

China Aoyuan Property Group (3883 HK)

Member of quant-based [HTI Portfolios](#): Momentum

Target Price **HK\$8.72**
 Current Price **HK\$6.99**
 % Upside **25%**

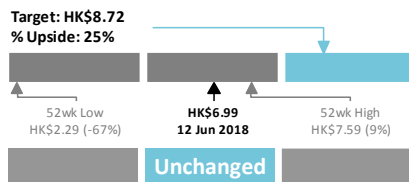
The Scoop: Maintaining Profit Margins and Scaling Up

Real Estate

Hong Kong

12 Jun 2018

BUY



Basic Share Information

Market cap	HK\$18.74b / US\$2.39b
Daily traded value (3mth)	US\$11.15m
Shares outstanding	2,672m
Free float	44.04%
Net debt-to-equity	56.5%
1 yr high	HK\$7.59
1 yr low	HK\$2.29
Major shareholding	52.03%
Last HTI contact w/ Co	12 Jun 18

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	9.6%	-0.7%	190%
Absolute USD	9.6%	-0.8%	188.3%
Relative to HSI	9.8%	1%	169.2%



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What event has happened?

China Aoyuan Property Group (Aoyuan) attended our Corporate Day on 12 June 2018 and management shared its take on the company's recent performance with investors.

Why is it significant?

Public shareholders hold 45.9% of the shares and management said that this has resulted in Southbound Connect trade accounting for 12% of the stock's average daily trading volume. Aoyuan plans to persist with its Guangdong-Hong Kong-Macao Big Bay area strategy for buying land and developing projects. It also entered some core cities in central and western China, such as Chongqing, in FY17. The company has Rmb121.5bn of saleable resources for FY18 and targets contract sales of Rmb73bn this year; it reached Rmb28.3bn at the end of May 2018. We expect contract sales of Rmb8bn in June, which would bring the H1 FY18 figure to about half the full-year target. There was Rmb52bn of unrecognized contract sales at the end of FY17, of which Rmb26–27bn is to be booked in FY18. Guidance is for total recognized sales of Rmb30bn in FY18.

According to the company, the GPM for January–May 2018 was the same level as FY17 at 26–27%. Aoyuan issued offshore senior notes on 11 June 2018, raising US\$225mn to refinance current debt. Management expects net gearing to rise to about 60% at the end of FY18, from 51% at the end of FY17. It says that it shall maintain its dividend policy for a 35–40% payout ratio and has no plans for a special dividend for FY18.

Implications for our earnings forecast?

We maintain our forecasts and project a 39% revenue CAGR over FY18–20 and a stable GPM of about 27% and NPM of about 10% over our forecast period.

How do valuations look now?

We maintain our net asset value (NAV) estimate of HK\$13.40 per share and continue to value the stock at a 35% discount to this, which generates our target price of HK\$8.72. The shares trade at a 48% discount to our NAV estimate as of the last close.

What is distinctive about our stock view?

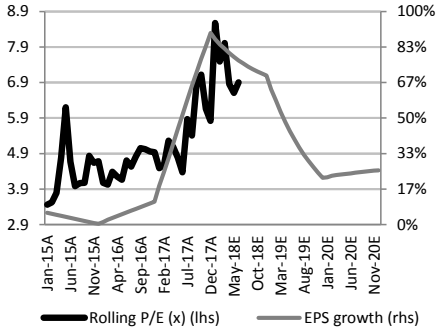
It seems to us that some investors do not view 60% YoY contract-sales growth in FY18 as achievable. However, we believe that this target can be met even at a low sell-through rate of 60% (the rate was 65% in FY17) given the company's ample Rmb121.5bn of saleable resources in FY18. The main risks to our rating and target price are lower economic growth in China than we expect and this adversely affecting property-market sentiment, delayed launches of Aoyuan's projects, and the Chinese government imposing increasingly strict regulations for property purchases.

	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E	Trend
Total turnover (Rmbm)	11,827	19,115	25,969	37,598	51,193	▬ ▬ ▬ ▬ ▬
Operating profit (Rmbm)	1,965	3,677	5,582	7,778	9,687	▬ ▬ ▬ ▬ ▬
Pre-tax profit (Rmbm)	2,085	3,626	5,289	7,485	9,394	▬ ▬ ▬ ▬ ▬
Net income to ord equity (Rmbm)	881	1,640	2,785	3,396	4,262	▬ ▬ ▬ ▬ ▬
Net profit growth	8.5%	86.2%	69.8%	21.9%	25.5%	▬ ▬ ▬ ▬ ▬
P/E (x)	17.67	9.30	5.47	4.49	3.58	▬ ▬ ▬ ▬ ▬
Adj EV/EBITDA (x)	16.87	15.05	9.20	6.26	4.65	▬ ▬ ▬ ▬ ▬
P/B (x)	1.71	1.50	1.24	1.04	0.86	▬ ▬ ▬ ▬ ▬
ROE	10.3%	17.2%	24.8%	25.2%	26.3%	▬ ▬ ▬ ▬ ▬
Dividend yield	2.6%	4.4%	6.4%	7.8%	9.8%	▬ ▬ ▬ ▬ ▬
EPS HTI New (Rmb)	0.32	0.61	1.04	1.27	1.60	▬ ▬ ▬ ▬ ▬
Consensus EPS (Rmb)	0.38	0.61	0.89	1.22	1.60	▬ ▬ ▬ ▬ ▬
HTI EPS vs Consensus	(15.0%)	1.4%	17.7%	4.6%	(0.4%)	▬ ▬ ▬ ▬ ▬

Source: Company data, Bloomberg, HTI estimates

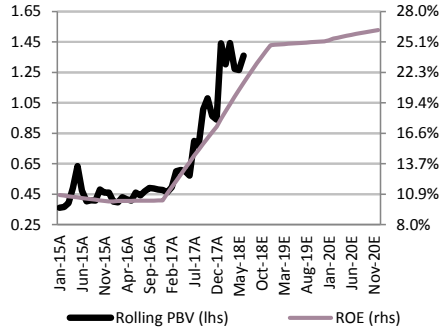
Click [here](#) to download the working model

P/E (x) vs EPS Growth (%)



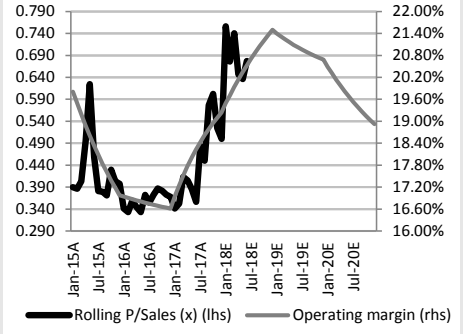
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



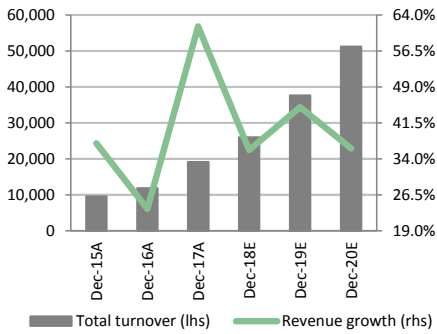
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



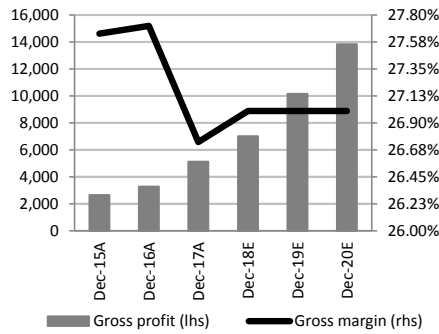
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



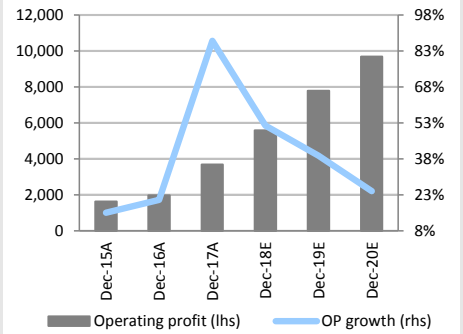
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



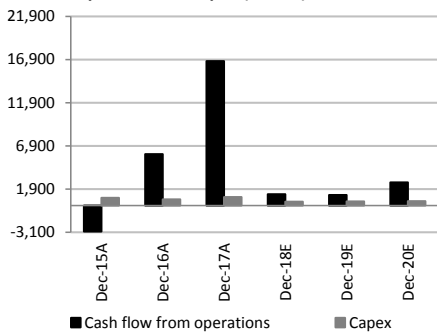
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



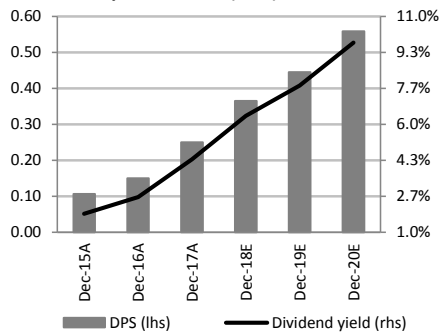
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (Rmbm)



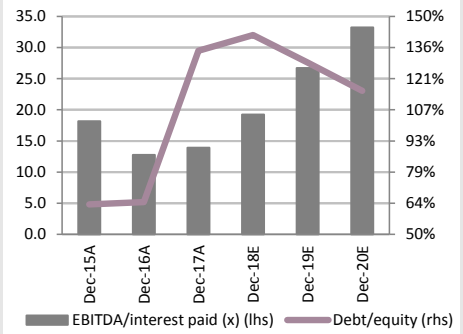
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (Rmb)



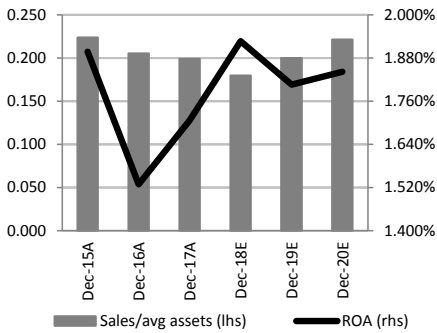
Source: Company data, Bloomberg, HTI estimates

Debt to Equity (%) and Interest Cover (x)



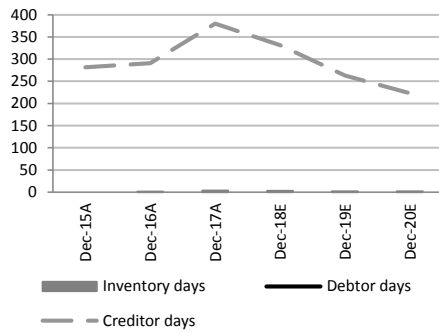
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



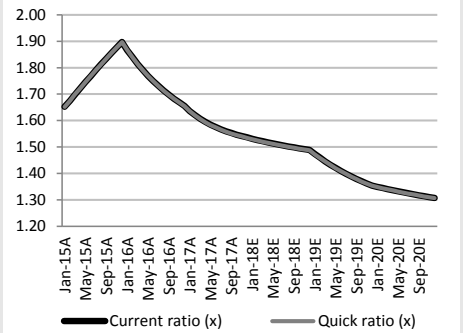
Source: Company data, Bloomberg, HTI estimates

Cash Operating Cycle



Source: Company data, Bloomberg, HTI estimates

Current Ratio (x) vs Quick Ratio (x)



Source: Company data, Bloomberg, HTI estimates

APPENDIX

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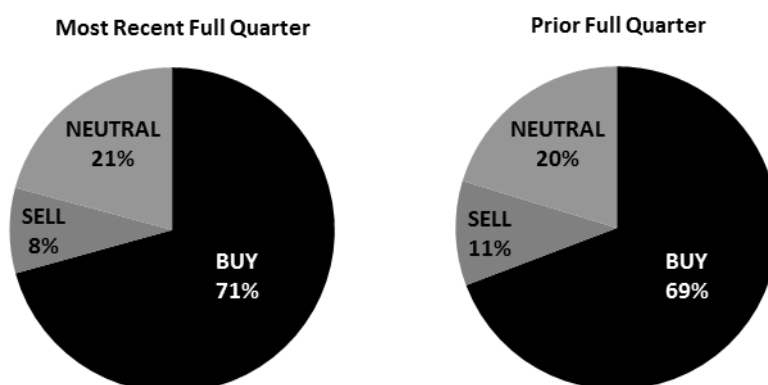
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*Percentage of investment banking clients in each rating category.

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Recommendation Chart



Date	Recommendation	Target (HK\$)	Price (HK\$)
2018-03-15	Buy	8.72	7.15
2018-01-12	Buy	7.69	6.00
2017-08-01	Buy	3.93	3.28

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity