

China Aoyuan Property Group (3883 HK)

Member of quant-based [HTI Portfolios](#): Momentum

Target Price **HK\$9.19**
 Current Price **HK\$5.51**
 % Upside **67%**

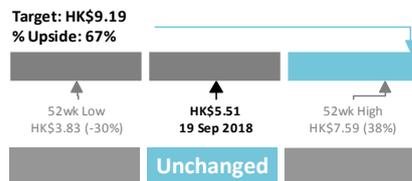
Second-Highest YTD Contracted Sales Growth of the Major Developers

Real Estate

Hong Kong

19 Sep 2018

BUY



Basic Share Information

Market cap	HK\$14.78b / US\$1.88b
Daily traded value (3mth)	US\$7.66m
Shares outstanding	2,672m
Free float	46%
Net debt-to-equity	56.5%
1 yr high	HK\$7.59
1 yr low	HK\$3.83
Major shareholding	54.1%
Last HTI contact w/ Co	14 Sep 18

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	7.2%	-13.6%	5.8%
Absolute USD	7.3%	-13.5%	5.4%
Relative to HSI	7.7%	-5.5%	9.3%



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Locked-In Achievement Outperforms Peers

Summary: We reiterate our BUY rating on China Aoyuan (Aoyuan) and raise our target price from HK\$8.41 to HK\$9.19. In the first eight months of 2018, Aoyuan's locked-in rate was 73%, higher than the major developer peer average of 63%. In the same period, Aoyuan's sales growth was also outstanding among the 29 developers we track, at 140% YoY, compared with a peer average of 35% YoY. Aoyuan acquired 31 plots of new land in H1 FY18, with total GFA of 7.3mn sqm, and attributable GFA of 6.2mn sqm. Compared with the H1 FY18 contracted GFA of 3.9mn sqm, and the FY17 contracted GFA of 4.5mn sqm, we believe Aoyuan's land acquisitions and land bank are sufficient for its future development. The company's Rmb73bn sales target for FY18 is beatable, in our view.

Target Price and Catalyst: We raise our net asset value (NAV) estimate from HK\$14.0 to HK\$15.3 per share to reflect the new projects acquired in H1 FY18. We maintain our target discount to NAV of 40% to derive our new target price of HK\$9.19. Fast-growing contracted sales in coming months and full-year sales numbers for 2018 could be catalysts for the shares, in our view.

Earnings: Contracted sales grew at a significant 55% CAGR in FY14–17. At end-H1 FY18, contracted sales yet to be recognized as revenue in the coming two years stood at around Rmb78bn. After factoring in new projects acquired in H1 FY18, we raise our revenue estimates for FY19 and FY20 by 8% each. We thus expect a 43% revenue CAGR over our forecast period (compared with our previous expectation of 39%). We believe Aoyuan can beat its FY18 contracted sales target of Rmb73bn, and grow further in FY19 and FY20. We expect GPM in a range of 25–28%, and NPM around 8–9% in FY18–20. We expect a 43% net profit CAGR over the same period.

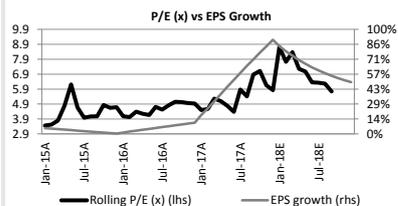
Valuation: We add projects newly acquired in H1 FY18 to our model to derive our new NAV of HK\$15.3 per share (up from HK\$14 per share previously). Aoyuan is currently trading at a 64% discount to our NAV estimate, and on 5.3x our FY18 EPS estimate, higher than the 4.8x of peers with similar market caps. Driven by high sales growth, we think that Aoyuan could trade above the average small and mid-sized developer discount to NAV. We continue to use a 40% discount to our NAV estimate to derive our target price of HK\$9.19.

	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E	Trend
Total turnover (Rmbm)	11,827	19,115	28,985	44,255	55,507	— — — — ■■
Operating profit (Rmbm)	1,965	3,677	5,587	7,868	10,127	— — — — ■■
Pre-tax profit (Rmbm)	2,085	3,626	5,731	7,786	10,007	— — — — ■■
Net income to ord equity (Rmbm)	881	1,640	2,454	3,479	4,789	— — — — ■■
Net profit growth	8.5%	86.2%	49.6%	41.8%	37.7%	— ■ — — — —
P/E (x)	14.93	7.86	5.26	3.71	2.70	■ — — — — —
Adj EV/EBITDA (x)	14.79	13.11	8.30	5.59	4.32	— ■ — — — —
P/B (x)	1.44	1.27	1.08	0.89	0.72	■ — — — — —
ROE	10.3%	17.2%	22.2%	26.4%	29.7%	— — — — ■■
Dividend yield	3.1%	5.2%	7.6%	10.8%	14.8%	— — — — ■■
EPS HTI old (Rmb)	0.32	0.61	0.94	1.26	1.73	— — — — ■■
EPS HTI New (Rmb)	0.32	0.61	0.92	1.30	1.79	— — — — ■■
Consensus EPS (Rmb)	0.38	0.61	0.87	1.23	1.66	— — — — ■■
HTI EPS vs Consensus	(15.0%)	1.4%	5.4%	5.4%	7.6%	■ — — — — —

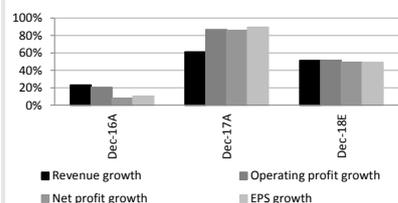
Source: Company data, Bloomberg, HTI estimates

Click [here](#) to download the working model

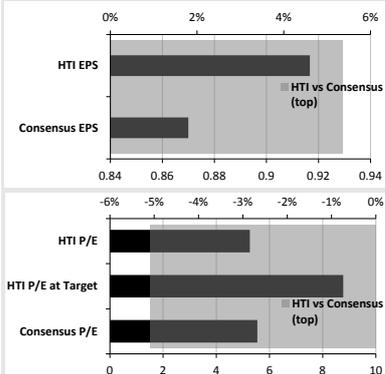
Valuation



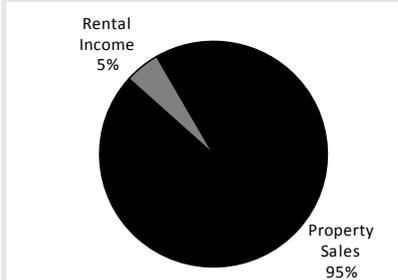
Earnings Trends



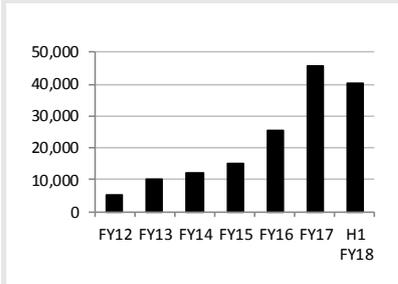
Earnings: HTI vs Consensus



H1 FY18 Revenue Breakdown



Contracted Sales Trend (Rmb mn)



Investment Thesis

BUY

- Contracted sales have grown rapidly in recent years, with a significant 55% CAGR in FY14–17. The company’s Rmb73bn sales target for FY18 is beatable, in our view.
- Due to balance sheet strengthening, borrowing costs fell from 11.4% in FY13 to 7.3% in June 2018. As of end-June 2018, total cash amounted to about Rmb26bn, sufficient to cover short-term debt of Rmb25bn.
- In the first eight months of 2018, Aoyuan’s locked-in rate was 73%, higher than the major developer peer average of 63%. In the same period, Aoyuan’s sales growth was also outstanding among the 29 developers we track, at 140% YoY, compared with a peer average of 35% YoY.
- Aoyuan acquired 31 plots of new land in H1 FY18, with total GFA of 7.3mn sqm, and attributable GFA of 6.2mn sqm. Compared with the H1 FY18 contracted GFA of 3.9mn sqm, and the FY17 contracted GFA of 4.5mn sqm, we believe Aoyuan’s land acquisitions and land bank are sufficient for its development in coming years.
- Risks include economic growth in China being much lower than our expectations, impacting property-buying sentiment, new property launches being slower than our expectations, and any tightening of government policies on China’s property market, especially in Big Bay Area where Aoyuan owns large land bank. In the case of any of these events, revenue may not grow as fast as we expect.

Company Snapshot

Aoyuan has been developing residential properties for more than two decades, incorporating healthy living concepts into residential communities. Aoyuan was listed on the Main Board of the Hong Kong Stock Exchange in 2007. As of 30 June 2018, Guo Zi Wen, founder and chairman, owned 54% of the company’s shares. Aoyuan’s strategy is to focus on China’s five major economic regions—the Pearl River Delta, the Yangtze River Delta, the Yangtze Delta, Central and Western China, and the Beibuwan and Bohai Rim.

Key Investment Metrics

Revenue Growth

Low Medium **High**

Contracted sales grew at a significant 55% CAGR in FY14–17. We believe Aoyuan can beat its FY18 contracted sales target of Rmb73bn, and grow further in FY19 and FY20. We thus expect a 43% revenue CAGR over our forecast period (up from our previous expectation of 39%).

Profit Margins

Low **Medium** High

We expect GPM in a range of 25–28%, and NPM around 8–9% in FY18–20, excluding any change in the fair value of investment properties. We expect a 43% CAGR for net profit over FY18–20.

Shareholder Returns

Low **Medium** High

The core payout ratio was stable at 31–34% in FY13–16, and rose to 41% in FY17, while we assume around 40% over our forecast horizon.

Balance Sheet Risks

High Medium **Low**

The net gearing ratio trended down from 82% in FY14 to 56% in FY17, while contracted sales showed a 55% CAGR in FY14–17. Due to balance sheet strengthening, borrowing costs fell from 11.4% in FY13 to 7.3% in June 2018. As of end-June 2018, total cash amounted to about Rmb26bn, sufficient to cover short-term debt of Rmb25bn. We expect funding costs to fall further.

Barriers to Entry

Low Medium High

Barriers to entry to China's property sector are not high, as evidenced by the more-than-90,000 developers in China.

International Exposure/Breakdown

High **Medium** Low

Aoyuan mainly operates in China, focusing on five major economic regions, while it had 10 overseas projects (six in Sydney, three in Vancouver, and one in Toronto) as of June 2018.

FX Exposure

High Medium **Low**

We think foreign currency risk is small. The company's major transactions are conducted in CNY. At June 2018, only 5.1% of total cash was denominated in foreign currencies. The Group has entered into certain foreign currency forward contracts to keep net exposure to currency risk at an appropriate level.

Corporate Governance

Low Medium **High**

Aoyuan has been listed on the SEHK since 2007 and has a clean track record of corporate governance. There are four executive directors and three independent non-executive directors on its board. The company's website provides both English- and Chinese-language information to investors. We consider Aoyuan's corporate governance to be good.

Our Model Assumptions

At end-H1 FY18, Rmb78bn of contracted sales were yet to be recognized as revenue in the coming two years

We do not factor any revaluation gains into our estimates for FY18–20

We expect the proportion of non-controlling interests to increase from 9% of total profits before tax to 12–13% over FY18–20

✓ **Key P/L Takeaway**
We believe Aoyuan can beat its FY18 contracted sales target of Rmb73bn

Profit & Loss (Rmbm)	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E
Total turnover	11,827	19,115	28,985	44,255	55,507
Cost of sales	(8,550)	(14,004)	(20,991)	(33,391)	(41,680)
Gross profit	3,277	5,111	7,994	10,865	13,828
Total operating costs	(1,082)	(1,726)	(2,565)	(3,128)	(3,810)
Net other operating income	(231)	292	158	131	110
Operating profit	1,965	3,677	5,587	7,868	10,127
Operating EBITDA	2,006	3,731	5,657	7,948	10,219
Depreciation and amortisation	(42)	(53)	(70)	(80)	(91)
Net income from investments	277	220	301	192	244
Interest expense	(157)	(268)	(157)	(275)	(364)
Exceptional income - net	0	(4)	-	-	-
Pre-tax profit	2,085	3,626	5,731	7,786	10,007
Taxation	(1,078)	(1,674)	(2,545)	(3,317)	(3,994)
Minority interests	(126)	(312)	(733)	(990)	(1,225)
Net income to ord equity	881	1,640	2,454	3,479	4,789

Source: Company, HTI estimates

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Contracted sales grew at a significant 55% CAGR in FY14–17. At end-H1 FY18, contracted sales yet to be recognized as revenue in the coming two years were around Rmb78bn. After factoring in new projects acquired in H1 FY18, we raise our revenue estimates for FY19 and FY20 by 8% each. We thus expect a 43% revenue CAGR over our forecast period (compared with our previous expectation of 39%). We believe Aoyuan can beat its FY18 contracted sales target of Rmb73bn.

Our Model Assumptions

We do not expect inventories to rise

Other current assets includes properties for sale

Tangible fixed assets includes investment properties

We do not think the company is likely to issue new shares

Balance Sheet (Rmbm)	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E
Total cash and equivalents	10,956	26,540	20,987	15,986	12,421
Inventories	26	138	138	138	138
Other current assets	48,847	89,432	129,117	164,312	200,588
Total current assets	59,830	116,110	150,242	180,437	213,147
Tangible fixed assets	5,930	7,079	7,490	7,997	8,544
Intangible assets	5	33	33	33	33
Total investments	326	196	196	196	196
Total other assets	328	2,387	1,515	1,548	1,585
Total non-current assets	6,589	9,696	9,234	9,775	10,358
Total assets	66,418	125,806	159,476	190,211	223,505
Short-term debt	4,506	20,490	18,990	17,490	15,990
Accounts payable	6,795	14,579	17,204	19,784	22,752
Other current liabilities	24,842	40,504	75,227	105,116	132,604
Total current liabilities	36,143	75,573	111,420	142,390	171,346
Long-term debt	4,983	15,916	12,416	8,916	8,916
Other liabilities	10,662	7,191	6,218	6,294	6,377
Total non-current liabilities	15,645	23,106	18,633	15,209	15,293
Total liabilities	51,787	98,680	130,054	157,599	186,639
Common stocks	25	25	25	25	25
Retained earnings reserve	8,893	10,130	11,913	14,410	17,807
Shareholders' equity	8,918	10,155	11,938	14,435	17,832
Minority interests	5,713	16,971	17,484	18,177	19,034
Other equity	-	-	-	(0)	(0)
Total equity	14,631	27,126	29,422	32,612	36,867
Total liabilities & shareholders' equity	66,418	125,806	159,476	190,211	223,505

Source: Company, HTI estimates

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✓ **Key B/S Takeaway**

Due to balance sheet strengthening, borrowing costs fell from 11.4% in FY13 to 7.3% in June 2018

The net gearing ratio trended down from 82% in FY14 to 56% in FY17, while contracted sales showed a 55% CAGR in FY14–17. Due to balance sheet strengthening, borrowing costs fell from 11.4% in FY13 to 7.3% in June 2018. As of end-June 2018, total cash amounted to about Rmb26bn, sufficient to cover short-term debt of Rmb25bn. We expect funding costs to fall further.

Our Model Assumptions

We expect interest expenses to increase gradually over FY18–20

As the chairman was buying Aoyuan shares in H1 FY18, we do not expect any new share issuance

Free cash flow was negative in FY17; We assume it turns positive again in FY18, then increases in FY19 and FY20; The high cash flow in FY16 was due to new debt

Cash Flow (Rmbm)	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E
Operating profit	1,965	3,677	5,587	7,868	10,127
Depreciation and amortisation	42	53	70	80	91
Changes in working capital	(3,310)	(17,405)	(2,551)	(2,961)	(6,077)
Other operating cash flow	8,331	8,711	(122)	(16)	3,563
Operating cash flow	7,027	(4,963)	2,984	4,971	7,705
Interest paid	(157)	(268)	(157)	(275)	(364)
Tax paid	(925)	(1,532)	(2,293)	(3,040)	(3,689)
Cash flow from operations	5,945	(6,763)	533	1,656	3,651
Capex	(703)	(754)	(481)	(587)	(638)
Other investing cash flow	(3,366)	(9,190)	158	131	110
Cash flow from investing activities	(4,069)	(9,944)	(323)	(456)	(528)
Increase in debt	(671)	19,663	(5,000)	(5,000)	(5,000)
Other financing cash flow	1,478	11,383	(764)	(1,201)	(1,688)
Cash flow from financing activities	808	31,046	(5,764)	(6,201)	(6,688)
Cash at beginning of period	7,769	10,471	24,769	19,216	14,215
Total cash generated	2,683	14,339	(5,553)	(5,001)	(3,566)
Forex effects	18	(41)	-	-	1
Implied cash at end of period	10,471	24,769	19,216	14,215	10,651
Free cash flow	5,242	(7,517)	53	1,069	3,013

Source: Company, HTI estimates

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✓ **Key Cash Flow Takeaway**
Unbooked sales at end-June 2018 were around Rmb78bn, high compared with the Rmb18bn of recognized sales in FY17

Operating cash flow was negative in FY12–15, turning positive in FY16 due to growth in profits and higher property sales. We expect operating cash flow to remain positive. We think Aoyuan's existing land reserves should be sufficient for future demand.

Our Model Assumptions

The core payout ratio was 31–34% in FY13–16, rising to 41% in FY17; We assume around 40% in our forecast horizon

We expect NPM in a range of 8–9% over FY18–20

We expect net gearing to drop in FY18 and FY19, as equity increases on higher profit recognition and growth in contracted sales

 **Key Driver Takeaway**
We think Aoyuan has high ability to transform growth into profitability

Per Share Data	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E
EPS (Rmb)	0.32	0.61	0.92	1.30	1.79
FDEPS (Rmb)	0.32	0.61	0.92	1.30	1.79
Revenue per share (Rmb)	4.34	7.15	10.83	16.53	20.74
Operating EBITDA per share (Rmb)	0.74	1.40	2.11	2.97	3.82
BVPS (Rmb)	3.34	3.79	4.46	5.39	6.66
DPS (Rmb)	0.15	0.25	0.37	0.52	0.72
Recurrent cash flow per share (Rmb)	2.18	(2.53)	0.20	0.62	1.36
Shares in issue (million)	2,672	2,677	2,677	2,677	2,677
Year end adjusted shares in issue (m)	2,672	2,677	2,677	2,677	2,677
Key Ratios	Dec-16A	Dec-17A	Dec-18E	Dec-19E	Dec-20E
Valuation Measures					
P/Sales (x)	1.11	0.67	0.45	0.29	0.23
P/E (x)	14.93	7.86	5.26	3.71	2.70
P/CF (x)	2.21	na	24.20	7.80	3.54
P/B (x)	1.44	1.27	1.08	0.89	0.72
Adj EV/EBITDA (x)	14.79	13.11	8.30	5.59	4.32
Dividend yield	3.1%	5.2%	7.6%	10.8%	14.8%
Growth					
Revenue growth	23.6%	61.6%	51.6%	52.7%	25.4%
Operating profit growth	20.9%	87.2%	51.9%	40.8%	28.7%
Net profit growth	8.5%	86.2%	49.6%	41.8%	37.7%
Margins					
Gross margin	27.7%	26.7%	27.6%	24.5%	24.9%
Operating EBITDA margin	17.0%	19.5%	19.5%	18.0%	18.4%
Operating margin	16.6%	19.2%	19.3%	17.8%	18.2%
Pretax profit margin	17.6%	19.0%	19.8%	17.6%	18.0%
Tax rate	51.7%	46.2%	44.4%	42.6%	39.9%
Net profit margin	7.4%	8.6%	8.5%	7.9%	8.6%
Key Ratios					
ROE	10.3%	17.2%	22.2%	26.4%	29.7%
ROA	1.5%	1.7%	1.7%	2.0%	2.3%
Capex/revenue	5.9%	3.9%	1.7%	1.3%	1.1%
Current ratio (x)	1.66	1.54	1.35	1.27	1.24
Creditor days	290.8	380.0	299.2	216.3	199.8
Inventory days	1.13	3.60	2.40	1.51	1.21
Sales/avg assets	0.21	0.20	0.20	0.25	0.27
Credit analysis					
EBITDA/interest paid (x)	12.74	13.93	35.93	28.91	28.07
OCF/interest paid (x)	37.76	(25.25)	3.39	6.02	10.03
Debt/EBITDA (x)	4.73	9.76	5.55	3.32	2.44
Debt/equity	64.9%	134.2%	106.7%	81.0%	67.6%
Net debt to equity	58.9%	56.5%	54.0%	48.7%	48.7%

Source: Company, HTI estimates

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We expect GPM in a range of 25–28%, and NPM around 8–9% in FY18–20. We expect a 43% net profit CAGR over the same period.

The core payout ratio was stable at 31–34% in FY13–16, and rose to 41% in FY17, while we assume around 40% over our forecast horizon.

Aoyuan had a 55% contracted sales CAGR in FY14–17, and we expect further growth

Newly acquired land centers on southern China, especially the Big Bay Area

Company Outline and Operational Review

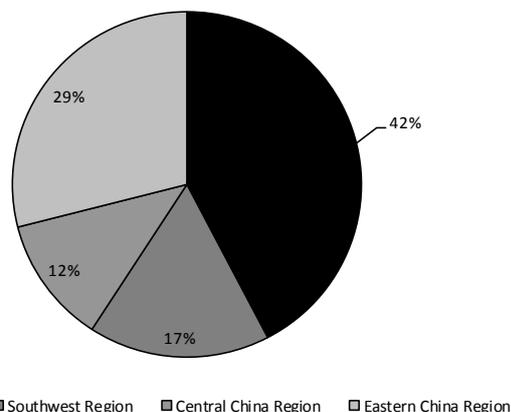
Contracted sales have grown rapidly in recent years, with a significant 55% CAGR in FY14–17. The company's Rmb73bn sales target for FY18, looks set to be beat, considering that, as of H1 FY18 it had already reached 55% of the full-year target, while Aoyuan's sales split between H1 and H2 is generally 40:60. The company started construction of 22 new projects in H1 FY18 and is scheduled to start a further 30 projects in H2. Aoyuan has Rmb123bn of saleable resources in FY18. We believe Aoyuan can go past its FY18 sales target, and we expect contracted sales to grow further throughout our forecast period.

New Land Acquisitions in H1 FY18

Aoyuan acquired 31 plots of new land in H1 FY18, for a gross consideration of Rmb15bn, of which, the attributable consideration was Rmb13bn. On a GFA-weighted average, Aoyuan owns about 86% of total newly acquired land. Total GFA is 7.3mn sqm, and attributable GFA is 6.2mn sqm. Compared with the H1 FY18 contracted GFA of 3.9mn sqm, and the FY17 contracted GFA of 4.5mn sqm, we believe Aoyuan's land acquisitions and land bank are sufficient for its development in the coming one or two years.

From a location viewpoint, newly acquired land still centers on southern China (42% of acquired GFA), especially the Big Bay Area. Next is eastern China, accounting for 29% of acquired GFA. Southwest and central China account for the remaining 29% of GFA. By city, newly acquired land in H1 mainly focuses on tier-2 and tier-3 cities.

New Acquisition Breakdown (H1 FY18)



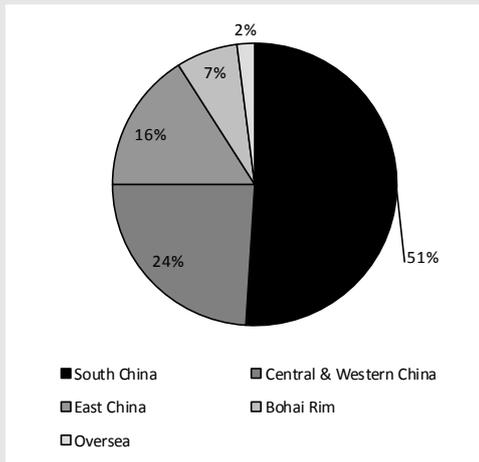
Source: Company data

Land Bank

As of end-June 2018, Aoyuan had 30mn sqm total GFA, of which, the saleable area is about 3mn sqm, area under development is 12mn sqm, and area pending development is 15mn sqm. By sector, residential properties account for 72% of total GFA and commercial properties for 28%. By region, Aoyuan is still focusing on the Big Bay Area, which accounts for 51% of total GFA, but this proportion has dropped a little from one year earlier—it stood at 58% at end-H1 FY17 and 56% at end-FY17.

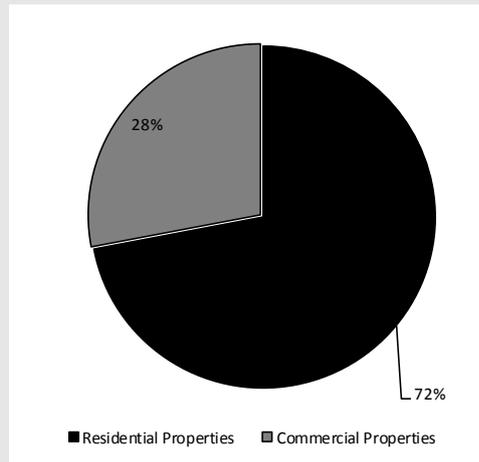
Aoyuan is still focusing on the Big Bay Area, which accounts for 51% of total GFA

GFA Breakdown by Region (H1 FY18)



Source: Company data

GFA Breakdown by Type (H1 FY18)



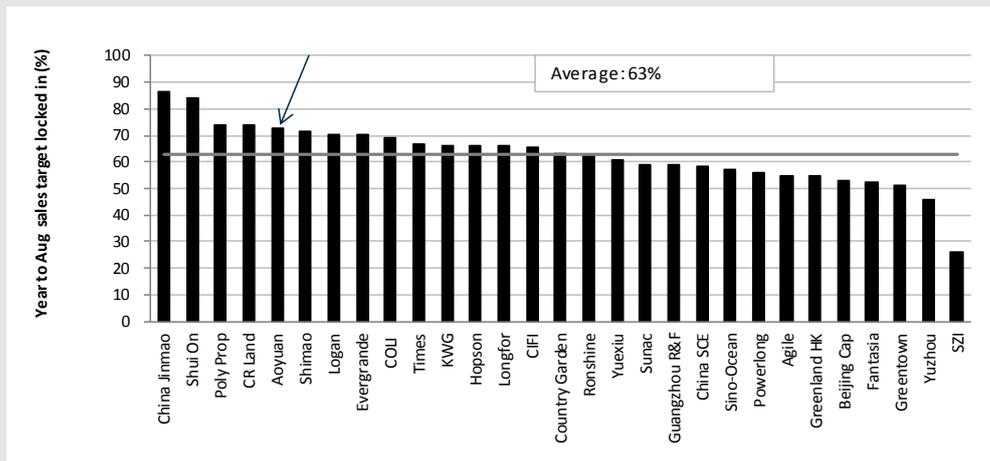
Source: Company data

Strong Performance Compared with Developer Peers

In the first eight months of 2018, most of China’s major developers had met 50% of their full-year sales targets. In this period, the average locked-in rate of these 29 China developers was 63%. Aoyuan’s locked-in rate of 73% was higher than the average, and ranked fifth of the 29 major developers we track. We thus believe Aoyuan can easily meet its full-year target, and is likely to beat the target. We also expect Aoyuan’s contracted sales to continue to grow in FY19 and FY20.

Aoyuan’s locked-in rate in the first eight months of 2018 was 73%, higher than the 63% peer average

Contracted Sales Target Locked-In Rates

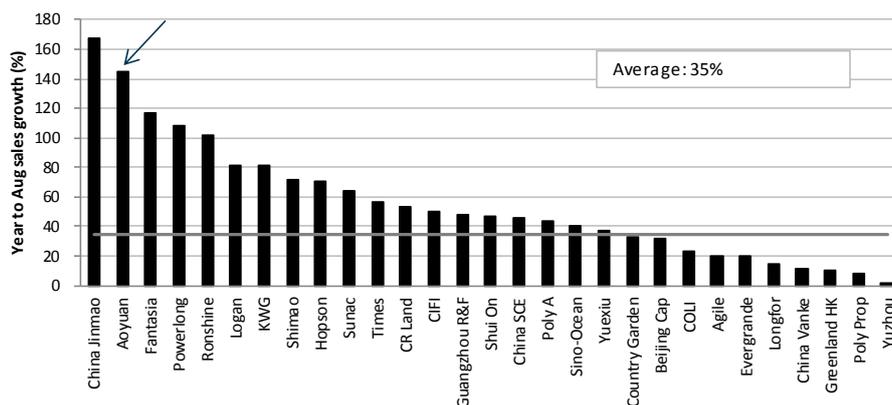


Source: Company data

Aoyuan’s contracted sales growth is also higher than those of most of its peers. In 2018, to August, sales growth was 140% YoY, much higher than the average of 35% YoY, and Aoyuan ranks behind only China Jinmao (817 HK) of the 29 China developers we track. We think this rapid sales growth could drive recognized revenue growth in coming years, and we have a positive outlook for sales over our forecast period.

In the first eight months of 2018, Aoyuan's contracted sales growth was 140% YoY, much higher than the average of 35% YoY

Contracted Sales Growth (January–August 2018)



Source: Company data

Valuation

We add projects newly acquired in H1 FY18 to our model to derive our new NAV of HK\$15.3 per share (up from HK\$14 per share previously). Aoyuan is currently trading at a 64% discount to our NAV estimate, and on 5.3x our FY18 EPS estimate, higher than the 4.8x of peers with similar market caps. Driven by high sales growth, we think that Aoyuan could trade above the average small and mid-sized developer discount to NAV. We continue to use a 40% discount to our NAV estimate to derive our target price of HK\$9.19.

Non-SOE Mid- and Small-Cap Peers (Below HK\$100bn Market Cap)

		Share		PE (X)	PE (X)	PB (X)	PB (X)
	Ticker	price	Mkt cap	FY18	FY19	FY18	FY19
		(HK\$)	(HK\$m)				
Aoyuan	3883 HK	5.51	14,775	5.3	3.7	1.1	0.9
Agile	3383 HK	11.46	44,889	5.1	4.1	0.9	0.8
China SCE	1966 HK	3.11	11,892	3.4	2.6	0.7	0.6
CIFI	884 HK	4.08	31,693	4.8	3.7	1.1	1.0
Guangzhou R&F	2777 HK	14.88	47,949	3.6	2.8	0.6	0.5
KWG	1813 HK	7.80	24,747	4.7	3.6	0.7	0.6
Logan	3380 HK	9.27	50,928	6.5	5.3	1.9	1.6
Powerlong	1238 HK	3.58	14,310	3.1	2.6	0.4	0.4
Shimao	813 HK	21.35	71,101	6.4	5.6	0.9	0.8
Shui On	272 HK	1.77	14,270	7.0	6.3	0.3	0.3
Times	1233 HK	8.51	15,606	3.4	3.0	0.7	0.6
Yuzhou	1628 HK	3.50	16,280	3.3	2.5	0.8	0.6
Ronshine	3301 HK	9.44	15,090	5.3	3.8	1.0	0.8
Average	–	–	–	4.8	3.8	0.9	0.7
Aoyuan	3883 HK	5.51	14,775	5.3	3.7	1.1	0.9
Aoyuan's premium/(discount) to peers				5%	0%	30%	26%

Note: Share price as of 19 September 2018

Source: Company data, Bloomberg consensus estimates for Agile, KWG, Powerlong, HTI estimates for others

Risks to the Attainment of Our Rating and Target Price

The main risks to our rating and the attainment of our target price are:

- Slower economic growth in China than we expect;
- Delayed launches of Aoyuan's projects; and
- The Chinese government tightening its regulations on property purchases.

In addition, China's property market could also be adversely impacted by changes in government policy, which are difficult to predict.

If any of the above happens, Aoyuan's revenue may not grow as fast as we expect.

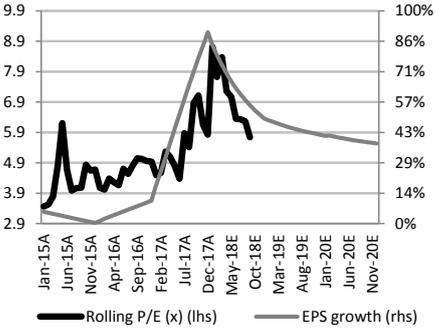
China Property Developer Sales (End-August 2018)

English name	Stock code	Latest monthly sales (RMB mn)	As of	Latest		2018 YTD sales			2018 Target locked in (%)	2018 YTD contracted volume (mn sqm)	2018 YTD volume YoY (%)	2018 YTD contracted ASP (Rmb/sqm)	2018 YTD ASP YoY (%)
				monthly value YoY (%)	Latest monthly value MoM (%)	2018 YTD sales value (RMB mn)	YoY (%)	2018 guidance (RMB mn)					
Agile	3383 HK	6,120	Aug-18	19	(20)	60,290	20	110,000	55	4.7	12	12,954	7
Beijing Cap	2868 HK	2,310	Aug-18	(37)	58	39,840	32	75,000	53	1.7	25	24,014	6
China Jinmao	817 HK	7,401	Aug-18	55	4	86,294	168	100,000	86	2.8	105	31,355	31
China SCE	1966 HK	4,018	Aug-18	74	(6)	29,120	46	50,000	58	2.2	100	13,062	-27
China Vanke	000002 CH HK	38,340	Aug-18	4	(15)	388,140	11	na	na	26.0	9	14,931	2
CIFI	884 HK	13,000	Aug-18	150	3	91,690	51	140,000	65	5.8	71	15,781	-12
Aoyuan	3883 HK	6,850	Aug-18	158	14	53,160	145	73,000	73	5.2	150	10,322	-2
COLI *	688 HK	26,156	Aug-18	39	13	200,050	23	290,000	69	10.9	9	18,307	13
Country Garden	2007 HK	43,560	Aug-18	(7)	(11)	505,050	33	800,000	63	53.7	28	9,398	4
CR Land	1109 HK	19,030	Aug-18	36	(11)	134,692	53	183,000	74	7.6	27	17,773	20
Evergrande	3333 HK	40,250	Aug-18	20	(1)	385,090	20	550,000	70	36.6	13	10,510	6
Fantasia	1777 HK	2,853	Aug-18	92	86	15,696	117	30,000	52	1.5	76	10,820	23
GPI	535 HK	4,064	Aug-18	20	(6)	24,370	(16)	na	na	1.1	-32	23,106	24
Greenland HK	337 HK	3,320	Aug-18	88	4	21,834	11	40,000	55	1.9	25	11,364	-11
Greentown	3900 HK	4,900	Aug-18	(32)	0	56,600	(5)	110,000	51	2.4	-11	24,085	7
Guangzhou R&F	2777 HK	9,240	Aug-18	28	(12)	76,680	47	130,000	59	5.8	43	13,175	3
Hopson	754 HK	2,294	Aug-18	208	66	9,909	70	15,000	66	0.8	102	11,661	-16
KWG	1813 HK	5,409	Aug-18	156	3	43,059	81	65,000	66	2.5	87	17,497	-3
Logan	3380 HK	5,320	Aug-18	26	(36)	49,120	82	70,000	70	2.6	66	18,900	9
Longfor	960 HK	17,320	Aug-18	44	0	131,660	14	200,000	66	8.2	10	16,054	4
Poly Prop	119 HK	3,700	Aug-18	68	106	29,600	8	40,000	74	1.6	-18	18,027	32
Poly A	600048 CH HK	27,569	Aug-18	20	15	266,769	43	na	na	17.9	33	14,924	8
Powerlong	1238 HK	4,874	Aug-18	235	22	25,194	108	45,000	56	1.7	93	14,988	8
Ronshine	3301 HK	9,250	Aug-18	78	(16)	74,900	102	120,000	62	3.4	42	22,029	42
Shimao	813 HK	15,500	Aug-18	120	24	100,320	72	140,000	72	6.1	74	16,504	-1
Shui On	272 HK	2,061	Aug-18	88	1	10,072	47	12,000	84	0.3	75	39,795	-16
Sino-Ocean	3377 HK	6,640	Aug-18	2	20	57,270	40	100,000	57	2.9	34	19,620	4
Sunac	1918 HK	40,320	Aug-18	32	19	265,720	65	450,000	59	17.1	92	15,524	-14
SZI	604 HK	471	Aug-18	2	10	5,208	(48)	20,000	26	0.3	-34	17,327	-21
Times	1233 HK	5,535	Aug-18	71	9	36,606	57	55,000	67	2.2	40	16,861	12
Yuexiu	123 HK	3,256	Aug-18	24	51	33,389	37	55,000	61	1.6	7	20,482	28
Yuzhou	1628 HK	2,798	Aug-18	11	(7)	27,308	1	60,000	46	2.0	24	13,901	-17
Aggregate average	--	--	--	26	1	--	35	--	63	--	--	--	--

Note: China Overseas Land & Investment data is in HKD

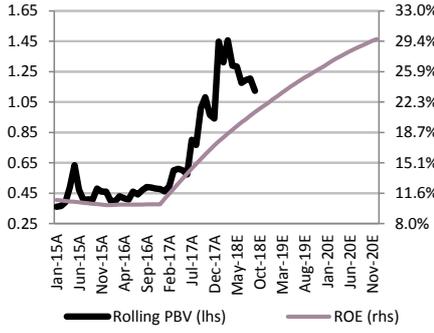
Source: China Real Estate Information Corp, Company data, HTI calculations

P/E (x) vs EPS Growth (%)



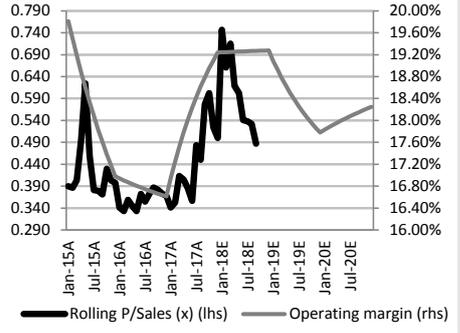
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



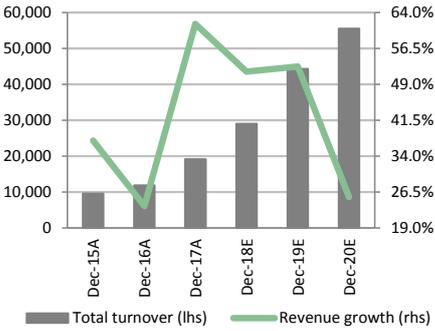
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



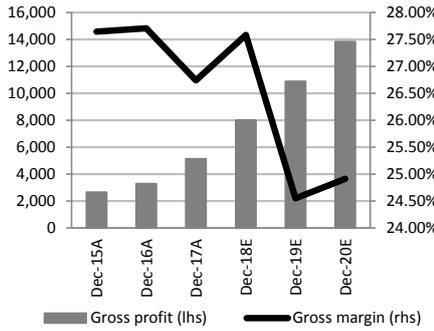
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



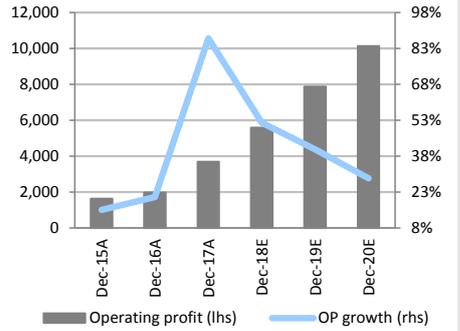
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



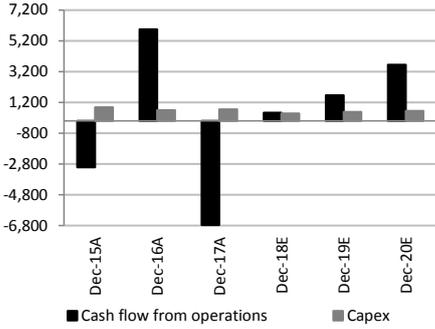
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



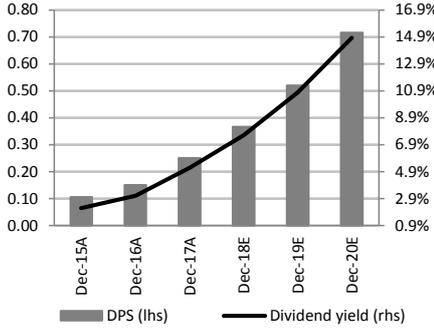
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (Rmbm)



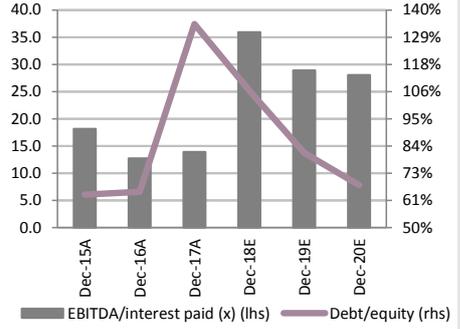
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (Rmb)



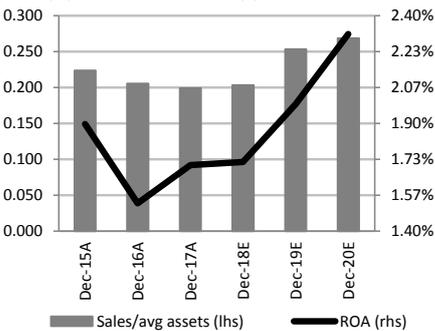
Source: Company data, Bloomberg, HTI estimates

Debt to Equity (%) and Interest Cover (x)



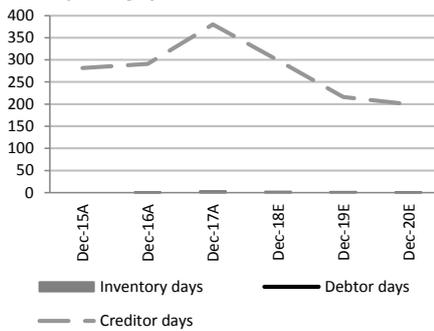
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



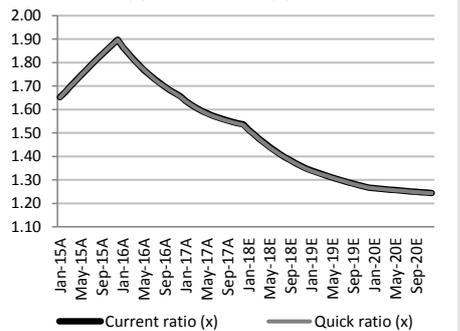
Source: Company data, Bloomberg, HTI estimates

Cash Operating Cycle



Source: Company data, Bloomberg, HTI estimates

Current Ratio (x) vs Quick Ratio (x)



Source: Company data, Bloomberg, HTI estimates

Revenue Growth

Contracted sales grew at a significant 55% CAGR in FY14–17. We believe Aoyuan can beat its FY18 contracted sales target of Rmb73bn, and grow further in FY19 and FY20. We thus expect a 43% revenue CAGR over our forecast period (up from our previous expectation of 39%).

Profit Margins

We expect GPM in a range of 25–28%, and NPM around 8–9% in FY18–20, excluding any change in the fair value of investment properties. We expect a 43% CAGR for net profit over FY18–20.

Shareholder Returns

The core payout ratio was stable at 31–34% in FY13–16, and rose to 41% in FY17, while we assume around 40% over our forecast horizon.

Balance Sheet Risks

The net gearing ratio trended down from 82% in FY14 to 56% in FY17, while contracted sales showed a 55% CAGR in FY14–17. Due to balance sheet strengthening, borrowing costs fell from 11.4% in FY13 to 7.3% in June 2018. As of end-June 2018, total cash amounted to about Rmb26bn, sufficient to cover short-term debt of Rmb25bn. We expect funding costs to fall further.



Key Takeaway

We believe land bank is sufficient for future development and the Rmb73bn FY18 sales target is beatable

Investment Thesis – Target Price – Share Price Catalysts

We reiterate our BUY rating on Aoyuan and raise our target price from HK\$8.41 to HK\$9.19. In the first eight months of 2018, Aoyuan's locked-in rate was 73%, higher than the major developer peer average of 63%. In the same period, Aoyuan's sales growth was also outstanding among the 29 developers we track, at 140% YoY, compared with a peer average of 35% YoY. Aoyuan acquired 31 plots of new land in H1 FY18, with total GFA of 7.3mn sqm, and attributable GFA of 6.2mn sqm. Compared with the H1 FY18 contracted GFA of 3.9mn sqm, and the FY17 contracted GFA of 4.5mn sqm, we believe Aoyuan's land acquisitions and land bank are sufficient for its future development. We raise our NAV estimate from HK\$14.0 to HK\$15.3 per share to reflect the new projects acquired in H1 FY18. We maintain our target discount to NAV of 40% to derive our new target price of HK\$9.19. Fast-growing contracted sales in coming months and full-year sales numbers for 2018 could be catalysts for the shares, in our view.

APPENDIX

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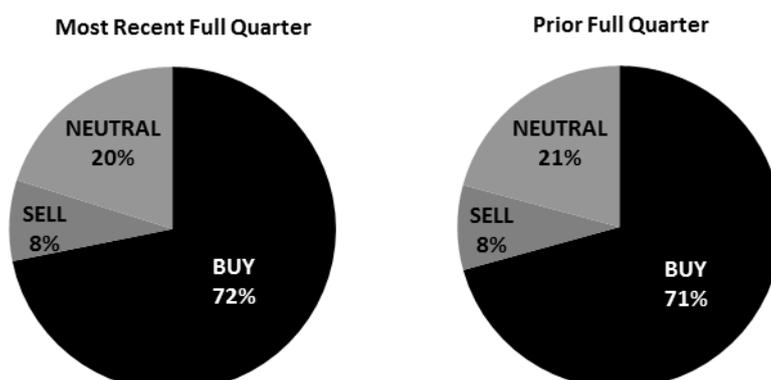
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BUY ≥ 15% absolute upside performance expected within the next 12 months

SELL ≥ 15% absolute downside performance expected within the next 12 months

NEUTRAL: A stock under coverage with insufficient upside or downside to justify a BUY or SELL rating. For purposes only of FINRA/NYSE ratings distribution rules, our Neutral rating falls into a hold rating category.

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Haitong International Equity Research Ratings Distribution, as of June 30, 2018

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Recommendation Chart



Date	Recommendation	Target (HK\$)	Price (HK\$)
2018-08-21	Buy	8.41	5.90
2018-03-15	Buy	8.72	7.15
2018-01-12	Buy	7.69	6.00
2017-08-01	Buy	3.93	3.28

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity