

China Aoyuan Property

All eyes on scale - targeting RMB 73bn contracted sales in 2018

Solid 2017 result, robust growth in net profit, but GPM missed

Solid 2017 result: Revenue surged by 61.6% YoY to RMB 19.1bn. But GPM slightly missed our estimation of 27% and slipped by 1 ppt yoy to 26.7%. Financing cost has surged by 70.2% YoY. Attributable net profit surged by 86% and core attr. net profit increased by 151.0% YoY, in line with our estimation. The company has achieved RMB 45.6 bn contracted sales in 2017, targeting to achieve RMB 73 bn in 2018 and RMB 100 bn in 2019, with 2017-2019 CAGR of 368%. The company has accelerated its land acquisition strategy especially in 2H17 in 3rd tier cities and its balance sheet expands rapidly: total debt increased by 119.6% YoY to RMB 40.4 bn. The company has reduced its equity stake percentage in land acquisition in order to maintain a stable gearing ratio. Net gearing ratio stabilized at 51.0% (50.7% at YE16; 64.3% in 1H17).

Execution is the key to achieve RMB 73bn of 2018 sales target

The company also announced its 2018 contracted sales target of RMB 73bn, which implies a 60% YoY growth. Aoyuan has set its the priority on sales scale. In order to achieve this target, the company had acquired 58 projects (81% via M&A and 71% attributable interest), with 12.86 mn sq.m GFA. Out of these 38 projects were acquired in 3rd tier cities. Saleable resources will provide RMB 166.9bn worth of sales and increase its total saleable resources to approximately RMB 282.3bn (as of Dec-17). The company has significantly reduced its equity stake in new acquisitions in order to leverage up. Equity stake accounted for 71% of land cost in 2017 vs 88% in 1H2017 and 85% in 2016. However, execution will be the key for rapid expansion, especially the expansion with 58 new projects (vs 17 new projects in 2016) in deleverage environment would be challenging.

GPM is expected to be above 25% in next 3 years

We believe Aoyuan will gradually deliver its strong 2015-2017 contracted sales in next three years. We expect gross margin would slightly decline in next 3 years to 26.6%, 26.4% and 26.4% in 2018e-2020e, respectively, mainly due to the rise in land cost and construction cost. As a result, core net profit will grow with the increase of income steadily to be RMB 1.68 bn, 2.38 bn and 3.24 bn in 2018e-2020e, respectively.

Optimizing debt structure in rate-hike environment

In 14 March 2018, the company has announced the club loan of HKD 1.6 bn, including HKD and USD loan. The cost is Hibor+3.95% for HKD loan and Libor+3.95% for USD loan. We believe this should be a proper way to lower its funding cost in current rate-hike environment. As bond supply from Chinese property peers are abundant, funding cost of bond insurance would be costly. We also noticed that the debt due in one year surged from RMB 3.7 bn to RMB 18.2 bn. In addition, cash collection rate dropped to 80% in 2H17 from 86% in 1H17 (90% in YE16)

Revise up price target to HK\$8.10, 13% upside, 'Hold'

We are cautious on property sector in this deaverage environment. Expansion in 3rd tier cities in such a large scale could be challenging in the short term. Moreover, the company has priced in positive factors of Greater Bay and strong 2017 sales growth. We revise up target price to HK\$8.10 and change its rating to 'Hold' from "Buy". Our price target implies 55% discount to Dec-18 NAV, 10.3x 2018e core PE and 7.3x 2019e core PE. The stock is trading at 60% discount to Dec-18 NAV, 9.1x 2018e core PE and 1.3x 2018e PB.

Stock code: 3883.HK
Rating: Hold

Price target (HK\$)	8.10
Previous target(HK\$):	6.94
Current price (HK\$, 15 Mar 2018)	7.15
Upside/downside %	13%
Market cap (HK\$ m)	19,155
Market cap (US\$ m)	2,443
Avg daily turnover (HK\$ m)	89.16

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2017	2018e	2019e	2020e
Revenue	19,115	26,501	34,931	45,751
yoy %	61.6%	38.6%	31.8%	31.0%
Attr NP	1,638	2,001	2,694	3,552
yoy %	86.0%	22.1%	34.6%	31.9%
Core Attr NP	1,386	1,687	2,380	3,238
yoy %	150.8%	17.7%	34.6%	31.9%
Gross margin	26.7%	26.6%	26.4%	26.4%
Net gearing	51.0%	50.9%	40.7%	34.3%
EPS	0.52	0.63	0.89	1.21
DPS	0.15	0.12	0.16	0.21
BPS	3.80	4.43	5.28	6.40

Source: Company data, AMTD Equity Research

Valuation

	2017	2018e	2019e	2020e
P/E	11.0	9.1	6.4	4.7
P/BV	1.5	1.3	1.1	0.9
Div. yield	2.6%	2.1%	2.8%	3.7%
ROE	17.8%	18.2%	20.8%	22.8%
ROA	1.7%	1.3%	1.3%	1.3%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

Donald Yu
Analyst

+852 3163 3384

Donald.Yu@amtd.com.hk
Michelle Li
Analyst

+852 3163 3383

Michelle.Li@amtd.com.hk

Figure 1: Previous forecast vs actual result

PnL, RMB '000	2016	2017	AMTD 2017E	YoY	Actual vs Est
Revenue	11,827,268	19,115,255	18,127,333	61.6%	5.4%
Sales of properties	11,239,878	17,960,391	17,481,204	59.8%	2.7%
Cost of sales	(8,550,184)	(14,003,778)	(12,998,980)	63.8%	7.7%
GPM	28%	27%	28%	-3.5%	-5.5%
Gross profit	3,277,084	5,111,477	5,128,354	56.0%	-0.3%
Other income	(230,432)	287,622	(230,432)		
Fair value gains on investment properties	309,527	336,543	-		
Selling expenses	(592,275)	(926,166)	(566,422)	56.4%	63.5%
Administrative expenses	(489,359)	(799,638)	(721,833)	63.4%	10.8%
Finance costs	(157,419)	(267,859)	(157,419)	70.2%	70.2%
Profit before tax	2,084,989	3,625,592	3,420,110	73.9%	6.0%
Income tax expense	(1,078,381)	(1,673,434)	(1,738,106)	55.2%	-3.7%
Profit for the year	1,006,608	1,952,158	1,682,005	93.9%	16.1%
Adjusted profit for the year	677,793	1,699,751	1,556,359	150.8%	9.2%
	18%				
<i>Profit for the year attributable to:</i>					
Owners of the Company	880,962	1,638,362	1,556,359	86.0%	5.3%
Non-controlling interests	125,646	313,796	125,646	149.7%	149.7%
Core net profit	552,147	1,385,955	1,299,366	151.0%	6.7%
Net Debt / Equity	50.7%	51.0%	59.7%	0.2%	-8.7%
Current Ratio	166%	154%	141%	-11.9%	12.3%
Interest Coverage	1.3x	1.8x	2.0x	55.8%	-19.6%
ROA	1.5%	1.3%	2.1%	-0.2%	-0.8%
ROCE	2.9%	3.3%	4.5%	0.4%	-1.3%
ROE	7.9%	17.8%	16.1%	9.9%	1.8%
GPM	27.7%	26.7%	28.3%	-1.0%	-1.6%
NPM	7.4%	8.6%	8.6%	1.1%	0.0%
Core NPM	4.7%	7.3%	7.2%	2.6%	0.1%
Total Debt	18,380,451	40,369,761	19,570,876	119.6%	106.3%
Cash	10,956,456	26,540,063	9,826,517	142.2%	170.1%
Net Debt	7,423,995	13,829,698	9,744,359	86.3%	41.9%
ST Debt	4,505,888	20,489,599	8,321,648	354.7%	146.2%
Properties held under development	43,486,574	77,069,025	62,482,621	77.2%	23.3%
Advanced proceeds received from customers	20,523,884	34,760,145	35,517,562	69.4%	-2.1%

Source: Company data, AMTD Equity Research

Figure 2: P&L forecast and key ratios

PnL, RMB mn						YoY growth				
	2016	2017	2018e	2019e	2020e	2016	2017	2018e	2019e	2020e
Revenue	11,827	19,115	26,501	34,931	45,751	23.6%	61.6%	38.6%	31.8%	31.0%
Sales of properties	11,240	17,960	25,231	33,533	44,214					
Cost of sales	(8,550)	(14,004)	(19,453)	(25,722)	(33,672)					
Gross profit	3,277	5,111	7,048	9,209	12,078	23.8%	56.0%	37.9%	30.6%	31.2%
Selling expenses	(592)	(926)	(1,219)	(1,625)	(2,133)	21.2%	56.4%	31.6%	33.3%	31.3%
Administrative expenses	(489)	(800)	(1,147)	(1,529)	(2,007)	21.8%	63.4%	43.4%	33.3%	31.3%
Share of post-tax loss of an associate	-	0	0	0	0					
Share of post-tax (losses)/profits of joint ventures	(32)	(116)	(116)	(116)	(116)					
Finance costs	(157)	(268)	(268)	(353)	(644)	72.1%	70.2%	0.0%	31.9%	82.1%
Profit before tax	2,085	3,626	4,298	5,585	7,178	10.6%	73.9%	18.6%	29.9%	28.5%
Income tax expense	(1,078)	(1,673)	(1,983)	(2,577)	(3,312)					
Profit for the year	1,007	1,952	2,315	3,008	3,866	10.9%	93.9%	18.6%	29.9%	28.5%
Profit for the year attributable to:										
Net profit	881	1,638	2,001	2,694	3,552	8.5%	86.0%	22.1%	34.6%	31.9%
Core net profit	678	1,700	2,001	2,694	3,552	18.3%	150.8%	17.7%	34.6%	31.9%
Non-controlling interests	126	314	314	314	314					
Dividends	245	259	317	426	562					
Special Dividends	-	142	-	-	-					
EPS - basic	0.32	0.61	0.75	1.01	1.33					
EPS-underlying	0.20	0.52	0.63	0.89	1.21					
DPS - basic	0.09	0.15	0.12	0.16	0.21					
BVPS	3.27	3.80	4.43	5.28	6.40					
Key Ratios, RMB mn	2016	2017	2018e	2019e	2020e					
GPM	27.7%	26.7%	26.6%	26.4%	26.4%					
NPM	7.4%	8.6%	7.6%	7.7%	7.8%					
Core NPM	5.7%	8.9%	7.6%	7.7%	7.8%					
ROA	1.5%	1.7%	1.3%	1.3%	1.3%					
ROCE	2.9%	3.3%	2.5%	2.6%	2.6%					
ROE	7.9%	17.8%	18.2%	20.8%	22.8%					
Total Debt / EBITDA	8.2x	10.4x	13.7x	13.7x	16.1x					
Total Debt / Equity	125.6%	148.8%	215.2%	257.3%	359.7%					
Total Debt / Capitalization	55.7%	59.8%	68.3%	72.0%	78.2%					
Net Debt / EBITDA	3.3x	3.6x	3.2x	2.2x	1.5x					
Net Debt / Equity	50.7%	51.0%	50.9%	40.7%	34.3%					
Net Debt / Capitalization	22.5%	20.5%	16.1%	11.4%	7.5%					
Current Ratio	165.5%	153.6%	180.9%	177.6%	187.8%					
Cash / Total Assets	16.5%	21.1%	27.1%	29.4%	34.8%					
Inventory / Total Assets	66.1%	61.4%	60.4%	61.1%	58.4%					
Net debt / Net Inventory	16.9%	17.9%	13.9%	9.1%	6.3%					
Quick Ratio	135.2%	118.5%	129.0%	123.0%	120.4%					
Cash Ratio	30.3%	35.1%	51.9%	54.6%	67.4%					
Interest Coverage	1.3x	1.8x	2.1x	2.1x	1.5x					

Source: Company data, AMTD Equity Research

Figure 3: Balance sheet forecast & Cash flow forecast

Balance Sheet, RMB mn	2016	2017	2018e	2019e	2020e
Non-current assets	6,589	9,696	9,696	9,696	9,696
Current assets	59,830	116,110	166,778	223,535	317,263
Properties held under development	43,487	77,069	106,419	142,363	190,843
Pledged bank deposits	486	1,771	1,771	1,771	1,771
Bank balances and cash	10,471	24,769	46,087	66,900	112,148
Others	5,387	12,501	12,501	12,501	12,501
Current liabilities	36,143	75,573	92,193	125,858	168,898
Advanced proceeds received from customers	20,524	34,760	61,129	96,396	142,482
Senior note and bond	1,508	-	-	-	-
Borrowings	2,997	20,490	10,741	9,139	6,093
Others	11,113	20,323	20,323	20,323	20,323
Non-current liabilities	15,645	23,106	55,156	75,666	123,050
Borrowings	3,795	19,880	51,929	72,440	119,823
Senior notes	10,079	-	-	-	-
Others	1,770	3,226	3,226	3,226	3,226
Capital and reserves	14,631	27,126	29,125	31,706	35,010
Equity attributable to owners of the Company	8,918	10,155	11,840	14,107	17,097
Non-controlling interests	5,713	16,971	17,285	17,599	17,913
Total equity	14,631	27,126	29,125	31,706	35,010
Cash Flow Statement, RMB mn	2016	2017	2018e	2019e	2019e
Operating activities					
Profit before income tax	2,085	3,626	4,298	5,585	7,178
Operating cash flows before movements in working capital	2,268	3,557	4,566	5,938	7,822
Increase in inventories	(26)	248	-	-	-
Increase in properties for sale	(1,676)	(33,582)	(29,350)	(35,944)	(48,480)
Increase in deposits received for sale of properties	10,012	14,236	26,369	21,261	46,086
Cash (used in) from operations	8,360	(11,559)	1,585	(8,746)	5,429
PRC Income tax paid	(880)	(1,673)	(1,983)	(2,577)	(3,312)
Interest paid	(1,535)	(1,867)	(1,867)	(2,464)	(4,487)
Net cash (used in) from operating activities	5,945	(15,100)	(2,266)	(13,786)	(2,370)
Net cash used in investing activities	(4,069)	(4,179)	-	-	-
Financing activities					
New bank and other borrowings raised	5,245	33,577	40,465	43,656	53,476
Repayment of bank and other borrowings	(5,916)	-	(18,165)	(10,741)	(9,139)
Net cash from (used in) financing activities	808	33,577	23,583	34,599	47,618
Net increase in cash and cash equivalents	2,683	14,298	21,318	20,813	45,248
Effect of foreign exchange rate changes	18	-	-	-	-
Cash and cash equivalents at beginning of the year	7,769	10,471	24,769	46,087	66,900
Cash and cash equivalents at end of the year	10,471	24,769	46,087	66,900	112,148

Source: Company data, AMTD Equity Research

IMPORTANT DISCLOSURES

AMTD Investment Ratings

Stock Rating

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

Analyst Certification

We, Donald Yu and Michelle Li, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Market Limited.

Firm Disclosure

AMTD Global Markets Limited has an investment banking relationship with Aoyuan and/or its affiliate(s) within the past 12 months.

AMTD Global Markets Limited

Address: 23/F & 25/F, Nexus Building, No. 41 Connaught Road Central, Central, Hong Kong

Tel: (852) 3163-3288 **Fax:** (852) 3163-3289

GENERAL DISCLOSURES

The research report is prepared by AMTD Global Markets Limited ("AMTD") and is distributed to its selected clients.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal. It does not (i) constitute a personal advice or recommendation, including but not limited to accounting, legal or tax advice, or investment recommendations; or (ii) take into account any specific clients' particular needs, investment objectives and financial situation. AMTD does not act as an adviser and it accepts no fiduciary responsibility or liability for any financial or other consequences. This research report should not be taken in substitution for judgment to be exercised by clients. Clients should consider if any information, advice or recommendation in this research report is suitable for their particular circumstances and seek legal or professional advice, if appropriate.

This research report is based on information from sources that we considered reliable. We do not warrant its completeness or accuracy except with respect to any disclosures relative to AMTD and/or its affiliates. The value or price of investments referred to in this research report and the return from them may fluctuate. Past performance is not reliable indicator to future performance. Future returns are not guaranteed and a loss of original capital may occur.

The facts, estimates, opinions, forecasts and any other information contained in the research report are as of the date hereof and are subject to change without prior notification. AMTD, its group companies, or any of its or their directors or employees ("AMTD Group") do not represent or warrant, expressly or impliedly, that the information contained in the research report is correct, accurate or complete and it should not be relied upon. AMTD Group will accept no responsibilities or liabilities whatsoever for any use of or reliance upon the research report and its contents.

This research report may contain information from third parties, such as credit ratings from credit ratings agencies. The reproduction and redistribution of the third party content in any form by any means is forbidden except with prior written consent from the relevant third party. Third party content providers do not guarantee the timeliness, completeness, accuracy or availability of any information. They are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability of fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities for investment purposes, and should not be relied on as investment advice.

To the extent allowed by relevant and applicable law and/or regulation: (i) AMTD, and/or its directors and employees may deal as principal or agent, or buy or sell, or have long or short positions in, the securities or other instruments based thereon, of issuers or securities mentioned herein; (ii) AMTD may take part or make investment in financing transactions with, or provide other services to or solicit business from issuer(s) of the securities mentioned in the research report; (iii) AMTD may make a market in the securities in respect of the issuer mentioned in the research report; (iv) AMTD may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this research report or may be providing, or have provided within the previous 12 months, other investment banking services, or investment services in relation to the investment concerned or a related investment.

AMTD controls information flow and manages conflicts of interest through its compliance policies and procedures (such as, Chinese Wall maintenance and staff dealing monitoring).

The research report is strictly confidential to the recipient. No part of this research report may be reproduced or redistributed in any form by any means to any other person without the prior written consent of AMTD Global Markets Limited.