

Logan Property (3380.HK)

Direct Beneficiary of the Greater Bay Area National Policy

Hong Kong | Property | Company report

19 April 2017

Investment Summary

- Direct beneficiary of the national development strategy of Guangdong-Hong Kong-Macau Greater Bay Area
- Majority of the land and project reserve, in terms of either GFA or saleable resources, are located in Shenzhen
- Well-positioned projects, especially those in Shenzhen, which are located above or close to Metro stations, allowing the company to charge high and solid prices

Accumulate

CMP: HKD 4.64
(Closing price as at 13 Apr 2017)
TARGET: HKD 5.50 (+18.53 %)

COMPANY DATA

O/S SHARES (MN) :	5,496
MARKET CAP (HKDMN) :	25,503
52 - WK HI/LO (HKD):	4.64 / 2.54

Business Overview

Outstanding FY2016 result: Benefiting from the rapid rise in property price in Shenzhen in recent years, Logan Property achieved an outstanding result in FY2016. Revenue rose 40.9% to CNY20,538.8Mn and net profit rose 69.4% to CNY4,487.7Mn. Gross profit margin improved from 30.4% in FY2015 to 31.9% in FY2016. Contracted sales increased 40% in FY2016 to CNY28,716Mn while contracted sales area decreased 4.9% in FY2016, implying that the overall increase is caused by the 44.9% increase in average contracted selling price to CNY11,870 per square foot. Because of the outstanding result and strong growth achieved in FY2016, Logan Property has declared CNY0.22 dividend and CNY0.03 special dividend per share.

SHARE HOLDING PATTERN • %

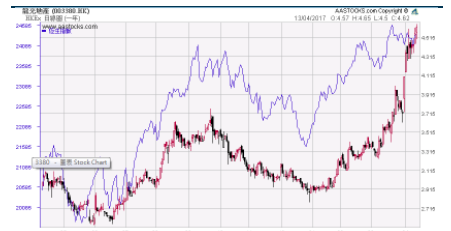
Kei Hoi Pang	76.82
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PRICE PERFORMANCE • %

	1M	3M	1Y
Logan Property	29.97	57.82	50.65
HIS	2.35	5.78	13.08

Direct beneficiary of Guangdong-Hong Kong-Macau Greater Bay Area national development strategy: Logan Property has a first mover advantage in the Guangdong-Hong Kong-Macau Greater Bay Area. In the early years, Logan Property has established its strategic positioning in the region by engaging in development projects and building up land reserve in Shenzhen, Huizhou, Foshan, Zhongshan, Zuhai, Guangzhou and Dongguan. All of these cities form an integral part of the national policy submitted by the Chinese Premier Li Keqiang in Study on the Action Plan for the City Cluster in the Guangdong-Hong Kong-Macau Greater Bay Area`.

PRICE VS. HSI



Source: Phillip Securities (HK) Research

Guangdong-Hong Kong-Macau Greater Bay Area

(1) Guangzhou	(2) Shenzhen
(3) Foshan	(4) Dongguan
(5) Zhongshan	(6) Zhuhai
(7) Huizhou	(8) Jiangmen
(9) Zhaoqing	(10) Hong Kong
(11) Macau	

Logan Property has projects or land reserve in most of these cities and is the reason Logan Property will directly benefit from the Greater Bay Area national policy.

KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	14,574	20,539	25,275	28,391
Net Profit	2,687	5,200	5,437	5,823
EPS, HKD	0.6164	0.9164	1.1276	1.2076
PER, x	5.44	4.61	4.48	4.55
BVPS, HKD	2.8672	3.9906	4.7799	5.6252
P/BV, x	1.04	0.91	1.06	0.98
ROE, %	19.6	27.2	19.6	19.3

Source: Company reports, Phillip Securities Est.

City	Main Projects
Guangzhou	Guangzhou Palm Waterfront
Shenzhen	Logan Carat Complex
Foshan	Foshan Grand Riverside Bay
Dongguan	Dongguan Imperial Summit Sky Villa
Huizhou	Logan City
Zhongshan	Zhongshan Grand Joy Garden
Zuhai	Logan – Heart of the Aviation City
Hong Kong	Ap Lei Chau Inland Lot No. 136

Source: Company Reports, Logan Property

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Logan Property is expected to benefit from the national policy by the fact that they have a large land reserve and large amount of property development projects in the region with a competitive cost, thereby allowing Logan Property to stay ahead of other property developers and enjoy a first mover advantage because of Logan Property's years of experience in the region and a built up land reserve enough for development for the next 5 to 6 years.

Large land reserve with a competitive cost: Logan Property has a large land reserve located around the Guangdong-Hong Kong-Macau Greater Bay Area but has a competitive cost because Logan Property has established its strategic positioning in the region in early years before the property market in the region went wild. As at 31/12/2016, Logan Property's land bank had a total GFA of 14.09Mn square metres, with an average cost of CNY3,384 per square metres. A substantial amount of land, in terms of GFA, is located in Shenzhen and about half of the land, in terms of GFA, falls into the region covered by the national policy 'Guangdong-Hong Kong-Macau Greater Bay Area'.

<i>Region</i>	<i>GFA (Sq. M)</i>	<i>Proportion</i>
<i>Shenzhen Region</i>	5,622,008	40%
<i>Pearl Delta Region*</i>	1,401,504	10%
<i>Shantou Region</i>	2,228,871	16%
<i>Nanning Region</i>	3,644,176	26%
<i>Other Regions**</i>	1,193,997	8%
Total	14,090,556	100%

Source: Company Reports, Logan Property

*: Includes Guangzhou, Foshan, Zhongshan and Zhuhai

** : Includes Chengdu and Haikou

Apart from using the land acquired a few years ago, Logan Property has been actively acquiring several land and projects in China throughout FY2016 and a Hong Kong project at the beginning of FY2017.

<i>Project</i>	<i>Date</i>	<i>Interest</i>	<i>GFA (Sq. M.)</i>	<i>Cost (CNY Mn)</i>
<i>Zuhai Jinwan</i>	28/1/2016	100%	198,000	997
<i>Foshan Dafucun</i>	25/3/2016	100%	322,342	1,123
<i>Shenzhen Guangming</i>	8/6/2016	50%	720,000	14,060
<i>Nanning Jinyanglu</i>	10/8/2016	100%	382,020	958
<i>Shantou Eastern Coastal</i>	28/12/2016	100%	344,051	1,914
<i>Hong Kong Ap Lei Chau</i>	24/2/2017	50%	762,091 Sq. Ft.	HK\$16,855

Source: Company Reports, Logan Property

Well-positioned property development projects: Logan Property has set an annual sales target of CNY34.5Bn, a growth of 20% in comparison with FY2016. In particular, the majority of the saleable resources come from Shenzhen, indicating that Logan Property could enjoy a higher profit margin if the sales in FY2017 consist of a large proportion of sales from Shenzhen. The majority of the key property projects to be released in FY2017 are located in Shenzhen and thus are expected to bring sizable revenue to Logan Property.

<i>2017 Key Projects</i>	<i>City</i>	<i>GFA (Sq. M.)</i>	<i>Launch Date</i>
<i>Logan Carat Complex</i>	Shenzhen	840,000	2Q2017
<i>Logan - Acesite Park</i>	Shenzhen	720,000	1H2017
<i>Logan - Masterpiece</i>	Shenzhen	140,000	Mar 2017
<i>Logan - Heart of Aviation City</i>	Zuhai	192,000	Jan 2017
<i>Logan - Acesite Bay</i>	Foshan	330,000	Mar 2017
<i>Logan - Royal Sea Palace</i>	Shantou	420,000	Jan 2017
<i>Logan - Acesite Lake</i>	Nanning	550,000	1H2017

Source: Company Reports, Logan Property

The property development projects of Logan Property, especially those in Shenzhen, are well-positioned in the city by locating close to the Metro stations. Locating close to or right above the Metro station will allow Logan Property to charge a solid selling price on these properties.

Location of Property Projects in Shenzhen



Source: Company Reports, Logan Property

Strong sales is expected to continue: Logan Property has made sizable contracted sales in the first three months of FY2017 and that was a rapid increase in comparison with the contracted sales result of the same period in FY2016.

<i>Contracted Sales</i>	<i>January</i>	<i>February</i>	<i>March</i>
2017 (CNY `Bn)	2.02	2.02	3.48
2016 (CNY `Bn)	1.65	1.17	2.13
<i>YoY Growth</i>	22.4%	72.6%	63.4%

Source: HKEXnews

The company also has a large receipt in advance, indicating that the company will have a sizable revenue waiting to be recognised in the near future.

<i>(In CNY `Mn)</i>	<i>FY2014</i>	<i>FY2015</i>	<i>FY2016</i>
<i>Receipt in Advance</i>	6,391	11,008	16,049
<i>Growth</i>	0.7%	72.2%	45.8%

Source: Company Reports, Logan Property

With the strong contracted sales in the first quarter of FY2017 and the large reserve of receipt in advance as at 31/12/2016, Logan Property is expected to have a strong solid revenue base for FY2017. Sizable growth in revenue in comparison with that of FY2016 is also expected especially the revenue of FY2016 was only CNY20,539Mn, whereas the receipt in advance as at 31/12/2016 was already CNY16,049Mn. The sales of property is also expected to continue to be strong in the future, not only because the property projects are located close to or above the Metro station, but also because it has a high quality land reserve, which has strong economic development around the region as well as is included in the Greater Bay Area national development strategy of the Chinese government. Therefore, Logan Property is expected to have long term sustainable growth in the future, in terms of both its sales and profitability.

Finance cost decreased despite total borrowing increased: The finance cost of Logan Property decreased despite the total borrowing increased from CNY21,044Mn in FY2015 to CNY33,187Mn in FY2016, an increase of 57.7%. The net debt to equity ratio increased from 58.4% in FY2015 to 71.4% in FY2016 but the weighted average borrowing cost has decreased from 6.8% to 6.1%.

	<i>FY2014</i>	<i>FY2015</i>	<i>FY2016</i>
<i>Total Borrowing (CNY`Mn)</i>	16,265	21,044	33,187
<i>Finance cost</i>	8.8%	6.8%	6.1%
<i>Net Debt to Equity Ratio</i>	65.7%	58.4%	71.4%

Source: Company Reports, Logan Property

Total borrowing has increased rapidly in FY2016 but finance cost has decreased, indicating that the investors are optimistic towards Logan Property's future. Moreover, as at 31/12/2016, the cash on hand of Logan Property, including restricted cash, amounted to CNY14,797Mn, which is a very strong liquidity position. Besides, the company has several large projects to be launched in FY2017, which will enable the company to cash out in the near future. Therefore, despite the high net debt to equity ratio, we expect the ratio will drop once the large projects to be launched in FY2017, such as Logan Carat Complex in Shenzhen and Logan Acesite Park in Shenzhen, which provide a total GFA of 1,560,000 square metres and are expected to bring sizable revenue to the company due to the hot property market in Shenzhen, are completed and converted into cash.

Investment Thesis, Valuation & Risk

Our valuation model suggests a target price of HK\$5.50: Logan Property has achieved a very strong result in FY2016. The strategic positioning of the company in Shenzhen, Foshan and Huizhou has allowed it to directly benefit from the national development strategy of Guangdong-Hong Kong-Macau Greater Bay Region, which will allow the company to achieve long term sustainable growth in the future. We are also optimistic towards the future property development projects of the company because of the excellent location chosen for its property development projects especially those located in Shenzhen, which the projects are located directly above or close to the Metro station. The complete transport infrastructure will allow Logan Property to charge premium prices on the properties. Therefore, we raise Logan Property's target price to HK\$5.50, corresponding to a P/E and P/B of 4.48x and 1.06x, with an `Accumulate` rating assigned. (Closing price as at 13 Apr 2017)

<i>Downside Risks</i>	(1): Further tightening regulations in Chinese property industry (2): The delay in execution of the national development strategy of Guangdong-Hong Kong-Macau Greater Bay Area (3): The gearing ratio is relatively high
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Financials

FYE	FY2014	FY2015	FY2016	FY2017F	FY2018F
Valuation Ratios					
Price Earnings (P/E)	--	5.44	4.61	4.48	4.55
Price to Book (P/B)	1.22	1.04	0.91	1.06	0.98
Per Share Data (HKD)					
EPS	0.5859	0.6164	0.9164	1.1276	1.2076
Book Value Per Share	2.7978	2.8672	3.9906	4.7799	5.6252
Dividend Per Share	0.1099	0.1411	0.2850	0.3383	0.3623
Growth & Margins (%)					
Growth					
Revenue	12.4	16.6	40.9	23.1	12.3
Operating Income	(15.4)	14.1	61.8	20.9	10.8
Net Profit	17.7	11.0	93.5	4.5	7.1
Margins					
Gross Profit Margin	30.4	30.4	31.9	32.4	32.4
Operating Profit Margin	22.9	22.4	25.8	25.3	25.0
Net Profit Margin	19.4	18.4	25.3	21.0	21.0
Key Ratios					
ROE (%)	20.9	19.6	27.2	19.6	19.3
ROA (%)	5.2	4.7	6.0	6.0	6.2
Income Statement (CNY Mn)					
Revenue	12,498	14,574	20,539	25,275	28,391
- Cost of Goods Sold	(8,694)	(10,144)	(13,979)	(17,074)	(19,179)
Gross Income	3,804	4,430	6,560	8,201	9,212
- Operating Expenses	(940)	(1,161)	(1,271)	(1,804)	(2,126)
Operating Income	2,864	3,269	5,289	6,397	7,086
- Net Non-Operating Gain	854	904	2,645	2,058	1,894
Pretax Income	3,718	4,173	7,934	8,455	8,980
- Income Tax Expenses	(1,297)	(1,486)	(2,734)	(3,018)	(3,157)
Net Profit	2,421	2,687	5,200	5,437	5,823

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 13 Apr 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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