

# Logan Property (3380 HK)

## Key stock for investing in GBA

- 43% core earnings growth in FY19.** Although sales of properties only recorded 5.4% growth in FY19, construction business, rental income and primary development business achieved 176%, 41.4% and 359% growth respectively during the year, driving the overall revenue up by 30.2% to RMB57.5bn. Due to less high margin projects delivered in FY19, gross margin of development properties dropped from 36.0% to 30.7%. As a result, gross profit of development was down 10% YoY. But thanks to the strong growth of other high margin business in FY19, overall gross margin only declined 2.2ppt to 31.5% and overall gross profit still achieved 22% YoY growth. With reduced effective tax rate (from 35.8% to 33.7%) and minorities deduction (from 7.9% to 2.5%), core profit achieved 43% growth to RMB10,020mn, which is in line with our forecast of RMB9,947mn.
- Targeting RMB110.0bn attributable sales in FY20.** In FY19, the Company achieved RMB96.0bn contracted sales with 6.92mn sq m GFA sold, up 34% and 57%, respectively. Attributable sales was RMB91.5bn, representing attributable interest of 95%. High attributable interest is one of the highlights of Logan. Logan sets its FY20 sales target at RMB110.0bn (attri.) with saleable resources of RMB180.0bn, indicating the target sell-through is over 60%. Furthermore, 60% of the saleable resources are in GBA. Logan continues to be a GBA focus developer.
- Urban redevelopment in GBA is the key investment thesis.** As of end-FY19, Logan held a total land bank of 36.67mn sq m, with est. RMB431.4bn saleable amount. Land bank in GBA reached 22.3mn sq m (61% of total land bank) with est. RMB305.6bn saleable amount (71% of total saleable amount). Furthermore, Logan had 21.34mn sq.m M&A/urban redevelopment projects in the pipeline, where saleable resources amounted to RMB400.6bn and 95% of urban redevelopment projects are in GBA. Conversion of these valuable urban redevelopment projects has become Logan's crucial channel of land replenishment. Urban redevelopment targets to contribute 20% of core profit annually in next three years.
- Raise TP and maintain BUY.** The Company is aiming to achieve 20% CAGR in next three years. We revise up FY19/20 core earnings forecast by 2.2%/15.3% to RMB12,074/14,564mn. We view Logan as a key stock for investing in GBA. After recent plunge of market, current valuation of Logan is undemanding with 4.8x/4.0x FY20/21 P/E and 8.3%/10.1% FY20/21 yield. We derive our FY20-end NAV forecast at HK\$29.00 per share. We raise our TP from HK\$13.10 to HK\$14.50, which is equivalent to 50% discount to NAV. **Maintain BUY.**

### Earnings Summary

| (YE 31 Dec)         | FY18A  | FY19A  | FY20E  | FY21E   | FY22E   |
|---------------------|--------|--------|--------|---------|---------|
| Revenue (RMB mn)    | 44,137 | 57,480 | 83,670 | 103,570 | 125,930 |
| YoY growth (%)      | 59.4   | 30.2   | 45.6   | 23.8    | 21.6    |
| Net income (RMB mn) | 8,123  | 11,102 | 12,074 | 14,564  | 17,876  |
| EPS (RMB)           | 1.48   | 2.02   | 2.17   | 2.62    | 3.21    |
| YoY growth (%)      | 26.5   | 36.7   | 7.2    | 20.6    | 22.7    |
| Consensus EPS       | N.A.   | N.A.   | 2.24   | 2.68    | 3.17    |
| P/E (x)             | 7.0    | 5.1    | 4.8    | 4.0     | 3.2     |
| P/B (x)             | 2.1    | 1.8    | 1.5    | 1.2     | 1.0     |
| Yield (%)           | 6.2    | 7.0    | 8.3    | 10.1    | 12.4    |
| ROE (%)             | 30.2   | 34.9   | 30.9   | 30.5    | 30.5    |
| Net gearing (%)     | 63.2   | 67.4   | 75.0   | 70.1    | 84.0    |

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

|               |            |
|---------------|------------|
| Target Price  | HK\$14.50  |
| (Previous TP) | HK\$13.10) |
| Up/Downside   | +25.2%     |
| Current Price | HK\$11.58  |

### China Property Sector

#### Chengyu Huang

(852) 3761 8773

huangchengyu@cmbi.com.hk

#### Samson Man, CFA

(852) 3900 0853

samsonman@cmbi.com.hk

### Stock Data

|                          |            |
|--------------------------|------------|
| Mkt Cap (HK\$ mn)        | 63,785     |
| Avg 3 mths t/o (HK\$ mn) | 79.49      |
| 52w High/Low (HK\$)      | 14.54/8.89 |
| Total Issued Shares (mn) | 5,508      |

Source: Bloomberg

### Shareholding Structure

|            |       |
|------------|-------|
| Kei family | 77.6% |
| Free float | 22.4% |

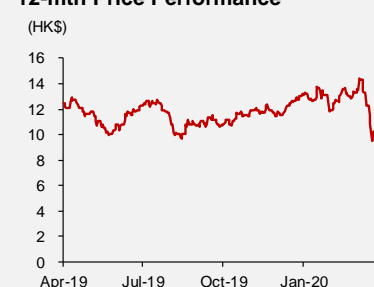
Source: HKEx

### Share Performance

|        | Absolute | Relative |
|--------|----------|----------|
| 1-mth  | -12.9%   | -3.1%    |
| 3-mth  | -11.1%   | 6.9%     |
| 6-mth  | 7.9%     | 19.2%    |
| 12-mth | -4.5%    | 18.1%    |

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: KPMG

**Figure 1: FY19 results**

| Rmb mn                                      | FY19          | FY18          | YoY            |
|---|---------------|---------------|----------------|
| <b>Revenue</b>                              | <b>57,480</b> | <b>44,137</b> | <b>30%</b>     |
| Sale of properties                          | 41,181        | 39,063        | 5%             |
| Rental income                               | 130           | 92            | 41%            |
| Construction income                         | 11,569        | 4,192         | 176%           |
| Primary land development income             | 4,900         | 1,067         | 359%           |
| Less: Business tax and other sales tax      | (299)         | (277)         | 8%             |
| Cost of sales                               | (39,347)      | (29,250)      | 35%            |
| <b>Gross profit</b>                         | <b>18,133</b> | <b>14,887</b> | <b>22%</b>     |
| <b>GPM</b>                                  | <b>31.5%</b>  | <b>33.7%</b>  | <b>-2.2ppt</b> |
| Other income                                | 2,130         | 1,369         | 56%            |
| Selling and distribution expenses           | (1,398)       | (1,231)       | 14%            |
| Administrative expenses                     | (1,409)       | (1,134)       | 24%            |
| Other expenses                              | (115)         | (57)          | 104%           |
| <b>EBIT</b>                                 | <b>17,340</b> | <b>13,834</b> | <b>25%</b>     |
| Share from associates and JVs               | (176)         | (184)         | -4%            |
| Finance costs                               | (1,366)       | (1,417)       | -4%            |
| Exceptional                                 | 1,655         | 1,787         | -7%            |
| <b>PROFIT BEFORE TAX</b>                    | <b>17,452</b> | <b>14,019</b> | <b>24%</b>     |
| Income tax                                  | (5,889)       | (5,023)       | 17%            |
| <b>PROFIT FOR THE YEAR</b>                  | <b>11,563</b> | <b>8,996</b>  | <b>29%</b>     |
| Non-controlling interests                   | (294)         | (708)         | -58%           |
| Perpetual interest                          | (167)         | (165)         | 1%             |
| <b>Net Profit attribute to shareholders</b> | <b>11,102</b> | <b>8,123</b>  | <b>37%</b>     |
| <b>Core profit</b>                          | <b>10,020</b> | <b>7,023</b>  | <b>43%</b>     |
| <b>Core margin</b>                          | <b>17.4%</b>  | <b>15.9%</b>  | <b>1.5ppt</b>  |

Source: Company data

**Figure 2: Earnings revision**

| RMB mn       | New    |         | Old    |         | Diff (%) |         |
|--------------|--------|---------|--------|---------|----------|---------|
|              | FY20E  | FY21E   | FY20E  | FY21E   | FY20E    | FY21E   |
| Revenue      | 83,670 | 103,570 | 92,755 | 105,695 | -9.8%    | -2.0%   |
| Gross Profit | 24,404 | 29,311  | 26,544 | 28,634  | -8.1%    | 2.4%    |
| EBIT         | 20,303 | 24,200  | 21,939 | 23,550  | -7.5%    | 2.8%    |
| Net profit   | 12,074 | 14,564  | 11,817 | 12,627  | 2.2%     | 15.3%   |
| EPS (RMB)    | 2.17   | 2.62    | 2.15   | 2.30    | 0.8%     | 13.7%   |
| Gross Margin | 29.2%  | 28.3%   | 28.6%  | 27.1%   | 0.5 ppt  | 1.2 ppt |
| EBIT Margin  | 24.3%  | 23.4%   | 23.7%  | 22.3%   | 0.6 ppt  | 1.1 ppt |
| Net Margin   | 14.4%  | 14.1%   | 12.7%  | 11.9%   | 1.7 ppt  | 2.1 ppt |

Source: Company data

**Figure 3: NAV table**

|                        | NAV<br>(RMB mn) | NAV/shar<br>e (RMB) | NAV/share<br>(HK\$) | % of NAV    | Remark                   |
|------------------------|-----------------|---------------------|---------------------|-------------|--------------------------|
| Development properties | 182,989         | 32.86               | 36.63               | 126%        | DCF method with 10% WACC |
| Investment properties  | 14              | 0.00                | 0.00                | 0%          | 10% cap rate             |
| <b>GAV</b>             | <b>183,002</b>  | <b>32.86</b>        | <b>36.64</b>        | <b>126%</b> |                          |
| Less: Net debt         | (38,145)        | -6.85               | -7.64               | -26%        |                          |
| <b>NAV</b>             | <b>144,857</b>  | <b>26.01</b>        | <b>29.00</b>        | <b>100%</b> |                          |

Source: CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)           | FY18A         | FY19A         | FY20E         | FY21E          | FY22E          |
|------------------------------|---------------|---------------|---------------|----------------|----------------|
| <b>Revenue</b>               | <b>44,137</b> | <b>57,480</b> | <b>83,670</b> | <b>103,570</b> | <b>125,930</b> |
| 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         | 5,880         | 7,056          | 8,467          |
| Less: Business tax and other | (277)         | (299)         | (418)         | (518)          | (630)          |
| Cost of sales                | (29,250)      | (39,347)      | (59,266)      | (74,259)       | (90,304)       |
| <b>Gross profit</b>          | <b>14,887</b> | <b>18,133</b> | <b>24,404</b> | <b>29,311</b>  | <b>35,625</b>  |
| Other income                 | 1,369         | 2,130         | 250           | 275            | 320            |
| Selling expenses             | (1,231)       | (1,398)       | (2,092)       | (2,589)        | (3,148)        |
| Administrative expenses      | (1,134)       | (1,409)       | (2,092)       | (2,589)        | (3,148)        |
| Other expenses               | (57)          | (115)         | (167)         | (207)          | (252)          |
| <b>EBIT</b>                  | <b>13,834</b> | <b>17,340</b> | <b>20,303</b> | <b>24,200</b>  | <b>29,397</b>  |
| 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         | -             | -              | -              |
| <b>PROFIT BEFORE TAX</b>     | <b>14,019</b> | <b>17,452</b> | <b>18,707</b> | <b>22,537</b>  | <b>27,602</b>  |
| Income tax                   | (5,023)       | (5,889)       | (5,822)       | (7,031)        | (8,610)        |
| <b>PROFIT FOR THE YEAR</b>   | <b>8,996</b>  | <b>11,563</b> | <b>12,885</b> | <b>15,507</b>  | <b>18,992</b>  |
| Non-controlling interests    | (708)         | (294)         | (644)         | (775)          | (950)          |
| Perpetual interest           | (165)         | (167)         | (167)         | (167)          | (167)          |
| <b>Net Profit</b>            | <b>8,123</b>  | <b>11,102</b> | <b>12,074</b> | <b>14,564</b>  | <b>17,876</b>  |
| <b>Core net profit</b>       | <b>7,023</b>  | <b>10,020</b> | <b>12,074</b> | <b>14,564</b>  | <b>17,876</b>  |

### Cash flow summary

| YE 31 Dec (RMB mn)             | FY18A           | FY19E           | FY20E         | FY21E          | FY22E         |
|--------------------------------|-----------------|-----------------|---------------|----------------|---------------|
| <b>Profit before tax</b>       | <b>10,889</b>   | <b>14,019</b>   | <b>17,452</b> | <b>18,707</b>  | <b>22,537</b> |
| Depreciation, amortization     | 64              | 57              | 50            | 50             | 50            |
| Change in working capital      | 6,208           | (5,728)         | (7,120)       | (16,861)       | (13,451)      |
| Others                         | (5,646)         | (3,780)         | (4,346)       | (4,226)        | (5,368)       |
| <b>Net cash from operating</b> | <b>11,516</b>   | <b>4,568</b>    | <b>6,036</b>  | <b>(2,330)</b> | <b>3,769</b>  |
| Capex                          | (505)           | (957)           | (766)         | (200)          | (200)         |
| Associated companies           | (10,629)        | (18,950)        | -             | (100)          | (100)         |
| Others                         | (711)           | (4,139)         | -             | -              | -             |
| <b>Net cash from investing</b> | <b>(11,844)</b> | <b>(24,046)</b> | <b>(766)</b>  | <b>(300)</b>   | <b>(300)</b>  |
| Equity raised                  | -               | 1               | 2             | 3              | 4             |
| Change of debts                | 12,168          | 19,492          | 10,736        | 6,968          | 7,665         |
| Others                         | (5,151)         | 8,776           | (4,734)       | (6,543)        | (7,686)       |
| <b>Net cash from financing</b> | <b>7,017</b>    | <b>28,269</b>   | <b>6,004</b>  | <b>428</b>     | <b>(17)</b>   |
| Net change in cash             | 6,689           | 8,791           | 11,274        | (2,202)        | 3,452         |
| <b>Cash at the beginning</b>   | <b>13,560</b>   | <b>19,878</b>   | <b>28,452</b> | <b>39,725</b>  | <b>37,520</b> |
| Exchange difference            | (371)           | (216)           | -             | -              | -             |
| <b>Cash at the end</b>         | <b>19,878</b>   | <b>28,453</b>   | <b>39,727</b> | <b>37,523</b>  | <b>40,972</b> |

### Key ratios

| YE 31 Dec                | FY18A      | FY19A      | FY20E      | FY21E      | FY22E      |
|--------------------------|------------|------------|------------|------------|------------|
| <b>Sales mix (%)</b>     |            |            |            |            |            |
| Sale of properties       | 88.5       | 71.6       | 68.4       | 67.4       | 67.9       |
| Rental income            | 0.2        | 0.2        | 0.2        | 0.1        | 0.1        |
| Construction income      | 9.5        | 20.1       | 24.9       | 26.1       | 25.8       |
| Primary land development | 2.4        | 8.5        | 7.0        | 6.8        | 6.7        |
| <b>Total</b>             | <b>101</b> | <b>101</b> | <b>101</b> | <b>101</b> | <b>101</b> |

### Balance sheet

| YE 31 Dec (RMB mn)           | FY18A          | FY19A          | FY20E          | FY21E          | FY22E          |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>NON-CURRENT ASSETS</b>    | <b>39,454</b>  | <b>46,786</b>  | <b>46,986</b>  | <b>47,266</b>  | <b>47,581</b>  |
| Investment properties        | 18,338         | 26,604         | 26,704         | 26,804         | 26,904         |
| PP&E                         | 176            | 892            | 942            | 992            | 1,042          |
| Investment in JCE            | 19,490         | 17,395         | 17,445         | 17,575         | 17,740         |
| Others                       | 1,450          | 1,895          | 1,895          | 1,895          | 1,895          |
| <b>CURRENT ASSETS</b>        | <b>130,640</b> | <b>159,224</b> | <b>185,732</b> | <b>227,555</b> | <b>271,435</b> |
| Inventories                  | 54,781         | 86,352         | 104,557        | 132,983        | 175,410        |
| Trade and other receivables  | 37,816         | 31,328         | 41,835         | 51,785         | 62,965         |
| Cash and cash equivalents    | 28,452         | 39,725         | 37,520         | 40,968         | 31,240         |
| Others                       | 9,591          | 1,820          | 1,820          | 1,820          | 1,820          |
| <b>CURRENT LIABILITIES</b>   | <b>88,539</b>  | <b>119,097</b> | <b>133,908</b> | <b>162,088</b> | <b>189,759</b> |
| Trade and other payables     | 47,450         | 56,167         | 59,266         | 74,259         | 90,304         |
| Contract liabilities         | 16,785         | 26,030         | 34,782         | 44,714         | 52,758         |
| ST debt                      | 17,230         | 29,596         | 32,556         | 35,812         | 39,393         |
| Others                       | 7,074          | 7,304          | 7,304          | 7,304          | 7,304          |
| <b>NON-CURRENT</b>           | <b>44,810</b>  | <b>43,919</b>  | <b>47,927</b>  | <b>52,336</b>  | <b>57,186</b>  |
| LT debt                      | 41,712         | 40,081         | 44,089         | 48,498         | 53,348         |
| Others                       | 3,098          | 3,838          | 3,838          | 3,838          | 3,838          |
| <b>TOTAL EQUITY</b>          | <b>36,746</b>  | <b>42,994</b>  | <b>50,882</b>  | <b>60,396</b>  | <b>72,071</b>  |
| Equity to shareholders       | 26,885         | 31,831         | 39,075         | 47,814         | 58,539         |
| Non-controlling interests    | 7,497          | 8,800          | 9,444          | 10,219         | 11,169         |
| Perpetual capital securities | 2,363          | 2,363          | 2,363          | 2,363          | 2,363          |

### Profit & loss ratios (%)

|                    |      |      |      |      |      |
|--------------------|------|------|------|------|------|
| Gross margin       | 33.7 | 31.5 | 29.2 | 28.3 | 28.3 |
| EBIT margin        | 31.3 | 30.2 | 24.3 | 23.4 | 23.3 |
| Net margin         | 18.4 | 19.3 | 14.4 | 14.1 | 14.2 |
| Effective tax rate | 35.8 | 33.7 | 31.1 | 31.2 | 31.2 |

### Growth (%)

|              |      |      |      |      |      |
|--------------|------|------|------|------|------|
| Revenue      | 59.4 | 30.2 | 45.6 | 23.8 | 21.6 |
| Gross profit | 56.4 | 21.8 | 34.6 | 20.1 | 21.5 |
| EBIT         | 62.2 | 25.3 | 17.1 | 19.2 | 21.5 |
| Net profit   | 26.3 | 36.7 | 8.8  | 20.6 | 22.7 |

### Balance sheet ratios

|                                   |      |      |      |      |      |
|-----------------------------------|------|------|------|------|------|
| Current ratio (x)                 | 1.5  | 1.3  | 1.4  | 1.4  | 1.4  |
| Receivable turnover days          | 313  | 199  | 183  | 183  | 183  |
| Payables turnover days            | 592  | 521  | 365  | 365  | 365  |
| Inventory turnover days           | 684  | 801  | 644  | 654  | 709  |
| Net debt / total equity ratio (%) | 63.2 | 67.4 | 75.0 | 70.1 | 84.0 |

### Returns (%)

|     |      |      |      |      |      |
|-----|------|------|------|------|------|
| ROE | 30.2 | 34.9 | 30.9 | 30.5 | 30.5 |
| ROA | 5.3  | 5.6  | 5.5  | 5.6  | 6.0  |

### Per share

|            |      |      |      |      |       |
|------------|------|------|------|------|-------|
| EPS (RMB)  | 1.48 | 2.02 | 2.17 | 2.62 | 3.21  |
| DPS (RMB)  | 0.65 | 0.73 | 0.87 | 1.05 | 1.28  |
| BVPS (RMB) | 4.90 | 5.78 | 7.02 | 8.59 | 10.51 |

Source: Company data, CMBIS estimates

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**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## *CMB International Securities Limited*

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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