

Logan Property (3380 HK)

Aiming at 20% sales growth

Revenue and core net profit gained by 14.9% to RMB31.0bn and 18.6% to RMB5.25bn in 1H20, respectively. Contracted sales grew 13.5% to RMB57.4bn in 7M20 and hit rate reached 52.2%. Logan actively participates urban redevelopment projects and expects it will contribute about 20% of core profit each year in 2021-23. Balance sheet was healthy with net gearing ratio of 68.3% as at Jun 2020. We raise TP to HK\$17.42 due to narrowing NAV discount to 40%. Reiterate BUY.

- 19% core earnings growth in 1H20.** Revenue and net profit rose by 14.9% to RMB31.0bn and 20.4% to RMB6.07bn in 1H20, respectively. Due to 42% increase in delivery GFA to 1.26mn sq m, revenue from property sales gained by 27.1% to RMB20.6bn in 1H20. The Company also booked RMB6bn revenue from urban development, up 22.4% YoY. GM increased by 0.5ppts to 35.2%, of which GM for property sales declined 1.3ppts to 28.1% in the period. Core earnings after perpetual interests gained by 18.6% to RMB5.25bn in 1H20. Logan declared to pay HK\$0.43 as interim dividend.
- Aiming at 20% sales growth each year.** Logan achieved RMB46.4bn attributable contracted sales in 1H20, up 12.1% YoY. But attributable contracted sales area slightly retreated from 3.14mn sq m in 1H19 to 3.04mn sq m in 1H20. It further captured RMB11.1bn attributable contracted sales in Jul 2020. Till Jul 2020, hit rate was 52.2% based on RMB110bn sales target. The Company will launch RMB134bn saleable resources in 2H20 and it is confident to complete full year sales target. Looking forward, Logan expects to have a 20% sales growth each year.
- Urban redevelopment projects will provide 20% of core profit.** Logan acquired 17 new projects with total GFA of 2.96mn sq m in 1H20. As of Jun 2020, total land bank amounted to 39.20mn sq m, of which 59% in GBA. Average land cost was RMB4,518 per sq m. This land bank is estimated to provide RMB479.1bn saleable resources. Furthermore, Logan actively participates in 87 urban redevelopment projects with total GFA of 24.81mn sq m in 11 cities. If all projects can be successfully converted, its total value is estimated to be RMB454.9bn. The Company expects about RMB150bn saleable resources from urban redevelopment projects can be converted next three years and they will contribute about 20% of core profit each year.
- Raise TP and maintain BUY.** Net gearing ratio stayed at healthy level of 68.3% as at Jun 2020. Furthermore, presold and unbooked properties amounted to RMB93bn, which offer high earning visibility. We slightly raise our earnings forecast. We also raise our FY20-end NAV estimate from HK\$29.00 to HK\$29.05. We raise our TP from HK\$14.50 to HK\$17.42, due to narrowing NAV discount from 50% to 40%. **Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	44,137	57,480	84,301	104,328	126,839
YoY growth (%)	59.4	30.2	46.7	23.8	21.6
Net income (RMB mn)	8,123	11,102	13,076	14,863	18,234
EPS (RMB)	1.48	2.02	2.37	2.69	3.30
YoY growth (%)	26.5	36.7	17.2	13.6	22.7
Consensus EPS	N.A.	N.A.	2.22	2.67	3.04
P/E (x)	9.0	6.6	5.6	4.9	4.0
P/B (x)	2.7	2.3	1.8	1.5	1.2
Yield (%)	4.9	5.5	6.6	8.1	9.9
ROE (%)	30.2	34.9	32.6	30.3	30.4
Net gearing (%)	63.2	67.4	67.1	60.0	63.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$17.42
(Previous TP)	HK\$14.50
Up/Downside	+17.4%
Current Price	HK\$14.84

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Stock Data

Mkt Cap (HK\$ mn)	81,910
Avg 3 mths t/o (HK\$ mn)	63.55
52w High/Low (HK\$)	15.42/8.89
Total Issued Shares (mn)	5,520
Source: Bloomberg	

Shareholding Structure

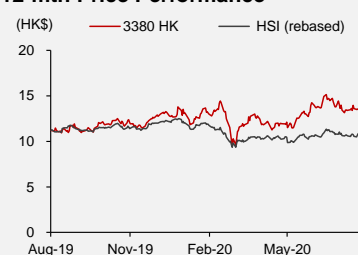
Kei family	77.6%
Free float	22.4%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	5.8%	8.0%
3-mth	22.4%	18.4%
6-mth	14.2%	24.1%
12-mth	29.0%	35.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

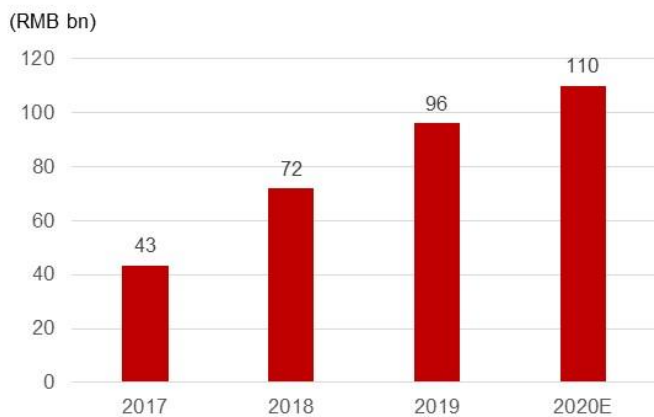
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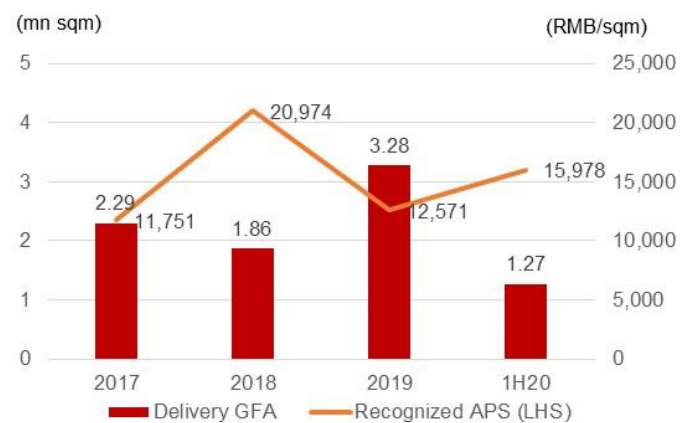
Figure 1: FY19 results

	1H20 (RMB mn)	1H29 (RMB mn)	Change (%)	Remark
Revenue	31,035	27,022	14.9%	
Sale of properties	20,617	16,226	27.1%	Delivery GFA increased by 42% to 1.26mn sqm but ASP declined by 13%
Rental income	68	71	-3.2%	
Construction income	4,350	5,825	-25.3%	
Urban redevelopment	6,000	4,900	22.4%	GM: 70% in 1H20 vs 61% in 1H19
Cost of sales	-20,101	-17,629	14.0%	
Gross profit	10,934	9,392	16.4%	Gross margin enlarged by 0.5ppts to 35.2% in 1H20
Other income	1,096	1,395	-21.5%	
Marketing expenses	-665	-685	-2.9%	
Administrative expenses	-813	-627	29.7%	Increase in staff cost
Other expenses	-86	-2	4578.4%	
EBIT	10,466	9,474	10.5%	
Finance costs	-944	-826	14.2%	Cost of debt at 5.95% in 1H20
Share from associates and JVs	-330	-78	324.6%	
Investment properties revaluation gain	1,057	788	34.2%	
PROFIT BEFORE TAX	10,249	9,357	9.5%	
Income tax	-3,964	-4,067	-2.5%	Effective tax rate declined by 4.8ppts to 38.7% in 1H20
PROFIT FOR THE YEAR	6,285	5,290	18.8%	
Non-controlling interests	-128	-162	-21.2%	
Perpetual securities	-84	-84	0.0%	
Net profit to shareholders	6,074	5,045	20.4%	Net margin expanded by 0.5ppts to 16.9% in 1H20
Core profit to shareholders	5,251	4,425	18.6%	

Source: Company data, CMBIS

Figure 2: Annual contracted sales amount

Source: Company data, CMBIS

Figure 3: Recognized GFA & ASP

Source: Company data, CMBIS

Figure 4: RMB134bn saleable resources in 2H20

Source: Company data, CMBIS

Figure 5: RMB454.9bn saleable resources from urban redevelopment program

Source: Company data, CMBIS

Figure 6: Cash flow

	1H20 (RMB bn)	2020E (RMB bn)
Sales proceeds	41.2	99.0
Land cost	-26.0	-50.0
Construction	-10.3	-24.6
Tax	-4.4	-11.0
SG&A	-2.0	-5.1
Interest	-2.3	-4.7
Total	-3.8	3.6

Source: Company data, CMBIS

Figure 7: Business plan

	1H20 (mn sq m)	2020E (mn sq m)
New start	5.8	10.3
Completion	3.0	7.0
Underdevelopment	24.2	N.A.

Source: Company data, CMBIS

Figure 8: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	84,301	104,328	126,839	83,670	103,570	125,930	0.8%	0.7%	0.7%
Gross Profit	24,786	29,770	36,176	24,404	29,311	35,625	1.6%	1.6%	1.5%
EBIT	20,652	24,620	29,900	20,303	24,200	29,397	1.7%	1.7%	1.7%
Net profit	13,076	14,863	18,234	12,074	14,564	17,876	8.3%	2.1%	2.0%
EPS (RMB)	2.37	2.69	3.30	2.17	2.62	3.21	9.3%	2.8%	2.9%
Gross Margin	29.4%	28.5%	28.5%	29.2%	28.3%	28.3%	0.2 ppt	0.2 ppt	0.2 ppt
EBIT Margin	24.5%	23.6%	23.6%	24.3%	23.4%	23.3%	0.2 ppt	0.2 ppt	0.2 ppt
Net Margin	15.5%	14.2%	14.4%	14.4%	14.1%	14.2%	1.1 ppt	0.2 ppt	0.2 ppt

Source: CMBIS estimates

Figure 9: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	84,301	104,328	126,839	75,615	93,545	112,682	11.5%	11.5%	12.6%
Gross Profit	24,786	29,770	36,176	23,280	28,080	33,656	6.5%	6.0%	7.5%
EBIT	20,652	24,620	29,900	21,118	25,412	29,554	-2.2%	-3.1%	1.2%
Net profit	13,076	14,863	18,234	12,376	14,850	17,424	5.7%	0.1%	4.6%
EPS (RMB)	2.37	2.69	3.30	2.22	2.67	3.04	6.9%	0.7%	8.8%
Gross Margin	29.4%	28.5%	28.5%	30.8%	30.0%	29.9%	-1.4 ppt	-1.5 ppt	-1.3 ppt
EBIT Margin	24.5%	23.6%	23.6%	27.9%	27.2%	26.2%	-3.4 ppt	-3.6 ppt	-2.7 ppt
Net Margin	15.5%	14.2%	14.4%	16.4%	15.9%	15.5%	-0.9 ppt	-1.6 ppt	-1.1 ppt

Source: Bloomberg, CMBIS estimates

Figure 10: NAV table

	NAV (RMB mn)	NAV/share (RMB)	NAV/share (HK\$)	% of NAV	Remark
Development properties	147,353	26.69	29.76	102%	DCF method with 10% WACC
Investment properties	28,604	5.18	5.78	20%	At book
GAV	175,957	31.88	35.54	122%	
Less: Net debt	(29,736)	(5.39)	(6.01)	-21%	
Less: Perpetual	(2,363)	(0.43)	(0.48)	-2%	
NAV	143,858	26.06	29.05	100%	

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	44,137	57,480	84,301	104,328	126,839
Sale of properties	39,063	41,181	57,248	69,818	85,457
Rental income	92	130	136	143	150
Construction income	4,192	11,569	20,824	27,071	32,485
Primary land development	1,067	4,900	6,517	7,820	9,384
Less: Business tax and	(277)	(299)	(424)	(524)	(637)
Cost of sales	(29,250)	(39,347)	(59,516)	(74,558)	(90,664)
Gross profit	14,887	18,133	24,786	29,770	36,176
Other income	1,369	2,130	250	275	320
Selling expenses	(1,231)	(1,398)	(2,108)	(2,608)	(3,171)
Administrative expenses	(1,134)	(1,409)	(2,108)	(2,608)	(3,171)
Other expenses	(57)	(115)	(169)	(209)	(254)
EBIT	13,834	17,340	20,652	24,620	29,900
Share from associates	(184)	(176)	(50)	30	65
Finance costs	(1,417)	(1,366)	(1,546)	(1,693)	(1,860)
Exceptional	1,787	1,655	1,057	-	-
PROFIT BEFORE TAX	14,019	17,452	20,114	22,957	28,105
Income tax	(5,023)	(5,889)	(6,173)	(7,136)	(8,735)
PROFIT FOR THE YEAR	8,996	11,563	13,940	15,821	19,370
Non-controlling interests	(708)	(294)	(697)	(791)	(968)
Perpetual interest	(165)	(167)	(167)	(167)	(167)
Net Profit	8,123	11,102	13,076	14,863	18,234
Core net profit	7,023	10,020	12,084	14,863	18,234

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
NON-CURRENT ASSETS	39,454	46,786	47,457	50,437	53,352
Investment properties	18,338	26,604	28,604	29,804	31,004
PP&E	176	892	942	992	1,042
Investment in JCE	19,490	17,395	15,510	17,140	18,605
Others	1,450	1,895	2,400	2,500	2,700
CURRENT ASSETS	130,640	159,224	189,464	205,711	231,704
Inventories	54,781	86,352	94,000	108,000	132,000
Trade and other receivables	37,816	31,328	52,000	48,500	52,000
Cash and cash equivalents	28,452	39,725	32,107	37,854	36,348
Others	9,591	1,820	11,357	11,357	11,357
CURRENT LIABILITIES	88,539	119,097	127,682	132,200	144,200
Trade and other payables	47,450	56,167	59,500	62,500	68,000
Contract liabilities	16,785	26,030	34,782	37,800	41,800
ST debt	17,230	29,596	20,000	18,500	21,000
Others	7,074	7,304	13,400	13,400	13,400
NON-CURRENT LIABILITIES	44,810	43,919	52,000	57,000	62,000
LT debt	41,712	40,081	48,000	53,000	58,000
Others	3,099	3,838	4,000	4,000	4,000
TOTAL EQUITY	36,746	42,994	57,238	66,947	78,856
Equity to shareholders	26,885	31,831	40,075	48,993	59,933
Non-controlling interests	7,497	8,800	14,800	15,591	16,560
Perpetual capital securities	2,363	2,363	2,363	2,363	2,363

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	13,834	17,340	20,652	24,620	29,900
Depreciation/amortization	57	61	50	50	50
Change in working capital	(22,513)	7,152	(24,987)	(7,500)	(22,000)
Taxation	(2,366)	(2,798)	(4,393)	(7,136)	(8,735)
Other	15,556	(15,882)	(4,155)	1,169	1,849
Net cash from operating	4,568	5,872	(12,833)	11,203	1,064
Capex	844	(7,724)	(2,100)	(1,300)	(1,300)
Associated companies	(20,751)	14,189	1,884	(1,630)	(1,465)
Others	(4,139)	4,026	44	-	-
Net cash from investing	(24,046)	10,491	(172)	(2,930)	(2,765)
Equity raised	(78)	(110)	-	-	-
Change of debts	18,804	1,760	15,347	3,500	7,500
Dividend	(1,637)	(1,282)	(4,007)	(4,834)	(5,945)
Others	11,179	(11,053)	(1,546)	(1,693)	(1,860)
Net cash from financing	28,268	(10,686)	9,794	(3,027)	(305)
Net change in cash	8,790	5,677	(3,211)	5,247	(2,006)
Cash at the beginning	19,878	28,452	34,818	32,107	37,854
Exchange difference	(216)	688	500	500	500
Cash at the end	28,452	34,818	32,107	37,854	36,348

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Sale of properties	88.5	71.6	67.9	66.9	67.4
Rental income	0.2	0.2	0.2	0.1	0.1
Construction income	9.5	20.1	24.7	25.9	25.6
Primary land development	2.4	8.5	7.7	7.5	7.4
Business tax and other	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	33.7	31.5	29.4	28.5	28.5
EBIT margin	31.3	30.2	24.5	23.6	23.6
Net margin	18.4	19.3	15.5	14.2	14.4
Effective tax rate	35.8	33.7	30.7	31.1	31.1
Growth (%)					
Revenue	59.4	30.2	46.7	23.8	21.6
Gross profit	56.4	21.8	36.7	20.1	21.5
EBIT	62.2	25.3	19.1	19.2	21.4
Net profit	26.3	36.7	17.8	13.7	22.7
Balance sheet ratios					
Current ratio (x)	1.5	1.3	1.5	1.6	1.6
Net debt / total equity ratio (%)	63.2	67.4	67.1	60.0	63.3
Returns (%)					
ROE	30.2	34.9	32.6	30.3	30.4
ROA	5.3	5.6	5.9	6.2	6.8
Per share					
EPS (RMB)	1.48	2.02	2.37	2.69	3.30
DPS (RMB)	0.65	0.73	0.88	1.08	1.32
BVPS (RMB)	4.90	5.78	7.26	8.88	10.86

Source: Company data, CMBIS estimates

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