

China Aoyuan (3883 HK)

Solid growth backed by robust sales

SUMMARY. Aoyuan achieved 75% core earnings growth in 1H19 to RMB2.03bn. In 7M19, the Company achieved RMB60.3bn contracted sales, up 30% YoY, completing 53% of RMB114.1bn sales target. We revise up our TP from HK\$13.00 to HK\$14.30. Maintain **BUY**.

- **75% core earnings growth in 1H19.** Aoyuan achieved 78% and 100% contracted sales growth in 2017 and 2018, respectively. Driven by previous fast-growing contracted sales which was gradually recognized in 1H19, revenue from property development grew 73% to RMB22.4bn. Gross margin slightly improved 1.2ppt to 29.8% compared to 1H18 but lower than the FY18 of 31.1%. Core net profit was up 75% to RMB2.03bn, representing core net margin of 8.6%.
- **53% hit rate in 7M19.** In 1H19, the Company achieved RMB53.6bn contracted sales with 5.32mn sq m GFA sold, up 33% and 35%, respectively. This represented ASP of RMB10,080/sq m. South China area remains the core market of Aoyuan, contributing RMB22.8bn sales in 1H19, representing 42% of total sales. In 7M19, Aoyuan realized contracted sales of RMB60.3bn, completing 53% of annual sales target of RMB114.1bn. Furthermore, pre-sold but unbooked properties amounted to RMB145.7bn as at Jul 2019, of which about RMB25-30bn will be recognized in 2H19.
- **Competitive land bank.** In 1H19, Aoyuan added 7.26mn sq m new land bank, of which 72% came from M&A. As of 30 Jun 2019, Aoyuan had 230 projects located in 75 domestic and overseas cities. Total land bank reached 40.12mn sq m (attributable: 81%) with a total value of RMB425.5bn (expecting ASP of RMB10,606/sq m), of which 27% was attributable to GBA. Thanks to the Company's active M&A strategy in land acquisition, average land cost was well maintained at RMB2,321/sq m, accounting for 23% of 1H19 ASP. The Company also focuses on urban redevelopment business. Potential saleable resources of urban redevelopment projects reached RMB219.7bn. We believe Aoyuan's land bank is competitive among other mid-size developers in terms of cost and positioning in GBA.
- **Raise TP to HK\$14.30, maintain BUY.** We revise up FY19/20 earnings forecast by 10.9%/6.3% to RMB4,448/6,123mn. We also raise our FY19-end NAV forecast from HK\$26.00 to HK\$28.60. Given 50% discount, we raised our TP from HK\$13.00 to HK\$14.30. On 16 Aug, Hang Seng Index Company announced Aoyuan will be included in The Hang Seng Composite LargeCap & MidCap Index (HSLMI). Among mid-size developers with contracted sales about RMB100.0bn, we favor Aoyuan for its appealing land bank position and strong earnings visibility backed by robust sales growth.

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)	14.7	10.0	5.4	3.9	3.3
P/B (x)	2.4	2.0	1.7	1.3	1.1
Yield (%)	2.8	4.0	7.4	10.2	12.1
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\$13.00)
Up/Downside	+37.5%
Current Price	HK\$10.40

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	27,980
Avg 3 mths t/o (HK\$ mn)	126
52w High/Low (HK\$)	12.14/4.09
Total Issued Shares (mn)	2,690

Source: Bloomberg

Shareholding Structure

GUO ZI WEN	55.2%
Free float	44.8%

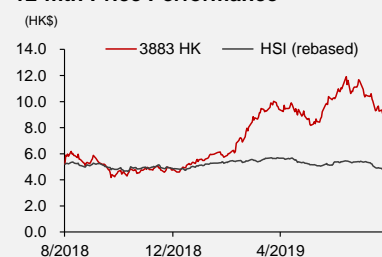
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-18.1%	-9.4%
3-mth	6.6%	15.8%
6-mth	62.4%	78.9%
12-mth	84.8%	95.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. "China Aoyuan (3883 HK) – Sustained contracted sales to boost earnings growth" – 16 Jul 2019
2. "China Aoyuan (3883 HK) - Another developer with RMB100bn sales" – 19 Mar 2019
3. "China Aoyuan (3883 HK) - A rising star" – 30 Jan 2019

Figure 1: 1H19 results

RMB mn	1H18	1H19	Growth
Revenue	13,667	23,670	73%
Property development	12,950	22,421	73%
Property investment	53	88	66%
Others	663	1,160	75%
Cost of sales	(9,764)	(16,624)	70%
Gross profit	3,902	7,046	81%
Gross Profit Margin	28.6%	29.8%	+1.2ppt
Other income	227	212	-7%
Selling and distribution expenses	(600)	(944)	57%
Administrative expenses	(651)	(1,153)	77%
EBIT	2,878	5,160	79%
Share from associates and JVs	89	26	-71%
Finance costs	(173)	(276)	60%
Exceptional	279	524	88%
PROFIT BEFORE TAX	3,074	5,434	77%
Income tax	(1,599)	(2,634)	65%
PROFIT FOR THE YEAR	1,475	2,800	90%
Non-controlling interests	(259)	(528)	104%
Net profit to shareholders	1,216	2,272	87%
Net Profit Margin	8.9%	9.6%	+1.0ppt
Attri. core net profit	1,160	2,025	75%
Core Net Margin	8.5%	8.6%	+0.1ppt

Source: Company data

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	52,243	80,157	92,825	54,292	74,594	91,865	-3.8%	7.5%	1.0%
Gross Profit	15,361	23,040	26,653	15,283	21,392	26,377	0.5%	7.7%	1.0%
EBIT	10,717	15,894	18,640	10,433	14,671	18,051	2.7%	8.3%	3.3%
Net profit	4,448	6,123	7,275	4,010	5,760	7,118	10.9%	6.3%	2.2%
EPS (RMB)	1.66	2.29	2.72	1.50	2.15	2.66	10.8%	6.4%	2.2%
Gross Margin	29.4%	28.7%	28.7%	28.1%	28.7%	28.7%	1.3 ppt	0.1 ppt	0 ppt
EBIT Margin	20.5%	19.8%	20.1%	19.2%	19.7%	19.6%	1.3 ppt	0.2 ppt	0.4 ppt
Net Margin	8.5%	7.6%	7.8%	7.4%	7.7%	7.7%	1.1 ppt	-0.1 ppt	0.1 ppt

Source: CMBI estimates

Figure 3: NAV table

	NAV (RMB mn)	NAV/share (RMB)	NAV/share (HK\$)	% of NAV	Remark
Development properties	93,733	35.00	39.02	136.4%	DCF method with 10% WACC
Investment properties	2,043	0.76	0.85	3.0%	10% cap rate
Aoyuan Healthy Life	1,629	0.61	0.68	2.4%	54.6% interest of mkt cap
GAV	97,405	36.37	40.55	141.8%	
Less: Net debt	(28,708)	(10.72)	(11.95)	-41.8%	
NAV	70,325	26.26	28.60	100%	

Source: CMBI estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	19,115	31,006	52,243	80,157	92,825
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)
Gross profit	5,111	9,634	15,361	23,040	26,653
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)
EBIT	3,518	6,816	10,717	15,894	18,640
Share from associates and JVs	(116)	35	60	104	154
Finance costs	(268)	(411)	(695)	(873)	(962)
Exceptional	492	514	524	-	-
PROFIT BEFORE TAX	3,626	6,954	10,606	15,125	17,831
Income tax	(1,674)	(4,015)	(5,046)	(7,471)	(8,737)
PROFIT FOR THE YEAR	1,952	2,939	5,560	7,654	9,094
Non-controlling interests	(312)	(531)	(1,112)	(1,531)	(1,819)
Net profit to shareholders	1,640	2,409	4,448	6,123	7,275
Core net profit	1,613	2,574	4,134	6,123	7,275

Balance sheet

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	116,110	171,808	258,049	303,854	353,334
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
Non-current assets	9,696	17,051	23,087	23,610	24,084
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
Total assets	125,806	188,858	281,135	327,465	377,419
Current liabilities	75,573	121,033	192,935	229,321	270,862
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
Non-current liabilities	23,106	37,092	49,685	54,425	56,654
LT loan	19,880	33,990	46,774	51,514	53,742
Others	3,226	3,102	2,911	2,911	2,911
Total liabilities	98,680	158,124	242,621	283,745	327,515
Total equity	27,126	30,734	38,515	43,719	49,903
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
Profit before tax	3,626	6,954	10,606	15,125	17,831
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)
Net cash from operating activities	(6,763)	8,588	(12,223)	61	1,766
Fixed assets Capex & Investment, net	(889)	(713)	(700)	(500)	(400)
Associated companies	(7,863)	(11,564)	(3,260)	-	-
Others	(1,192)	(4,686)	-	-	-
Net cash from investing activities	(9,944)	(16,963)	(3,960)	(500)	(400)
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)
Net cash from financing activities	31,046	16,370	24,689	8,335	3,829
Net change in cash	14,339	7,995	8,506	7,896	5,195
Cash at the beginning of the year	10,471	24,769	36,012	44,518	52,414
Exchange difference	(41)	173	-	-	-
Cash at the end of the year	24,769	32,937	44,518	52,414	57,609

Key ratios

YE Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
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
Total	100	100	100	100	100
Profit & loss ratios (%)					
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
Growth (%)					
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
Balance sheet ratios					
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
Returns (%)					
ROE	16.1	20.3	30.6	33.6	32.2
ROA	1.6	1.6	2.0	2.3	2.4
Per share					
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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