

China Aoyuan Group Limited

Execution Strength Shines Through in Times of Adversity

We reiterate our Buy rating on Aoyuan. We find the stock's valuations of 3.1x 2020E P/E attractive, especially considering its 2020E 53% YoY earnings growth is already largely secured through unrecognized sales. 2020E Contracted sales is set to grow by another 12% YoY to RMB132bn despite the recent disruptions by COVID-19.

3.1x 2020E P/E and 7.3% div yield stock on 53% earnings growth

We believe the stock is trading at unwarranted distressed valuations of 3.1x 2020E P/E and it offers investors an attractive entry point. The developer's 2020E 53% net profit growth is highly visible as it is already largely secured by unrecognized sales. Meanwhile 2020E contracted sales is still set to grow by another 12% YoY to reach RMB132bn (based on a 60% sell-through rate) despite the disruptions from the COVID-19. We reiterate our Buy rating and Aoyuan remains as one of our top picks of the sector.

53% YoY 2020E net profit growth largely secured

With RMB86bn of contract liabilities (132% of 2020E revenue) on Aoyuan's balance sheet as of end-2019, we believe our 2020E earnings are already largely secured by unrecognized sales. We thus believe that the developer is on track to deliver a 53% YoY earnings growth in 2020E, among the high-end of our coverage universe. While we believe there are downside risks to our 2020E GP Margins, but it will be offset by stronger than expected revenue recognition as a result of Aoyuan's high asset turnover model, underpinning its 34.0% 2020E ROE.

2019 results in-line with consensus expectations

Aoyuan announced a 2019 core attrib. net profit of RMB4,122m, up 60% YoY, in-line with bloomberg consensus estimate (RMB4,213m). GP Margins was at 29.7%, declining slightly from 31.1% of 2018. Core Net Margins came in at 10.1% (2018: 9.9%). The developer continued to maintain a solid balance sheet with Net Debt to Equity at 74.9% (1H19: 64.2%), while Total Assets to Equity stood at 7.8x (1H19: 6.6x).

GBA Urban Redevelopment remain as the key earnings growth driver

We believe Urban Redevelopment projects in the Greater Bay Area (GBA) will continue to be Aoyuan's key earnings growth driver in 2020, with ~33% of its total land bank value in urban redevelopment projects. This segment will also underpin the developers' profitability going forward, as these projects generally have a more favourable land cost compared to the more competitive land auctions. Aoyuan has now developed a ~240 person team to drive the urban redevelopment business' execution, with ~30 urban redevelopment projects on their land bank. Among these projects, 89% are in the Greater Bay Area, which will continue to be a key strategic region of economic growth.

At 3.1x 2020E P/E, valuations have approached distressed levels

Aoyuan is currently trading at 3.1x 2020E P/E (vs industry average of 4.2x P/E), which we believe have already priced in downside risks regarding slower growth and offshore debt refinancing risks. We maintain our Target Price of HK\$14.35/sh, which is based on a 5.5x 2020E P/E.

Stock code: 3883.HK

Rating: Buy

Price target (HK\$)	14.35
Current price (HK\$, 24th Mar 2020)	8.25
Upside/downside %	74%
Market cap (HK\$ m)	22,148
Market cap (US\$ m)	2,858
Avg daily turnover (US\$ m)	11.68

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019	2020e	2021e
Revenue	31,006	50,531	64,973	77,815
yoy %	62.2%	63.0%	28.6%	19.8%
Core Net Profit	2,574	4,122	6,304	7,216
yoy %	61.9%	60.1%	53.0%	14.5%
Gross margin	31.1%	29.7%	31.5%	30.5%
Net gearing	63.2%	76.8%	60.4%	60.4%
EPS	0.95	1.54	2.35	2.69
DPS	0.36	0.55	0.65	0.75
BPS	4.43	5.60	7.32	9.27

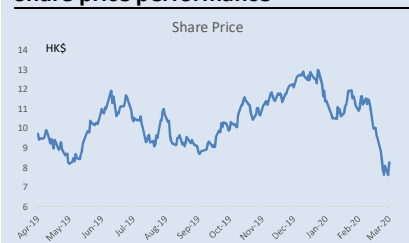
Source: Company data, AMTD Equity Research

Valuation

	2018	2019	2020e	2021e
P/E	7.8	4.9	3.1	2.7
P/BV	1.7	1.3	1.1	0.9
Div. yield	4.8%	7.3%	8.7%	10.0%
ROE	21.7%	27.4%	34.0%	31.5%
ROA	1.5%	1.8%	2.2%	2.2%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: China Aoyuan Group 2019 Final Results Summary

FY19 Results (RMB '000)	FY19A	FY18A	YoY/Chg	FY19E	Diff
Sales of properties	48,090,825	29,739,726	62%	50,753,022	-5%
Rental income of investment properties	273,011	185,770	47%	204,347	34%
Property management services	2,167,314	1,080,338	101%	1,188,372	82%
Total Revenue	50,531,150	31,005,834	63%	52,145,741	-3%
Cost of Goods Sold	(35,509,984)	(21,371,683)	66%	(35,980,561)	-1%
Gross Profit	15,021,166	9,634,151	56%	16,165,180	-7%
Other income	512,515	(959)	-53543%	-	N/A
Fair value gains on investment properties	397,304	865,208	-54%	-	N/A
Selling and distribution expenses	(2,138,052)	(1,432,227)	49%	(2,607,287)	-18%
Administrative expenses	(2,434,697)	(1,736,008)	40%	(2,919,625)	-17%
Share of post-tax loss of an associate	(5,332)	(1,872)	185%	(1,872)	185%
Share of post-tax (losses)/profits of joint ventures	(45,235)	36,558	-224%	36,558	-224%
Finance costs	(718,177)	(410,559)	75%	(737,093)	-3%
Profit before tax	10,589,492	6,954,292	52%	9,935,860	7%
Income tax expense	(5,367,662)	(4,014,825)	34%	(4,407,822)	22%
Net profit	5,221,830	2,939,467	78%	5,528,039	-6%
Owners of the Company	4,200,780	2,408,877	74%	4,422,431	-5%
Non-controlling interests	1,021,050	530,590	92%	1,105,608	-8%
Core attributable NP	4,121,733	2,573,888	60%	4,422,431	-7%
Key Ratios					
GP Margins	29.7%	31.1%		31.0%	
Core Net Margins	8.2%	8.3%		8.5%	
FY19 Results (RMB '000)	FY19A	1HFY19		FY19E	
Net Debt to Equity	74.9%	64.2%		76.8%	
Total Assets to Total Equity	7.8x	6.6x		7.0x	

Source: Company Data, E=AMTD Equity Research Estimates

Key Risks

Key downside risks for the stock includes (1) a slow down in contracted sales; (2) unexpected tightening in monetary policy; (3) Refinancing risk of its USD/SGD offshore debt.

IMPORTANT DISCLOSURES

AMTD Investment Ratings**Stock Rating**

Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

Analyst Certification

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China Aoyuan Group Limited

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