

# Logan Property (3380.HK)

## Lee Nam Road, the First Project in Hong Kong

Hong Kong | Property | Company report

21 March 2017

### Land Tender Summary

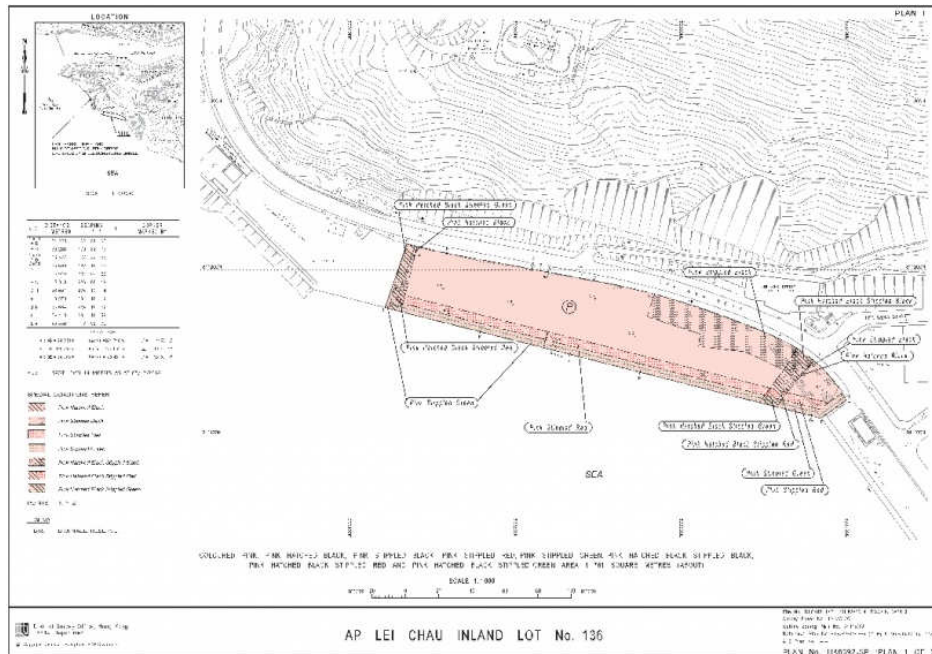
- Land cost being HK\$22,100 per square foot implies that the target customer group will be from the high income sector
- Rare land in Hong Kong with complete transport connection and an ocean view

### Overview

**Logan Property and KWG Property won the land tender in Ap Lei Chau.** The Ap Lei Chau Inland Lot No. 136 (Ap Lei Chau project) is Logan Property's first ever project in Hong Kong after several unsuccessful bids such as those for Beacon Hill and for Kai Tak. The site area of Ap Lei Chau project is about 126,595 square foot and the maximum and minimum total GFA of the project is about 762,091 square foot and 457,255 square foot respectively. Logan Property and KWG Property submitted a bid and acquired the land at a consideration of HK\$16.855Bn, equivalent to a minimum consideration of HK\$22,100 per square foot of GFA, or a maximum consideration of HK\$36,800 per square foot of GFA. Ap Lei Chau project has broken the record of the most expensive land in Hong Kong created by Sino Land 20 years ago, in 1997, by paying HK\$11.82Bn to acquire a land in Siu Sai Wan, which Island Resort has been constructed there nowadays. In fact, the market valuation of the land is between HK\$7.6Bn and HK\$11.4Bn, implying that the price paid by Logan Property far exceeded the highest market valuation by almost 48%.

**Rare land in Hong Kong Island by the seashore.** The Ap Lei Chau project is located at Lee Nam Road and is the former site of Hong Kong School of Motoring. The project is right next to the sea and is a rare land in Hong Kong Island with an almost 180 degree ocean view. Moreover, the land has an almost rectangular shape and is easier for development planning.

### Details of the Land



Source: Lands Department

### Buy

CMP: HKD 3.56

(Closing price as at 17 Mar 2017)

TARGET: HKD 4.10 (+15.17%)

### COMPANY DATA

O/S SHARES (MN) :	5,549
MARKET CAP (HKDMN) :	19,567
52 - WK HI/LO (HKD):	3.76 / 2.54

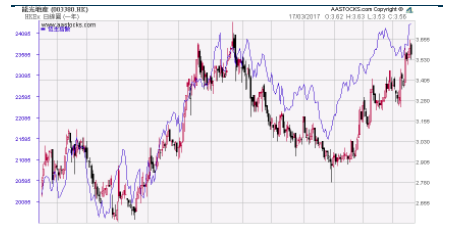
### SHARE HOLDING PATTERN , %

Kei Hoi Pang	76.82
Kei Perenna Hoi Ting	76.62
Junxi Investments Ltd	61.26
Dragon Jubilee Investments Ltd	7.66

### PRICE PERFORMANCE , %

	1M	3M	1Y
Logan Property	8.87	17.49	23.18
HSI	1.01	10.77	18.01

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

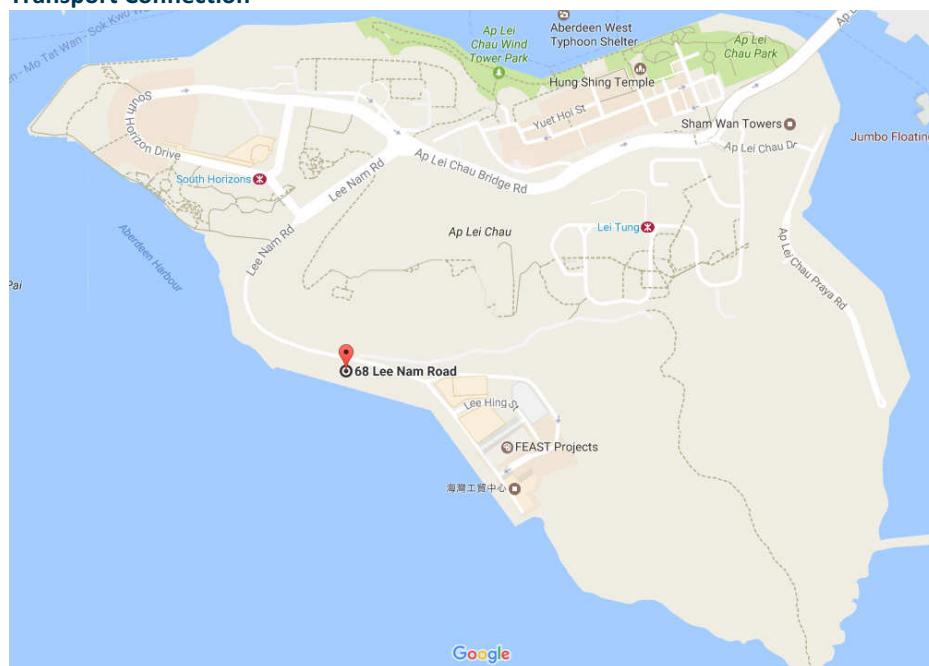
CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	12,498	14,574	19,342	21,440
Net Profit	2,421	2,688	3,656	4,055
EPS, HKD	0.5859	0.6164	0.7477	0.8255
PER, x	5.81	5.44	4.78	4.97
BVPS, HKD	2.7978	2.8672	3.2804	3.8583
P/BV, x	1.22	1.04	1.09	1.05
ROE, %	21.0	19.6	22.7	21.4

Source: Company reports, Phillip Securities Est.

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Besides, the land is well positioned in Ap Lei Chau and has complete transport infrastructure. The land is just a few minutes' walk away from the South Horizons MTR station, which connects the Ap Lei Chau to Admiralty. The whole journey from South Horizons station to Admiralty station just takes 10 minutes, and from Admiralty station, people can travel to anywhere else in Hong Kong, such as Tsim Sha Tsui and Mong Kok via Tsuen Wan Line, and Central and Causeway Bay via Island Line.

### Transport Connection



Source: Google Map

### Financial Implication

**Target customer will be the high income group.** Assuming Logan Property and KWG Property develops the land at the maximum GFA of 762,091 square foot, the cost of land will be HK\$22,100 per square foot. With the construction cost in Hong Kong being around HK\$4000 to HK\$5000 per square foot, the total cost of the project will be around HK\$27,000 per square foot. If Logan Property would like to maintain the gross profit margin of the last few financial years, which is about 30%, the units would have to be sold at HK\$38,500 per square foot.

	2014	2015	1H2016
<b>GROSS PROFIT MARGIN</b>	30.4%	30.4%	30.3%

Source: Company Reports, Logan property

Using the transaction data of nearby new apartments, the price per square foot (gross area) is about HK\$21,000 to HK\$25,000 for Marinella and about HK\$25,000 to HK\$30,000 for Marina South. In fact, the popular property, which has a harbor view and sells at similar price to our expected price per square foot of HK\$38,500, is the high level of The Arch at Kowloon Station. Therefore, the target customer group of the Ap Lei Chau project must be from the high income group in order to ensure the project being profitable as well as not affecting the profitability of Logan Property.

**Motivation behind breaking into Hong Kong.**

(1) **Hedging against currency risk.** Renminbi is currently at a depreciating trend because USA is going to increase their interest rate. Moreover, Logan Property has a sizable amount of USD denominated notes and the company has recently issued a 5.75% USD200Mn notes maturing in 2022. The notes carries a much lower interest rate than those of the previous notes, which have coupon rates of 11.25% and 9.75%, signaling that the investors are optimistic about the company's financial strength and its future. Engaging in property development business in Hong Kong can create a natural hedge against the depreciation of Renminbi relative to the USD, which the notes are denominated in.

(2) **Well-developed property market with high demand.** Hong Kong property market has a high demand and the Chinese property companies as well as the population are seeking to buy Hong Kong properties for both investment and hedging Renminbi currency risk purposes. Moreover, Hong Kong has a more established regulations in the property market. Being able to operate in Hong Kong shows that the company is mature and strong, benefiting Logan Property's brand image and useful in marketing purposes in China.

**Investment Thesis & Valuation**

**We maintain the `Buy` rating as well as the HK\$4.10 target price.** Since the project is jointly owned by both Logan Property and KWG Property, the risk Logan Property bears reduces. However, the size of the project is still significant to Logan Property because of the cost of land. Before the release of upcoming results, we will maintain the `Buy` rating as well as the target price of the company. (Closing price as at 17 Mar 2017)

**Risk**

- The sales of Ap Lei Chau project is worse than expected
- Tightening property regulations in China

## Financials

FYE	FY2013	FY2014	FY2015	FY2016F	FY2017F
<b>Valuation Ratios</b>					
Price Earnings (P/E)	--	5.81	5.44	4.78	4.97
Price to Book (P/B)	--	1.22	1.04	1.09	1.05
<b>Per Share Data (HKD)</b>					
EPS	0.6061	0.5859	0.6164	0.7477	0.8255
Book Value Per Share	1.8779	2.7978	2.8672	3.2804	3.8583
Dividend Per Share	0.1100	0.1099	0.1411	0.2234	0.2476
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	68.8%	12.4%	16.6%	32.7%	10.8%
Operating Income	63.2%	(15.4%)	14.1%	34.1%	10.9%
Net Profit	13.2%	17.7%	10.2%	36.0%	10.9%
<b>Margins</b>					
Gross Profit Margin	37.0%	30.4%	30.4%	30.4%	30.4%
Operating Profit Margin	30.5%	22.9%	22.4%	22.7%	22.7%
Net Profit Margin	18.5%	19.4%	18.4%	18.9%	18.9%
<b>Key Ratios</b>					
ROE (%)	27.6%	21.0%	19.6%	22.7%	21.4%
ROA (%)	7.3%	5.2%	4.7%	5.7%	5.4%
<b>Income Statement (CNY Mn)</b>					
<b>Revenue</b>	11,119	12,498	14,574	19,342	21,440
- Cost of Goods Sold	(7,003)	(8,694)	(10,144)	(13,459)	(14,918)
<b>Gross Income</b>	4,116	3,804	4,430	5,883	6,522
- Operating Expenses	(729)	(940)	(1,161)	(1,498)	(1,660)
<b>Operating Income</b>	3,387	2,864	3,269	4,385	4,862
- Net Non-Operating Gain	(78)	854	904	1,261	1,398
<b>Pretax Income</b>	3,309	3,718	4,174	5,646	6,260
- Income Tax Expenses	(1,252)	(1,297)	(1,486)	(1,990)	(2,205)
<b>Net Profit</b>	2,057	2,421	2,688	3,656	4,055

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 17 Mar 2017)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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