

Logan Property

The best proxy in Great Bay area

87% YoY growth of core net profit, GPM enhanced to 35%

2017 result is in line: revenue slightly improved by 36% YoY to RMB 28 bn. Thanks to GPM growing by 7.1 pts to 35%, gross profit surged by 50% YoY. SG&A to contracted sales was further compressed from 4.4% in 2016 to 3.9% in 2017, surged by 32%, which was less than attr. 2017 sales growth of 51%. Attr. core net profit surged by 87% to RMB 4.6 bn, representing core NPM of 17%. 39% of recognized sales contributed from Shenzhen, which pushed GPM improving and net profit enhancement. Net gearing ratio slightly increased by 3 pts to 75% in FY2017.

RMB 66 bn of attr. sales target in 2018

Logan is targeting RMB 150 bn of attr. contracted sales in 2020, which implies 51% CAGR in 2017 to 2020. 2018 target is RMB 66 bn, 52% YoY. The company will launch over RMB 130 bn of saleable resource in 2018. Saleable resource in Shenzhen will contribute 37% of total saleable in 2018. Nanning/ Guangzhou region/Shantou will contribute 18%/15%/13%. The management believes the value of assets in Great bay area hasn't been revealed yet. The management believes key cities in Great bay area will have more immigrants and the people in flow will boost home demand in future, while home price will increase as well.

Redevelopment will gradually contribute saleable resources with low land cost in next 3 years

The company will acquire more land plots in Great bay area, e.g: Huizhou, Chaozhou, Heyuan and Zhongshan. The company is also looking for opportunities in satellite cities in Shanghai, which are within 1-hour drive to core districts in Shanghai. The company has 8.76 mn sq.m of redevelopment and M&A projects on pipeline. However, these redevelopment and M&A projects will take time to transform to saleable resource. As of Dec 2017, the company has 82% of total land bank (in terms of value) in Great bay area. We believe this should be an advantage if home price cap is removed in this area. However, we can see mortgage rate becomes higher and home price cap should maintain in next 2-3 years. The concentration in Great bay area could be a risk.

We expect GPM will be supported by unbooked sales in Shenzhen

We believe the company will deliver over 30% GPM in next 3 years, as over 40% of sales in 2017 is contributed from Shenzhen city. We estimate booking ASP will gradually increase and GPM should be improved in 2018. We expect GPM will be 35%/33%/33% in 2018/2019/2020, respectively.

Revise up price target to HK\$12.32, 5% upside, 'Hold'

We are cautious on property sector in this deaveraging environment and under strict home price cap in 1st and 2nd tier cities. Concentration in one area with home price surging expectation should be risky. We maintain 'hold' rating and revise up target price to HK\$23.89 (due to inclusion of new projects in our NAV). Our price target implies 43% discount to Dec-18 NAV, 8.6x 2018e core PE and 6.6x 2019e core PE. The stock is trading at 46% discount to Dec-18 NAV, 8.2x 2018e core PE and 2.1x 2018e PB.

Stock code: 3380.HK

Rating: Hold

Price target (HK\$)	12.32
Previous target(HK\$):	12.11
Current price (HK\$, 22 Mar 2018)	11.72
Upside/downside %	5%
Market cap (HK\$ m)	67,347
Market cap (US\$ m)	8,586
Avg daily turnover (HK\$ m)	181.3

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2017	2018e	2019e	2020e
Revenue	28,005	39,410	52,671	71,111
yoy %	36%	41%	34%	35%
Attr NP	6,843	7,104	9,232	12,521
yoy %	52%	4%	30%	36%
Core Attr NP	4,636	7,104	9,232	12,521
yoy %	61%	51%	27%	33%
Gross margin	35.1%	34.9%	33.3%	32.7%
Net gearing	75.1%	37.9%	38.3%	35.5%
EPS	0.84	1.29	1.68	2.28
DPS	0.34	0.35	0.45	0.62
BPS	3.81	5.10	6.78	9.06

Source: Company data, AMTD Equity Research

Valuation

	2017	2018e	2019e	2020e
P/E	12.5	8.2	6.3	4.6
P/BV	2.8	2.1	1.6	1.2
Div. yield	3.2%	3.3%	4.3%	5.8%
ROE	23.0%	29.0%	28.3%	25.1%
ROA	6.1%	4.2%	4.9%	5.9%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: Previous forecast vs actual result

PnL, RMB '000	2016	2017	AMTD 2017E	YoY	Actual vs Est
Revenue	20,538,838	28,005,395	26,666,215	36.4%	5.0%
Sales of properties	21,104,999	26,951,179	26,340,574	27.7%	2.3%
Cost of sales	(13,979,010)	(18,172,475)	(17,197,609)	30.0%	5.7%
GPM	32%	35%	36%	13.6 pts	5.0 pts
Gross profit	6,559,828	9,832,920	9,468,606	49.9%	3.8%
Other income	227,196	686,247	227,196	202.1%	202.1%
Fair value gains on investment properties	2,681,903	2,942,276	-	9.7%	n.a.
Selling expenses	(714,249)	(928,729)	(926,277)	30.0%	0.3%
Administrative expenses	(556,700)	(748,045)	(718,791)	34.4%	4.1%
Finance costs	(371,850)	(672,154)	(317,332)	80.8%	111.8%
Profit before tax	7,933,434	11,204,701	7,758,988	41.2%	44.4%
Income tax expense	(2,733,551)	(3,880,514)	(2,556,007)	42.0%	51.8%
Profit for the year	5,199,883	7,324,187	5,202,982	40.9%	40.8%
Adjusted profit for the year	3,188,456	5,117,480	5,202,982	60.5%	-1.6%
Profit for the year attributable to:					
Owners of the Company	4,487,736	6,843,137	4,408,118	52.5%	55.2%
Non-controlling interests	712,147	481,050	712,147	-32.5%	-32.5%
Core net profit	2,476,309	4,636,430	4,408,118	87.2%	5.2%
Net Debt / Equity	72%	75%	80%	2.8 pts	-4.9 pts
Current Ratio	188%	146%	189%	-42.5 pts	-43.4 pts
Interest Coverage	2.9x	3.6x	4.9x	2.4x	1.4x
ROA	5.19%	6.12%	4.02%	0.9 pts	2.1 pts
ROCE	9.31%	10.64%	6.35%	1.3 pts	4.3 pts
ROE	15.02%	22.97%	21.83%	8.0 pts	1.1 pts
GPM	31.94%	35.11%	35.51%	3.2 pts	-0.4 pts
NPM	21.85%	24.44%	16.53%	2.6 pts	7.9 pts
Core NPM	12.06%	16.56%	19.51%	4.5 pts	-3.0 pts
Total Debt	33,186,537	42,586,793	36,202,139	28.3%	17.6%
Cash	14,569,999	22,189,883	26,596,282	52.3%	-16.6%
Net Debt	18,616,538	20,396,910	9,605,857	9.6%	112.3%
ST Debt	3,370,501	5,597,885	4,523,403	66.1%	23.8%
Properties held under development	31,638,755	38,457,739	42,831,110	21.6%	-10.2%
Advanced proceeds received from customers	16,049,478	19,614,745	28,768,904	22.2%	-31.8%

Source: Company data, AMTD Equity Research

Figure 2: P&L forecast and key ratios

PnL, RMB mn						YoY growth				
	2016	2017	2018e	2019e	2020e	2016	2017	2018e	2019e	2020e
Revenue	20,539	28,005	39,410	52,671	71,111	40.9%	36.4%	40.7%	33.6%	35.0%
Sales of properties	21,105	26,951	38,251	51,395	69,708	38.4%	27.7%	41.9%	34.4%	35.6%
Cost of sales	(13,979)	(18,172)	(25,667)	(35,146)	(47,841)					
Gross profit	6,560	9,833	13,743	17,525	23,270	48.1%	49.9%	39.8%	27.5%	32.8%
Selling expenses	(714)	(929)	(1,176)	(1,497)	(1,925)	24.6%	30.0%	26.7%	27.3%	28.6%
Administrative expenses	(557)	(748)	(948)	(1,206)	(1,551)	-5.3%	34.4%	26.7%	27.3%	28.6%
Share of post-tax loss of an associate	32	278	278	278	278					
Share of post-tax (losses)/profits of joint ventures	(6)	(73)	(73)	(73)	(73)					
Finance costs	(372)	(672)	(738)	(708)	(685)	926.8%	80.8%	9.8%	-4.0%	-3.2%
Profit before tax	7,933	11,205	11,773	15,005	20,000	90.1%	41.2%	5.1%	27.5%	33.3%
Income tax expense	(2,734)	(3,881)	(4,022)	(5,126)	(6,833)					
Profit for the year	5,200	7,324	7,751	9,878	13,168	93.5%	40.9%	5.8%	27.5%	33.3%
Profit for the year attributable to:										
Net profit	4,488	6,843	7,104	9,232	12,521	69.4%	52.5%	3.8%	29.9%	35.6%
Core net profit	2,476	4,636	7,104	9,232	12,521	61.0%	60.5%	51.5%	27.5%	33.3%
Non-controlling interests	712	481	481	481	481					
Dividends	-	-	165	165	165					
Special Dividends	1,229	1,853	1,923	2,499	3,390					
EPS - basic	0.81	1.25	1.29	1.68	2.28					
EPS-underlying	0.45	0.84	1.29	1.68	2.28					
DPS - basic	0.22	0.34	0.35	0.45	0.62					
BVPS	3.51	3.81	5.10	6.78	9.06					
Key Ratios, RMB mn	2016	2017	2018e	2019e	2020e					
GPM	31.9%	35.1%	34.9%	33.3%	32.7%					
NPM	21.8%	24.4%	18.0%	17.5%	17.6%					
Core NPM	12.1%	16.6%	18.0%	17.5%	17.6%					
ROA	5.2%	6.1%	4.2%	4.9%	5.9%					
ROCE	9.3%	10.6%	8.1%	8.4%	10.4%					
ROE	15.0%	23.0%	29.0%	28.3%	25.1%					
Total Debt / EBITDA	5.9x	4.7x	5.7x	4.5x	3.3x					
Total Debt / Equity	128.9%	156.8%	205.3%	158.2%	120.4%					
Total Debt / Capitalization	56.3%	61.1%	67.2%	61.3%	54.6%					
Net Debt / EBITDA	3.3x	2.3x	1.1x	1.1x	1.0x					
Net Debt / Equity	72.3%	75.1%	37.9%	38.3%	35.5%					
Net Debt / Capitalization	31.6%	29.2%	12.4%	14.8%	16.1%					
Current Ratio	188.4%	145.9%	176.2%	172.0%	176.7%					
Cash / Total Assets	16.8%	19.8%	34.6%	28.3%	23.1%					
Inventory / Total Assets	46.5%	34.4%	35.9%	45.4%	53.5%					
Net debt / Net Inventory	46.3%	53.0%	21.8%	19.9%	18.0%					
Quick Ratio	141.5%	107.2%	102.8%	114.8%	129.7%					
Cash Ratio	46.9%	38.7%	73.3%	57.3%	47.0%					
Interest Coverage	2.9x	3.6x	4.5x	5.9x	8.0x					

Source: Company data, AMTD Equity Research

Figure 3: Balance sheet forecast & Cash flow forecast

Balance Sheet, RMB mn	2016	2017	2018e	2019e	2020e
Non-current assets	27,980	28,276	28,276	28,276	28,276
Current assets	58,521	83,595	139,736	160,040	183,178
Properties held under development	31,639	38,458	60,358	85,549	113,227
Properties held for sale	8,558	-	-	-	-
Bank balances and cash	1,010	2,312	2,312	2,312	2,312
Others	13,560	19,878	55,865	50,978	46,437
	3,754	21,202	21,202	21,202	21,202
Current liabilities	31,055	57,294	79,325	93,027	103,654
Short-term borrowings	5,118	8,563	10,784	12,881	12,216
Deposits received on sale of properties	16,049	19,615	39,426	51,030	62,322
Others	9,887	22,116	22,116	22,116	22,116
Non-current liabilities	29,695	27,413	53,938	50,828	50,336
Borrowings	28,068	25,278	51,803	48,692	48,200
Others	1,627	2,135	2,135	2,135	2,135
Equity attributable to owners of the Company	25,751	27,164	34,749	44,462	57,464
Perpetual capital instruments	19,427	20,943	28,047	37,279	49,800
Non-controlling interests	6,324	3,858	4,339	4,820	5,301
Cash Flow Statement, RMB mn	2016	2017	2018e	2019e	2020e
Profit for the year	7,933	11,205	11,773	15,005	20,000
Operating cash flows before movements in working capital	5,185	8,287	12,511	15,713	20,686
— Properties under development and completed properties held for sale	(11,660)	1,739	(21,900)	(25,191)	(27,678)
— Deposits received on sale of properties	6,678	(17,505)	-	-	-
Cash (used in) from operations	6,500	13,356	19,811	11,605	11,292
Interest paid	6,703	5,878	10,421	2,127	4,300
Enterprise income tax and land appreciation tax paid	(1,875)	(3,881)	(4,022)	(5,126)	(6,833)
Net cash (used in) from operating activities	4,828	1,998	6,399	(3,000)	(2,533)
Net cash used in investing activities	(12,840)	(1,058)	(738)	(708)	(685)
Financing activities					
Net Proceeds from borrowings, net of transaction costs	14,823	7,519	24,523	9,771	11,725
Net cash from (used in) financing activities	(10,971)	(4,503)	(4,523)	(10,784)	(12,881)
Net increase in cash and cash equivalents	12,786	5,379	30,325	(1,179)	(1,322)
Effect of foreign exchange rate changes	4,775	6,318	35,987	(4,887)	(4,541)
Cash and cash equivalents at beginning of the year	8,635	13,560	19,878	55,865	50,978
Cash and cash equivalents at end of the year	13,560	19,878	55,865	50,978	46,437

Source: Company data, AMTD Equity Research

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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
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