



Aoyuan (3883 HK)

Impressive growth continues

- Aoyuan's 5M19 contracted sales rose 35% YoY to RMB38.33bn
- As at Dec 2018, total sellable resources amounted to RMB 365bn, of which 30% were located in Greater Bay Area (GBA).
- As at Dec 2018, Aoyuan has 16 redevelopment projects with planned total GFA of 9.8mn sqm
- Maintain **BUY** with revised TP of HK\$ 14.10 based on a 50% NAV discount

Impressive 5M19 contracted sales performance. Driven by strong property demand in Greater Bay Area (GBA), Aoyuan's 5M19 contracted sales soared 35% YoY to RMB 38.33bn, outperforming the peer growth rate of 11%YoY and achieving 33.6% of 2019 sales target (RMB 114bn or +25%YoY growth target). Aoyuan's contracted sales growth has been higher than the sector average for the past 2 years. In 2017 and 2018, the Group's contracted sales increased by 78% YoY and 100% YoY, as compared to 52% YoY and 30%YoY among the HK-listed peers for the same period. We believe the key drivers for its impressive performance are: **1) High exposure in GBA.** As at Dec 2018, Aoyuan's total landbank was 34.1mn sqm (80% attributable) and total saleable resources amounted to RMB 365bn. About 22% of total landbank or 30% of saleable resources were located in the GBA. **2) Solid M&A execution.** In 2018, Aoyuan acquired 64 projects with a total GFA of 12.58mn sqm, of which 89% were acquired through M&As. Many of these M&A projects have already started construction with presales permits obtained, as opposed to projects acquired through tendering that usually require a 6-12 month period for certain construction can be completed before presales permit can be granted. The group has paced up its M&A and spent RMB 10,134mn in 2018, as compared to RMB 8,784mn in 2017, to acquire different project subsidiaries.

An urban redevelopment expert. As at Dec 2018, Aoyuan had 16 redevelopment projects with a total planned GFA of 9.8mn, which we estimate could add RMB 145.2bn of saleable resources in the future. Aoyuan estimated that nine redevelopment projects (GFA: 3.5mn sqm), which represent RMB 66bn in estimated saleable resources, could be included in the landbank by 2019.

Maintain BUY with revised TP of HK\$ 14.10. As a result of better-than-expected contracted sales and factoring in latest land acquisitions, we raise our 2019E NAV forecast to HK\$ 28.30 share (from HK\$ 18.80), without factoring in potential value enhancement from urban redevelopment projects. We reduce our NAV discount to 50% (from 60%) given its solid execution ability, which is crucial in speeding up asset turnover rate. Hence, our TP is lifted to HK\$ 14.10 (from HK\$ 7.50). Aoyuan's share price rose 123% YTD, reflecting growing interests in the GBA concept. Aoyuan remains as our top pick among the GBA players. Reiterate **BUY**.

Risk factors: 1) FX risk in overseas projects; 2) Rising SG&A cost for establishment of overseas operation.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	19,115	31,006	47,581	65,610	86,431
Chg (% YoY)	61.6	62.2	53.5	37.9	31.7
Core net profit* (RMB mn)	1,577	2,539	3,875	6,223	9,933
Chg (% YoY)	54.5	62.5	72.8	58.5	55.3
Core EPS (RMB)	0.59	0.95	1.45	2.32	3.71
Chg (% YoY)	49.4	61.0	52.6	60.6	59.6
BVPS (RMB)	3.8	4.4	5.3	6.7	8.9
Chg (% YoY)	18.3	16.9	19.2	26.1	33.7
Core P/E (x)	16.5	10.3	6.7	4.2	2.6
P/B (x)	2.6	2.2	1.8	1.5	1.1
ROE (%)	18.6	25.9	37.5	47.1	54.7
ROA (%)	1.5	1.6	2.2	2.7	3.6
DPS(RMB)	0.25	0.36	0.59	0.94	1.46
Yield (%)	2.6	3.7	6.1	9.7	15.0
Net gearing (%)	58.8	69.7	45.0	Net cash	Net cash

* Excluded post-tax revaluation gains on IP and exchange gain/(losses), after minority interests;

Source(s): Bloomberg, ABCI Securities estimates

Company Report

July 2, 2019

Rating: **BUY**

TP: **HK\$ 14.10**

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Share price (HK\$)	10.98
Est. share price return	28.4%
Est. dividend yield	6.1%
Est. total return	34.5%
Previous Rating & TP	BUY, HK\$7.50
Previous Report Date	Jan 28, 2019

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	11.12/4.09
Issued shares (mn)	2,678
Market cap (HK\$ mn)	29,444
3-mth avg daily turnover(HK\$ mn)	116.11
Major shareholder(s) (%)	
Mr. Guo Zi Wen	55.32%

Source(s): Bloomberg, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	29.6	22.2
3-mth	24.1	30.3
6-mth	131.9	110.0

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

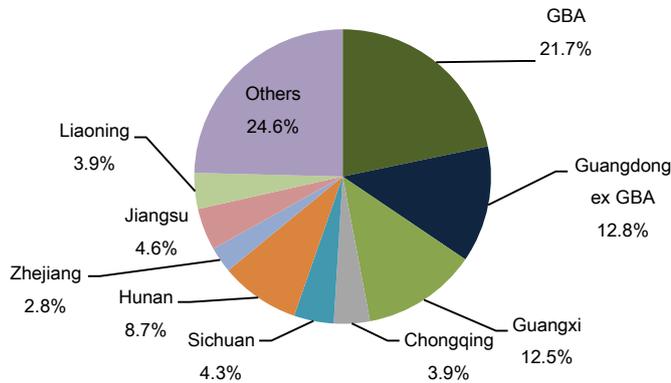
1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

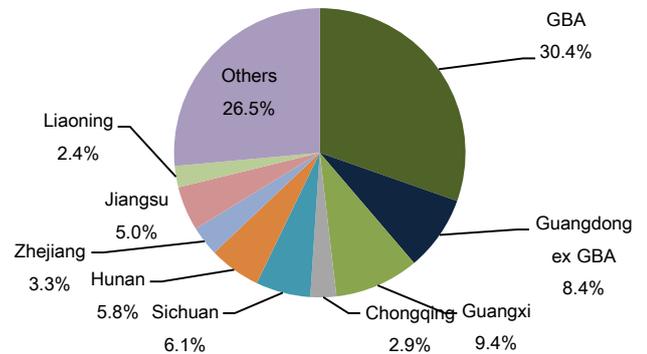


Exhibit 1: Aoyuan's landbank breakdown (Dec 18: 34.1mn sqm)



Source(s): Company, ABCI Securities

Exhibit 2: Aoyuan's estimated saleable resources (Dec 18: RMB 365bn)



Source(s): Company, ABCI Securities

Exhibit 3: Expected conversion of urban redevelopment in 2019

Project	Estimated Saleable GFA 000 sqm	Estimated Saleable resources RMBmn	Estimated ASP RMB/sqm
Guangzhou Panyu Nitrogen Fertilizer Plant	300	15,000	50,000
Zhuhai Cuiwei Village	570	20,000	35,088
Zhuhai Gongbei Lian'an Village	120	5,400	45,000
Zhuhai Qianshan Anlian Road	80	1,800	22,500
Zhuhai Yafang Building	15	500	33,333
Zhuhai Pingsha Aoyuan Plaza	290	4,500	15,517
Foshan Nanhai Luo Village	490	10,000	20,408
Dongguan Shimei Village	300	6,600	22,000
Hong Kong Robinson Road	5	2,200	440,000
Total	2,170	66,000	30,415

Source(s): Company, ABCI Securities



Exhibit 4: Aoyuan's 2019E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Greater Bay Area	5.3	26,713	31%		5,078
GD ex GBA	2.6	6,147	7%		2,333
Guangxi	3.1	7,889	9%		2,543
Jiangsu	1.2	6,044	7%	DCF with WACC of 8.5%	4,853
Sichuan	1.0	3,816	4%		3,957
Hunan	1.7	4,431	5%		2,541
Overseas	0.5	6,659	8%		14,793
Others	6.0	22,180	26%		3,691
Subtotal	21.4	83,880	98%		3,918
Investment Properties		1,170	1%	6.0% cap rate on 2019E attributable net rental income	
Aoyuan Healthy Life (3662 HK)		902	1%	Market value	
Total 2019E GAV		85,952	100%		
2019E Net cash/ (debt)		(18,887)	-22%		
Total 2019E NAV		67,065	78%		
No. of share outstanding (diluted)		2,678			
NAV per share (RMB)		25.04			
Ex rate		1.13			
NAV per share (HKD)		28.30			
Target discount (%)		50%			
Target Price (HKD)		14.10			
WACC	8.5%				
Cost of debt	7.6%				
Cost of equity	12.0%				
Debt/ (Debt + Equity)	56%				

Source(s): Company, ABCI Securities estimates



FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Revenue	19,115	31,006	47,581	65,610	86,431
Cost of sales	(14,004)	(21,372)	(33,774)	(45,421)	(58,252)
Gross Profit	5,111	9,634	13,806	20,189	28,179
SG&A expenses	(1,726)	(3,168)	(4,154)	(5,216)	(5,504)
EBIT	3,386	6,466	9,652	14,973	22,675
Finance cost	(268)	(411)	(680)	(690)	(700)
Share of profit of associates	(116)	35	-	-	-
Other income/ (expenses)	133	373	170	272	455
Fair value gain of investment properties	-	-	-	-	-
Disposal/one-off items	492	491	-	-	-
Profit before tax	3,626	6,954	9,142	14,555	22,430
Tax	(1,674)	(4,015)	(3,836)	(6,144)	(9,371)
Profit after tax	1,952	2,939	5,306	8,411	13,059
Minority interest	(312)	(531)	(1,431)	(2,188)	(3,126)
Reported net profit	1,640	2,409	3,875	6,223	9,933
Less: exceptional items	(63)	131	-	-	-
Core net profit	1,577	2,539	3,875	6,223	9,933
Per share					
Core EPS (RMB)	0.59	0.95	1.45	2.32	3.71
DPS (RMB)	0.25	0.36	0.59	0.94	1.46
Payout ratio (%)	42%	38%	41%	41%	39%
BVPS (RMB)	3.79	4.43	5.28	6.66	8.91
Growth %					
Revenue	61.6%	62.2%	53.5%	37.9%	31.7%
Gross Profit	56.0%	88.5%	43.3%	46.2%	39.6%
EBIT	54.2%	91.0%	49.3%	55.1%	51.4%
Core net profit	54.5%	62.5%	72.8%	58.5%	55.3%
Margin %					
Gross profit margin	26.7%	31.1%	29.0%	30.8%	32.6%
GPM (post-LAT)	24.4%	25.9%	25.4%	26.3%	27.4%
EBIT margin	17.7%	20.9%	20.3%	22.8%	26.2%
Core net margin	8.9%	8.2%	11.2%	12.8%	15.1%
Key assumptions					
Contracted Sales (RMB mn)	45,590	91,893	122,500	161,790	145,745
GFA sold (mn sqm)	4.49	8.60	10.77	13.37	11.37
ASP (RMB/sqm)	10,160	10,683	11,369	12,104	12,815
Booked Sales (RMB mn)	17,960	29,740	46,154	64,012	84,664
GFA delivered (mn sqm)	2.43	2.78	4.20	5.48	6.77
Booked ASP (RMB/sqm)	7,397	10,690	10,986	11,680	12,499

Source(s): Company, ABCI Securities estimates

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Current assets	116,110	171,808	219,286	297,296	345,590
Cash	24,769	36,012	39,499	103,747	161,619
Restricted cash	1,771	2,281	2,281	2,281	2,281
Trade & other receivables	7,407	12,274	12,274	12,274	12,274
Property under development	77,069	114,894	158,885	172,649	163,070
Other current assets	5,094	6,346	6,346	6,346	6,346
Non-current assets	9,696	17,051	17,135	17,192	17,214
Property, plant & equipment	719	2,057	1,985	1,885	1,750
Investment properties	6,360	8,833	8,990	9,147	9,304
Investment in Associate and JCE	214	1,939	1,939	1,939	1,939
Other non-current assets	2,403	4,221	4,221	4,221	4,221
Total Assets	125,806	188,858	236,421	314,488	362,804
Current Liabilities	75,573	121,033	157,371	229,601	268,825
Short term borrowings	21,122	24,314	25,264	26,164	27,064
Trade & other payables	14,579	25,565	25,565	25,565	25,565
Pre-sales deposits	34,760	59,966	95,355	166,685	205,009
Other current assets	5,112	11,187	11,187	11,187	11,187
Non-current liabilities	23,106	37,092	37,092	37,092	37,092
Long term borrowings	21,373	35,404	35,404	35,404	35,404
Other payables	0	0	0	0	0
Other non-current assets	1,733	1,688	1,688	1,688	1,688
Total Liabilities	98,680	158,124	194,463	266,693	305,917
Net Assets	27,126	30,734	41,958	47,796	56,887
Shareholders' Equity	10,155	11,872	14,156	17,855	23,871
Minority Interest	16,971	18,862	27,803	29,941	33,016
Total Equity	27,126	30,734	41,958	47,796	56,887
Key ratio					
Gross debt (RMB mn)	42,495	59,718	60,668	61,568	62,468
Net debt (RMB mn)	15,955	21,424	18,887	(44,460)	(101,432)
Net gearing (%)	59%	70%	45%	Net cash	Net cash

* Our financial model does not include any unconfirmed land acquisitions in future to avoid inflating NAV without substantial grounds; therefore, our net gearing forecasts for FY19E-21E declines consistently based on the assumption of no land purchase, which may deviate from the historical practice of the Company.

Source(s): Company, ABCI Securities estimates



FY ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
EBITDA	3,439	6,584	9,794	15,143	22,879
Change in Working Capital	(6,882)	7,964	(3,865)	62,377	52,785
Tax payment	(1,313)	(2,385)	(3,836)	(6,144)	(9,371)
Operating cash flow	(4,756)	12,164	2,093	71,376	66,294
Purchase of PP&E	(124)	(453)	(70)	(70)	(70)
Addition of Investment Properties	(630)	(157)	(157)	(157)	(157)
Others	(9,190)	(16,353)	170	272	455
Investing cash flow	(9,944)	(16,963)	(57)	45	228
Debt raised	27,957	38,084	5,000	5,000	5,000
Debt repaid	(7,231)	(17,373)	(4,050)	(4,100)	(4,100)
Interest expenses	(2,007)	(3,576)	(5,417)	(5,501)	(5,582)
Equity raised	0	0	0	0	0
Dividend to shareholders	(401)	(670)	(1,592)	(2,523)	(3,918)
Others	10,680	(422)	7,510	(50)	(50)
Financing cash flow	28,998	16,042	1,451	(7,174)	(8,649)
Net cash inflow/ (outflow)	14,298	11,243	3,487	64,247	57,872
Cash- beginning	10,471	24,769	36,012	39,499	103,747
Cash- year-end	24,769	36,012	39,499	103,747	161,619

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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