

China Aoyuan (3883.HK)

Speeding up to explore the new strategy of “internet + property”

HONG KONG | PROPERTY | COMPANY UPDATE

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Summary

- In the first six months in 2015, Aoyuan recorded accumulated contracted sales of approximately RMB6.07 billion, while contracted gross floor area (GFA) sold recorded as 822,000 sq. m., representing yoy growth of 18% and 53% respectively. The average price per sq. m amounted to RMB7,383. Aoyuan set their 2015 sale target as RMB13.5 billion, up approximately 10% compared with 2014. Under the current progress of sales, the annual sales accomplishment rate in 2015 would be 45%, better than 41% recorded in 2014H1.
- It is worth to mention the overseas business of the Company in the 2015H1. In early March, Aoyuan spent AUD0.121 billion (approximately equivalent to RMB0.6 billion) on the acquisition of a new project in Sydney in Australia: 70% equity of Elisabeth No. 130 lot. That project includes 148 high-end residential apartments and 2 shops, which is expected for the launch for sales in 2015H2, amounted to approximately AUD0.4 billion (approximately equivalent to RMB2 billion). In our views, even though the scale of the above-mentioned project is comparatively small, it still brings positive effect on Aoyuan’s exploration in overseas property market and diversification of the Company’s asset components.
- In 2015H1, Aoyuan speeded up to explore the new mode of “internet + property”. In January, Aoyuan formally launched its “Internet Plus” strategy and AO Smart Apartment v1.0 series. On 19 May, the Company announced the establishment of a technology subsidiary, ZhiOn Technology, and construction of the Smart Living O2O service platform: ZhiAi Living. Aoyuan’s act on speeding up the exploration of “internet + property” brings positive meaning to industrial transformation, but it may also fall into the dilemma of having unclear operation mode. In our opinion, ZhiOn Technology can enhance the efficiency of property business of the Company making use of internet techniques; meanwhile its works on research and development of the APP products enables Aoyuan to engage in internet services to clients directly. However, in short term, the true integration of “internet + property” is limited.
- The total debt of Aoyuan recorded RMB11.5 billion in the end of 2014, while cash on book recorded RMB5.9 billion. The net debt ratio is 62%. Even though the current debt ratio of the Company is at industrial average, which indicates controllable financial risks, we still have to pay attention to the risk of short-term debt maturity happening at the same time. Aoyuan enters into the peak period of debt repayment in 2015, with mature debts amounted to RMB4.46 billion. The Company needs re-financing in larger scale in order to settle the debts being mature and maintain the operation. In 2015H1, Aoyuan has issued notes financing twice to raise USD0.35 billion, with interest rates set between 9.25% and 10.87%. We expect Aoyuan would continue to re-finance and lower land reserve to keep healthy financial status in 2015H2.
- Aoyuan, on one hand, kept steady growth in traditional property development market; and speeded up business transformation on the other hand. The Company’s development on “Internet Plus” and cross border e-commerce platform is recognizable. This should bring Aoyuan new business growth. We grant Aoyuan the rating of “Buy”, and set the 12-month target price as HKD 2, which is equivalent to 4.5x forward P/E ratio in 2015. (Closing price as at 13 July 2015)

Buy (Update)

Closing Price: HKD 1.60

(Closing price as at 13 July 2015)

Target Price: HKD 2.00 (+25%)

O/S SHARES (MN) :	2,784
MARKET CAP (HKD MN) :	4,454
Ent. Value (HKD MN) :	9,562
52 - WK HI/LO (HKD) :	2.45/1.14

SHARE HOLDING PATTERN, %

PROMOTERS :	48.03
NON PROMOTER CORP. HOLDINGS :	13.99
PUBLIC & OTHERS :	37.98

PRICE



Source: Phillip Capital Research

KEY FINANCIALS

RMB Mn	FY12	FY13	FY14	FY15E
Revenue	3,943	5,729	6,876	8,237
Net Profit	930	736	809	986
EPS	0.356	0.274	0.291	0.354
P/E (X)	2.08	4.15	3.08	4.52
BVPS	4.150	4.150	4.330	4.970
P/B (X)	0.18	0.27	0.21	0.32
DPS	0.262	0.080	0.087	0.100
Div. Yield	35.37%	7.04%	9.70%	6.25%

Source: Phillip Capital Research Est.

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Financials

FYE	FY09	FY10	FY11	FY12	FY13	FY14	FY15F
Valuation Ratios							
P/E (X), adj.	7.38	9.00	3.84	2.08	4.15	3.08	4.52
P/B (X)	n.a.	0.48	0.27	0.18	0.27	0.21	0.32
Dividend Yield (%)	3.13%	2.78%	7.66%	35.37%	7.04%	9.70%	6.25%
Per share data (RMB)							
EPS, reported	0.130	0.120	0.170	0.356	0.274	0.291	0.354
EPS, adj.	0.130	0.120	0.170	0.356	0.274	0.291	0.354
DPS	0.030	0.030	0.050	0.262	0.080	0.087	0.100
BVPS	n.a.	2.270	2.410	4.150	4.150	4.330	4.970
Growth & Margins (%)							
Growth							
Revenue	n.a.	3.30%	23.75%	30.48%	45.30%	20.02%	19.79%
EBT	n.a.	64.19%	9.63%	-17.05%	14.47%	19.57%	19.57%
Net Income, adj.	n.a.	0.63%	39.13%	107.59%	-20.86%	9.92%	21.88%
Margins							
Gross profit margin	18.57%	26.86%	27.04%	30.08%	30.70%	30.06%	29.72%
EBT profit margin	18.19%	28.91%	25.61%	38.68%	22.08%	21.06%	21.02%
Net profit margin	13.54%	13.19%	14.82%	23.59%	12.85%	11.77%	11.97%
Key Ratios							
ROE (%)	6.04%	5.51%	7.34%	8.58%	6.60%	6.72%	7.13%
ROA (%)	3.19%	2.57%	2.96%	3.17%	2.69%	2.71%	2.88%
Net debt	1,271	2,059	3,754	1,823	3,994	4,622	5,007
Net debt to equity ratio	21.26%	33.38%	59.00%	25.66%	66.36%	63.94%	68.52%
Income Statement (RMB mn)							
Revenue	2,364	2,442	3,022	3,943	5,729	6,876	8,237
Cost of sales	(1,925)	(1,786)	(2,205)	(2,757)	(3,971)	(4,909)	(5,789)
Gross profit	439	656	817	1,186	1,759	2,067	2,448
Operating profit	265	466	428	1,592	1,308	1,513	1,798
EBT	430	706	774	1,525	1,265	1,448	1,731
Tax	(104)	(359)	(316)	(592)	(512)	(666)	(736)
Tax rate	24.19%	50.85%	40.83%	38.82%	40.47%	45.99%	42.50%
Profit for the year	326	347	458	932	752	782	996
Minority interests	6	25	10	2	16	(26)	10
Net profit	320	322	448	930	736	809	986

Source: BLOOMBERG, Aoyuan and Phillip Securities

(Financial figures as at 13 Jul 2015)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock’s risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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