

China Aoyuan Group Limited

Slower Growth Ahead as Deleveraging Takes Priority

We believe Aoyuan's primary focus will be on deleveraging its balance sheet in the next 6-12 months. We believe this will result in slower contracted sales and revenue growth ahead. Nonetheless, we believe market's valuation of the stock at distressed valuations of 2.0x 2021E P/E, ~20% div yield is unwarranted and thus maintain our Buy rating.

Slower growth but distressed valuations are unwarranted

We believe China Aoyuan's contracted sales growth into 2H21E and 2022E will gradually slow down as balance sheet deleveraging takes priority, in our view. While there are rising downside risks to our 2021E-2023E revenue and earnings forecasts, we are still confident that the developer will maintain a positive earnings growth which is better than market's current expectations. We believe the stock is trading at distressed valuation levels of 2.0x 2021E P/E, offering 20.1% div yield, which we believe is unwarranted.

1H21 results in line with estimates, 41% of 2021E net profit achieved

Aoyuan announced its 1H21 results which are largely in line with our estimates. Revenues increased 15% YoY to RMB32.5bn for 1H21, driven by a 12% YoY increase in the sales of properties and a 109% increase in property management services. 1H21 core attrib. net profit came in at RMB2.16bn representing 41% of our full year estimate. GP Margins and core net margins were in-line with our expectations at 25% and 6.6% respectively.

Contracted sales and revenue growth to come under pressure

We have noted that the developers' 1H21 Total Assets has declined HoH to RMB316bn (2H20: RMB326bn). We believe this reflects the developer's priority to deleverage its balance sheet amid the current regulatory environment. As a result, we expect the overall contracted sales growth to slow down in the next 6-18 months due to slower growth in new sellable resources. Moreover, we believe the decline in 1H21 contract liabilities to RMB63bn (2H20: RMB69bn) also implies a higher downside risk to our 2021E revenue estimates. Aoyuan reported contracted sales of RMB77.2bn YTD July, a 28% increase YoY and representing a run-rate of 51.5%, in-line with the sector average of 53.8%.

Deleveraging a priority – Target to meet all Three-Red-Lines by end-2022

We believe that the developer current priority will be to meet all Three Red Lines by the end of 2022. It is currently in the "yellow camp" with Cash to Short-term Borrowings of 1.3x and Net Gearing of 80.7%, while its Liabilities-to-Asset (excl. Contract Liabilities) was up 0.1ppt HoH to 78.5%, above the 70% threshold.

Valuation at distressed levels

Aoyuan is currently trading at 2.0x 2021E P/E offering 20.1% dividend yield, which we believe is attractive. We maintain our Target Price of HK\$12.91/sh based on a Target 2021E P/E of 5.5x, providing an upside of 176%.

Key Risks: (1) Contracted sales growth slower than expected; (2) GP margins continue to decrease; and (3) USD bond refinancing risks higher than expected and continues to persist.

Stock code: 3883.HK

Rating: Buy

Price target (HK\$)	12.91
Current price (HK\$, 23 Aug 2021)	4.67
Upside/downside %	176%
Market cap (HK\$ m)	12,590
Market cap (US\$ m)	1,616
Avg daily turnover (US\$ m)	7.47

Source: Bloomberg, AMTD Research

Key forecasts

(RMB m)	2020	2021e	2022e	2023e
Revenue	67,794	80,980	95,863	120,593
yoy %	34.2%	19.4%	18.4%	25.8%
Gross Profit	17,009	19,435	22,049	26,530
yoy %	13.2%	14.3%	13.4%	20.3%
Core Attrib. NP	4,857	5,321	5,975	7,121
yoy %	17.8%	9.5%	12.3%	19.2%
Gross margin	25.1%	24.0%	23.0%	22.0%
Net gearing	82.7%	79.1%	67.6%	55.6%
EPS	1.80	1.97	2.21	2.64
DPS	0.77	0.79	0.89	1.06
BPS	6.87	8.06	9.38	10.97

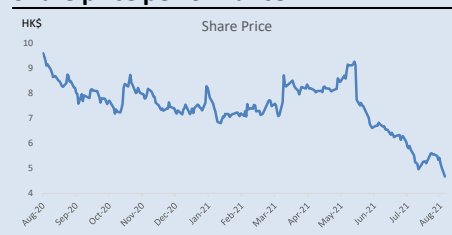
Source: Company data, AMTD Research

Valuation

	2020	2021e	2022e	2023e
P/E	2.2	2.0	1.8	1.5
P/BV	0.6	0.5	0.4	0.4
Div. yield	19.6%	20.1%	22.6%	26.9%
ROE	26.2%	24.5%	23.6%	24.1%
ROA	1.9%	1.6%	1.6%	1.8%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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Figure 1: China Aoyuan 1H21 Results Summary

1HFY21 Results (RMB '000)	1HFY21A	FY21E	% of FY21E	1HFY20A	YoY/Chg
Sales of properties	30,710,015	77,264,688	40%	27,340,677	12%
Rental income of investment properties	119,486	262,708	45%	98,483	21%
Property management services and others	1,680,166	3,452,177	49%	803,840	109%
Total Revenue	32,509,667	80,979,573	40%	28,243,000	15%
Cost of Goods Sold	(24,380,002)	(61,544,475)	40%	(19,960,897)	22%
Gross Profit	8,129,665	19,435,097	42%	8,282,103	-2%
Other income	314,579	-	N/A	221,133	42%
Fair value gains on investment properties	314,204	-	N/A	352,298	-11%
Selling and distribution expenses	(1,129,933)	(2,618,303)	43%	(1,105,427)	2%
Administrative expenses	(1,527,768)	(3,572,880)	43%	(1,459,568)	5%
Share of results of associates	(13,383)	323,918	-4%	(26,664)	-50%
Share of results of joint ventures	(116,195)	161,959	-72%	(120,209)	-3%
Finance costs	(343,918)	(1,006,170)	34%	(443,769)	-23%
Gain on disposal of subsidiaries	457,125	-	N/A	420,171	9%
Profit before tax	6,084,376	12,723,622	48%	6,120,068	-1%
Income tax expense	(3,241,819)	(6,078,525)	53%	(3,280,182)	-1%
Net profit	2,842,557	6,645,097	43%	2,839,886	0%
Owners of the Company	2,088,644	5,320,731	39%	2,416,088	-14%
Non-controlling interests	753,913	1,324,365	57%	423,798	78%
Core Attrib. Net Profit	2,156,709	5,320,731	41%	2,450,478	-12%
Key Ratios					
GP Margin	25.0%	24.0%		29.3%	-4.3ppt
Core Net Margin	6.6%	6.6%		8.7%	-2.0ppt
	1HFY21A	FY21E		1HFY20A	YoY/Chg
Net Debt to Equity	80.7%	79.1%		81.6%	-1.0ppt
Liabilities to Asset (excl. Contract Liabilities)	78.5%	78.3%		80.3%	-1.8ppt
Cash to Short-term Borrowings	1.3x	1.1x		1.4x	-0.1x
Total Assets to Total Equity	5.9x	6.0x		7.1x	-1.2x

Source: Company Data, AMTD Research Estimates

Figure 2: China Property Developers: Peers Valuation Comparison

Date	23/8/2021	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
China Property Developers										
2202 HK	Vanke	22.50	39,689	5.5x	5.0x	4.6x	1.0x	0.9x	0.8x	6.3%
960 HK	Longfor	35.90	27,950	10.0x	8.1x	6.9x	1.7x	1.4x	1.3x	4.5%
688 HK	COLI	17.80	25,004	4.6x	4.0x	3.7x	0.5x	0.5x	0.4x	7.5%
1109 HK	CR Land	26.95	24,665	7.1x	6.0x	5.1x	0.8x	0.7x	0.6x	5.2%
2007 HK	Country Garden	8.19	23,629	4.9x	4.0x	3.5x	0.9x	0.7x	0.6x	6.3%
1918 HK	Sunac	18.80	11,249	2.7x	2.1x	1.9x	0.6x	0.5x	0.4x	9.9%
3333 HK	Evergrande	4.31	7,329	1.7x	2.0x	2.1x	0.3x	0.3x	0.3x	4.0%
813 HK	Shimao	14.94	6,783	3.8x	3.2x	2.7x	0.5x	0.4x	0.4x	11.3%
3380 HK	Logan	8.98	6,363	3.4x	2.9x	2.4x	1.0x	0.8x	0.6x	12.7%
884 HK	CIFI	5.03	5,400	4.6x	3.7x	3.1x	1.0x	0.8x	0.7x	7.6%
1030 HK	Seazen	6.73	5,364	3.6x	3.4x	3.0x	1.0x	0.8x	0.7x	6.9%
3383 HK	Agile	8.57	4,308	3.1x	2.9x	2.7x	0.6x	0.5x	0.4x	14.4%
1238 HK	Powerlong*	6.32	3,360	6.1x	4.8x	3.8x	0.6x	0.6x	0.5x	7.4%
1813 HK	KWG	8.14	3,325	3.5x	2.7x	2.3x	0.5x	0.4x	0.4x	12.9%
3900 HK	Greentown	10.32	3,305	9.5x	7.1x	6.4x	0.7x	0.6x	0.6x	3.8%
2777 HK	R&F	6.86	3,304	2.7x	2.6x	2.2x	0.2x	0.2x	0.2x	16.4%
123 HK	Yuexiu*	7.13	2,834	4.6x	3.9x	3.2x	0.4x	0.4x	0.4x	8.6%
6158 HK	Zhenro	4.61	2,584	6.9x	6.0x	5.0x	0.9x	0.8x	0.7x	3.1%
3990 HK	Midea RE	14.30	2,265	3.7x	2.8x	2.4x	0.7x	0.6x	0.4x	12.6%
9993 HK	Radianc*	4.19	2,175	4.9x	4.4x	3.4x	0.7x	0.6x	0.5x	7.7%
2772 HK	Zhongliang	4.46	2,050	3.7x	3.1x	2.7x	1.2x	1.0x	0.8x	10.4%
1638 HK	Kaisa	2.15	1,936	2.8x	1.7x	1.6x	0.4x	0.2x	0.2x	6.1%
1233 HK	Times	7.57	1,928	2.4x	2.2x	1.9x	0.7x	0.5x	0.4x	11.4%
2103 HK	Sinic*	4.00	1,833	6.4x	5.8x	4.6x	1.2x	1.0x	0.9x	4.2%
3883 HK	Aoyuan*	4.67	1,616	2.2x	2.0x	1.8x	0.6x	0.5x	0.4x	19.6%
1966 HK	China SCE	2.95	1,599	3.3x	2.6x	2.1x	0.5x	0.4x	0.4x	9.4%
272 HK	Shui On Land	1.27	1,314	NA	NA	NA	0.2x	NA	NA	0.0%
1628 HK	Yuzhou*	1.51	1,222	NA	8.3x	5.1x	0.3x	0.3x	0.3x	23.8%
95 HK	Lvgem*	1.83	1,197	12.6x	4.4x	4.3x	0.3x	0.3x	0.3x	0.0%
1996 HK	Redsun*	2.69	1,150	5.7x	4.1x	3.8x	0.5x	0.4x	0.4x	5.4%
2019 HK	Dexin China*	2.92	1,012	4.5x	4.3x	3.9x	1.1x	1.0x	0.8x	4.5%
119 HK	Poly Prop	2.01	958	3.6x	NA	NA	0.2x	NA	NA	6.4%
3301 HK	Ronshine	4.24	916	2.6x	3.0x	2.4x	0.3x	0.3x	0.3x	12.2%
1098 HK	Roadking	8.80	846	NA	NA	NA	0.3x	NA	NA	6.3%
832 HK	CCRE*	1.90	724	1.8x	1.8x	1.7x	0.4x	0.3x	0.3x	21.5%
6111 HK	Dafa*	6.13	651	12.4x	9.9x	8.2x	1.2x	1.1x	1.0x	1.6%
230 HK	Minmetals*	0.78	335	23.2x	10.7x	6.1x	0.3x	0.3x	0.3x	2.6%
Total/Average			232,173	5.4x	4.3x	3.6x	0.7x	0.6x	0.5x	8.5%

Source: Company Data, *AMTD Research Estimates

Note: As of 23 Aug 2021

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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

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