

## Logan Property

### Abundant resource supports rapid growth

#### Upgrade PT to HK\$12.11; maintain Hold; Logan targets 50% growth of contracted sales in 2018

The company has entered the fast track. In 2017, the company achieved Rmb 43.4 bn of contracted sales, with 51% YoY growth. The company currently has Rmb 130 bn of saleable resources on hand, 60% of which are in Greater Bay area: 15% in Shenzhen and around 15% in Huizhou Logan City. A total of 30% saleable resources in Shenzhen and Huizhou Logan city will keep company's high gross margin on book in next 2 years. 2018 will be a significant year for Logan, over 30 new projects will be launched, including one project in Singapore. We upgrade our price target as we factor in new land acquisition and selling price into our NAV assumption.

#### Focusing in Greater Bay Area: Shenzhen and Logan City are still the margin cushion

The company has entered Shantou and Nanning city for years. It is the leading player in Shantou and ranks top 5 in Nanning in terms of contracted sales. The company will maintain pricing tactic: maintaining a price premium for Shantou and Nanning projects compared to peers. We expect gross margin in these cities to be around 30%. The company will also launch a premium villa project in Dinghu, Zhaoqing to maintain the margin. However, sales in Foshan will be more challenging in 2018. According to CRIC, saleable area increased by 19.7% YoY but transaction volume fell by 40.7% YoY in 2017. Inventory to sales ratio surged from 5.4x in Dec 2016 to 15.8x in Dec 2017.

#### Shenzhen Konkra project is on track

The company has acquired 70% interest of Nanshan Konkra project in Nov 2017. Total GFA is 320k sq.m, 40k sq.m of which will be returned to municipal government, 5.5k sq.m for car park and 60k sq.m for residential development, the rest part will be investment property. We estimate that the project will be priced over Rmb 120K per sq.m thanks to its prime location. As a result, the project is likely to have a high margin compared to only Rmb 30K of land cost per sq.m.

#### We expect GPM to be around 34-36% in 2017-2019

Contracted sales from Logan city and Shenzhen projects will gradually be recognized in 2017-2019. Thanks to low land cost and surged home prices in these project, the overall gross margin will be enhanced. Zhuhai projects are also in progress – we expect they enhance the margin as well. We expect gross margin will be maintained around 34-36% in 2017-2019.

#### Rapid growth and strong margin priced in already

The company has abundant land reserve for next 5 years' growth (RMB 500 bn of saleable resource). The strong gross margin will be supported by Shenzhen projects and Logan City in Huizhou in next 3 years. Stable sales in existing cities, e.g. Nanning and Shantou. Oversea exploration has started, Singapore project will be launched in 2H2018. High sales growth in last 2 years will be reflected in booking revenue in next 2 years. However, we believe part of these positive factors have been priced in already. The company is trading at 8.0x 2018 PE, which is slightly lower than 8.8x 18PE of sector average. We reiterate 'HOLD' rating and lift target price to HK\$ 12.11, which implies 35% discount to Dec-18 NAV, 8.5x 2018 core PE and 1.8x 2018e PB. Risk factors: 1) sales price and sales volume miss expectation in Foshan & Zhaoqing, 2) home price cap further tightening in 1<sup>st</sup> tier cities.

Stock code: 3380.HK

Rating: Hold

Price target (HK\$)	12.11
Previous price target (HK\$)	8.36
Current price (HK\$, 25 Jan 2017)	11.46
Upside/downside %	6%
Market cap (HK\$ m)	62,883
Market cap (US\$ m)	8,044
Avg daily turnover (HK\$ m)	102.1

Source: Bloomberg, AMTD Equity Research

#### Key forecasts

(RMB m)	2016	2017e	2018e	2019e
Revenue	20,539	26,666	39,533	56,110
yoy %	41%	30%	48%	42%
Net profit	4,488	4,408	6,502	8,810
yoy %	69%	-2%	47%	35%
Adjusted NP	2,752	4,408	6,502	8,810
yoy %	41%	60%	47%	35%
Gross margin	31.9%	35.5%	36.4%	35.4%
Net gearing	72.3%	28.9%	19.6%	4.7%
EPS	0.81	0.80	1.17	1.59
DPS	0.22	0.24	0.35	0.48
BPS	3.51	4.31	5.48	7.07

Source: Company data, AMTD Equity Research

#### Valuation

	2016	2017e	2018e	2019e
P/E	11.6	11.8	8.0	5.9
P/BV	2.7	2.2	1.7	1.3
Div. yield	2.4%	2.5%	3.7%	5.1%
ROE	16.7%	20.4%	24.0%	25.4%
ROA	5.2%	4.0%	4.6%	5.0%

Source: Bloomberg, AMTD Equity Research

#### Share price performance



Source: Bloomberg

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Figure 1:P&amp;L forecast and key ratios

PnL, RMB mn						YoY growth				
	2015	2016	2017e	2018e	2019e	2015	2016	2017e	2018e	2019e
<b>Revenue</b>	<b>14,574</b>	<b>20,539</b>	<b>26,666</b>	<b>39,533</b>	<b>56,110</b>	<b>16.6%</b>	<b>40.9%</b>	<b>29.8%</b>	<b>48.3%</b>	<b>41.9%</b>
Sale of properties	15,247	21,105	26,341	39,175	55,716	17.7%	38.4%	24.8%	48.7%	42.2%
Cost of sales	(10,144)	(13,979)	(17,198)	(25,124)	(36,266)					
<b>Gross profit</b>	<b>4,430</b>	<b>6,560</b>	<b>9,469</b>	<b>14,409</b>	<b>19,845</b>	<b>16.4%</b>	<b>48.1%</b>	<b>44.3%</b>	<b>52.2%</b>	<b>37.7%</b>
Selling expenses	(573)	(714)	(926)	(1,654)	(2,284)	38.7%	24.6%	29.7%	78.6%	38.0%
Administrative expenses	(588)	(557)	(719)	(1,654)	(2,284)	11.5%	-5.3%	29.1%	130.1%	38.0%
Share of post-tax loss of an associate	-	32	32	32	32					
Share of post-tax (losses)/profits of joint ventures	-	(6)	(6)	(6)	(6)					
Finance costs	(36)	(372)	(317)	(349)	(330)	61.3%	926.8%	14.7%	10.0%	-5.3%
<b>Profit before tax</b>	<b>4,174</b>	<b>7,933</b>	<b>7,759</b>	<b>11,005</b>	<b>15,200</b>	<b>12.3%</b>	<b>90.1%</b>	<b>-2.2%</b>	<b>41.8%</b>	<b>38.1%</b>
Income tax expense	(1,486)	(2,734)	(2,556)	(3,625)	(5,512)					
Profit for the year	2,688	5,200	5,203	7,379	9,687	11.0%	93.5%	0.1%	41.8%	31.3%
Profit for the year attributable to:										
<b>Net profit</b>	<b>2,649</b>	<b>4,488</b>	<b>4,408</b>	<b>6,502</b>	<b>8,810</b>	<b>12.8%</b>	<b>69.4%</b>	<b>-1.8%</b>	<b>47.5%</b>	<b>35.5%</b>
<b>Core net profit</b>	<b>1,952</b>	<b>2,752</b>	<b>4,408</b>	<b>6,502</b>	<b>8,810</b>	<b>13.4%</b>	<b>41.0%</b>	<b>60.2%</b>	<b>47.5%</b>	<b>35.5%</b>
Non-controlling interests	39	712	712	712	712					
PCI	-	-	83	165	165					
Dividends	653	1,229	1,322	1,951	2,643					
<b>EPS - basic</b>	<b>0.52</b>	<b>0.81</b>	<b>0.80</b>	<b>1.17</b>	<b>1.59</b>					
<b>EPS-underlying</b>	<b>0.39</b>	<b>0.50</b>	<b>0.80</b>	<b>1.17</b>	<b>1.59</b>					
<b>DPS - basic</b>	<b>0.13</b>	<b>0.22</b>	<b>0.24</b>	<b>0.35</b>	<b>0.48</b>					
<b>BVPS</b>	<b>2.68</b>	<b>3.51</b>	<b>4.31</b>	<b>5.48</b>	<b>7.07</b>					
<b>Key Ratios, RMB mn</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>					
GPM	30.4%	31.9%	35.5%	36.4%	35.4%					
NPM	18.2%	21.8%	16.5%	16.4%	15.7%					
Core NPM	13.4%	13.4%	16.5%	16.4%	15.7%					
ROA	4.7%	5.2%	4.0%	4.6%	5.0%					
ROCE	7.9%	9.3%	6.9%	8.7%	10.5%					
ROE	15.8%	16.7%	20.4%	24.0%	25.4%					
Total Debt / EBITDA	6.0x	5.9x	4.5x	3.5x	2.5x					
Total Debt / Equity	113.1%	128.9%	108.9%	98.4%	76.2%					
Total Debt / Capitalization	53.1%	56.3%	52.1%	49.6%	43.2%					
Net Debt / EBITDA	2.7x	3.3x	1.2x	0.7x	0.2x					
Net Debt / Equity	51.0%	72.3%	28.9%	19.6%	4.7%					
Net Debt / Capitalization	23.9%	31.6%	13.8%	9.9%	2.7%					
Current Ratio	220.0%	188.4%	189.3%	160.1%	155.1%					
Cash / Total Assets	19.1%	16.8%	24.2%	22.6%	20.4%					
Inventory / Total Assets	49.7%	46.5%	46.8%	54.9%	61.5%					
Net debt / Net Inventory	31.6%	46.3%	18.7%	10.3%	2.2%					
Quick Ratio	172.0%	141.5%	127.7%	114.9%	117.5%					
Cash Ratio	48.0%	46.9%	61.6%	45.2%	37.6%					
Interest Coverage	2.0x	2.9x	4.9x	6.3x	9.1x					

Source: Company data, AMTD Equity Research

**Figure 2: Balance sheet forecast & Cash flow forecast**

<b>Balance Sheet, RMB mn</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
<b>Non-current assets</b>	<b>7,011</b>	<b>27,980</b>	<b>27,980</b>	<b>27,980</b>	<b>27,980</b>
<b>Current assets</b>	<b>49,760</b>	<b>58,521</b>	<b>81,740</b>	<b>112,951</b>	<b>147,217</b>
Properties held under development	21,950	31,639	42,831	68,764	99,194
Properties held for sale	6,249	8,558	8,558	8,558	8,558
Restricted bank deposits	2,212	1,010	1,010	1,010	1,010
Bank balances and cash	8,635	13,560	25,586	30,864	34,700
Others	10,714	3,754	3,754	3,754	3,754
<b>Current liabilities</b>	<b>22,621</b>	<b>31,055</b>	<b>43,180</b>	<b>70,556</b>	<b>94,911</b>
Borrowings	4,045	5,118	4,523	11,521	9,381
Advanced proceeds received from customers	11,008	16,049	28,769	49,147	75,642
Others	7,568	9,887	9,887	9,887	9,887
<b>Non-current liabilities</b>	<b>16,689</b>	<b>29,695</b>	<b>33,306</b>	<b>29,927</b>	<b>30,316</b>
Borrowings	15,706	28,068	31,679	28,299	28,689
Others	984	1,627	1,627	1,627	1,627
<b>Capital and reserves</b>	<b>17,461</b>	<b>25,751</b>	<b>33,235</b>	<b>40,449</b>	<b>49,971</b>
Equity attributable to owners of the Company	13,549	19,427	23,835	30,337	39,146
Non-controlling interests	3,912	6,324	7,037	7,749	8,461
<b>Cash Flow Statement, RMB mn</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
<b>Profit before taxation</b>	<b>4,174</b>	<b>7,933</b>	<b>7,759</b>	<b>11,005</b>	<b>15,200</b>
Operating cash flows before movements in working capital	3,239	5,185	8,076	11,354	15,530
Increase in inventories and land deposits	(6,344)	(11,660)	(11,192)	(25,932)	(30,431)
(Increase)/Decrease in trade and other receivables	(18)	6,678	-	-	-
Increase/(Decrease) in trade and other payables	5,129	6,500	12,719	20,378	26,495
Cash (used in) from operations	2,006	6,703	9,603	5,799	11,595
PRC Income tax paid	(1,242)	(1,875)	(2,556)	(3,625)	(5,512)
<b>Net cash (used in) from operating activities</b>	<b>764</b>	<b>4,828</b>	<b>7,047</b>	<b>2,174</b>	<b>6,082</b>
<b>Net cash used in investing activities</b>	<b>(911)</b>	<b>(12,840)</b>	<b>(317)</b>	<b>(349)</b>	<b>(330)</b>
Financing activities					
<b>Proceeds from borrowings</b>	<b>8,437</b>	<b>14,823</b>	<b>7,519</b>	<b>8,142</b>	<b>9,771</b>
<b>Repayments of borrowings</b>	<b>(10,157)</b>	<b>(10,971)</b>	<b>(4,503)</b>	<b>(4,523)</b>	<b>(11,521)</b>
<b>Net cash from (used in) financing activities</b>	<b>3,115</b>	<b>12,786</b>	<b>5,296</b>	<b>3,453</b>	<b>(1,916)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,967</b>	<b>4,775</b>	<b>12,026</b>	<b>5,278</b>	<b>3,835</b>
Cash and cash equivalents at beginning of the year	5,576	8,635	13,560	25,586	30,864
<b>Cash and cash equivalents at end of the year</b>	<b>8,635</b>	<b>13,560</b>	<b>25,586</b>	<b>30,864</b>	<b>34,700</b>

Source: Company data, AMTD Equity Research

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

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