

China Aoyuan (3883 HK)

Ambitious LT goal with cautious FY20 target

- 60% core earnings growth in FY19.** Aoyuan achieved 78% and 100% contracted sales growth in FY17 and FY18, respectively. Driven by previous fast-growing contracted sales which was gradually recognized in FY19, revenue from property development grew 62% to RMB48.1bn. Gross margin slightly declined 1.4ppt YoY to 29.7%. Core net profit was up 60% to RMB4,122mn, in line with growth of topline and representing core net margin of 8.2%. The core earnings is in line with our forecast of RMB4,134mn.
- 12% sales growth target.** In FY19, the Company achieved RMB118.1bn contracted sales with 11.69mn sq m GFA sold, up 29% and 32%, respectively. This represented ASP of RMB10,104/sq m. Aoyuan announced the FY20 sales target is 12% growth from FY19 sales, which is approx. RMB132.0bn. Saleable resources amounted to RMB220.0bn, indicating sell-through target would be 60%. By end-FY19, unbooked revenue amounted to RMB170.5bn, which will be gradually recognized in the next two years. Gross margin of unbooked revenue is at 26-28%. 12% growth is a cautious target given the disease outbreak in 1Q20 which adversely affects the sales. In 2M20, sales drop 37% YoY to RMB7.0bn. But 1Q sales normally accounts for 15% of full year sales. Sales, in our view, may pick up in 2Q if the situation continues to improve. Although FY20 target is not thrilling, Aoyuan is still ambitious to accelerate the growth in FY21/22 and to achieve RMB200.0bn sales by FY22.
- Competitive land bank with urban redevelopment highlights.** By end-FY19, Aoyuan's land bank reached 45.03mn sq m (attributable: 81%) with a saleable value of RMB458.5bn (expecting ASP of RMB10,200/sq m), of which 22.3% of value was attributable to GBA. The Company is making a big progress in urban redevelopment business in FY19. Aoyuan has over 30 urban redevelopment projects at different phases with planned total GFA of 14.25mn sq m and saleable resources of RMB226bn. Saleable resources from GBA contribute approx. RMB201.9bn. Its flagship project, Cuiwei Village in Zhuhai (largest urban village in Zhuhai), started construction in 1Q20. Est. saleable value reaches RMB20.0bn.
- Raise TP to HK\$15.48, maintain BUY.** The Company's Average land cost/ FY19 ASP is 25.1% and saleable value of Tier 1&2 plus international cities together accounted for 55% of total value. Furthermore, with more high margin and GBA located urban redevelopment projects, especially Cuiwei Village, to be added to the Company's pipeline and land bank in the future, the Company has a good positioning in land bank layout. We revise up FY19/20 EPS forecast by 3.4%/1.2% to RMB2.37/2.75. We derive our FY20-end NAV forecast at HK\$30.95 per share. Given 50% discount, we raise our TP from HK\$14.30 to HK\$15.48. **Maintain BUY. Reaffirm one of our Top Picks in the sector.**

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	6,366	7,399	8,720
EPS (RMB)	0.90	1.56	2.37	2.75	3.24
YoY growth (%)	46.6	74.0	51.2	16.2	17.9
P/E (x)	9.0	5.2	3.4	2.9	2.5
Consensus EPS	N.A.	N.A.	2.34	3.00	N.A.
P/B (x)	1.8	1.4	1.2	0.9	0.8
Yield (%)	4.5	6.8	11.7	13.6	16.1
ROE (%)	20.3	27.9	33.8	31.8	30.6
Net gearing (%)	58.9	74.9	73.7	78.3	72.5

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$15.48
(Previous TP)	HK\$14.30)
Up/Downside	+72.2%
Current Price	HK\$8.99

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	24,187
Avg 3 mths t/o (HK\$ mn)	90.08
52w High/Low (HK\$)	13.12/7.17
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	-18.7%	-10.0%
3-mth	-25.7%	-20.3%
6-mth	3.6%	7.7%
12-mth	9.1%	9.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Figure 1: FY19 results

Rmb mn	FY19	FY18	YoY
Revenue	50,531	31,006	63%
Property development	48,091	29,740	62%
Property investment	273	186	47%
Others	2,167	1,080	101%
Cost of sales	(35,510)	(21,372)	66%
Gross profit	15,021	9,634	56%
GPM	29.7%	31.1%	-1.3ppt
Other income	485	350	38%
Selling and distribution expenses	(2,138)	(1,432)	49%
Administrative expenses	(2,435)	(1,736)	40%
EBIT	10,933	6,816	60%
Share from associates and JVs	(51)	35	-246%
Finance costs	(718)	(411)	75%
Exceptional	425	514	-17%
PROFIT BEFORE TAX	10,589	6,954	52%
Income tax	(5,368)	(4,015)	34%
PROFIT FOR THE YEAR	5,222	2,939	78%
Non-controlling interests	(1,021)	(531)	92%
Net profit to shareholders	4,201	2,409	74%
Core net profit	4,122	2,574	60%
Core NM	8.2%	8.3%	-0.1ppt

Source: Company data

Figure 2: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	82,856	96,702	80,157	92,825	3.4%	4.2%
Gross Profit	23,505	27,440	23,040	26,653	2.0%	3.0%
EBIT	16,382	19,069	15,894	18,640	3.1%	2.3%
Net profit	6,366	7,399	6,123	7,275	4.0%	1.7%
EPS (RMB)	2.37	2.75	2.29	2.72	3.4%	1.2%
Gross Margin	28.4%	28.4%	28.7%	28.7%	-0.4 ppt	-0.3 ppt
EBIT Margin	19.8%	19.7%	19.8%	20.1%	-0.1 ppt	-0.4 ppt
Net Margin	7.7%	7.7%	7.6%	7.8%	0 ppt	-0.2 ppt

Source: CMBI estimates

Figure 3: NAV table

	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: CMBI 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 expenses	(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
Share from associates and JVs	35	(51)	(60)	20	65
Finance costs	(411)	(718)	(918)	(1,170)	(1,350)
Exceptional	514	425	-	-	-
PROFIT BEFORE TAX	6,954	10,589	15,404	17,919	21,343
Income tax	(4,015)	(5,368)	(7,446)	(8,670)	(10,444)
PROFIT FOR THE YEAR	2,939	5,222	7,957	9,249	10,900
Non-controlling interests	(531)	(1,021)	(1,591)	(1,850)	(2,180)
Net profit to shareholders	2,409	4,201	6,366	7,399	8,720
Core net profit	2,574	4,122	6,366	7,399	8,720

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Profit before tax	6,954	10,589	15,404	17,919	21,343
D&A, impairment	144	-	80	80	80
Change in working capital	7,829	(20,659)	(6,091)	(10,353)	(6,076)
Others	(6,340)	1,516	(7,386)	(8,690)	(10,509)
Net cash from operating activities	8,588	(8,553)	2,007	(1,044)	4,839
Fixed assets Capex & Investment, net	(713)	(500)	(500)	(400)	(400)
Associated companies	(11,564)	(5,479)	(2,500)	(2,500)	(3,500)
Others	(4,686)	-	-	-	-
Net cash from investing activities	(16,963)	(5,979)	(3,000)	(2,900)	(3,900)
Equity raised	(291)	-	-	-	-
Change of debts	17,439	22,468	10,785	6,739	6,229
Others	(777)	(1,480)	(2,546)	(2,960)	(3,488)
Net cash from financing activities	16,370	20,988	8,238	3,780	2,741
Net change in cash	7,995	6,456	7,245	(165)	3,680
Cash at the beginning of the year	24,769	36,012	42,468	49,713	49,549
Exchange difference	173	-	-	-	-
Cash at the end of the year	32,937	42,468	49,713	49,549	53,229

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	171,808	262,458	282,213	303,152	324,637
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	49,713	49,549	53,229
Others	6,360	13,855	13,855	13,855	13,855
Non-current assets	17,051	27,423	30,283	33,122	37,007
PP&E	2,057	2,686	2,806	2,926	3,046
Investment properties	8,833	10,072	10,372	10,572	10,772
Investment in associates and JVs	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	312,495	336,275	361,644
Current liabilities	121,033	196,847	216,428	231,690	271,784
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	22,822	22,822	22,822
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	270,088	287,578	305,535
Total equity	30,734	36,997	42,408	48,697	56,108
Equity to shareholders	11,872	15,030	18,849	23,289	28,521
Non-controlling interests	18,862	21,967	23,558	25,408	27,588

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	7.7	7.7	7.4
Effective tax rate	57.7	50.7	48.3	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	51.5	16.2	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	73.7	78.3	72.5
Returns (%)					
ROE	20.3	27.9	33.8	31.8	30.6
ROA	1.6	1.8	2.5	2.8	3.0
Per share					
EPS (RMB)	0.90	1.56	2.37	2.75	3.24
DPS (RMB)	0.36	0.55	0.95	1.10	1.30
BVPS (RMB)	4.43	5.58	7.00	8.65	10.60

Source: Company data, CMBIS estimates

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