

Logan Property (3380.HK)

Investor Presentation Q&A Summary

Hong Kong | Property | Company report

Q: Is Logan City in Huizhou?

A: Logan City is located in Huizhou. Although Logan City is located in Huizhou, Logan City is located at the border between Shenzhen and Huizhou and Logan City is only a block away from Shenzhen. Since Logan City is located in Huizhou, it belongs to the Huizhou administrative region. Therefore, it is not affected by the restrictive policy such as loan restriction and purchase restriction in the property sector. The main target customers of Logan City is people from Shenzhen, especially the commuters to Pingshan industrial area, which large enterprises such as BYD, Huayi Brothers and Hitachi have their factories there. Besides, the transport facilities near Logan City is also good. From Logan City to Pingshan Railway Station and from Pingshan Railway Station to Shenzhen North Station, it takes also only ten to twenty minutes, and the fare is only 10 yuan.

Q: Does Logan Property have any expansion plan to cities surrounding Shenzhen?

A: Logan Property is actively seeking investment opportunities in Huizhou to coordinate with Shenzhen government's Eastern Expansion strategy. If the demand for property in Shenzhen continues to largely exceed supply, expanding to the east is the only possible plan for Shenzhen government because the development opportunities in the western, northern and southern parts of Shenzhen are limited by the flight path, mountain and borders respectively. Therefore, Huizhou will remain as Logan Property's main strategic development location. In particular, Logan City is one of the largest development project in South China. Beside Huizhou, Logan Property is also considering Zhongshan and Zhuhai districts for development. The reason for that is following the completion of Hong Kong-Zhuhai-Macau Bridge and Shenzhen-Zhongshan Bridge, these places will be away from each other for only an hour by transportation. With the addition of relatively lower property price in Zhongshan and Zhuhai, Logan Property believes price appreciation is potentially possible, which is one of the concern of Logan Property when it performs acquisitions.

Q: Both the property price and land price in Shenzhen are rising. How does these affect Logan Property's bidding and sales strategies?

A: The land price has been rising rapidly in recent years. However, the price for different land varies significantly. For example, the land price for Jiuzuan is 19,000 yuan per squared metres when the land was acquired last year. A few stations away was there a land acquired by other developers at a price of 57,000 yuan per squared metres. Apart from the location difference, customer type, apartment type and cost structure also play a role in land price determination. Logan Property will not limit itself in a specific customer type. Its projects will also flexibly determined by the class of land and the target customer group.

Q: Logan Property has been aggressive in land acquisition. How will the new restrictive policy affect Logan Property's acquisition plan?

A: In recent year, Logan Property obtains a large project every year. For example, in 2014, 2015 and 2016, Logan Property obtains Acesite Masion, Jiuzuan and Guangming project respectively. Guangming project was also regarded as the recorder breaker by the media. However, Guangming project was only the recorder breaker in total price only. Moreover, Logan Property has only acquired 3 lands in 1H2016, located in Foshan, Zhuhai and Shenzhen. The main selection criteria for land acquisition are population movement, infrastructure and projects above railway stations. The company also prefers large scale project because it has higher flexibility and the total land price can filter out small developers. In addition the Shenzhen government only allows 5 days for payment for land, thereby filtering out small scale developers.

Q: How do you rate the company's cash flow?

A: The company's cash flow is strong. In the interim report, the company has over 10 billion of cash and the land acquisition budget is on 40% of the company's total sales budget. The company also has many channels of financing and the financing cost is decreasing. The payment capability of Logan Property's customer are also very high, reaching 90%.

Q: How long does it take for a contracted sales to be recognized? Is there any policy underlying the recent share repurchase?

A: The time from making a contracted sales to the recognition of such sales takes approximately a year. The recent share repurchase by Logan Property has no pre-determined rules. The main reason for such repurchase is that the company's management believe the company's share is significantly undervalued and would like to increase investors' confidence by repurchasing shares as well as supporting share price.

Q: Apart from Shenzhen, will Logan Property increase investment in Shantou and Huizhou?

A: Logan Property is the market leader in Shantou and has a market share of 33%. The company will not give up its position in the two places. In terms of expansion, it depends on the supply of land in the two places. However, the company's main development is definitely in Shenzhen.

Q: What's Logan Property's main strategic advantage over its competitors?

A: From the perspective of investors, Logan Property's main advantage is the P/E ratio is lower than those of its competitors. Moreover, in the next few years, Logan Property will recognize most of its contracted sales and will start its rapid development period in financial results. Logan Property will also maintain its dividend payout ratio of 33%. Therefore investors can expect higher dividend. From the perspective of the company, company will maintain the current strategy of being a regional developer. The company will not change its strategy to be a national developer because the size synergy can hardly be achieved unless the company is as large as China Resources Land (1109.HK) and China Overseas Land and Investment (688.HK). However, Logan Property will continue to reposition itself in accordance with economic development and the population movement.

Q: How does the restrictive policy in October affect Logan Property?

A: The company will not change the price of its property. However, the company expects a drop in transaction volume in Shenzhen property market. The company believes that the chance for a significant drop in price in Shenzhen property market is small but the market price will have an adjustment. In comparison with the large scale developer in Shenzhen, they are all similar in having strong cash flow and strong sales. In addition, according to the data by Shenzhen government, there are 10 million permanent residents in Shenzhen but only 30% of the residents have their own property. Shenzhen has 500,000 population inflow annually. With demand much larger than supply, the chance for a significant price drop is minimal.

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-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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