

China Aoyuan Property Group Limited

(3883.HK / 3883 HK)

DECREASE TARGET PRICE

Rating	OUTPERFORM [V]
Price (18-Oct-18, HK\$)	4.52
Target price (HK\$)	(from 7.80) 5.90
Upside/downside (%)	30.5
Mkt cap (HK\$/US\$ mn)	12,121 / 1,546
Enterprise value (Rmb mn)	31,302
Number of shares (mn)	2,682
Free float (%)	45.7
52-wk price range (HK\$)	7.59-3.83
ADTO-6M (US\$ mn)	8.3

Target price is for 12 months.

[V] = Stock Considered Volatile (see Disclosure Appendix)

Research Analysts

Jianping Chen
852 2101 7189
jianping.chen@credit-suisse.com

Summer Wang, CFA
852 2101 6539
summer.wang@credit-suisse.com

Patrick Ng
852 2101 7163
patrick.ng@credit-suisse.com

Strong earnings growth amid robust sales

- Scorecard ranking.** We rank Aoyuan eighth in our scorecard analysis: (landbank (18th); profitability (1st); sales execution (1st); net gearing (8th). Its primary edge in profitability is backed by its high revenue lock-in (135% as at end of Jun-2018) and thus has high earnings visibility. Meanwhile, Aoyuan's advantage is in sales execution, as evidenced by its high target achievement ratio (84% in 9M18). Nevertheless, its overall score is dragged down by its less competitive landbank with lower exposure to our preferred top-50 cities (63% in GAV) and shorter digestion years (3.5 years).
- Edge in sales execution.** We appreciate Aoyuan's strong sales execution despite concerns over its landbank quality. We estimate a sales CAGR of 30% for Aoyuan from 2017-20E leading it to leap into the Rmb100 bn sales league in 2020E. Accumulated sales of Rmb61 bn in 9M18 (up 137% YoY) represented 84% of its 2018 full-year sales target. We estimate that it will beat the sales target and achieve ~Rmb78 bn along with the launch of more saleable resources in 4Q18.
- High earnings growth visibility.** Aoyuan's unrecognised sales of Rmb84 bn as at end of Jun-2018 have effectively secured our estimate for its development revenue in FY18-19E. Looking ahead, the robust contracted sales growth should drive 40% earnings CAGR over 2017-20E, in our view.
- Maintain OUTPERFORM.** We lower our FY19/20 earnings estimates by 4%/5% to reflect 3%/6% cuts in our assumptions for property prices in tier 2/lower-tier cities. This, along with faster construction assumptions, leads us to revise down its NAV estimate by 10%. We widen the NAV discount to 50% (vs. 40% previously) based on our scorecard analysis and thus reduce our target price to HK\$5.90 (from HK\$7.80). Maintain OUTPERFORM.

Share price performance



The price relative chart measures performance against the MSCI CHINA F IDX which closed at 7,336.79 on 18/10/18. On 18/10/18 the spot exchange rate was HK\$7.84/US\$1

Performance	1M	3M	12M
Absolute (%)	(15.7)	(12.9)	2.3
Relative (%)	(8.7)	2.6	19.8

Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
Revenue (Rmb mn)	19,115.3	31,485.5	41,948.1	56,578.9
EBITDA (Rmb mn)	3,545.2	5,599.2	7,408.8	10,088.6
EBIT (Rmb mn)	3,491.2	5,533.0	7,300.1	9,909.7
Net attributable profit (Rmb mn)	1,360.9	2,176.7	2,878.4	3,704.0
EPS (CS adj.) (Rmb)	0.51	0.81	1.08	1.38
Chg. from prev. EPS (%)	n.a.	0.0	(4.3)	(4.6)
Consensus EPS (Rmb)	n.a.	0.89	1.26	1.66
EPS growth (%)	36.6	59.9	32.2	28.7
P/E (x)	7.9	4.9	3.7	2.9
Dividend yield (%)	6.2	8.1	10.8	13.8
EV/EBITDA (x)	7.5	5.8	4.1	2.9
ROE (%)	14.3	20.0	22.7	24.8
Net debt/equity (%)	58.8	74.3	62.1	52.3
NAV per share (Rmb)	9.09	9.85	-	-
Disc./ (prem.) to NAV (%)	56.0	59.4	-	-

Source: Company data, Thomson Reuters, Credit Suisse estimates