

# China Aoyuan Group Limited

## Solid and Steady, Dividend Surprise

We believe the stock's depressed valuations reflects investors' concerns of a potential earnings decline in its results. Following the results announcement, we believe the overhang is removed and we expect the stock to rebound in the coming months. **Maintain Buy.**

### Results overhang removed, ~10% div yield reflects stock's deep value

We believe Aoyuan's special dividend declared reflects the strength in the company's underlying cash flows. As we highlighted in our sector report, "[A Bumpy Ride Ahead, Take Shelter Under Dividend Yield](#)", dated 5 May 2020, we believe property developers like Aoyuan has been undervalued and this is reflected in its high dividend yield. The stock is still offering a 10.8% 2020 dividend yield despite the rebound in share price post-results announcement. The 2.7x 2021E P/E valuation of Aoyuan reflected market's concerns about a potential earnings decline, in our view. We believe this overhang is now removed following the latest results announcement. We thus expect the stock to rebound in the next few months to trade back at levels closer to industry average of ~5.0x P/E. We maintain our Buy Rating.

### A more steady growth ahead, as developer deleverages balance sheet

Aoyuan's contracted sales target is expected to grow by 13% YoY in 2021E to reach RMB150bn, however, we believe the attributable stake in contracted sales will also be lowered amid the higher portion of JV and Associate companies. We expect management to focus their efforts to fulfill the three-red lines during 2021 and deleverage their balance sheet. We thus believe there are downside risks to our 2021E-2022E earnings estimates amid the lower profit margins and lower attributable earnings growth.

### 2020 Core Net Profit grew by 17.8% YoY to RMB4,857m

Aoyuan's 2020 core net profit came in at RMB4,857m, up 17.8% YoY. It is nonetheless below our expectations due to lower than expected GP Margins. 2020 Revenue was at RMB67,794m up 34% YoY, but slightly below our estimate of RMB73,156m. Gross Margins declined to 25% (2019: 29.7%), in-line with the industry amid ASP-control austerity measures. The developer declared a final dividend of RMB0.66/sh and a special dividend of RMB0.11/sh. The aggregate of RMB0.77/sh dividend represents a 44% YoY increase.

### Net Debt to Equity rose to 82.7% reflects a tough 2020

We believe 2020 has been a difficult year for Aoyuan, as it took a last push in December 2020 to achieve a RMB19bn single month contracted sales (14% of full year contracted sales) to meet its contracted sales target. As a result, the cash collection by 31 December 2020 has been impacted, in our view, resulting in a rise in net debt to equity to 82.7% (2019: 74.9%). Contract liabilities have also declined 20% YoY to RMB69,039m by end-2020, which we believe is partly due to the sales in Dec 2020, as well as a rise in JV and Associate companies.

### Stock trading at attractive valuations

Aoyuan is currently trading at 2.7x 2021E P/E, which we believe is undervalued, as can be seen through the attractive 10.8% 2020 dividend yield. We maintain our Target Price of HK\$14.46/sh, which implies a Target 2021E P/E of 4.7x, in-line with the industry average.

Stock code: 3883.HK

Rating: Buy

Price target (HK\$) 14.46

Current price (HK\$, 30 Mar 2021)	8.46
Upside/downside %	71%
Market cap (HK\$ m)	22,807
Market cap (US\$ m)	2,943
Avg daily turnover (US\$ m)	10.98

Source: Bloomberg, AMTD Equity Research

## Key forecasts

(RMB m)	2019	2020	2021e	2022e
Revenue	50,531	67,794	86,035	98,793
yoy %	63.0%	34.2%	26.9%	14.8%
Gross Profit	15,021	17,009	24,950	28,650
yoy %	55.9%	13.2%	46.7%	14.8%
Core Net Profit	4,122	4,857	7,148	8,161
yoy %	60.1%	17.8%	47.2%	14.2%
Gross margin	29.7%	25.1%	29.0%	29.0%
Net gearing	74.9%	82.7%	77.1%	79.1%
EPS	1.54	1.81	2.66	3.04
DPS	0.55	0.77	0.93	1.06
BPS	5.60	6.87	8.87	10.84

Source: Company data, AMTD Equity Research

## Valuation

	2019	2020	2021e	2022e
P/E	4.6	3.9	2.7	2.3
P/BV	1.3	1.0	0.8	0.7
Div. yield	7.7%	10.8%	13.1%	15.0%
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 FY20 Final Results Summary**

<b>FY20 Results (RMB '000)</b>	<b>FY20A</b>	<b>FY20E</b>	<b>Diff (%)</b>	<b>FY19A</b>	<b>YoY/Chg</b>
Sales of properties	64,416,624	70,471,755	-9%	48,090,825	34%
Rental income of investment properties	238,825	300,312	-20%	273,011	-13%
Property management services and others	3,138,343	2,384,045	32%	2,167,314	45%
<b>Total Revenue</b>	<b>67,793,792</b>	<b>73,156,112</b>	<b>-7%</b>	<b>50,531,150</b>	<b>34%</b>
Cost of Goods Sold	(50,784,935)	(51,409,327)	-1%	(35,509,984)	43%
<b>Gross Profit</b>	<b>17,008,857</b>	<b>21,746,786</b>	<b>-22%</b>	<b>15,021,166</b>	<b>13%</b>
Other income	2,178,106	-	N/A	512,515	325%
Fair value gains on investment properties	279,500	-	N/A	397,304	-30%
Selling and distribution expenses	(2,530,938)	(3,095,350)	-18%	(2,138,052)	18%
Administrative expenses	(3,330,082)	(3,524,815)	-6%	(2,434,697)	37%
Share of results of associates	10,531	(2,108)	-600%	(5,332)	-298%
Share of results of joint ventures	(229,075)	41,162	-657%	(45,235)	406%
Finance costs	(1,006,170)	(903,095)	11%	(718,177)	40%
Gain on disposal of subsidiaries	1,227,798	-	N/A	-	N/A
<b>Profit before tax</b>	<b>13,608,527</b>	<b>14,262,580</b>	<b>-5%</b>	<b>10,589,492</b>	<b>29%</b>
Income tax expense	(6,557,481)	(6,327,274)	4%	(5,367,662)	22%
<b>Net profit</b>	<b>7,051,046</b>	<b>7,935,306</b>	<b>-11%</b>	<b>5,221,830</b>	<b>35%</b>
Owners of the Company	5,907,550	6,353,803	-7%	4,200,780	41%
Non-controlling interests	1,146,496	1,581,504	-28%	1,021,050	12%
<b>Core Attrib. Net Profit</b>	<b>4,857,000</b>	<b>6,353,803</b>	<b>-24%</b>	<b>4,121,733</b>	<b>18%</b>
<b>Key Ratios</b>					
GP Margins	25.1%	29.7%		29.7%	-4.6%
Core Net Margins	7.2%	8.7%		8.2%	-1.0%
	<b>FY20</b>	<b>FY20E</b>		<b>FY19A</b>	
Net Debt to Equity	82.7%	67.1%		74.9%	
Total Assets to Total Equity	6.9x	7.8x		7.8x	

Source: Company Data, E=AMTD Equity Research Estimates

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#### Stock Rating

<b>Buy</b>	Stock with potential return of over 20% over the next 12 months
<b>Hold</b>	Stock with potential return of -20% to +20% over the next 12 months
<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

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