

Logan Property (3380.HK)

Historical High Margins & First Ever Interim Dividend

Hong Kong | Property | Company report

21 August 2017

Investment Summary

- Historical high gross profit margin and core profit margin were achieved due to the recognition of the highly profitable Shenzhen projects
- Sales target was revised upwards from CNY34.5Bn to CNY37.0Bn, with a sales target of CNY80Bn in FY2020
- Declared the first ever interim dividend, along with a special dividend, totaling HK\$0.22 per share

Business Overview

The 1H2017 result stands out from the crowd: Logan Property achieved very strong result in 1H2017. Contracted sales increased 34.2% to CNY19.31Bn, completing 56% of the annual sales target. Because of the strong sales, Logan Property raised the sales target from CNY34.5Bn to CNY37.0Bn. Revenue soared 94.6% to CNY12.38Bn. Gross profit margin reached the historical high level of 39.5% and gross profit rose 153.2% to CNY4.89Bn. Core profit margin also reached the historical high level of 20.6% and core profit rose 195.4% to CNY2.55Bn. Profit attributable to shareholders increased 166.1% to CNY3.40Bn. Earnings per share increased 164.7% to HK\$0.7125. Thanks to the good result, Logan Property declared the first ever interim dividend of HK\$0.19 per share and a special dividend of HK\$0.03 per share.

Strategic positioning in the Greater Bay is the key to outperformance: In 1H2017, the company achieved historical high profit margins. The reason for the recorded high profit margins is the company recognised the high margin Shenzhen projects on its financial statements. In particular, about 30.7% of the recognised GFA and 41.6% of the recognised sales were contributed by Shenzhen. In the previous two interim periods, the contribution by the Shenzhen region was not as high as in 1H2017, leading to a lower profit margin in comparison with that of 1H2017.

Recognised GFA	1H2015	1H2016	1H2017
Shenzhen Region	27.9%	16.1%	30.7%
Shantou Region	1.4%	20.3%	38.1%
Nanning Region	26.6%	34.6%	16.2%
Other PRD Region	42.1%	26.1%	8.0%
Other Region	2.0%	2.9%	7.0%

Source: Company Reports, Logan Property

Recognised Sales	1H2015	1H2016	1H2017
Shenzhen Region	24.9%	22.7%	41.6%
Shantou Region	4.0%	17.2%	36.5%
Nanning Region	22.7%	32.7%	8.0%
Other PRD Region	45.4%	25.1%	9.7%
Other Region	3.0%	2.3%	4.2%

Source: Company Reports, Logan Property

Buy

CMP HKD7.28

(Closing price at 17 Aug 2017)

TARGET HKD8.80 (+20.88 %)

COMPANY DATA

O/S SHARES (MN) :	5,496
MARKET CAP (HKDMN) :	39,849
52 - WK HI/LO (HKD):	7.60 / 2.53

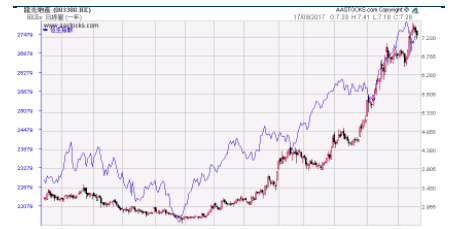
SHARE HOLDING PATTERN • %

Kei Hoi Pang	76.62
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PRICE PERFORMANCE • %

	1M	3M	1Y
Logan Property	12.52	72.92	116.02
HIS	3.23	9.23	18.65

PRICE VS. HIS



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	14,574	20,539	28,375	32,413
Net Profit	2,687	5,200	7,335	8,399
EPS, HKD	0.6164	0.9164	1.5213	1.7416
PER, x	5.44	4.61	5.31	5.05
BVPS, HKD	2.8672	3.9906	4.9532	6.0806
P/BV, x	1.04	0.91	1.60	1.45
ROE, %	19.6	27.2	16.5	17.4

Source: Company reports, Phillip Securities Est.

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As at 30/6/2017, the company had a large unrecognized contracted sales of CNY23.03Bn, with over half of the sales contributed by Shenzhen and other Pearl River Delta Regions. In particular, the gross profit margin of Shenzhen Region is expected to be as high as 40%. Therefore, we expect Logan Property's overall gross profit margin to be above 30% in this year and the next few years.

1H2017 Contracted Sales (CNY23.03Bn)	Proportion
Shenzhen Region	31%
Shantou Region	21%
Nanning Region	17%
Other PRD Region	26%
Other Region	5%

Source: Company Reports, Logan Property

Majority of the land in the land bank is in the Greater Bay: Throughout the reporting period, the company had 27 additional new projects, with 6 obtained via tendering and 21 obtained via acquisition and urban renewal. As at 30/6/2017, Logan Property has a land bank with a GFA of 27.89 million square metres. In terms of value, the land bank of the company worth CNY388Bn, of which CNY314.5Bn or about 81% of the value of the land is contributed by the Greater Bay region. The land in the Greater Bay, especially those in Shenzhen, is expected to have better profit margins due to the national development policy and therefore will allow the company to maintain its gross profit margin at a >30% level in the foreseeable future.

City	Saleable Resources	Proportion
Shenzhen/Dongguan/Huizhou	225.8	58.3%
Zuhai/Zhongshan/Jiangmen	50.1	12.9%
Guangzhou/Foshan/Zhaoqing	24.9	6.4%
Hong Kong/Macau	13.7	3.5%
Nanning Region	36.6	9.4%
Shantou Region	24.2	6.2%
Other Regions	8.5	2.2%
Singapore	4.2	1.1%
Total	388.0	100.0%

Source: Company Reports, Logan Property

Investment Thesis, Valuation & Risk

Our valuation model suggests a target price of HK\$8.80: Logan Property's earning surprise in 1H2017 signals the start of the high growth period. The company's strategic positioning in the Greater Bay will allow the company to maintain its profit margin at a high level, in comparison with its peers, in the future. We are optimistic to the future property development projects because of the alignment with the national development policy as well as the excellent location chosen for its property development projects. Therefore, we raise Logan Property's target price to HK\$8.80, corresponding to a P/E and P/B of 5.31x and 1.60x, with a 'Buy rating assigned. (Closing price at 17 Aug 2017)

Downside Risks	(1): Further tightening regulations in Chinese property industry
	(2): Profit margins contract
	(3): The gearing ratio is relatively high

Financials

FYE	FY2014	FY2015	FY2016	FY2017F	FY2018F
Valuation Ratios					
Price Earnings (P/E)	--	5.44	4.61	5.31	5.05
Price to Book (P/B)	1.22	1.04	0.91	1.60	1.45
Per Share Data (HKD)					
EPS	0.5859	0.6164	0.9164	1.5213	1.7416
Book Value Per Share	2.7978	2.8672	3.9906	4.9532	6.0806
Dividend Per Share	0.1099	0.1411	0.2850	0.5586	0.6148
Growth & Margins (%)					
Growth					
Revenue	12.4	16.6	40.9	38.2	14.2
Operating Income	(15.4)	14.1	61.8	74.8	18.5
Net Profit	17.7	11.0	93.5	41.1	14.5
Margins					
Gross Profit Margin	30.4	30.4	31.9	38.1	39.8
Operating Profit Margin	22.9	22.4	25.8	32.6	33.8
Net Profit Margin	19.4	18.4	25.3	25.8	25.9
Key Ratios					
ROE (%)	20.9	19.6	27.2	16.5	17.4
ROA (%)	5.2	4.7	6.0	8.0	8.7
Income Statement (CNY Mn)					
Revenue	12,498	14,574	20,539	28,375	32,413
- Cost of Goods Sold	(8,694)	(10,144)	(13,979)	(17,564)	(19,513)
Gross Income	3,804	4,430	6,560	10,811	12,900
- Operating Expenses	(940)	(1,161)	(1,271)	(1,563)	(1,940)
Operating Income	2,864	3,269	5,289	9,248	10,960
- Net Non-Operating Gain	854	904	2,645	2,159	1,994
Pretax Income	3,718	4,173	7,934	11,407	12,954
- Income Tax Expenses	(1,297)	(1,486)	(2,734)	(4,072)	(4,555)
Net Profit	2,421	2,687	5,200	7,335	8,399

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