

China Aoyuan Group Limited

Solid 1H20 Results Despite Unprecedented Challenges

Aoyuan's solid 1H20 results should dispel investors' concerns and drive the stock higher, in our view. We find the stock's valuations of 3.7x 2020E P/E attractive, especially considering its 2020E 54% YoY earnings growth is already largely secured by unrecognized sales. We believe Aoyuan is on track to achieve its RMB132bn contracted sales target, with a 45.7% YTD July run-rate. Reiterate Buy.

3.7x 2020E P/E and 9.4% 2020E div yield stock on 54% earnings growth
Aoyuan is trading at distressed valuations of 3.7x 2020E P/E (industry: 5.5x), in our view, implying an attractive 9.4% 2020E div. yield. We estimate the developer's 2020E core attributable net profit to grow by 54% YoY to RMB6.4bn. Such earnings growth has been largely secured by its RMB79bn contracted liabilities achieved on 1H20 balance sheet. As of end-July, the developers' contracted sales YTD run rate has reached 45.7% and we thus believe they are on track to achieve its 12% YoY 2020E contracted sales growth target. We reiterate our Buy rating and Aoyuan remains as one of our top picks of the sector.

On track to deliver a 54% YoY 2020E net profit growth

In 1H20, Aoyuan has realized 39% of our 2020E full year earnings estimates, in-line with our expectations. The developer has RMB79bn of contract liabilities (175% of 2H2020E revenue) on 1H20 balance sheet, implying that its 2H2020E and 1H2021E revenues are already largely secured through pre-sales. As a result, we believe that the distressed 3.7x P/E ratio is unwarranted considering the high earnings visibility to our growth estimate.

Solid 1H20 results should dispel investors' concerns

Aoyuan announced a 1H20 core attrib. net profit of RMB2,450m, up 21% YoY, representing 39% of our 20E earnings estimate (RMB6,354m). GP Margins was at 29.3%, declining slightly from 29.8% of 1H19. Core Net Margins came in at 8.7%, remaining stable from 8.6% in 1H19. Net Debt to Equity as of 1H20 stood at 79.8% (19: 74.9%), while total cash amounted to ~RMB69.4bn, covering 1.5x of short-term debt of ~47.5bn.

Higher contracted sales contributions from JV projects in 1H20

While the developers' net debt to equity has remained stable at 79.8% (end-2019: 74.9%) we have noted that there has been an increase in contracted sales contributions from JV projects during 1H20, with "Amounts Due to JV & Asso" rising to RMB18.6bn (end-2019: RMB12.8bn). As a result, outstanding financial guarantees in respect to bank loans have also increased to RMB20.7bn (end-2019: RMB8bn) accordingly. While this lowers the visibility of Aoyuan's balance sheet leverage, their amount of JV & Associate projects still remains lower than the industry average, in our view.

Deeply discounted valuations unwarranted

Aoyuan is currently trading at 3.7x 2020E P/E (vs industry average 5.5x P/E), which we believe is undervalued as they are on track to offer an attractive 9.4% 2020E dividend yield and 54% 2020E earnings growth. We maintain our Target Price of HK\$14.46/sh, which is based on a 5.5x 2020E P/E.

Stock code: 3883.HK

Rating: Buy

Price target (HK\$)	14.46
Current price (HK\$, 14 Aug 2020)	9.66
Upside/downside %	50%
Market cap (HK\$ m)	26,110
Market cap (US\$ m)	3,369
Avg daily turnover (US\$ m)	11.71

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	50,531	73,156	86,035	98,793
yoy %	63.0%	44.8%	17.6%	14.8%
Gross Profit	15,021	21,747	24,950	28,650
yoy %	55.9%	44.8%	14.7%	14.8%
Core Net Profit	4,122	6,354	7,148	8,161
yoy %	60.1%	54.2%	12.5%	14.2%
Gross margin	29.7%	29.7%	29.0%	29.0%
Net gearing	74.9%	67.1%	77.1%	79.1%
EPS	1.54	2.37	2.66	3.04
DPS	0.55	0.83	0.93	1.06
BPS	5.60	7.14	8.87	10.84

Source: Company data, AMTD Equity Research

Valuation

	2019	2020e	2021e	2022e
P/E	5.7	3.7	3.3	2.9
P/BV	1.6	1.2	1.0	0.8
Div. yield	6.3%	9.4%	10.6%	12.1%
ROE	27.4%	33.2%	30.0%	28.0%
ROA	1.8%	2.0%	2.0%	2.0%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: China Aoyuan Group 1H20 Final Results Summary

1HFY20 Results (RMB '000)	1HFY20A	FY20E	1H20/20E	1HFY19A	YoY/Chg
Sales of properties	27,340,677	70,471,755	39%	22,421,135	22%
Rental income of investment properties	98,483	300,312	33%	88,467	11%
Property management services and others	803,840	2,384,045	34%	1,160,075	-31%
Total Revenue	28,243,000	73,156,113	39%	23,669,677	19%
Cost of Goods Sold	(19,960,897)	(51,409,327)	39%	(16,623,992)	20%
Gross Profit	8,282,103	21,746,786	38%	7,045,685	18%
Other income	221,133	-	N/A	363,926	-39%
Fair value gains on investment properties	352,298	-	N/A	367,184	-4%
Selling and distribution expenses	(1,105,427)	(3,095,350)	36%	(943,658)	17%
Administrative expenses	(1,459,568)	(3,524,815)	41%	(1,153,364)	27%
Share of post-tax loss of an associate	(26,664)	(2,108)	1265%	19,079	-240%
Share of post-tax (losses)/profits of joint ventu	(120,209)	41,162	-292%	7,099	-1793%
Finance costs	(443,769)	(903,095)	49%	(276,415)	61%
Gain on disposal of subsidiaries	420,171	-	N/A	4,576	9082%
Profit before tax	6,120,068	14,262,580	43%	5,434,112	13%
Income tax expense	(3,280,182)	(6,327,274)	52%	(2,634,076)	25%
Net profit	2,839,886	7,935,306	36%	2,800,036	1%
Owners of the Company	2,416,088	6,353,803	38%	2,271,914	6%
Non-controlling interests	423,798	1,581,504	27%	528,122	-20%
Core attributable NP	2,450,478	6,353,803	39%	2,025,182	21%
Key Ratios					
GP Margins	29.3%	29.7%		29.8%	-0.4%
Core Net Margins	8.7%	8.7%		8.6%	0.1%
FY19 Results (RMB '000)	1HFY20A	FY20E		FY19A	YoY/Chg
Net Debt to Equity	79.8%	67.1%		74.9%	N/A
Total Assets to Total Equity	7.1x	7.8x		7.8x	-0.7x

Source: Company Data, E=AMTD Equity Research Estimates

Figure 2: China Property Developers: Peers Valuation comparison

Date	14/8/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19
China Property Developers										
2202 HK	Vanke	26.00	45,060	6.9x	6.2x	5.6x	1.4x	1.2x	1.1x	4.6%
3333 HK	Evergrande	22.40	37,746	15.7x	8.3x	7.3x	1.9x	1.6x	1.4x	3.3%
688 HK	COLI	23.65	33,429	5.7x	6.0x	5.3x	0.8x	0.8x	0.7x	4.5%
1109 HK	CR Land	34.40	31,649	7.6x	9.0x	7.8x	1.3x	1.2x	1.1x	3.5%
960 HK	Longfor	38.30	29,641	13.1x	10.8x	9.1x	2.2x	1.9x	1.7x	3.6%
2007 HK	Country Garden	10.26	29,169	5.0x	4.4x	3.9x	1.3x	1.1x	0.9x	6.3%
1918 HK	Sunac	36.70	22,071	7.0x	5.0x	4.1x	1.8x	1.4x	1.1x	3.8%
813 HK	Shimao	31.85	14,537	8.8x	7.8x	6.5x	1.4x	1.3x	1.1x	5.2%
3380 HK	Logan	13.70	9,756	6.8x	5.6x	4.7x	2.2x	1.7x	1.3x	6.9%
884 HK	CIFI	6.84	7,253	8.7x	5.9x	4.9x	1.6x	1.4x	1.1x	5.1%
1813 HK	KWG	14.64	6,003	4.7x	6.6x	5.3x	1.2x	1.0x	0.9x	5.7%
3383 HK	Agile	10.06	5,084	5.3x	4.5x	4.1x	0.8x	0.7x	0.7x	10.4%
2777 HK	R&F	9.73	4,388	3.0x	3.0x	2.5x	0.4x	0.4x	0.3x	14.9%
1233 HK	Times	13.52	3,387	4.3x	3.8x	3.2x	1.2x	1.0x	0.8x	7.1%
3883 HK	Aoyuan*	9.66	3,369	5.7x	3.7x	3.3x	1.6x	1.2x	1.0x	6.3%
1638 HK	Kaisa	4.00	3,156	8.6x	4.2x	3.3x	0.9x	0.6x	0.5x	2.8%
3900 HK	Greentown	9.50	3,057	8.1x	7.7x	7.1x	0.7x	0.7x	0.6x	3.6%
123 HK	Yuexiu	1.45	2,896	5.4x	4.9x	4.2x	0.5x	0.5x	0.4x	7.1%
6158 HK	Zhenro	4.99	2,812	7.8x	6.4x	5.1x	1.2x	1.1x	0.9x	2.3%
1628 HK	Yuzhou*	3.78	2,703	4.9x	4.8x	3.3x	0.8x	0.7x	0.6x	10.9%
1238 HK	Powerlong*	4.91	2,624	6.7x	4.6x	3.7x	0.6x	0.5x	0.5x	8.4%
2772 HK	Zhongliang	5.50	2,542	4.3x	3.8x	3.0x	2.1x	1.4x	1.0x	18.0%
1966 HK	China SCE	3.83	2,076	4.8x	4.2x	3.4x	0.8x	0.7x	0.6x	6.3%
95 HK	Lvgem*	2.57	1,688	9.4x	7.0x	6.8x	0.9x	0.8x	0.7x	2.4%
3301 HK	Ronshine	6.98	1,533	3.4x	2.8x	2.4x	0.7x	0.6x	0.5x	5.2%
832 HK	CCRE*	3.76	1,358	4.8x	3.7x	2.7x	1.0x	0.8x	0.7x	12.6%
272 HK	Shui On Land	1.17	1,217	5.3x	NA	NA	0.2x	0.2x	NA	10.6%
119 HK	Poly Prop	2.54	1,200	2.8x	3.2x	2.7x	0.3x	0.3x	0.3x	8.2%
1996 HK	Redsun*	2.79	1,195	6.8x	4.8x	4.1x	0.6x	0.6x	0.5x	4.4%
2019 HK	Dexin China	3.09	1,077	4.7x	4.3x	3.6x	1.5x	NA	NA	2.9%
1098 HK	Roadking	10.50	1,015	2.7x	NA	NA	0.4x	NA	NA	11.2%
6111 HK	Dafa*	4.98	532	7.8x	7.4x	7.0x	1.1x	1.0x	0.9x	3.2%
230 HK	Minmetals*	0.96	415	3.9x	4.9x	3.5x	0.3x	0.3x	0.3x	8.3%
Total/Average			315,638	6.4x	5.5x	4.6x	1.1x	0.9x	0.8x	6.7%

Source: Bloomberg Estimates, *AMTD Research Estimates for AMTD Coverage Stocks

Note: As of 14th Aug 2020

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AMTD Investment Ratings

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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

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