rose 78% to RMB45.6bn, exceeding its original target by 38%. In Dec 17, Aoyuan recorded contracted sales of RMB11bn, +159% MoM, thanks to the sufficient saleable resources and strong sales force.

2018 sales target likely to reach one month earlier: Aoyuan sets its 2018 sales target at RMB73bn, implying 60% YoY growth. In 10M2018, its contracted sales has already reached RMB68bn, locking in 93% of its 2018 sales target. We expect its contracted sales may eventually reach RMB75bn in 2018E, implying 64% YoY growth.

Among the first runner-ups to hit the RMB100bn sales: Back in early 2017, a number of small-mid developers have been aiming for scaling up their busienss to over RMB100bn by 2020E. Based on Aoyuan's sales progress, we expect its contracted sales will reach RMB75/100/128bn in 2018-20E, which is one-year earlier than its schedule.

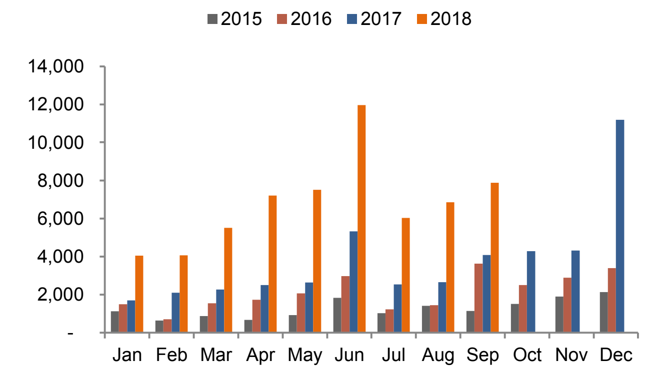
Attribution ratio 75-85%: Unlike its peers, Aoyuan does not aim at boosting its gross contracted sales by lowering its attribution ratio aggressively. For example, Aoyuan's 1H2018 core profit / 1H2018 contracted sales / land bank (as of Jun 18) are 83%/84%/81% attributable to the group. Management guided that the attribution ratio will be no less than 75% going forward.

Figure 74: Contracted sales to grow at 41% CAGR in 2018-20E



Sources: Company data, CMS (HK)

Figure 75: Contracted sales registered 137% YoY growth YTD



Sources: Bloomberg, CMS (HK)

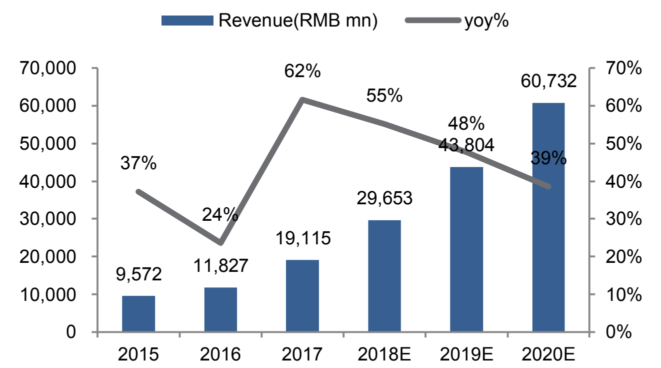
Robust revenue growth underpinned by booming contracted sales

Aoyuan's contracted sales grew by 69%/78%/143% YoY to RMB25.6/45.6/40.3bn in 2016/2017/1H18. Revenue also grew by 24%/62%/68% YoY to RMB11.8/19.1/13.7bn in 2016/2017/1H18. We expect its revenue to grow by 55%/48%/39% to RMB30/44/61bn in 2018-20E. As at Jun 18, unrecognised sales amounted to RMB77.6bn, assuming an attribution ratio of 80%, we estimate 80% of 2018-19E revenue has been secured.

Stable margin outlook

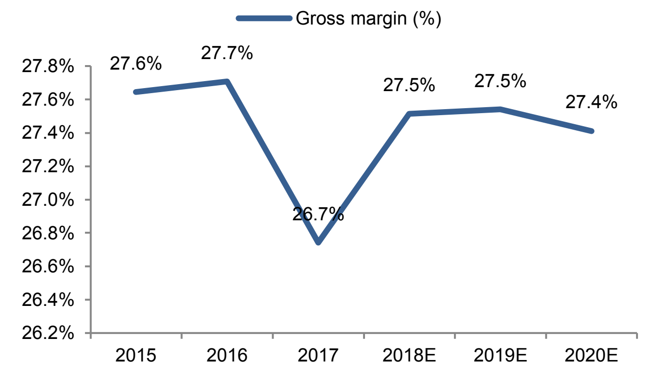
Aoyuan's gross margin expanded to 28.6% in 1H18, +1.7ppts YoY, thanks to the rising home price in Guangzhou and other cities in the Greater Bay Area. Management expects the gross margin to be sustained at 27-28% in 2018-20E, slightly higher than the 26-28% guidance before. We believe the gross margin guidance for 2018-19E is largely confirmed with the high earnings locked-in. Beyond 2020E, we expect gross margin can maintain at over 25%, after considering 1) Aoyuan's average land cost of RMB2,036/sqm accounts for only 19.9% of its contracted ASP of RMB10,231/sqm in 1H18, which is 30% higher than recognised ASP, 2) Aoyuan is still in an expansionary mode which would prioritize growth over margin, 3) government's price control is directing the overall spot margin level to around 25%.

Figure 76: Revenue to grow at 47% CAGR in 2018-20E



Sources: Company data, CMS (HK)

Figure 77: Gross margin to margin at 27-28% in 2018-20E



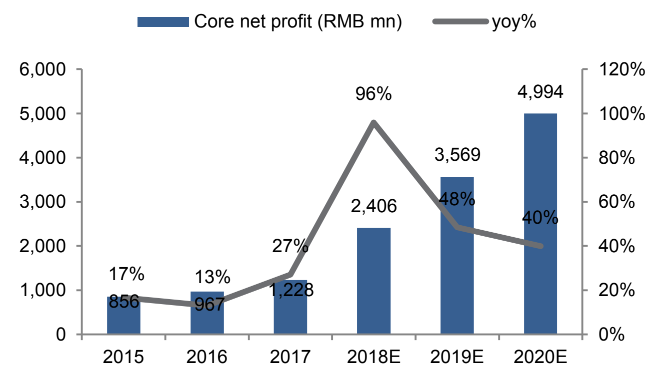
Sources: Company data, CMS (HK)

Core profit and dividend to grow by 60% and 33% CAGR

We expect Aoyuan's core profit to grow by 96%/48%/40% to RMB2.4/3.6/5.0bn in 2018-20E, mainly driven by strong sales growth. Core margin will be maintained at 8.1-8.2% in 2018-20E.

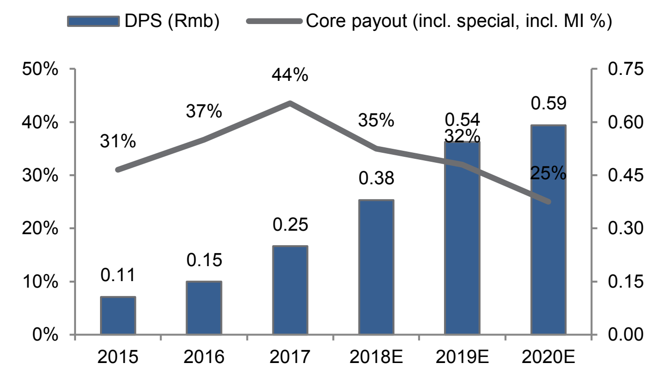
Aoyuan has been paying out 31-44% of its net profit (including minority interests) as dividends in 2015-17. Management expects the payout ratio to maintian at 25-35% in the long run. We expect Aoyuan's 2018-20E DPS will be RMB0.38/0.54/0.59, implying 9.3%/12.7%/13.8% dividend yield.

Figure 78: Core profit to grow at 60% CAGR in 2018-20E



Sources: Company data, CMS (HK)

Figure 79: DPS to grow at 33% CAGR in 2018-20E

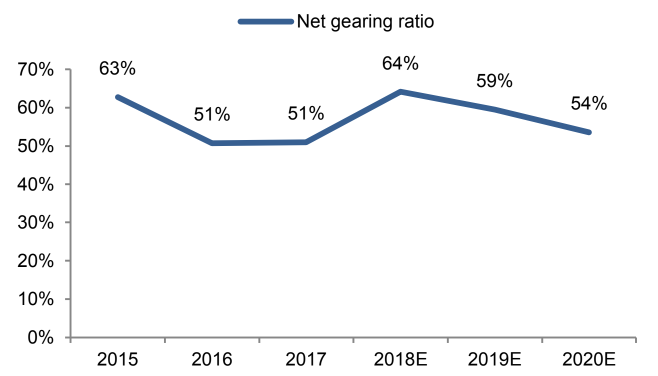


Sources: Company data, CMS (HK)

Financial position remains stable

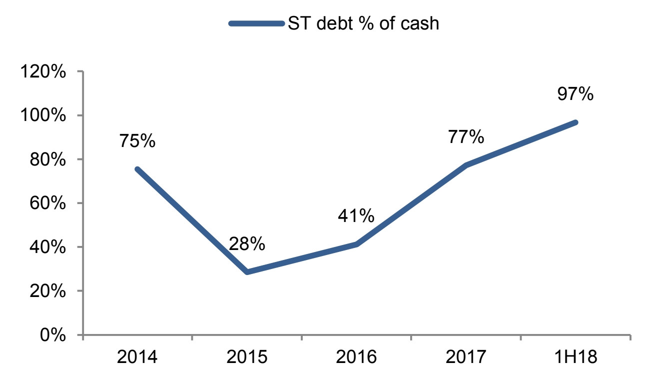
Aoyuan's net gearing surged by 16.5ppts to 67.5% in 1H18, as a result of proactive land banking and back-end loaded contracted sales. Management aims to maintain the net gearing at below 80%. As at Jun 2018, Aoyuan's cash on hand amounted to RMB26bn, fully covered its short-term debt of RMB25bn. We believe Aoyuan has no short-term liquidity issue.

Figure 80: Net gearing has been maintaining at acceptable level i.e. 50-70%



Sources: Company data, CMS (HK)

Figure 81: Short-term debt is fully covered by cash on hand at Jun 2018

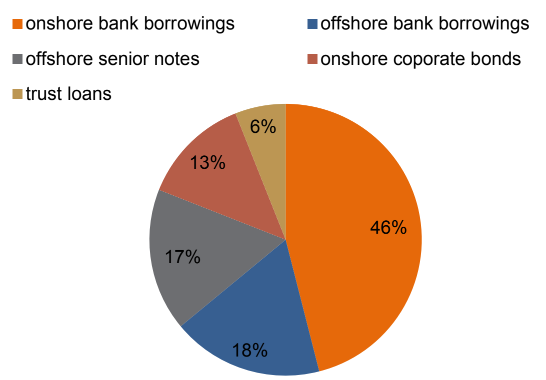


Sources: Company data, CMS (HK)

As at Jun 2018, 65% of Aoyuan's debts, or RMB17.9bn, were onshore and 35% were offshore. The high portion of onshore debt protects Aoyuan from currency risk, in our view.

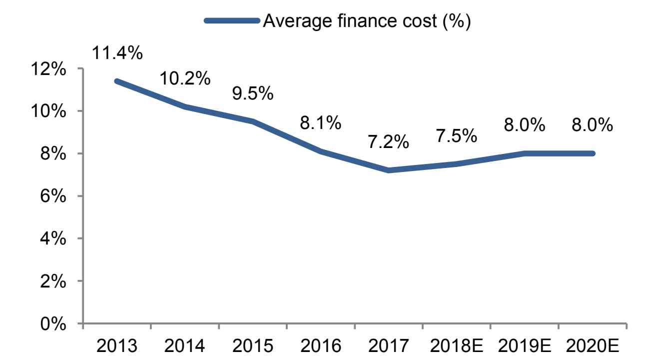
Aoyuan's average finance costs have been on a downtrend in 2014-2017 and edged up by 10bps to 7.3% in 1H18. Management expects it will maintain at around 7.3% by end 2018. We conservatively assume it will increase by 50bps and 30bps in 2018-19, in-line with our assumptions to other developers.

Figure 82: Debt breakdown



Sources: Company data, CMS (HK)

Figure 83: Average finance cost will increase moderately



Sources: Company data, CMS (HK)

Figure 84: CMS estimate vs market

	Revenue (RMB mn)			GPM			Core profit (RMB mn)			DPS (RMB)		
	CMS	Market	Diff %	CMS	Market	Diff %	CMS	Market	Diff %	CMS	Market	Diff %
2018E	29,653	29,522	0%	28%	27%	0%	2,406	2,357	2%	0.38	0.34	13%
2019E	43,804	42,200	4%	28%	26%	1%	3,569	3,317	8%	0.55	0.47	15%
2020E	60,732	55,426	10%	27%	26%	1%	4,994	4,384	15%	0.59	0.63	-6%

Sources: Bloomberg, Company data, CMS (HK)

Rating and valuation

Non-replicable experience in GBA

In-line with other Greater Bay Area plays, Aoyuan's share price has outperformed the sector YTD, +16.2% vs sector -11.8%. As we expect the GBA initiatives will bring along significant population inflow and bolster the economic development in the long run, we expect Aoyuan, with full coverage in GBA, will be directly benefited.

Secondly, Aoyuan has the first mover advantage as it is rooted in Guangzhou. With its over 20 years experience in property development in GBA, Aoyuan has established its reputation, connection and track record in the GBA, which is not replicable easily.

Thirdly, Aoyuan has secured 15 urban redevelopment projects with total GFA of 8mn sqm. Management expects 6 projects will be gradually converted into land bank in 2018-19E. We expect that will be the imminent share price catalyst.

Figure 85: Management expects 6 redevelopment projects to be gradually converted into land bank in 2018-19E

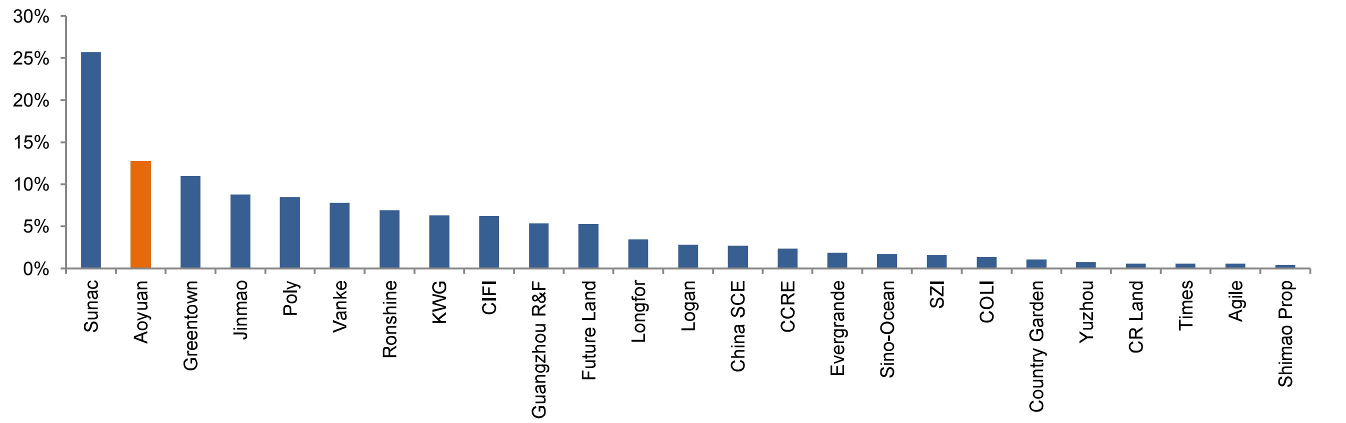
	Project	Site area ('000 sqm)	Planned total GFA ('000 sqm)	Estimated saleable GFA(' 000 mn)	Estimated saleable resources (RMB mn)	ASP of projects nearby (RMB/sqm)
1	Guangzhou Panyu Nitrogen Fertilizer Plant	150	300	300	15,000	62,000-65,000
2	Zhuhai Cuiwei Village	310	1,100	700	24,000	32,000-35,000
3	Zhuhai Gongbei Lian'an Village	90	380	200	9,000	42,000-45,000
4	Zhuhai Gongbei Guanzha & Gaosha Village	120	570	260	11,700	42,000-45,000
5	Dongguan Shimei Village	180	500	340	7,800	20,000-23,000
6	Hong Kong Robinson Road	1	5	5	2,200	400,000-450,000
Total		**851**	**2,855**	**1,805**	**69,700**	**-**

Sources: Company data, CMS (HK)

Following the southbound investors

Aoyuan is the second most-owned Chinese developer by southbound investors. Since its inclusion in the Shenzhen Stock Connect on 6 Sep 2017, southbound investors' shareholding in Aoyuan have increased substantially to 11.59% on 10 Nov 2018. Having said that, Aoyuan is relatively undercovered by the international brokers, given its market cap and daily turnover.

Figure 86: Aoyuan is the second most-owned Chinese developer by southbound investors



Sources: Company data, CMS (HK)

Separate listing of Aoyuan Healthy Life Group

Aoyuan has submitted the listing application for its 75.5%-owned subsidiary Aoyuan Healthy Life Group, the property management arm. Aoyuan Healthy Life Group ranked 16th among the top 100 property management companies in China in terms of overall strength according to CIA and the China Real Eatate Top 10 Research Team.

It provides property management services to 55 properties in 23 cities with GFA of 9.5mn sqm and provides commercial operational serices to 6 shopping malls in 5 cities with GFA of 268k sqm. It has contracted to provide commercial operational services to 23 shopping malls with GFA of 1.3mn sqm. In 2017, Aoyuan Healthy Life Group's revenue grew by 64% to RMB436mn. Profit and comprehensive income grew by 70% to RMB70mn. In 5M18, its revenue grew by 70% to RMB207mn and profit and comprehensvie income declined by 21% to RMB29mn. We estimate the business value before listing to be around RMB1.4bn, based on 20x P/E.

Initiate with BUY, Top pick in GBA

Aoyuan is now trading at 60% discount to NAV, 3x FY19 P/E, 9-14% FY18-20E dividend yield, which is attractive given its decent exposure in the GBA and solid financial position. We initiate Aoyuan with a BUY rating with TP HK$7.2 based on a 40% discount to NAV of HK$12.

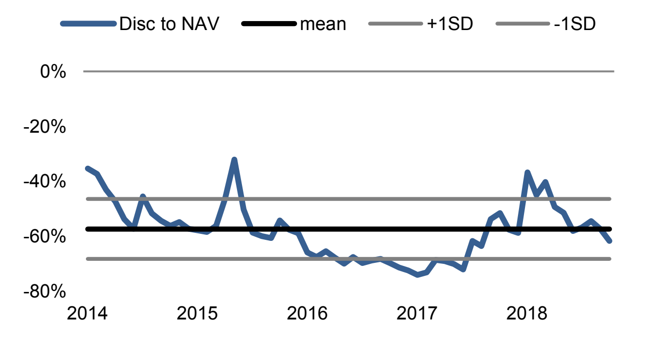
Key catalysts include 1) the official launch of GBA initiative, 2) increasing interest from overseas investors, 3) the separate listing of Aoyuan Healthy Life Group. Aoyuan is our top pick among the GBA plays given its ambitious sales growth and strong execution.

Figure 87: NAV breakdown

	(RMB m)	(RMB/share)
Development Properties	**45,727**	**17.1**
Investment Properties	1,472	0.6
Hotels	1,174	0.4
GAV	**48,374**	**18.1**
Net debt	-18,838	-7.0
NAV	**29,536**	**11.0**
NAV (HK$)		**12.0**
Target Discount to NAV -%		**40%**
Target price (TP) – HK$		**7.2**

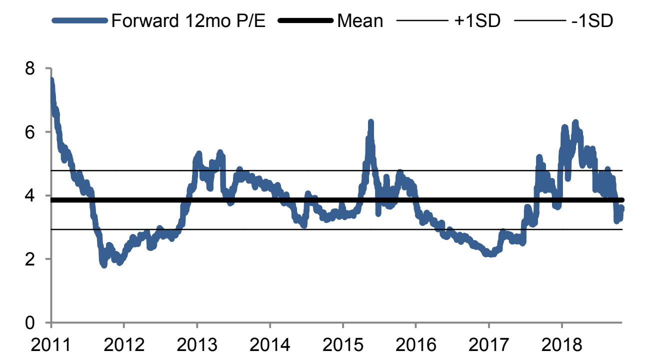
Sources: Company data, CMS (HK)

Figure 88: NAV discount chart



Sources: Bloomberg, Company data, CMS (HK)

Figure 89: P/E chart



Sources: Bloomberg, Company data, CMS (HK)

Key risks

Key downside risks to our BUY rating include 1) government may impose tightening policies to avoid overheat of property market; 2) the announcement of GBA initiative may further delay as the government is concentrated in handling the trade war issue; 3) local governments cannot reach an agreement in favour of the entire Bay Area development; 4) delay in conversion of urban redevelopment projects.

Financial Summary

Profit & Loss Statement

RMB mn	2016	2017	2018E	2019E	2020E
Revenues	**11,827**	**19,115**	**29,653**	**43,804**	**60,732**
Cost of sales	-8,550	-14,004	-21,494	-31,740	-44,085
Gross profit	**3,277**	**5,111**	**8,159**	**12,064**	**16,648**
Selling expenses	-592	-926	-1,437	-2,122	-2,943
Administrative expenses	-489	-800	-1,186	-1,752	-2,429
Other operating income	0	0	0	0	0
Operating profit	**2,195**	**3,386**	**5,536**	**8,190**	**11,276**
Financial costs	-157	-268	-288	-343	-379
JV and associates	-32	-116	0	95	174
Others	88	411	140	-74	236
PBT	**2,093**	**3,412**	**5,388**	**7,867**	**11,307**
Taxes	-1,001	-1,590	-2,474	-3,516	-4,872
Profit after tax	**1,092**	**1,823**	**2,914**	**4,351**	**6,435**
MI and perpetuals	-126	-312	-496	-984	-1,333
Core profit	**967**	**1,511**	**2,418**	**3,367**	**5,102**
FV changes	232	252	0	0	0
One-offs	-318	159	0	0	0
Net profit	**881**	**1,640**	**2,406**	**3,569**	**4,994**

Balance Sheet

RMB mn	2016	2017	2018E	2019E	2020E
Current assets	**59,830**	**116,110**	**145,429**	**183,634**	**223,117**
Cash & equivalents	10,471	24,769	24,750	28,859	33,182
Trade receivables	3,604	7,407	7,407	7,407	7,407
Inventories	0	0	0	0	0
Other current assets	45,754	83,934	113,272	147,367	182,527
Non-current assets	**6,589**	**9,696**	**10,452**	**11,384**	**12,486**
Investment property	5,425	6,360	6,996	7,696	8,465
PP&E	521	800	920	1,058	1,216
JV and associates	316	683	683	778	952
Other non-current assets	328	1,852	1,852	1,852	1,852
Total assets	**66,418**	**125,806**	**155,881**	**195,018**	**235,603**
Current liabilities	**36,143**	**75,573**	**100,916**	**134,015**	**167,230**
Bank loans	4,506	20,490	22,990	25,490	27,990
Trade payables	6,795	14,579	15,308	16,074	16,878
Other liquid liabilities	24,842	40,504	62,618	92,452	122,363
Long-term liabilities	**15,645**	**23,106**	**25,606**	**28,106**	**30,606**
Loans	13,875	19,880	22,380	24,880	27,380
Others	1,770	3,226	3,226	3,226	3,226
Total liabilities	**51,787**	**98,680**	**126,523**	**162,122**	**197,837**
Issued capital	25	25	25	25	25
Reserves	8,893	10,130	11,866	14,419	17,956
Shareholders' equity	**8,918**	**10,155**	**11,891**	**14,445**	**17,982**
MI and perpetuals	5,713	16,971	17,467	18,452	19,784
Total equity	**14,631**	**27,126**	**29,358**	**32,896**	**37,766**
BVPS (RMB)	**3.3**	**4.2**	**5.5**	**10.1**	**11.0**
NAV (HK$)			**12.0**		

Sources: Company data, CMS (HK) estimates

Financial Ratios

	2016	2017	2018E	2019E	2020E
YoY growth rate					
Revenue	23.6%	61.6%	55.1%	47.7%	38.6%
Gross profit	23.8%	56.0%	59.6%	47.9%	38.0%
Core profit	13.0%	56.2%	60.1%	39.2%	51.6%
Core EPS	15.4%	26.8%	95.9%	48.3%	39.9%
DPS	41.5%	66.7%	51.8%	43.4%	8.6%
Profitability					
Gross margin	27.7%	26.7%	27.5%	27.5%	27.4%
Core margin	8.2%	7.9%	8.2%	7.7%	8.4%
ROE	11.3%	15.8%	21.9%	25.6%	31.5%
Liquidity					
Average borrowing cost	8.1%	7.2%	7.5%	8.0%	8.0%
Net debt to equity	50.7%	51.0%	64.2%	60.0%	54.1%
Current debt to cash	25%	51%	51%	51%	51%
FX debt to total debt	40%	30%	30%	30%	30%
Operating efficiency					
Asset turnover	0.2	0.2	0.2	0.2	0.3
Inventory turnover	33.2	42.4	50.0	64.2	77.5
AR turnover	1.9	1.8	2.0	2.8	3.7
Per share					
Core EPS (RMB)	0.36	0.46	0.90	1.33	1.87
DPS (RMB)	0.15	0.25	0.38	0.54	0.59
Valuation ratios					
Discount to NAV (%)			-60%		
P/E	11.24	8.98	4.54	3.21	2.29
P/B	1.25	0.99	0.75	0.42	0.39
Dividend yield (%)	3.6%	6.5%	9.3%	12.7%	13.8%
Dividend payout (%)	36.7%	43.5%	35.0%	32.0%	25.0%

Cashflow Statement

RMB mn	2016	2017	2018E	2019E	2020E
CF from operating activities	**5,945**	**-6,763**	**-3,537**	**1,022**	**1,770**
Core profit	2,085	3,626	5,376	8,070	11,199
D&A	42	53	56	59	62
Working capital changes	6,092	-6,926	-6,496	-3,496	-4,445
Finance costs	-1,535	-2,007	0	0	0
Tax	-3,083	-3,083	-3,083	-3,083	-3,083
Others	2,344	1,574	609	-528	-1,963
CF from investing activities	**-4,069**	**-9,944**	**-812**	**-896**	**-990**
Capital expenditure	-703	-754	-812	-896	-990
Other investments	-3,377	-9,238	0	0	0
CF from financing activities	**808**	**31,046**	**4,330**	**3,984**	**3,543**
Net borrowings	-671	19,663	5,000	5,000	5,000
Share issuance	-156	0	0	0	0
Dividends	-572	-812	-670	-1,016	-1,457
Others	2,206	12,195	0	0	0
Net cash flow	**2,683**	**14,339**	**-20**	**4,110**	**4,323**