

# China Aoyuan (3883 HK)

## Striving to be Top 20 in 2020

Aoyuan participated in our Property Day last week. The Company achieved RMB88.6bn contracted sales in 10M19, up 31% YoY, completing 78% of RMB114.1bn sales target. Given RMB645bn saleable resources, the Company aims to climb the league table and become a Top 20 developer in 2020. We maintain TP of HK\$14.3 and forecast unchanged. Reiterate BUY.

- **31% contracted sales growth in 10M19.** Aoyuan announced contracted sales grew by 55% YoY to RMB10bn in Oct 2019. From Jan to Oct 2019, accumulated contracted sales amounted to RMB88.6bn, up 31%. The Company accomplished about 78% of full year sales target of RMB114.1bn. According to CEIC, Aoyuan was ranked the 27<sup>th</sup> developer based on the gross sales in 10M19. Although it did not disclose its 2020 sales plan, it hinted that it hopes to climb to Top 20 in 2020.
- **Urban redevelopment projects can bring RMB220bn saleable resources.** Aoyuan is a major urban redevelopment player. It participates in about 30 urban redevelopment projects with total GFA of 16.04mn sq m. It is estimated that these 30 projects would bring about RMB219.7bn saleable resources. The Company has successfully taken over redevelopment of Zhuhai Cuiwei Village recently that provides about 0.57mn sq m of saleable GFA with RMB20bn saleable resources. Combined with the existing land bank, total saleable resources for Aoyuan amounted to RMB645.2bn which will provide war chest for its future development.
- **Waiting for approval regarding 13.86% acquisition of Aeon Life Insurance.** In Jul 2019, Aoyuan announced the acquisition plan of 13.86% of Aeon Life Insurance. The Company already paid the consideration of RMB3.26bn and now is waiting for the authority approval which will be revealed in coming Jan. Aeon Life Insurance has expanded into 20 provinces and cities and recorded profit of RMB697mn in 2018. It not only has a stable income stream, but also complements the business development of Aoyuan Healthy Life (3662 HK, NR) which was spun off in Mar 2019.
- **Maintain TP & forecast unchanged. Reiterate BUY.** We maintain our TP and forecast unchanged. As at Jun 2019, pre-sold and unbooked properties amounted to RMB139bn that has high earnings visibility in coming two years. Having 7.56mn sq m GFA or RMB110bn sales resources in Greater Bay Area, Aoyuan will benefit from the robust development in the area.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	19,115	31,006	52,243	80,157	92,825
YoY growth (%)	61.6	62.2	68.5	53.4	15.8
Net income (RMB mn)	1,640	2,409	4,448	6,123	7,275
EPS (RMB)	0.61	0.90	1.66	2.29	2.72
YoY growth (%)	89.9	46.6	84.8	37.7	18.8
P/E (x)	15.7	10.6	5.8	4.2	3.5
P/B (x)	2.5	2.2	1.8	1.4	1.1
Yield (%)	2.6	3.8	6.9	9.5	11.4
ROE (%)	16.1	20.3	30.6	33.6	32.2
Net gearing (%)	51.0	58.9	74.5	72.3	66.4

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$14.30
(Previous TP)	HK\$14.30)
Up/Downside	+34.1%
Current Price	HK\$10.66

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### Stock Data

Mkt Cap (HK\$ mn)	28,679
Avg 3 mths t/o (HK\$ mn)	95
52w High/Low (HK\$)	12.14/4.51
Total Issued Shares (mn)	2,690

Source: Bloomberg

### Shareholding Structure

GUO ZI WEN	55.2%
Free float	44.8%

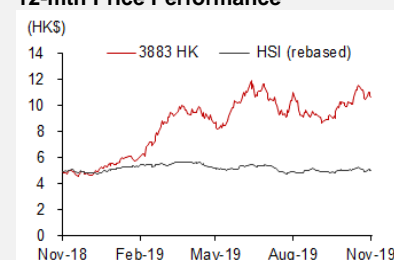
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	4.9%	5.9%
3-mth	-1.5%	-2.2%
6-mth	23.5%	29.1%
12-mth	116.1%	112.1%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Deloitte Touche Tohmatsu

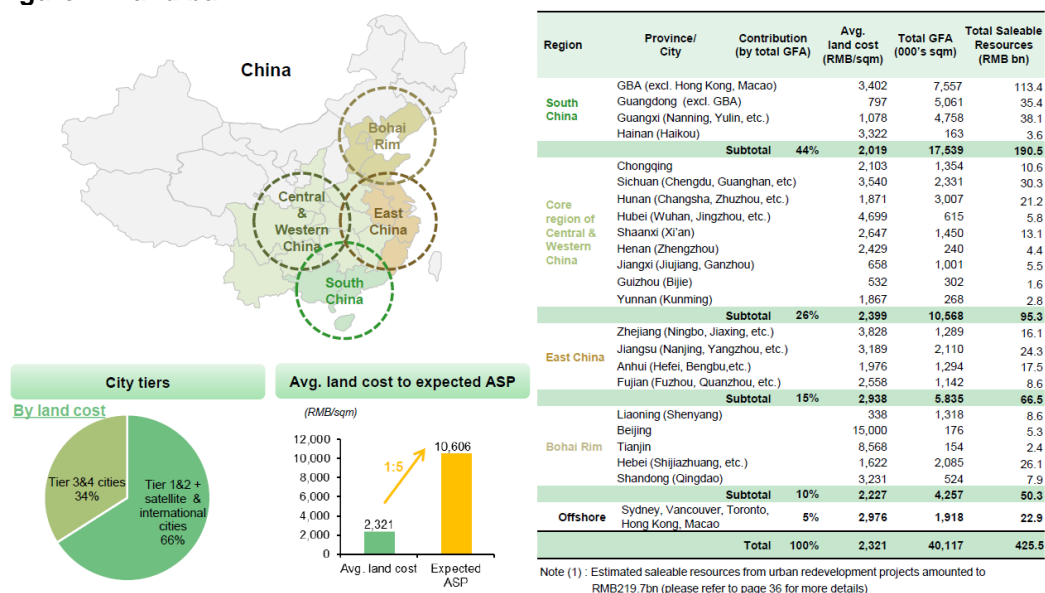
### Related Reports

1. "China Aoyuan (3883 HK) – Solid growth backed by robust sales – 20 Aug 2019
2. "China Aoyuan (3883 HK) – Sustained contracted sales to boost earnings growth" – 16 Jul 2019
3. "China Aoyuan (3883 HK) - Another developer with RMB100bn sales" – 19 Mar 2019

**Figure 1: “Three Olds” urban redevelopment**

Project	City	Type	Status	Site area ('000 sqm)	Planned total GFA ('000 sqm)	Estimated saleable GFA ('000's sqm)	Estimated saleable resources (RMB mn)
Expected conversion of first phase/all into land bank in 2019							
1 Guangzhou Panyu Nitrogen Fertilizer Plant	Guangzhou, Guangdong	Old factory	Redevelopment proposal approved by Government	100	300	300	15,000
2 Zhuhai Doumen Royal Park	Zhuhai, Guangdong	Old town	Approved project implementation by Government, commenced demolition	10	70	60	1,200
3 Zhuhai Qianshan Anlian Road	Zhuhai, Guangdong	Old factory	Redevelopment plan under approval	10	80	80	1,800
4 Zhuhai Pingsha Aoyuan Plaza	Zhuhai, Guangdong	Old factory	Redevelopment plan under approval	150	320	290	4,500
5 Zhuhai Cuiwei Village	Zhuhai, Guangdong	Old village	Approved as project developer by Government	350	1,260	570	20,000
6 Zhuhai Gongbei Lian'an Village	Zhuhai, Guangdong	Old village	Approved as project developer by Government	60	260	120	5,400
7 Dongguan Shimei Village	Dongguan, Guangdong	Old village	Signing of demolition agreement	150	740	450	9,500
8 Nanning Nantang Project	Nanning, Guangxi	Old village	Completed Phase 1 of acquisition and demolition	280	720	720	7,900
9 Xi'an Yahe Project	Xi'an, Shaanxi	Old village	Completed demolition and conversion	40	220	190	2,700
10 Langfang Xihutun Project	Langfang, Hebei	Old village	Completed demolition and conversion	60	130	100	1,600
11 Hong Kong Robinson Road Project	Mid-levels, Hong Kong	Old building	Compulsory sale for redevelopment	1	5	5	2,200
Subtotal				1,211	4,105	2,885	71,800
Expected conversion of first phase/all into land bank in 2020-2021							
12 Zhuhai Gongbei Guanzha & Gaosha Village	Zhuhai, Guangdong	Old village	Government approval; signing of compensation agreement	120	570	260	13,400
13 Zhuhai Xiaxu Village	Zhuhai, Guangdong	Old village	Redevelopment plan under approval	140	430	350	10,500
14 Zhuhai Xiaxu Industrial & Trade Project	Zhuhai, Guangdong	Old factory	Redevelopment plan under approval	40	120	70	1,800
15 Zhuhai Jinan Project	Zhuhai, Guangdong	Old village	Redevelopment plan under approval	50	170	130	2,600
16 Dongguan Zhongfang Project	Dongguan, Guangdong	Old factory	Signing of demolition agreement	10	30	30	600
17 Dongguan Gaoku Project	Dongguan, Guangdong	Old village	Project approval application in progress	70	270	150	3,200
18 Foshan Nanhai Luo Village	Foshan, Guangdong	Old village	Demolition completed	200	640	490	10,000
19 Guangzhou Zengcheng Nantang Village	Guangzhou, Guangdong	Old village	Redevelopment plan under approval	270	950	550	11,100
20 Shenzhen Pingshan Project	Shenzhen, Guangdong	Old factory	Project approval application in progress	30	130	120	5,000
21 Shenzhen Nanxian Project	Shenzhen, Guangdong	Old factory	Project approval application in progress	7	40	40	3,300
22 Qingyuan Xinyi Project	Qingyuan, Guangdong	Old factory	Redevelopment plan under approval	40	100	100	1,200
23 Meizhou Xingning Project	Meizhou, Guangdong	Old village	Redevelopment plan under approval	180	620	490	4,900
24 Nanning Chendong Village	Nanning, Guangxi	Old village	Redevelopment plan under approval	1,070	2,370	1,570	17,300
25 Langfang Taihe Project	Langfang, Hebei	Old village	Demolition plan under approval	860	2,410	2,100	19,000
Subtotal				3,087	8,850	6,450	103,900
Expected conversion into land bank in 2022 or later							
Other projects (Guangzhou, Shenzhen, Zhuhai, etc.)				1,150	3,080	1,370	44,000
Grand total				5,448	16,035	10,705	219,700

Source: Company data

**Figure 2: Land bank**

Source: Company data

## Q&A

- 1) How much are the pre-sold & unbooked properties and their gross margin?  
As at Jun 2019, pre-sold & unbooked properties amounted to RMB139bn and their gross profit is about 28-29%.
- 2) What is the sell-through rate?  
It was about 55% in 1H19. The Company aims to reach 60% in 2019. Given RMB190bn saleable resources in 2019, Aoyuan can achieve its full year sales target.
- 3) How many new land bank was acquired in 3Q19?  
In 3Q19, the Company acquired about RMB50bn saleable resources of new land bank. In 9M19, total attributable capex for land acquisition was RMB30bn. Since the Company plans to spend about RMB40bn budget in land bank acquisition, it will continue to expand land bank for the rest of the year.
- 4) Who are your business partners when you invest in the property projects?  
Sunac (1918 HK), Dafa (6111 HK), Seazen (1030 HK) and Jinke (000656 ch).
- 5) How much is the land cost?  
The Company invested in 230 projects in 75 mainland and overseas cities (including Sydney, Vancouver, Toronto, HK and Macau) as at Jun 2019. Total GFA amounted to 40.12mn sq m (attributable 81%). Total saleable resources amounted to RMB425.5bn. Average land cost was RMB2,321 per sq m which was equivalent to about 22% of expected ASP of RMB10,606 per sq m.
- 6) How is the progress of your urban redevelopment projects?  
The Company is participating in 30 urban redevelopment projects. These projects will provide 16mn sq m GFA or RMB220bn saleable resources. Gross margin for urban redevelopment projects in general is 6-8 percentage points higher than other development projects. In 2019, about RMB20bn saleable resources of urban redevelopment project is absorbed by the Company.
- 7) How much is cost of debt?  
It was 7.4% in 1H19. It is expected to be 7.3-7.4% for 2019.
- 8) How is the performance of overseas projects?  
Overseas projects contributed about RMB5bn contracted sales. In 1H19, about RMB2bn of revenue was contributed by Australia properties, compared with RMB700mn in 2019.
- 9) How is the development of Aeon Life Insurance acquisition?  
The acquisition is still waiting for authority approval. Due to 180 days approval period, it is expected the result will come out in Jan 2019. In case of disapproval, the Company will receive refund of RMB3bn. There will be no loss. In the future, Aoyuan wishes to invest less than 3% of contracted sales to finance business.
- 10) What is the dividend policy?  
In the past, payout ratio was 30-35%. However, it increased to 40% in 1H19 because of the special dividend.

## Financial Summary

### Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>19,115</b>	<b>31,006</b>	<b>52,243</b>	<b>80,157</b>	<b>92,825</b>
Property development	17,960	29,740	50,850	78,625	91,140
Property investment	119	186	204	225	247
Others	1,036	1,080	1,188	1,307	1,438
Cost of sales	(14,004)	(21,372)	(36,882)	(57,117)	(66,172)
<b>Gross profit</b>	<b>5,111</b>	<b>9,634</b>	<b>15,361</b>	<b>23,040</b>	<b>26,653</b>
Other income	133	350	319	388	434
Selling and distribution expenses	(926)	(1,432)	(2,142)	(3,286)	(3,713)
Administrative expenses	(800)	(1,736)	(2,821)	(4,248)	(4,734)
<b>EBIT</b>	<b>3,518</b>	<b>6,816</b>	<b>10,717</b>	<b>15,894</b>	<b>18,640</b>
Share from associates and JVs	(116)	35	60	104	154
Finance costs	(268)	(411)	(695)	(873)	(962)
Exceptional	492	514	524	-	-
<b>PROFIT BEFORE TAX</b>	<b>3,626</b>	<b>6,954</b>	<b>10,606</b>	<b>15,125</b>	<b>17,831</b>
Income tax	(1,674)	(4,015)	(5,046)	(7,471)	(8,737)
<b>PROFIT FOR THE YEAR</b>	<b>1,952</b>	<b>2,939</b>	<b>5,560</b>	<b>7,654</b>	<b>9,094</b>
Non-controlling interests	(312)	(531)	(1,112)	(1,531)	(1,819)
<b>Net profit to shareholders</b>	<b>1,640</b>	<b>2,409</b>	<b>4,448</b>	<b>6,123</b>	<b>7,275</b>
<b>Core net profit</b>	<b>1,613</b>	<b>2,574</b>	<b>4,134</b>	<b>6,123</b>	<b>7,275</b>

### Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Current assets</b>	<b>116,110</b>	<b>171,808</b>	<b>258,049</b>	<b>303,854</b>	<b>353,334</b>
Properties for sale	77,069	114,894	178,876	205,620	244,838
Trade and other receivables	7,407	12,274	20,897	32,063	37,130
Amount due from	2,594	2,267	2,982	2,982	2,982
Bank balances and cash	24,769	36,012	44,518	52,414	57,609
Others	4,271	6,360	10,775	10,775	10,775
<b>Non-current assets</b>	<b>9,696</b>	<b>17,051</b>	<b>23,087</b>	<b>23,610</b>	<b>24,084</b>
PP&E	719	2,057	2,177	2,297	2,417
Investment properties	6,360	8,833	9,857	10,157	10,357
Investment in associates and JVs	214	1,939	5,559	5,663	5,817
Others	2,403	4,221	5,493	5,493	5,492
<b>Total assets</b>	<b>125,806</b>	<b>188,858</b>	<b>281,135</b>	<b>327,465</b>	<b>377,419</b>
<b>Current liabilities</b>	<b>75,573</b>	<b>121,033</b>	<b>192,935</b>	<b>229,321</b>	<b>270,862</b>
Trade and other payables	14,579	25,565	36,882	57,117	66,172
Contracted liabilities	34,760	59,966	109,430	119,535	147,510
Amount due to	837	4,755	5,303	5,303	5,303
ST loan	20,490	23,732	33,415	39,461	43,971
Others	4,907	7,015	7,905	7,905	7,905
<b>Non-current liabilities</b>	<b>23,106</b>	<b>37,092</b>	<b>49,685</b>	<b>54,425</b>	<b>56,654</b>
LT loan	19,880	33,990	46,774	51,514	53,742
Others	3,226	3,102	2,911	2,911	2,911
<b>Total liabilities</b>	<b>98,680</b>	<b>158,124</b>	<b>242,621</b>	<b>283,745</b>	<b>327,515</b>
<b>Total equity</b>	<b>27,126</b>	<b>30,734</b>	<b>38,515</b>	<b>43,719</b>	<b>49,903</b>
Equity to shareholders	10,155	11,872	14,541	18,215	22,580
Non-controlling interests	16,971	18,862	23,974	25,504	27,323

### Cash flow summary

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profit before tax</b>	<b>3,626</b>	<b>6,954</b>	<b>10,606</b>	<b>15,125</b>	<b>17,831</b>
D&A, impairment	54	144	80	80	80
Change in working capital	(6,926)	7,829	(11,824)	(7,570)	(7,254)
Others	(3,517)	(6,340)	(11,085)	(7,575)	(8,891)
<b>Net cash from operating activities</b>	<b>(6,763)</b>	<b>8,588</b>	<b>(12,223)</b>	<b>61</b>	<b>1,766</b>
Fixed assets Capex & Investment, net	(889)	(713)	(700)	(500)	(400)
Associated companies	(7,863)	(11,564)	(3,260)	-	-
Others	(1,192)	(4,686)	-	-	-
<b>Net cash from investing activities</b>	<b>(9,944)</b>	<b>(16,963)</b>	<b>(3,960)</b>	<b>(500)</b>	<b>(400)</b>
Equity raised	7,903	(291)	4,000	-	-
Change of debts	22,005	17,439	22,468	10,785	6,739
Others	1,139	(777)	(1,779)	(2,449)	(2,910)
<b>Net cash from financing activities</b>	<b>31,046</b>	<b>16,370</b>	<b>24,689</b>	<b>8,335</b>	<b>3,829</b>
Net change in cash	14,339	7,995	8,506	7,896	5,195
<b>Cash at the beginning of the year</b>	<b>10,471</b>	<b>24,769</b>	<b>36,012</b>	<b>44,518</b>	<b>52,414</b>
Exchange difference	(41)	173	-	-	-
<b>Cash at the end of the year</b>	<b>24,769</b>	<b>32,937</b>	<b>44,518</b>	<b>52,414</b>	<b>57,609</b>

### Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Property development	94.0	95.9	97.3	98.1	98.2
Property investment	0.6	0.6	0.4	0.3	0.3
Others	5.4	3.5	2.3	1.6	1.5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	26.7	31.1	29.4	28.7	28.7
EBIT margin	18.4	22.0	20.5	19.8	20.1
Net margin	8.6	7.8	8.5	7.6	7.8
Effective tax rate	46.2	57.7	47.6	49.4	49.0
<b>Growth (%)</b>					
Revenue	61.6	62.2	68.5	53.4	15.8
Gross profit	56.0	88.5	59.4	50.0	15.7
EBIT	54.1	93.7	57.2	48.3	17.3
Net profit	86.2	46.9	84.7	37.7	18.8
<b>Balance sheet ratios</b>					
Current ratio (x)	1.5	1.4	1.3	1.3	1.3
Receivable turnover days	141	144	146	146	146
Payables turnover days	380	437	365	365	365
Inventory turnover days	2,009	1,962	1,770	1,314	1,351
Net debt / total equity ratio (%)	51.0	58.9	74.5	72.3	66.4
<b>Returns (%)</b>					
ROE	16.1	20.3	30.6	33.6	32.2
ROA	1.6	1.6	2.0	2.3	2.4
<b>Per share</b>					
EPS (RMB)	0.61	0.90	1.66	2.29	2.72
DPS (RMB)	0.25	0.36	0.66	0.91	1.09
BVPS (RMB)	3.78	4.43	5.43	6.80	8.43

Source: Company data, CMBIS estimates

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