

China Aoyuan Property

Upgrade to Buy rating on valuation and strong sales momentum

Upgrade to Buy on valuation, strong sales momentum and strong balance sheet; marginal easing reduces funding pressure for developers

We upgrade Aoyuan to Buy. The company has maintained a faster-than-peer sales momentum on sufficient landbank, strong execution and a strong balance sheet. We are marginally more constructive on property sector in 2019. The easier credit environment both onshore and offshore, the marginal easing on mortgage and purchase restriction in selective cities to support end demand may reduce the funding pressure on property sector. We continue to expect consolidation and increased concentration in the sector.

2018 earnings preview: strong revenue booking and stable GPM; 2019: new launch of Rmb 190bn to support a 25%-30% contracted sales growth

We forecast 2018 revenue to grow by 61.8% YoY to RMB 30.9bn with a slight improvement in gross margin at 29%. We forecast attributable net profit to grow by 61.2% and attr. net margin of 8.5%. The company has achieved RMB 91.3 bn contracted sales in 2018, doubling its size and also exceeding its target of Rmb 73bn by 25%. During 2016-2018, contracted sales were growing at a CAGR of 89%. This would support a strong revenue booking in 2019-2020.

2019 contracted sales target of Rmb 110-120 bn or 25%-30% growth

In 2018, due to strong execution, Aoyuan attributable sales ranking improved to #34 from #43 in 2017. Its sufficient land bank and saleable resources of Rmb 327.5bn (as of Jun-18) would support a new launch of Rmb 190bn. Assuming 60-65% sell-through rate, this would translate to a Rmb 110-120bn contracted sales in 2019. The company has maintained its land acquisition strategy of 30-40% contracted sales each year and now has covered almost all Tier 1 and core T2/T3 cities. As of 1H18, its saleable resources were concentrated in affluent parts of the country with 49% in South China, 18% in core cities in Central and Western China, 18% in East China, 8% in overseas market.

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

We expect gross margin would stay at a relatively stable level and above 25% in 2018e-2020e, factoring the rise in land cost and construction cost. As a result, core attr. net profit will grow at a CAGR of 73% during 2018-2020e.

Sufficient funding to cover maturing dollar bonds in 2019-2020

During Jan-Feb 2019, Aoyuan has issued three dollar bonds: US\$275m Aoyuan 2021 at 7.95%, US\$500m Aoyuan 2022 at 8.50% and US\$225m Aoyuan 2023 at 7.95%. Total proceeds of US\$1bn is sufficient to cover the maturing dollar bonds in 2019/20 of US\$675M. Net gearing ratio was at 67.5% as at Jun-18. To take advantage of the easing credit in offshore market, the company shall explore more opportunities in club loan market.

Revise up price target to HK\$8.90, 31% upside, upgrade to "Buy"

Our price target of HK\$8.90 implies 55% discount to Dec-19 NAV. The stock is trading at 60% discount to Dec-19 NAV, 3.5x 2019e core PE and 0.9x 2019e PB.

Stock code: 3883.HK

Rating: Buy

Previous: Hold

Price target (HK\$)	8.90
Previous price target (HK\$)	8.10
Current price (HK\$, 1 Mar 2019)	6.81
Upside/downside %	31%
Market cap (HK\$ m)	18,236
Market cap (US\$ m)	2,324
Avg daily turnover (HK\$ m)	64

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2017	2018e	2019e	2020e
Revenue	19,115	30,934	50,211	70,299
yoy %	61.6%	61.8%	62.3%	40.0%
Attr NP	1,638	2,672	4,419	6,884
yoy %	86.0%	63.1%	65.4%	55.8%
Core Attr NP	1,386	2,358	4,106	6,570
yoy %	150.8%	57.2%	65.4%	55.8%
Gross margin	26.7%	29.1%	27.2%	27.3%
Net gearing	51.0%	9.7%	66.8%	90.9%
EPS	0.52	0.88	1.54	2.46
DPS	0.15	0.16	0.26	0.41
BPS	3.80	4.64	6.03	8.20

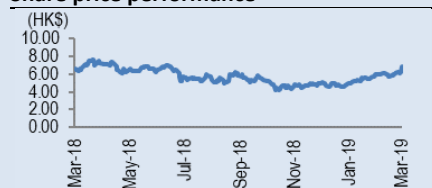
Source: Company data, AMTD Equity Research

Valuation

	2017	2018e	2019e	2020e
P/E	10.3	6.0	3.5	2.2
P/BV	1.4	1.1	0.9	0.6
Div. yield	2.8%	3.0%	4.9%	7.7%
ROE	17.8%	23.7%	31.0%	36.2%
ROA	1.7%	1.9%	2.7%	3.8%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: P&L forecast and key ratios

PnL, RMB mn	2016	2017	2018e	2019e	2020e	YoY growth				
						2016	2017	2018e	2019e	2020e
Revenue	11,827	19,115	30,934	50,211	70,299	23.6%	61.6%	61.8%	62.3%	40.0%
Sales of properties	11,240	17,960	29,548	48,687	68,622					
Cost of sales	(8,550)	(14,004)	(21,942)	(36,536)	(51,080)					
Gross profit	3,277	5,111	8,992	13,675	19,219	23.8%	56.0%	75.9%	52.1%	40.5%
Selling expenses	(592)	(926)	(1,552)	(2,168)	(2,515)	21.2%	56.4%	67.6%	39.7%	16.0%
Administrative expenses	(489)	(800)	(1,598)	(2,054)	(2,383)	21.8%	63.4%	99.8%	28.6%	16.0%
Share of post-tax loss of an associate	-	0	0	0	0					
Share of post-tax (losses)/profits of joint ventures	(32)	(116)	(58)	(58)	(58)				153.4%	
Finance costs	(157)	(268)	(239)	(606)	(898)	72.1%	70.2%	10.7%		48.2%
Profit before tax	2,085	3,626	5,544	8,789	13,365	10.6%	73.9%	52.9%	58.5%	52.1%
Income tax expense	(1,078)	(1,673)	(2,558)	(4,055)	(6,167)					
Profit for the year	1,007	1,952	2,986	4,733	7,198	10.9%	93.9%	53.0%	58.5%	52.1%
Profit for the year attributable to:										
Net profit	881	1,638	2,672	4,419	6,884	8.5%	86.0%	63.1%	65.4%	55.8%
Core net profit	678	1,700	2,672	4,419	6,884	18.3%	150.8%	57.2%	65.4%	55.8%
Non-controlling interests	126	314	8.6%	8.8%	9.8%					
Dividends	245	259	423	699	1,089					
Special Dividends	-	142	-	-	-					
EPS - basic	0.32	0.61	1.00	1.65	2.58					
EPS-underlying	0.20	0.52	0.88	1.54	2.46					
DPS - basic	0.09	0.15	0.16	0.26	0.41					
BVPS	3.27	3.80	4.64	6.03	8.20					
Key Ratios, RMB mn	2016	2017	2018e	2019e	2020e					
GPM	27.7%	26.7%	29.1%	27.2%	27.3%					
NPM	7.4%	8.6%	8.6%	8.8%	9.8%					
Core NPM	5.7%	8.9%	8.6%	8.8%	9.8%					
ROA	1.5%	1.7%	1.9%	2.7%	3.8%					
ROCE	2.9%	3.3%	4.2%	6.6%	8.1%					
ROE	7.9%	17.8%	23.7%	31.0%	36.2%					
Total Debt / EBITDA	8.2x	10.4x	5.1x	4.4x	3.9x					
Total Debt / Equity	125.6%	148.8%	98.5%	122.2%	138.9%					
Total Debt / Capitalization	55.7%	59.8%	49.6%	55.0%	58.1%					
Net Debt / EBITDA	3.3x	3.6x	0.5x	2.4x	2.5x					
Net Debt / Equity	50.7%	51.0%	9.7%	66.8%	90.9%					
Net Debt / Capitalization	22.5%	20.5%	4.9%	30.1%	38.0%					
Current Ratio	165.5%	153.6%	175.3%	165.5%	181.7%					
Cash / Total Assets	16.5%	21.1%	17.2%	11.0%	9.8%					
Inventory / Total Assets	66.1%	61.4%	68.3%	76.0%	79.0%					
Net debt / Net Inventory	16.9%	17.9%	2.8%	17.4%	23.4%					
Quick Ratio	135.2%	118.5%	143.0%	146.2%	163.1%					
Cash Ratio	30.3%	35.1%	32.3%	19.3%	18.7%					
Interest Coverage	1.3x	1.8x	0.0x	0.0x	0.0x					

Source: Company data, AMTD Equity Research

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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

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