

Analyst: Anita Hwang

## **Main Board Listing – Research**

**China Aoyuan Property Group Limited [Stock Code: 3883]** 中國奧園地產集團股份有限公司

**Joint global coordinators, joint bookrunners,  
joint sponsors and joint lead managers**

: Credit Suisse Morgan Stanley

**Sector** : Real Estate

**Business** : Real Estate development

<b>Total share offer:</b> <u>700,000,000</u> shares (31.8% of the enlarged share capital)  <b>Public Offer:</b> 70,000,000 shares (10%) <b>Placing:</b> 630,000,000 shares (90%) <b>Greenshoe:</b> 105,000,000 shares	<b><u>Business of China Aoyuan (Aoyuan)</u></b>  Aoyuan is one of the leading property developers in Guangdong focusing on development and sale of large-scale integrated residential projects in Guangdong. The projects are typically residential developments including villas, townhouses, apartment buildings, retail shops, restaurants and public community facilities such as clubhouses and sports facilities. The target market is the relatively affluent middle to upper-middle class and younger generation.  As at 30 June 2007, Aoyuan had a total of 11 projects at various development stages, 7 of which are located in Guangdong and the other 4 are in Jiangxi, Guangxi and Chongqing. Total aggregate GFA amounted to 6.1 million sq. m. 60% of GFA is held in Guangdong and 40% being outside of Guangdong.  Aoyuan provided FY07E profit forecast with profit after tax and minority interests to be no less than RMB542.3 million, equivalent to a pro forma fully diluted EPS of RMB0.2465.
<b>Price:</b> HK\$4.10– HK\$5.20 per share <b>Market Cap:</b> HK\$9.02 billion – HK\$11.44 billion <b>Pro-forma fully diluted FY07 PER:</b> 16.1X –20.4X <b>Adjusted NTA per share:</b> HK\$1.66 – HK\$2.00 <b>Staffing:</b> 228	
<b>HK Public Offer period:</b> 21 <sup>st</sup> September 07 – 27 <sup>th</sup> September 07 noon  <b>Receiving bank:</b> HSBC ICBC Bank of Communications  <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited  <b>Listing date:</b> 9 <sup>th</sup> October 2007	

### **Major Shareholders after Listing (Assuming the over-allotment option is not exercised)**

<b>Mr. Guo Zi Wen</b> – the CEO, Chairman, founder, and executive director and <b>Ms. Jiang Min Er</b> – the spouse of Mr. Guo (through The Golden Jade Trust of which they are the beneficiaries)	53.1%
<b>Cathay Capital Holdings</b> – a private equity fund (through Cathay Property)	14.0%
<b>Ms. Su Chao Mei</b> - the spouse of Mr. Guo Zi Ning, an executive director and the brother of Mr. Guo Zi Wen (through Win Power Group Ltd.)	1.1%
<b>Public shareholders*</b>	31.8%
	100.0%

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**Remarks:**

\* Aoyuan and the joint global coordinators have entered into corporate investor agreements with each of the following cornerstone investors:

- **China Cinda Asset Management Corporation** will subscribe for US\$20 million worth of shares. (some 33,495,000 shares at the mid-point offer price)
- **Mr. Kuok Hock Nien**, through 7 separate members of the Kuok Group, will subscribe for US\$20 million worth of shares. (some 33,495,000 shares at the mid-point offer price)
- **Nam Fung Group**, through Gavast and Gentfull, will subscribe for an aggregate of US\$20 million worth of shares. (an aggregate of some 32,348,000 shares at the mid-point offer price)
- **Mr. Kwok Ping Sheung, Walter** of Sun Hung Kai Properties Ltd. will subscribe for US\$10 million worth of shares. (some 16,174,000 shares at the mid-point offer price)
- **Wheelock and Co. Ltd.**, through Rossman Ltd., will subscribe for US\$20 million worth of shares. (some 33,495,000 shares at the mid-point offer price)

**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$3,114 million. (Assuming an offer price of HK\$4.65, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
To finance the development of existing projects	1,126
To acquire new land for development in China, such as Shenyang Aoyuan	1,126
To finance the redemption of certain convertible notes and consent fee expenses	743
For general working capital	119

**Financial Highlights**

RMB million	Year ended 31 <sup>st</sup> December		
	2004	2005	2006
Revenue	214.7	854.9	883.7
Gross profit	55.7	239.5	374.6
Change in fair value of investment properties	29.6	60.7	67.6
Operating profit	19.1	281.1	450.2
<b>(Loss) / profit for the year</b>	<b>(7.9)</b>	<b>189.6</b>	<b>299.3</b>
Gross margin	25.9%	28.0%	42.4%
Operating margin	8.9%	32.9%	50.9%
Net margin	NA	22.2%	33.9%

**Strengths/Opportunities**

- ✓ **Low land costs** Aoyuan's land bank and projects are typically located in fast-growing suburban areas. Aoyuan typically selects sites with expected future investment by local government in transportation networks and other surrounding public infrastructure in anticipation of full recognition of the land value in the future. In 1Q07, land cost represented about 9.5% of total cost of sales.
- ✓ The IPO price range of Aoyuan is at a FY07E pro-forma fully diluted PER range of 16.1X –20.4X. The closest peers listed in HK with property portfolio of similar product features in Guangdong include Country Garden (2007.HK), Agile (3383.HK) and R&F Properties (2777.HK). Aoyuan has a much smaller land bank (peers' land bank is at a range of 16-25 million sq. m) but comparable profitability. The price range puts Aoyuan at a discount of around 4.4% to 19.6% to its FY07E NAV, which compares to an average premium of over 60% for the 3 peers. We see Aoyuan is reasonably priced.

**Weaknesses/Threats**

- ✗ **Concentration in Guangdong** Aoyuan's strategy is to maintain and increase market share in Guangdong. Although there are 4 projects outside of Guangdong and a proposed project in Shenyang, any unfavourable shock to the Guangdong property market can have a negative impact on Aoyuan.
- ✗ **US\$60 million of outstanding convertible bonds** can be converted into equity at the IPO price starting from six months after the listing. The CB is held by Sunrise Partners, an independent third party involved in securities trading. Assuming all the CB's are converted at the mid-point of the offer price range of HK\$4.65, some 100.5 million more shares will be issued and EPS dilution is expected.

**Recommendation: Trading buy**



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