

China Aoyuan (3883 HK)

One of our top picks

Revenue and core profit gained by 19% YoY to RMB28.2bn and 21% YoY to RMB2.45bn in 1H20, respectively. Given contracted sales amount of RMB60bn in 7M20, hit rate was 46% by Jul. The Company acquired land bank through multi-method. As of Jun 2020, total land bank amounted to 48.74mn sq m (attributable: 78%). We maintain our TP of HK\$15.48. Reiterate BUY recommendation.

- **Core profit surged 21% YoY in 1H20.** Revenue and net profit increased by 19.3% YoY to RMB28.2bn and 6.3% YoY to RMB2.42bn in 1H20, respectively. The rise in revenue was driven by 39% increase of delivery GFA to 2.88mn sq m in the period. Profit margin was stable but effective tax rate expanded by 5.1ppts to 53.6% in 1H20. Excluding FX loss and revaluation gain in investment properties (IP), core earnings soared 21.0% YoY to RMB2.45bn in 1H20.
- **46% hit rate by Jul.** Contracted sales amounted to RMB60.4bn in 7M20, up 0.2% YoY. Aoyuan accomplished 46% of full year sales target of RMB132bn by Jul. The Company plans to launch RMB220bn worth of properties for sales in 2020. It will strengthen the sales pace in the Southern China for the rest of the year in order to complete the sale plan. Furthermore, the acquisition 29.3% stake of Kinghand Industrial (000615 CH, NR) will supplement the sales force in Northern China.
- **Multi-channel land bank replenishment.** Aoyuan acquired 44 property projects with total GFA of 6.95mn sq m (attributable: 76%) in 1H20. As of Jun 2020, total land bank was 48.74mn sq m (attributable: 78%) and spanned 90 mainland and overseas cities. Average land cost is RMB2,727 per sq m. Beside the traditional land bank acquisition method such as auction, Aoyuan obtains land bank by M&A and urban redevelopment projects. In the period, it acquired 29.3% interest of Kinghand Industrial which has projects in Beijing, Tianjin, Chongqing, Chengdu, Nanjing, Guangdong and Hebei, etc. Furthermore, it has participated in over 50 urban redevelopment projects with estimated saleable GFA of 17.59mn sq m, of which 95% are located in GBA.
- **Reiterate BUY.** As of Jun 2020, pre-sales and unbooked properties totaled RMB180bn that provided a high earning visibility next two years. Net gearing ratio stood at 79.8% while cash/short term debt ratio was 1.5x as of Jun 2020. Financial position was healthy. We slightly adjust our earnings forecast by inclusion of revaluation gain of IP. We forecast net profit to grow by 57% to RMB6.58bn in 2020 and 13% to RMB7.40bn in 2021. We maintain our TP of HK\$15.48, based on 50% discount to end-20 NAV of HK\$30.95.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------|--------|--------|--------|--------|---------|
| Revenue (RMB mn) | 31,006 | 50,531 | 82,856 | 96,702 | 117,850 |
| YoY growth (%) | 62.2 | 63.0 | 64.0 | 16.7 | 21.9 |
| Net income (RMB mn) | 2,409 | 4,201 | 6,577 | 7,399 | 8,720 |
| EPS (RMB) | 0.90 | 1.56 | 2.44 | 2.75 | 3.24 |
| YoY growth (%) | 46.6 | 74.0 | 56.2 | 12.5 | 17.9 |
| Consensus EPS | N.A. | N.A. | 2.33 | 3.02 | 3.69 |
| P/E (x) | 9.6 | 5.5 | 3.5 | 3.2 | 2.7 |
| P/B (x) | 2.0 | 1.6 | 1.2 | 1.0 | 0.8 |
| Yield (%) | 4.2 | 6.3 | 11.3 | 12.7 | 15.0 |
| ROE (%) | 20.3 | 27.9 | 34.7 | 31.6 | 30.4 |
| Net gearing (%) | 58.9 | 74.9 | 64.4 | 70.2 | 65.5 |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

| | |
|---------------|------------|
| Target Price | HK\$15.48 |
| (Previous TP) | HK\$15.48) |
| Up/Downside | +60.2% |
| Current Price | HK\$9.66 |

China Property Sector

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 26,110 |
| Avg 3 mths t/o (HK\$ mn) | 91.10 |
| 52w High/Low (HK\$) | 13.12/7.17 |
| Total Issued Shares (mn) | 2,703 |

Source: Bloomberg

Shareholding Structure

| | |
|------------|-------|
| GUO ZI WEN | 55.2% |
| Free float | 44.8% |

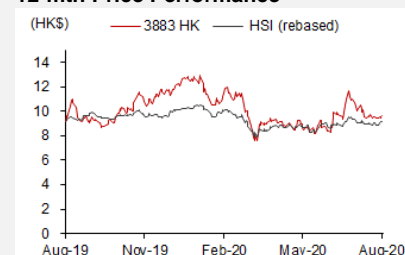
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -10.6% | -8.7% |
| 3-mth | 6.6% | 2.1% |
| 6-mth | -16.7% | -8.4% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

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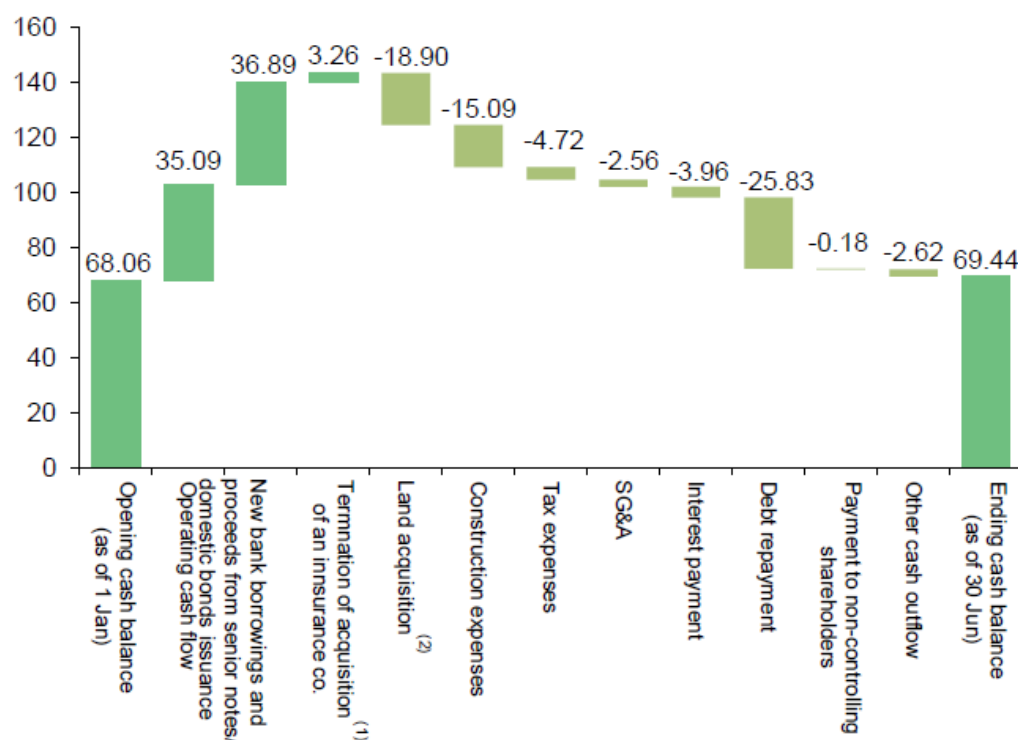
Figure 1: Interim results

| | 1H20 (RMB mn) | 1H29 (RMB mn) | Change (%) Remark |
|------------------------------------|------------------|------------------|---|
| Revenue | 28,243 | 23,670 | 19.3% |
| Property development | 27,341 | 22,421 | 21.9% Delivery GFA increased by 39% to 2.88mn sqm but ASP declined by 12% |
| Property investment | 98 | 88 | 11.3% |
| Others | 804 | 1,160 | -30.7% |
| Cost of sales | (19,961) | (16,624) | 20.1% |
| Gross profit | 8,282 | 7,046 | 17.5% Gross margin narrowed by 0.4ppts to 29.3% in 1H20 |
| Other income | 641 | 369 | 74.0% FX loss of RMB213mn |
| Marketing expenses | (1,105) | (944) | 17.1% |
| Administrative expenses | (1,460) | (1,153) | 26.5% |
| EBIT | 6,358 | 5,317 | 19.6% EBIT margin stayed flat at 22.5% in 1H20 |
| Finance costs | (444) | (276) | 60.5% |
| Share from associates and JVs | (147) | 26 | N.A. |
| Exceptional | 352 | 367 | -4.1% Fair value change of investment properties |
| PROFIT BEFORE TAX | 6,120 | 5,434 | 12.6% |
| Income tax | (3,280) | (2,634) | 24.5% Effective tax rate increased by 5.1ppts to 53.6% in 1H20 |
| PROFIT FOR THE YEAR | 2,840 | 2,800 | 1.4% |
| Non-controlling interests | (424) | (528) | -19.8% |
| Net profit to shareholders | 2,416 | 2,272 | 6.3% Net margin narrowed 1.0ppts to 8.6% in 1H20 |
| Core profit to shareholders | 2,450 | 2,025 | 21.0% |

Source: Company data, CMBIS

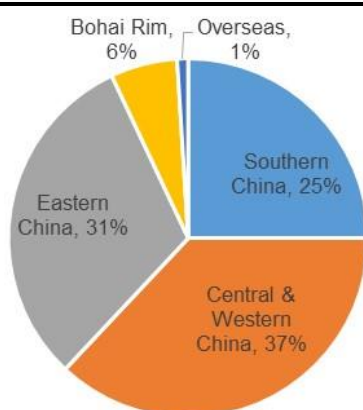
Figure 2: 1H20 cash flow

(RMB bn)



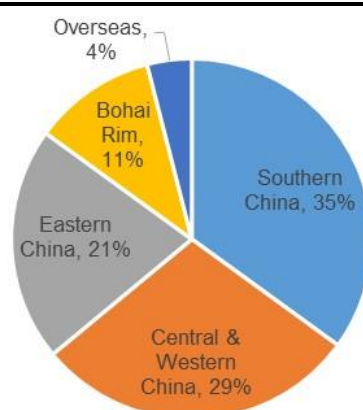
Source: Company data

Figure 3: Contracted sales by region in 1H20



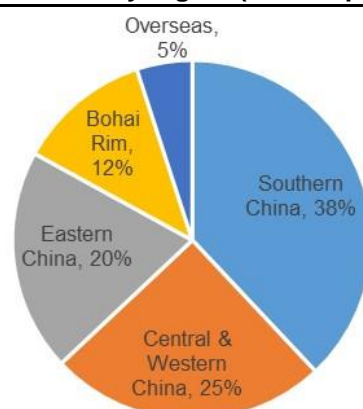
Source: Company data

Figure 4: Saleable resources in 2020E



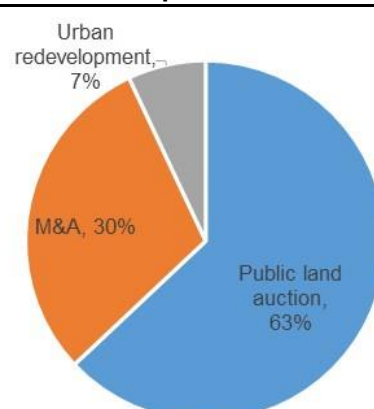
Source: Company data

Figure 5: Land bank by region (48.74 sq m)



Source: Company data

Figure 6: Land bank acquisition method in 1H20



Source: Company data

Figure 7: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|--------------|--------|--------|---------|--------|--------|---------|----------|-------|-------|
| | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E |
| Revenue | 82,856 | 96,702 | 117,850 | 82,856 | 96,702 | 117,850 | 0.0% | 0.0% | 0.0% |
| Gross Profit | 23,505 | 27,440 | 32,890 | 23,505 | 27,440 | 32,890 | 0.0% | 0.0% | 0.0% |
| EBIT | 16,382 | 19,069 | 22,628 | 16,382 | 19,069 | 22,628 | 0.0% | 0.0% | 0.0% |
| Net profit | 6,577 | 7,399 | 8,720 | 6,366 | 7,399 | 8,720 | 3.3% | 0.0% | 0.0% |
| EPS (RMB) | 2.44 | 2.75 | 3.24 | 2.37 | 2.75 | 3.24 | 3.2% | 0.0% | 0.0% |
| Gross Margin | 28.4% | 28.4% | 27.9% | 28.4% | 28.4% | 27.9% | 0 ppt | 0 ppt | 0 ppt |
| EBIT Margin | 19.8% | 19.7% | 19.2% | 19.8% | 19.7% | 19.2% | 0 ppt | 0 ppt | 0 ppt |
| Net Margin | 7.9% | 7.7% | 7.4% | 7.7% | 7.7% | 7.4% | 0.3 ppt | 0 ppt | 0 ppt |

Source: CMBIS estimates

Figure 8: End-20 NAV

| | NAV (RMB mn) | NAV/share (RMB) | NAV/share (HK\$) | % of NAV | Remark |
|------------------------|-----------------|--------------------|---------------------|-------------|---------------------------|
| Development properties | 100,248 | 37.26 | 41.54 | 134% | DCF method with 10% WACC |
| Investment properties | 3,549 | 1.32 | 1.47 | 5% | 10% cap rate |
| Aoyuan Healthy Life | 2,147 | 0.80 | 0.89 | 3% | 54.6% interest of mkt cap |
| GAV | 105,945 | 39.38 | 43.90 | 142% | |
| Less: Net debt | (31,244) | (11.61) | (12.95) | -42% | |
| NAV | 76,848 | 28.56 | 30.95 | 100% | |

Source: CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-----------------------------------|---------------|---------------|---------------|---------------|----------------|
| Revenue | 31,006 | 50,531 | 82,856 | 96,702 | 117,850 |
| Property development | 29,740 | 48,091 | 79,900 | 93,120 | 113,505 |
| Property investment | 186 | 273 | 355 | 461 | 600 |
| Others | 1,080 | 2,167 | 2,601 | 3,121 | 3,745 |
| Cost of sales | (21,372) | (35,510) | (59,351) | (69,262) | (84,960) |
| Gross profit | 9,634 | 15,021 | 23,505 | 27,440 | 32,890 |
| Other income | 350 | 485 | 500 | 525 | 580 |
| Selling and distribution | (1,432) | (2,138) | (3,480) | (4,061) | (4,950) |
| Administrative expenses | (1,736) | (2,435) | (4,143) | (4,835) | (5,892) |
| EBIT | 6,816 | 10,933 | 16,382 | 19,069 | 22,628 |
| Associates and JVs | 35 | (51) | (60) | 20 | 65 |
| Finance costs | (411) | (718) | (918) | (1,170) | (1,350) |
| Exceptional | 514 | 425 | 352 | - | - |
| PROFIT BEFORE TAX | 6,954 | 10,58 | 15,756 | 17,919 | 21,343 |
| Income tax | (4,015) | (5,368) | (7,535) | (8,670) | (10,444) |
| PROFIT FOR THE YEAR | 2,939 | 5,222 | 8,222 | 9,249 | 10,900 |
| Non-controlling interests | (531) | (1,021) | (1,644) | (1,850) | (2,180) |
| Net profit to shareholders | 2,409 | 4,201 | 6,577 | 7,399 | 8,720 |
| Core net profit | 2,574 | 4,122 | 6,295 | 7,399 | 8,720 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Current assets | 171,808 | 262,458 | 286,028 | 306,968 | 328,453 |
| Properties for sale | 114,894 | 158,931 | 180,132 | 195,698 | 205,043 |
| Trade and other receivables | 12,274 | 26,259 | 33,142 | 38,681 | 47,140 |
| Amount due from | 2,267 | 5,369 | 5,369 | 5,369 | 5,369 |
| Bank balances and cash | 36,012 | 58,043 | 53,529 | 53,365 | 57,045 |
| Others | 6,360 | 13,855 | 13,855 | 13,855 | 13,855 |
| Non-current assets | 17,051 | 27,423 | 30,635 | 33,475 | 37,359 |
| PP&E | 2,057 | 2,686 | 2,806 | 2,926 | 3,046 |
| Investment properties | 8,833 | 10,072 | 10,725 | 10,925 | 11,125 |
| Investment in associates and | 1,939 | 5,865 | 8,305 | 10,825 | 14,390 |
| Others | 4,221 | 8,799 | 8,799 | 8,799 | 8,798 |
| Total assets | 188,858 | 289,880 | 316,663 | 340,443 | 365,812 |
| Current liabilities | 121,033 | 196,847 | 220,416 | 235,678 | 275,772 |
| Trade and other payables | 25,565 | 36,838 | 59,351 | 69,262 | 84,960 |
| Contracted liabilities | 59,966 | 86,056 | 85,536 | 86,376 | 82,407 |
| Amount due to | 4,755 | 22,822 | 26,810 | 26,810 | 26,810 |
| ST loan | 23,732 | 41,873 | 39,461 | 43,971 | 72,337 |
| Others | 7,015 | 9,258 | 9,258 | 9,258 | 9,258 |
| Non-current liabilities | 37,092 | 56,037 | 53,659 | 55,888 | 33,751 |
| LT loan | 33,990 | 53,891 | 51,514 | 53,742 | 31,605 |
| Others | 3,102 | 2,146 | 2,146 | 2,146 | 2,146 |
| Total liabilities | 158,124 | 252,884 | 274,076 | 291,566 | 309,523 |
| Total equity | 30,734 | 36,997 | 42,587 | 48,876 | 56,288 |
| Equity to shareholders | 11,872 | 15,030 | 18,976 | 23,416 | 28,647 |
| Non-controlling interests | 18,862 | 21,967 | 23,611 | 25,461 | 27,641 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------------------|-----------------|-----------------|----------------|----------------|----------------|
| Profit before tax | 6,954 | 10,589 | 15,756 | 17,919 | 21,343 |
| D&A, impairment | 144 | 263 | 80 | 80 | 80 |
| Change in working capital | 7,829 | (2,447) | (6,091) | (10,353) | (6,076) |
| Others | (6,340) | (10,231) | (7,475) | (8,690) | - |
| Net cash from operating | 8,588 | (1,825) | 2,271 | (1,044) | 4,839 |
| Capex, net | (713) | (20,626) | (500) | (400) | (400) |
| Associated companies | (11,564) | (11,259) | (2,500) | (2,500) | (3,500) |
| Others | (4,686) | 444 | - | - | - |
| Net cash from investing | (16,963) | (31,442) | (3,000) | (2,900) | (3,900) |
| Equity raised | (291) | (281) | - | - | - |
| Change of debts | 17,439 | 44,184 | 10,785 | 6,739 | 6,229 |
| Others | (777) | 2,418 | (2,631) | (2,960) | (3,488) |
| Net cash from financing | 16,370 | 46,321 | 8,154 | 3,780 | 2,741 |
| Net change in cash | 7,995 | 13,054 | 7,425 | (165) | 3,680 |
| Cash at the beginning of the | 24,769 | 32,937 | 46,104 | 53,529 | 53,365 |
| Exchange difference | 173 | 113 | - | - | - |
| Cash at the end of the year | 32,937 | 46,104 | 53,529 | 53,365 | 57,045 |

Key ratios

| YE 31 Dec | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------------------|------------|------------|------------|------------|------------|
| Sales mix (%) | | | | | |
| Property development | 95.9 | 95.2 | 96.4 | 96.3 | 96.3 |
| Property investment | 0.6 | 0.5 | 0.4 | 0.5 | 0.5 |
| Others | 3.5 | 4.3 | 3.1 | 3.2 | 3.2 |
| Total | 100 | 100 | 100 | 100 | 100 |
| Profit & loss ratios (%) | | | | | |
| Gross margin | 31.1 | 29.7 | 28.4 | 28.4 | 27.9 |
| EBIT margin | 22.0 | 21.6 | 19.8 | 19.7 | 19.2 |
| Net margin | 7.8 | 8.3 | 7.9 | 7.7 | 7.4 |
| Effective tax rate | 57.7 | 50.7 | 47.8 | 48.4 | 48.9 |
| Growth (%) | | | | | |
| Revenue | 62.2 | 63.0 | 64.0 | 16.7 | 21.9 |
| Gross profit | 88.5 | 55.9 | 56.5 | 16.7 | 19.9 |
| EBIT | 93.7 | 60.4 | 49.8 | 16.4 | 18.7 |
| Net profit | 46.9 | 74.4 | 56.6 | 12.5 | 17.9 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1.4 | 1.3 | 1.3 | 1.3 | 1.2 |
| Receivable turnover days | 144 | 190 | 146 | 146 | 146 |
| Payables turnover days | 437 | 379 | 365 | 365 | 365 |
| Inventory turnover days | 1,962 | 1,634 | 1,108 | 1,031 | 881 |
| Net debt / total equity ratio (%) | 58.9 | 74.9 | 64.4 | 70.2 | 65.5 |
| Returns (%) | | | | | |
| ROE | 20.3 | 27.9 | 34.7 | 31.6 | 30.4 |
| ROA | 1.6 | 1.8 | 2.6 | 2.7 | 3.0 |
| Per share data | | | | | |
| EPS (RMB) | 0.90 | 1.56 | 2.44 | 2.75 | 3.24 |
| DPS (RMB) | 0.36 | 0.55 | 0.98 | 1.10 | 1.30 |
| BVPS (RMB) | 4.43 | 5.58 | 7.05 | 8.70 | 10.65 |

Source: Company data, CMBIS estimates

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| | |
|-----------------------|---|
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