



Rating
Buy

Asia
China

Property
Property

Company
Aoyuan

Reuters
3883.HK

Bloomberg
3883 HK

Exchange
HSI

Ticker
3883

Date
16 March 2018

Forecast Change

Price at 15 Mar 2018 (HKD)	7.15
Price target - 12mth (HKD)	9.29
52-week range (HKD)	7.15 - 2.08
HANG SENG INDEX	31,435

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Aiming for another fast-growth year; top-pick reaffirmed on low valuation

Reaffirming top-pick on >60% earnings CAGR and attractive valuation

We maintain our Buy rating and lift our target price by 11% to HKD9.29, after factoring in FY17 results and the latest landbanking. We believe Aoyuan will continue to outperform peers with 60% sales growth to RMB73bn and a >60% earnings CAGR in FY18-19F, considering its strong execution, abundant saleable resources and low land cost (RMB2.1k/sqm on average). Also, current valuation (5.6x FY18F P/E and 54% discount to NAV) is attractive and implies 7-11% dividend yield. We reaffirm Aoyuan as one of our top-picks among mid/small-caps.

60% sales growth well-supported; targeting RMB100bn next year

After two years of strong sales growth (73% CAGR), management targets another 60% jump (highest among our coverage) this year to RMB73bn, supported by >RMB120bn in saleable resources. Management also targets to exceed RMB100bn in sales in 2019, and has budgeted RMB30bn for landbanking this year.

Decent gearing despite aggressive landbanking; potential redevelopment projects as good catalyst

Due to its fast turnover and high cash collection (80%), Aoyuan has maintained stable net gearing at 56%, while acquiring 12.9m sqm new land (81% via M&A, average land cost of RMB2.4k/sqm) in 2017. We estimate that these new projects could add RMB160bn in saleable resources to its landbank in order to sustain its strong growth. In addition, management expects three redevelopment sites in Guangzhou/Zhuhai (>RMB50bn to saleable resources) to be included into the landbank in 2018, which we believe should be a significant near-term catalyst.

7-11% dividend yield with a higher payout ratio

In addition to its strong results, Aoyuan increased its payout ratio to 40% (vs. ~30% before) in FY17, and targets to maintain it at this level. Coupled with its >60% earnings CAGR, we estimate the dividend yield to be high at 7-11% on the current price in FY18-19F.

Valuation and risks

Our target price is based on 40% discount applied to HKD15.48 end-FY18F NAV. The stock now trades at 5.6x FY18F P/E and a 54% NAV discount. Key downside risks: 1) slower sales growth and 2) failure to acquire quality landbank.

Key changes

TP 8.40 to 9.29 ↑ 10.6%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	19.0	78.3	227.7
HANG SENG INDEX	1.0	9.0	32.1

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (CNYm)	11,827.3	19,115.3	27,910.4	40,851.8	57,022.4
DB EPS FD (CNY)	0.45	0.60	1.03	1.58	2.02
DB EPS growth (%)	32.8	31.8	71.9	53.6	27.8
PER (x)	2.8	4.3	5.6	3.6	2.9
DPS (net) (CNY)	0.15	0.25	0.41	0.63	0.81
Yield (net) (%)	11.7	9.6	7.1	11.0	14.0

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/Hong Kong

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Model updated: 15 March 2018

Running the numbers

Asia

China

Property

Aoyuan

Reuters: 3883.HK

Bloomberg: 3883 HK

Buy

Price (15 Mar 18) HKD 7.15

Target Price HKD 9.29

52 Week range HKD 2.08 - 7.15

Market Cap (m) HKDm 19,137
USDm 2,441

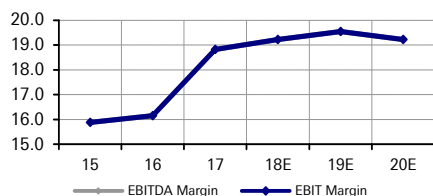
Company Profile

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 end-FY17, the company has a total land bank of 24.9msqm.

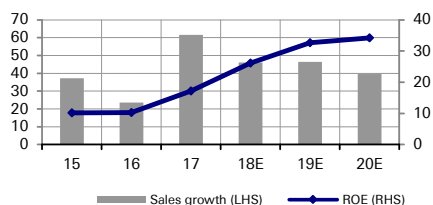
Price Performance



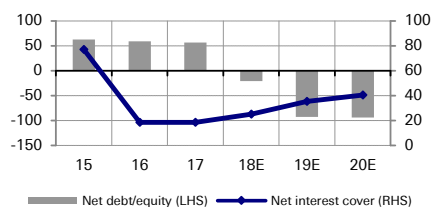
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	0.34	0.45	0.60	1.03	1.58	2.02
Reported EPS (CNY)	0.29	0.32	0.61	1.08	1.62	2.08
DPS (CNY)	0.11	0.15	0.25	0.41	0.63	0.81
BVPS (CNY)	3.0	3.3	3.8	4.5	5.4	6.7
Weighted average shares (m)	2,784	2,728	2,673	2,677	2,677	2,677
Average market cap (CNYm)	3,005	3,496	6,945	15,418	15,418	15,418
Enterprise value (CNYm)	13,308	17,647	38,825	27,739	2,545	-944

Valuation Metrics

P/E (DB) (x)	3.2	2.8	4.3	5.6	3.6	2.9
P/E (Reported) (x)	3.7	4.0	4.2	5.4	3.6	2.8
P/BV (x)	0.39	0.43	0.98	1.29	1.06	0.86
FCF Yield (%)	nm	151.8	nm	146.2	179.8	44.0
Dividend Yield (%)	9.8	11.7	9.6	7.1	11.0	14.0
EV/Sales (x)	1.4	1.5	2.0	1.0	0.1	0.0
EV/EBITDA (x)	8.8	9.2	10.8	5.2	0.3	-0.1
EV/EBIT (x)	8.8	9.2	10.8	5.2	0.3	-0.1

Income Statement (CNYm)

Sales revenue	9,572	11,827	19,115	27,910	40,852	57,022
Gross profit	2,646	3,277	5,111	7,514	10,681	14,444
EBITDA	1,520	1,911	3,598	5,365	7,985	10,966
Depreciation	0	0	0	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	1,520	1,911	3,598	5,365	7,985	10,966
Net interest income/(expense)	-20	-103	-193	-213	-225	-271
Associates/affiliates	28	-32	-116	-12	-18	327
Exceptionals/extraordinary	356	310	337	171	139	231
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	1,884	2,085	3,626	5,310	7,881	11,253
Income tax expense	977	1,078	1,674	1,914	2,712	4,538
Minorities	95	126	312	513	834	1,133
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	812	881	1,640	2,883	4,335	5,581
DB adjustments (including dilution)	139	357	-40	-128	-105	-173
DB Net profit	951	1,238	1,600	2,754	4,231	5,408

Cash Flow (CNYm)

Cash flow from operations	-2,944	5,999	-14,842	22,768	28,183	5,663
Net Capex	-867	-692	-1,239	-221	-462	1,122
Free cash flow	-3,811	5,307	-16,082	22,547	27,720	6,785
Equity raised/(bought back)	0	-156	0	0	0	0
Dividends paid	-292	-245	-670	-1,102	-1,692	-2,163
Net inc/(dec) in borrowings	4,849	1,442	22,295	0	0	0
Other investing/financing cash flows	2,111	-3,665	9,502	523	-1,097	-778
Net cash flow	2,856	2,683	15,046	21,968	24,931	3,843
Change in working capital	-3,170	6,092	-16,842	19,311	22,952	-1,114

Balance Sheet (CNYm)

Cash and other liquid assets	9,036	10,956	26,540	48,508	73,439	77,283
Tangible fixed assets	4,998	5,930	7,079	7,239	7,640	6,456
Goodwill/intangible assets	0	5	33	33	33	33
Associates/investments	292	173	414	749	731	772
Other assets	34,501	49,353	91,739	111,167	105,149	85,795
Total assets	48,827	66,418	125,806	167,697	186,993	170,339
Interest bearing debt	16,298	19,568	41,863	41,863	41,863	41,863
Other liabilities	20,953	32,219	56,817	94,183	111,116	90,649
Total liabilities	37,251	51,787	98,680	136,046	152,979	132,511
Shareholders' equity	8,243	8,918	10,155	11,936	14,579	17,997
Minorities	3,333	5,713	16,971	19,715	19,435	19,831
Total shareholders' equity	11,576	14,631	27,126	31,651	34,014	37,828
Net debt	7,262	8,611	15,322	-6,645	-31,577	-35,420

Key Company Metrics

Sales growth (%)	37.2	23.6	61.6	46.0	46.4	39.6
DB EPS growth (%)	29.2	32.8	31.8	71.9	53.6	27.8
EBITDA Margin (%)	15.9	16.2	18.8	19.2	19.5	19.2
EBIT Margin (%)	15.9	16.2	18.8	19.2	19.5	19.2
Payout ratio (%)	36.3	46.4	40.8	38.2	39.0	38.8
ROE (%)	10.2	10.3	17.2	26.1	32.7	34.3
Capex/sales (%)	9.1	5.9	6.5	0.8	1.1	0.0
Capex/depreciation (x)	nm	nm	nm	nm	nm	nm
Net debt/equity (%)	62.7	58.9	56.5	-21.0	-92.8	-93.6
Net interest cover (x)	77.1	18.6	18.7	25.1	35.4	40.5

Source: Company data, Deutsche Bank estimates



Investment thesis

Outlook

We maintain our Buy rating and lift our target price by 11% to HKD9.29, after factoring in FY17 results and the latest landbanking. We believe Aoyuan will continue to outperform peers with 60% sales growth to RMB73bn, and >60% earnings CAGR in FY18-19F, considering its strong execution, abundant saleable resources and low land cost (RMB2.1k/sqm on average). We reaffirm Aoyuan as one of our top-picks among mid/small-caps.

Valuation

Our target price is based on a 40% discount to end-FY18F NAV. This comprises HKD12.03/share of development properties, HKD0.37/share of investment properties, and HKD3.08/share of net cash. Our NAV estimate values existing landbank and properties using a sum-of-the-parts methodology: 1) we use DCF to value the company's development properties, with WACC of 11.5% (we apply a risk-free rate of 3.0%, beta of 2.0, a risk premium of 6.0% and cost-of-debt at 7.2%); 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 that prices in T1, T2 and T3 cities will increase 5% in FY17 and remain flat thereafter.

Our target price implies 7.3x FY18F P/E (EPS: RMB1.03) and 1.7x FY18F 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, which could result in volatile housing transaction volumes, housing prices, land prices and financing available to developers and homebuyers. Unexpected economic fluctuations in the Chinese economy would also add risk to the sector.

Company-specific: 1) weaker sales; 2) faster margin squeeze and 3) higher gearing due to aggressive land acquisitions.



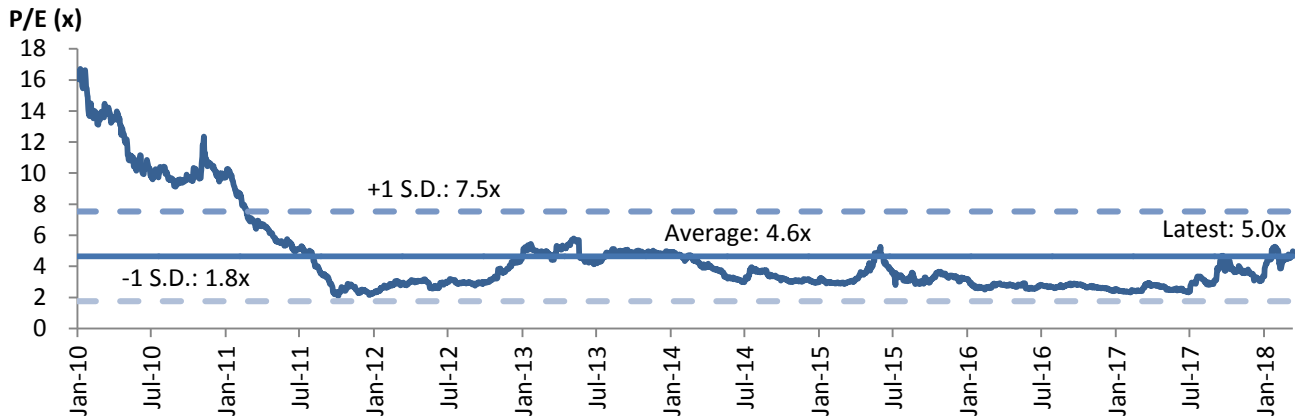
Figure 1: Aoyuan – Summary of 2017 results

(RMB mn)	FY17	FY16	y-y %
Revenue	19,115	11,827	62%
Cost of sales	(14,004)	(8,550)	64%
Gross profit	5,111	3,277	56%
SG&A	(1,726)	(1,082)	60%
Other operating income/expenses	212	(285)	n/a
Operating profit	3,598	1,911	88%
Interest expenses	(268)	(157)	70%
Interest income	75	54	38%
Share of results of associates and JCE	(116)	(32)	262%
Pre-tax exceptional items	337	310	9%
Profit before tax	3,626	2,085	74%
Income tax	(1,674)	(1,078)	55%
Profit before minority interests	1,952	1,007	94%
Minority interests	312	126	148%
Reported net profit	1,640	881	86%
Core profits	1,600	1,238	29%
Gross margin	26.7%	27.7%	-1.0%
Core profits margin	8.4%	10.5%	-2.1%
Net gearing	56%	59%	-2%

Source: Company, Deutsche Bank

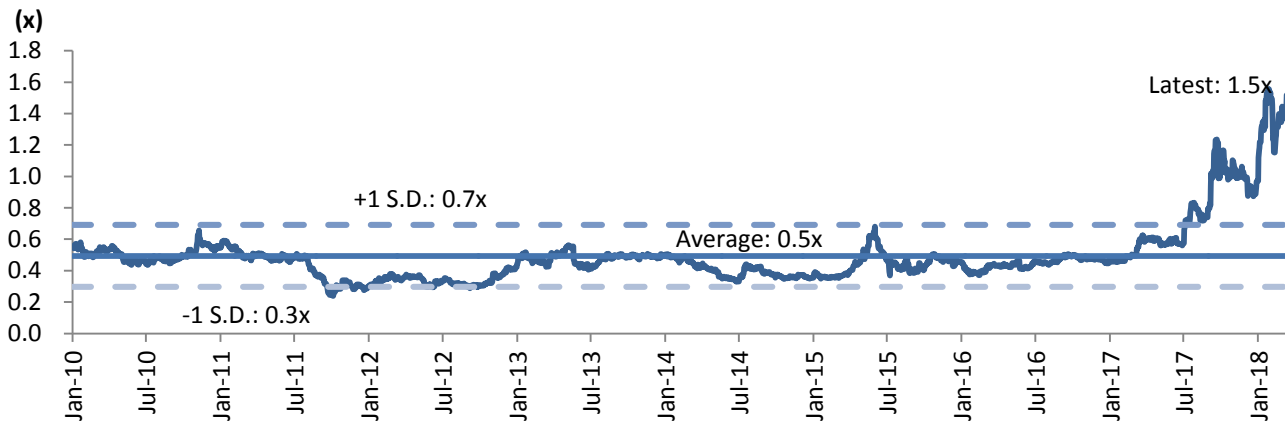


Figure 2: Aoyuan: 12-month forward P/E chart



Source: Bloomberg Finance LP, Company data, Deutsche Bank

Figure 3: Aoyuan: Price-to-book value 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	7.15 (HKD) 15 Mar 18	1,7,13,14,15

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Historical recommendations and target price: Aoyuan (3883.HK)

(as of 3/15/2018)



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	3. 31/01/2018:	Buy, Target Price Change HKD8.40 Jeffrey Gao
2. 03/01/2018:	Buy, Target Price Change HKD7.00 Jeffrey Gao		

Equity rating key

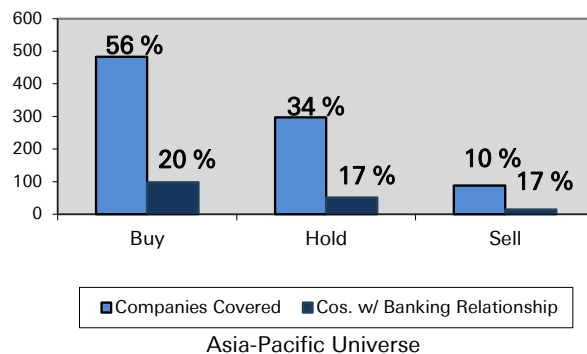
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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.

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