

China Aoyuan Property

Targeting RMB 100 bn of sales by 2020

Positive profit alert for 2017, at least up 75% YoY

Aoyuan has announced positive profit alert, at least increase 75% YoY in net profit in 2017. We believe this was expected by the market and partly priced in already. Looking forward, the company has strong confidence and targets a RMB 50-60bn of contracted sales in 2018 and RMB 70-80bn of contracted sales in 2019. The ultimate target for Aoyuan is to exceed RMB 100bn of contracted sales in 3 years (by 2020).

But how? Actively searching M&A opportunities in next 2 years

To achieve this ambitious target, we believe M&A will be the main land acquisition channel, rather than public auctions. More M&A opportunities will be revealed in 2018 and 2019, due to tightening of financing and property market policies. In the next 3 years, Aoyuan will acquire more projects in Yangtze River Delta (YRD) (current Greater Bay/Yangtze river delta of total saleable resource at 58%/ 12%), as YRD will remain as one of the fast growing region in China. As of 1H17, Aoyuan's saleable resource amounted to RMB 200bn, which is sufficient for next 2 years' sales. Aoyuan's capex will depend on its cash inflow of sales.

Optimizing resource allocation & Piercing into 20-25 cities.

In the next 5 years, Aoyuan will pierce into provincial capitals in southern region, eastern region and central region of China. The company will not put more resource in Northern China. The company will continue focusing in 1st tier cities + provincial capitals + strong 2nd tier cities and the company has been looking for opportunities in Chengdu/Wuhan/Suzhou. Project leaders will be required to invest into projects the leaders are managed (max to 10% of project equity). GPM is on top priority in project acquisition.

We expect GPM to be 27%-28% in 2017, and slightly boosted by Australia projects in 2018.

Two Australian projects will be delivered in 2018, whose revenue would amount to RMB 3-4bn with 13-15% NPM. These projects will slightly enhance Aoyuan's NPM. As China home price surged in the past 2 years, Aoyuan's GPM should maintain at 27-28% in 2017-2018. By the end of Sep-17, the company had RMB 45bn of unbooked sales. We estimate unbooked sales will grow to RMB 57bn by the end of 2017, growth of revenue will maintain over 40% YoY in 2017 and 2018. Currently, only 10% of total contracted sales are paid by one-off payment; therefore, HKFRS 15 change won't enhance its revenue significantly in 2018.

Reiterate Buy and price target of HK\$6.94, 20% upside

We expect property market consolidation continues and competition will be fiercer in 2018. Inventories are low in main cities, tightening policies and home price cap will not be eased in short term. We are caution on property sector. However, we identify Aoyuan as one of the main beneficiaries of the fast-economic development of Greater Bay Area. We see foreseeable growth of profit in next 2 years. We reiterate 'Buy' rating and revise target price to HK\$6.94, which implies 55% of updated NAV discount to Dec-18 NAV, 7.3x 2018 core PE. The stock is trading at 63% discount to NAV, 6.1x 2018 core PE and 1.1x 2018e PB.

Stock code: 3883.HK

Rating: Buy

Price target (HK\$)	6.94
Current price (HK\$, 12 Jan 2017)	5.78
Upside/downside %	20%
Market cap (HK\$ m)	15,497
Market cap (US\$ m)	1,981
Avg daily turnover (HK\$ m)	56.76

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2016	2017e	2018e	2019e
Revenue	11,827	18,127	25,942	32,032
yoy %	23.6%	53.3%	43.1%	23.5%
Net profit	881	1,556	2,289	3,019
yoy %	8.5%	76.7%	47.1%	31.9%
Adjusted NP	678	1,556	2,289	3,019
yoy %	18.3%	129.6%	47.1%	31.9%
Gross margin	27.7%	28.3%	27.3%	27.8%
Net gearing	50.7%	59.7%	50.1%	63.4%
EPS	0.33	0.58	0.86	1.13
DPS	0.15	0.20	0.30	0.40
BPS	3.34	3.92	4.78	5.91

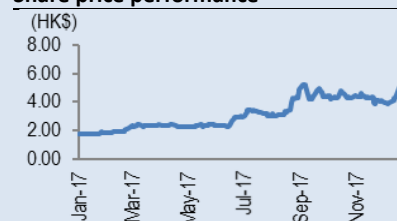
Source: Company data, AMTD Equity Research

Valuation

	2016	2017e	2018e	2019e
P/E	15.8	8.9	6.1	4.6
P/BV	1.6	1.3	1.1	0.9
Div. yield	2.9%	3.9%	5.8%	7.6%
ROE	7.9%	16.1%	19.7%	21.2%
ROA	1.5%	2.1%	2.4%	2.5%

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	2015	2016	2017e	2018e	2019e	YoY growth				
						2015	2016	2017e	2018e	2019e
Revenue	9,572	11,827	18,127	25,942	32,032	37.2%	23.6%	53.3%	43.1%	23.5%
Sale of properties	9,295	11,240	17,481	25,231	31,250					
Cost of sales	(6,926)	(8,550)	(12,999)	(18,863)	(23,117)					
Gross profit	2,646	3,277	5,128	7,079	8,915	28.0%	23.8%	56.5%	38.0%	25.9%
Selling expenses	(489)	(592)	(566)	(765)	(922)	28.8%	21.2%	-4.4%	35.0%	20.5%
Administrative expenses	(402)	(489)	(722)	(974)	(1,174)	2.8%	21.8%	47.5%	35.0%	20.5%
Share of post-tax loss of an associate	-	-	-	-	-					
Share of post-tax (losses)/profits of joint ventures	28	(32)	(32)	(32)	(32)					
Finance costs	(91)	(157)	(157)	(168)	(161)	40.4%	72.1%	0.0%	6.5%	-3.9%
Profit before tax	1,884	2,085	3,420	4,910	6,395	30.1%	10.6%	64.0%	43.6%	30.2%
Income tax expense	(977)	(1,078)	(1,738)	(2,495)	(3,250)					
Profit for the year	907	1,007	1,682	2,415	3,145	15.9%	10.9%	67.1%	43.6%	30.2%
Profit for the year attributable to:										
Net profit	812	881	1,556	2,289	3,019	0.3%	8.5%	76.7%	47.1%	31.9%
Core net profit	573	678	1,556	2,289	3,019	-21.9%	18.3%	129.6%	47.1%	31.9%
Non-controlling interests	95	126	126	126	126					
Dividends	245	259	545	801	1,057					
Special Dividend	50	142	-	-	-					
EPS - basic										
EPS-underlying	0.29	0.33	0.58	0.86	1.13					
DPS - basic	0.21	0.25	0.58	0.86	1.13					
BVPS	0.11	0.15	0.20	0.30	0.40					
Key Ratios, RMB mn	2015	2016	2017e	2018e	2019e					
GPM	27.6%	27.7%	28.3%	27.3%	27.8%					
NPM	8.5%	7.4%	8.6%	8.8%	9.4%					
Core NPM	6.0%	5.7%	8.6%	8.8%	9.4%					
ROA	1.9%	1.5%	2.1%	2.4%	2.5%					
ROCE	3.4%	2.9%	4.5%	6.2%	7.4%					
ROE	7.2%	7.9%	16.1%	19.7%	21.2%					
Total Debt / EBITDA	8.6x	8.2x	5.5x	3.7x	3.5x					
Total Debt / Equity	140.8%	125.6%	120.0%	100.5%	103.7%					
Total Debt / Capitalization	58.5%	55.7%	54.5%	50.1%	50.9%					
Net Debt / EBITDA	3.8x	3.3x	2.7x	1.8x	2.1x					
Net Debt / Equity	62.7%	50.7%	59.7%	50.1%	63.4%					
Net Debt / Capitalization	26.1%	22.5%	27.2%	25.0%	31.1%					
Current Ratio	189.7%	165.5%	141.4%	140.6%	144.7%					
Cash / Total Assets	18.5%	16.5%	11.7%	9.0%	6.6%					
Inventory / Total Assets	65.3%	66.1%	74.6%	79.9%	84.7%					
Net debt / Net Inventory	22.8%	16.9%	15.5%	11.2%	12.3%					
Quick Ratio	150.0%	135.2%	123.5%	127.1%	134.6%					
Cash Ratio	39.7%	30.3%	17.9%	13.5%	10.1%					
Interest Coverage	1.4x	1.3x	2.0x	2.7x	3.6x					

Source: Company data, AMTD Equity Research

Figure 2: Balance sheet forecast & Cash flow forecast

Balance Sheet, RMB mn	2015	2016	2017e	2018e	2019e
Non-current assets	5,629	6,589	6,589	6,589	6,589
Current assets	43,198	59,830	77,696	97,961	126,552
Properties held under development	31,792	43,487	62,483	83,149	112,358
Pledged bank deposits	1,267	486	486	486	486
Bank balances and cash	7,769	10,471	9,341	8,940	8,321
Others	2,370	5,387	5,387	5,387	5,387
Current liabilities	22,770	36,143	54,952	69,671	87,475
Advanced proceeds received from customers	9,823	20,524	35,518	54,123	75,707
Senior note and bond	-	1,508	-	-	-
Borrowings	2,570	2,997	8,322	4,435	656
Others	10,376	11,113	11,113	11,113	11,113
Non-current liabilities	14,481	15,645	13,019	16,151	23,792
Borrowings	4,803	3,795	11,249	14,381	22,022
Senior notes	8,924	10,079	-	-	-
Others	754	1,770	1,770	1,770	1,770
Capital and reserves	11,576	14,631	16,313	18,728	21,873
Equity attributable to owners of the Company	8,243	8,918	10,474	12,764	15,783
Total equity	3,333	5,713	5,839	5,964	6,090
Cash Flow Statement, RMB mn	2015	2016	2017e	2018e	2019e
Operating activities					
Profit before income tax	1,884	2,085	3,420	4,910	6,395
Operating cash flows before movements in working capital	1,827	2,268	3,578	5,078	6,556
Increase in inventories	-	(26)	-	-	-
Increase in properties for sale	(4,908)	(1,676)	(18,996)	(20,667)	(29,209)
Increase in deposits received for sale of properties	1,478	10,012	14,994	18,606	21,583
Cash (used in) from operations	(1,342)	8,360	(425)	3,016	(1,069)
PRC Income tax paid	(480)	(880)	(1,738)	(2,495)	(3,250)
Interest paid	(1,201)	(1,535)	(1,614)	(1,719)	(1,652)
Net cash (used in) from operating activities	(3,023)	5,945	(3,777)	(1,197)	(5,972)
Net cash used in investing activities	(924)	(4,069)	(157)	(168)	(161)
	(6,318)	(5,916)	(5,203)	(8,322)	(4,435)
Financing activities					
New bank and other borrowings raised	6,006	5,245	6,394	7,567	8,298
Repayment of bank and other borrowings	(6,318)	(5,916)	(5,203)	(8,322)	(4,435)
Net cash from (used in) financing activities	6,804	808	2,804	964	5,515
Net increase in cash and cash equivalents	2,856	2,683	(1,130)	(401)	(618)
Effect of foreign exchange rate changes	61	18	-	-	-
Cash and cash equivalents at beginning of the year	4,852	7,769	10,471	9,341	8,940
Cash and cash equivalents at end of the year	7,769	10,471	9,341	8,940	8,321

Source: Company data, AMTD Equity Research

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AMTD Investment Ratings

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

Analyst Certification

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