

Logan Property (3380 HK)

Holding ample resources in GBA

Logan achieved 59% core earnings growth in 1H19 to RMB4.67bn. In 7M19, the Company achieved RMB54.6bn contracted sales, up 25% YoY, completing 64% of RMB85.0bn sales target. We maintain our TP unchanged at HK\$13.10. Upgrade to **BUY**.

■ **59% core earnings growth in 1H19.** In 1H19, Logan achieved 78.3% growth of revenue to RMB27.0bn. Logan has accumulated strong urban redevelopment pipeline which is ready to realize income. During the period Logan recorded RMB4.9bn primary land development income, which amounted to more than 10% of total revenue. Supported by the high margin of primary land development (around 50% GPM), overall gross margin was 34.8%, higher than those in FY17/18 (34.4%/33.7%). Core net profit was up 59% to RMB4.67bn, representing core net margin of 17.3%.

■ **64% hit rate in 7M19.** In 1H19, the Company achieved RMB45.3bn contracted sales with 3.39mn sq m GFA sold, up 27.7% and 85.9%, respectively. Due to more Nanning projects and less Shenzhen sold during the period, overall ASP was RMB13,186/sq m, lower than those in FY18/19 (RMB17,096/16,008/sq m). In fact, according to the management, local ASP was stable. Saleable resources of FY19 amounted to RMB150.0bn. In 7M19, Logan realized contracted sales of RMB54.6bn, completing 64% of annual sales target of RMB85.0bn. We believe Logan is likely to complete its FY19 sales target. Furthermore, pre-sold but unbooked properties amounted to more than RMB70.0bn.

■ **Urban redevelopment plays a more important role now.** As of 1H19, Logan held a total land bank of 35.9mn sq m, with estimated RMB427.0bn saleable amount. Land bank in GBA reached 21.7mn sq m (70% of total land bank) with estimated RMB21.7bn saleable amount (61% of saleable amount). Furthermore, Logan had 18.8mn sq.m M&A/urban redevelopment projects in the pipeline, whose saleable resources amounted to RMB325.0bn. With strong local advantage and solid execution, the management plans to convert no less than saleable value RMB30.0bn from urban renewal business each year and contribute 10%-20% of core profit annually in the future.

■ **Maintain TP, upgrade to BUY.** We revise up FY19/20 earnings forecast by 7.3%/1.1% to RMB10,516/11,817mn. Logan is a Shenzhen-theme player. It benefits from the new position of Shenzhen as a "pilot city" to showcase the virtues and achievements of China's political and economic systems – with the aim of eventually becoming a world-class city. Current valuation is undemanding with 5.4x/4.8x FY19/20 P/E and 6.3%/7.0% FY19/20 yield. We maintain our TP of HK\$13.10, which is equivalent to 50% discount to NAV of HK\$26.20. Upgrade to **BUY**.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	27,690	44,137	61,377	92,755	105,695
YoY growth (%)	34.8	59.4	39.1	51.1	14.0
Net income (RMB mn)	6,431	8,123	10,516	11,817	12,627
EPS (RMB)	1.17	1.48	1.92	2.15	2.30
YoY growth (%)	44.4	26.5	29.5	12.4	6.9
P/E (x)	8.8	7.0	5.4	4.8	4.5
P/B (x)	2.7	2.1	1.7	1.4	1.2
Yield (%)	2.0	3.3	6.3	7.0	8.4
ROE (%)	30.7	30.2	31.5	29.2	26.3
Net gearing (%)	67.9	63.2	59.4	57.9	50.2

Source: Company data, CMBIS estimates

BUY (Up)

Target Price **HK\$13.10**
 (Previous TP **HK\$13.10**)
 Up/Downside **+14.1%**
 Current Price **HK\$11.48**

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	62,944
Avg 3 mths t/o (HK\$ mn)	59.2
52w High/Low (HK\$)	14.26/6.69
Total Issued Shares (mn)	5,483

Source: Bloomberg

Shareholding Structure

Kei family	77.6%
Free float	22.4%

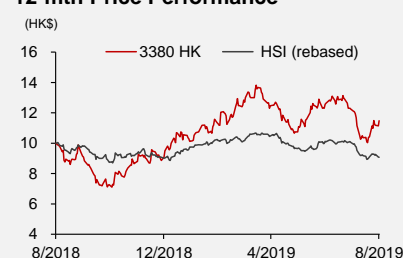
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.0%	0.6%
3-mth	3.7%	10.5%
6-mth	-1.2%	10.6%
12-mth	13.0%	21.7%

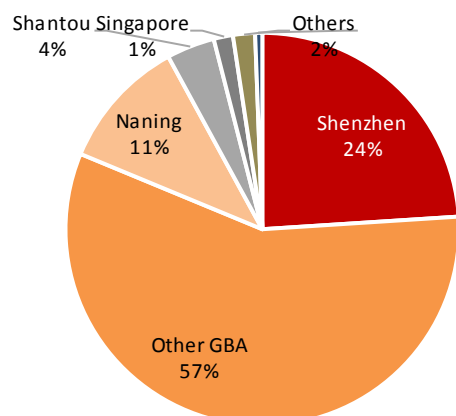
Source: Bloomberg

12-mth Price Performance



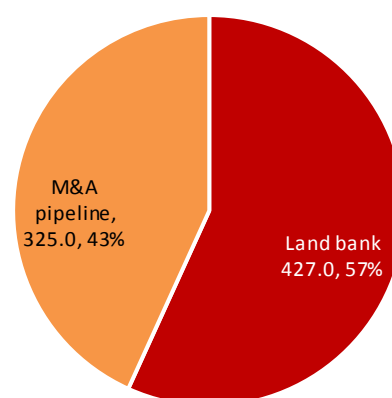
Source: Bloomberg

Auditor: KPMG

Figure 1: Total saleable by cities

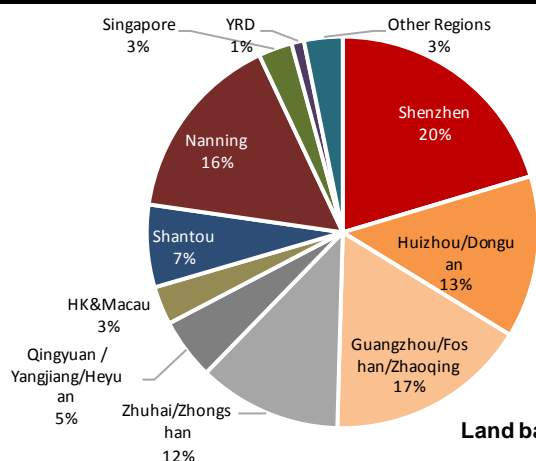
Total saleable:
RMB75.20bn

Source: Company data

Figure 2: Total saleable by types

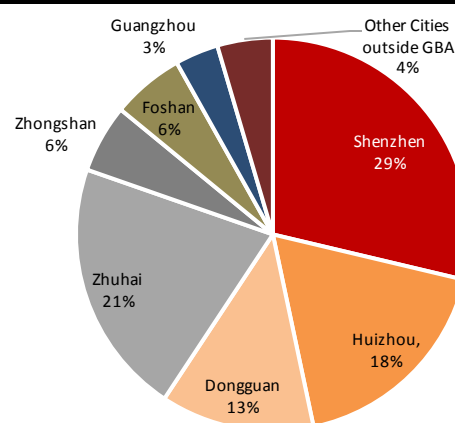
Total saleable:
RMB75.20bn

Source: Company data

Figure 3: Land bank saleable by cities

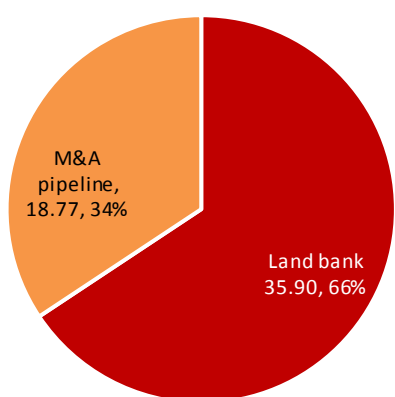
Land bank saleable:
RMB427.0bn

Source: Company data, expected ASP: RMB11,894/sq m

Figure 4: M&A saleable by cities

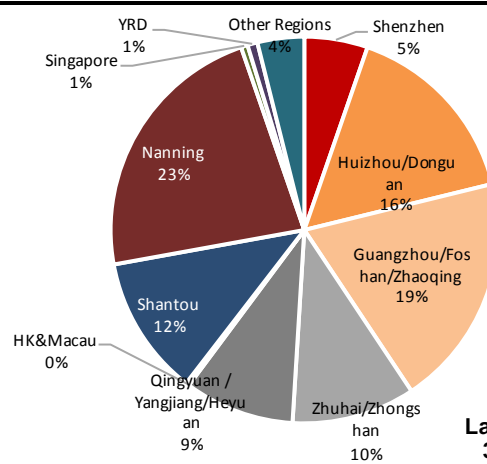
M&A pipeline saleable:
RMB325.0bn

Source: Company data, expected ASP: RMB17,315/sq m

Figure 5: Total GFA by types

Total land reserve:
54.67 mn sq m

Source: Company data

Figure 6: Land bank GFA by cities

Land bank GFA:
35.90mn sq m

Source: Company data

Figure 7: 1H19 results

(RMB mn)	1H18	1H19	Change
Revenue	15,154	27,022	78%
Sale of properties	13,174	16,382	24%
Rental income	48	71	47%
Construction income	969	5,843	503%
Primary land development income	1,067	4,900	359%
Less: Business tax and other sales related taxes	(105)	(174)	67%
Cost of sales	(9,542)	(17,629)	85%
Gross profit	5,611	9,392	67%
Other income	759	1,367	80%
Selling and distribution expenses	(271)	(685)	153%
Administrative expenses	(447)	(627)	40%
Other expenses	(37)	(2)	-95%
EBIT	5,615	9,446	68%
Share from associates and JVs	(10)	(78)	665%
Finance costs	(521)	(826)	59%
Exceptional	1,060	816	-23%
PROFIT BEFORE TAX	6,145	9,357	52%
Income tax	(2,350)	(4,067)	73%
PROFIT FOR THE YEAR	3,795	5,290	39%
Non-controlling interests	(363)	(162)	-55%
Perpetual interest	(83)	(84)	1%
Net Profit attribute to shareholders	3,349	5,045	51%
Core profit	2,938	4,672	59%

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	27,690	44,137	61,377	92,755	105,695
Sale of properties	26,951	39,063	44,220	57,695	61,073
Rental income	88	92	138	172	198
Construction income	966	4,192	12,575	31,437	40,869
Primary land development	-	1,067	4,900	4,165	4,373
Less: Business tax and others	(316)	(277)	(455)	(714)	(817)
COGS	(18,172)	(29,250)	(41,256)	(66,211)	(77,061)
Gross profit	9,517	14,887	20,120	26,544	28,634
Other income	696	1,369	1,572	311	412
Selling and marketing expenses	(929)	(1,231)	(1,841)	(2,783)	(3,171)
Administrative expenses	(748)	(1,134)	(1,350)	(2,133)	(2,325)
Other expenses	(10)	(57)	(2)	-	-
EBIT	8,527	13,834	18,499	21,939	23,550
Share from associates and JVs	205	(184)	(50)	30	80
Finance costs	(672)	(1,417)	(1,815)	(2,147)	(2,449)
Exceptional	2,829	1,787	816	-	-
Pre-tax profit	10,889	14,019	17,450	19,822	21,181
Profits tax	(3,881)	(5,023)	(6,142)	(6,977)	(7,456)
Profit for the year	7,008	8,996	11,308	12,845	13,725
Non-controlling interest	(481)	(708)	(626)	(862)	(933)
Perpetual interest	(97)	(165)	(165)	(165)	(165)
Net Profit	6,431	8,123	10,516	11,817	12,627
Core net profit	4,628	7,023	9,947	11,817	12,627

Balance sheet

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Current assets	83,595	130,640	166,532	209,111	234,863
Inventory	38,458	54,781	65,282	76,297	81,567
Trade and other receivables	20,448	37,816	51,147	79,278	91,909
Cash and cash equivalents	19,878	28,452	33,522	36,955	44,806
Others	4,810	9,591	9,591	9,591	9,591
Non-current assets	28,276	39,454	39,424	39,464	39,570
PP&E	148	176	196	205	232
Investment properties	15,665	18,338	18,338	18,338	18,338
Associates and JVs	11,915	19,490	19,440	19,470	19,550
Others	548	1,450	1,450	1,450	1,450
Total assets	111,871	170,095	205,956	248,575	274,433
Current liabilities	57,294	88,539	113,730	143,600	155,943
Trade payables	37,276	47,450	60,326	88,281	85,624
Contract liabilities	-	16,785	27,997	27,321	39,185
ST loan	17,309	19,745	20,847	23,438	26,575
Others	2,709	4,559	4,559	4,559	4,559
Non-current liabilities	27,413	44,810	48,317	53,113	58,120
LT loan	25,278	42,238	45,745	50,541	55,548
Others	2,135	2,572	2,572	2,572	2,572
Total liabilities	84,707	133,349	162,047	196,713	214,063
Non-controlling Interest	3,858	7,497	8,123	8,985	9,918
Perpetual capital securities	2,363	2,363	2,363	2,363	2,363
Shareholders' equity	27,164	36,746	43,909	51,861	60,370

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBIT	8,527	13,834	18,499	21,939	23,550
Depreciation and amortization	64	-	38	44	53
Change in working capital	(6,008)	(14,342)	257	(11,867)	(8,695)
Income tax paid	(3,881)	(5,023)	(6,142)	(6,977)	(7,456)
Others	12,813	10,099	(5,177)	6,093	3,552
Net cash from operating activities	11,516	4,568	7,475	9,231	11,005
Capex	(1,413)	(1,413)	(1,413)	(1,413)	(1,413)
Associated companies	(176)	(176)	(176)	(176)	(176)
Others	(10,256)	(22,457)	(9,474)	(13,705)	(4,454)
Net cash from investing activities	(11,844)	(24,046)	(11,062)	(15,293)	(6,043)
Equity raised	(93)	(94)	(93)	(93)	(93)
Change of Debts	9,400	28,796	24,005	7,387	8,144
Dividend paid	(1,853)	(3,556)	(3,979)	(4,727)	(5,051)
Others	(437)	3,122	(11,277)	6,928	(110)
Net cash from financing activities	7,017	28,268	8,656	9,495	2,890
Net change in cash	6,689	8,790	5,069	3,433	7,852
Cash at the beginning of the year	13,560	19,878	28,452	33,522	36,955
Exchange difference	(371)	(216)	-	-	-
Cash at the end of the year	19,878	28,452	33,521	36,955	44,806

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Sale of properties	97.3	88.5	72.0	62.2	57.8
Rental income	0.3	0.2	0.2	0.2	0.2
Construction income	3.5	9.5	20.5	33.9	38.7
Primary land development	-	2.4	8.0	4.5	4.1
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	34.4	33.7	32.8	28.6	27.1
EBIT margin	30.8	31.3	30.1	23.7	22.3
Pre-tax margin	39.3	31.8	28.4	21.4	20.0
Net margin	23.2	18.4	17.1	12.7	11.9
Core net margin	16.7	15.9	16.2	12.7	11.9
Effective tax rate	35.6	35.8	35.2	35.2	35.2
Growth (%)					
Revenue	34.8	59.4	39.1	51.1	14.0
Gross profit	45.1	56.4	35.2	31.9	7.9
EBIT	54.6	62.2	33.7	18.6	7.3
Net profit	43.3	26.3	29.5	12.4	6.9
Core profit	51.4	51.7	41.6	18.8	6.9
Balance sheet ratios					
Current ratio (x)	1.5	1.5	1.5	1.5	1.5
Inventory turnover days	772	684	578	421	386
Receivable turnover days	270	313	304	312	317
Payables turnover days	749	592	534	487	406
Net debt / total equity ratio (%)	67.9	63.2	59.4	57.9	50.2
Returns (%)					
ROE	30.7	30.2	31.5	29.2	26.3
ROA	9.7	8.2	8.5	8.0	7.7
Per share					
EPS (RMB)	1.17	1.48	1.92	2.15	2.30
DPS (RMB)	0.21	0.34	0.65	0.72	0.86
BVPS (RMB)	3.81	4.90	6.09	7.38	8.76

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NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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