



Logan (3380 HK) Urban redevelopment the next focus

- Core profit jumped 58% YoY to RMB 3,057mn
- Gross margin improved slightly by 1.5ppt YoY to 31.9%; net gearing rose 13.0ppt YoY to 71.4% in Dec 2016
- Logan's FY17 sales target of RMB 34.5bn implies a 20%YoY growth
- M&A and urban redevelopment may provide additional saleable resources amounting to RMB 170bn
- Maintain **BUY** with revised TP of HK\$ 5.00 based on an unchanged discount to NAV of 60%

Core profit jumped 58% YoY to RMB 3,057mn. Logan's FY16 core profit (attributable to shareholders) jumped 58% YoY to RMB 3,057mn as booked property sales increased 38% YoY to RMB 21.1bn. Gross margin improved slightly by 1.5ppt YoY to 31.9% while booked ASP jumped 67% YoY to RMB 11.4k/sqm. Margin improvement was weaker than expected because the high-margin Logan City project in Huizhou only contributed RMB 1.6bn or 8% of total booked sales in 2016 (2015: 32%). We expect revenue from Logan City to increase in 2017 based on our 2016 presales estimates for the project at RMB 8.5bn. Net gearing increased 13.0ppt YoY to 71.4% in Dec 2016 because RMB19.1bn (or RMB12.0bn on attributable basis) was spent on land acquisition from auctions during the year. For its Hong Kong's Ap Lei Chau site acquired in Feb 2017 at HK\$ 16.8bn, the project company will provide HK\$ 7.5bn from bank borrowing while the JV owners, Logan and KWG (1813 HK), will each contribute HK\$ 4,685mn in shareholder loans. Logan also raised its DPS by 79% YoY to HK\$ 0.25/share (include HK\$0.03/share special dividend), implying a 40% payout ratio and a 5.8% dividend yield.

Urban redevelopment as the next focus. Logan's FY17 sales target of RMB 34.5bn is based on RMB 68bn of saleable resources (with RMB 40bn from new projects) and a sell-through rate of 50%, implying a 20% YoY growth. Shenzhen, Shantou and Nanning will account for 51.6%, 16.8% and 6.7% of total saleable resources, respectively. Due to the surging land price, Logan has been obtaining land via M&A and urban redevelopment. In 2016, Logan set up various JV project companies to acquire 18 projects with a total area of 11.46mn sqm through the aforementioned methods. Total contracted amount is ~RMB 20bn, of which RMB 7bn has been paid. Management estimates these projects could add another RMB 170bn in saleable resources given the relevant approvals can be successfully obtained. In particular, ~ 45% of these projects are factory redevelopment that will not require relocation. As such, development cycle can be shortened. Logan expects 62% of these projects can be officially included in the landbank within next 3 years.

Maintain BUY with revised TP of HK\$5.00. Factoring in the latest land acquisition as well as potential new projects from M&A and urban development, we raise our NAV estimate to HK\$ 12.56/ share (from HK\$ 10.34/share) and TP to HK\$ 5.00 (from HK\$ 4.10), still based on a 60% discount to NAV. Maintain **BUY**.

Risk factors: 1) Rising land cost in tier-1 cities; 2) Execution risks associated with urban redevelopment projects; 3) Auditor's qualified opinions on FY16 results

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	14,574	20,539	28,628	37,176	40,694
Chg (% YoY)	16.6	40.9	39.4	29.9	9.5
Core net profit (RMB mn)	1,935	3,057	3,693	4,916	5,492
Chg (% YoY)	9.9	58.0	20.8	33.1	11.7
Core EPS (RMB)	0.38	0.55	0.66	0.88	0.99
Chg (% YoY)	8.7	43.7	20.8	33.1	11.7
BVPS (RMB)	2.4	3.5	3.9	4.5	5.2
Chg (% YoY)	8.7	43.4	12.6	14.9	14.5
Core PE (x)	10.1	7.0	5.8	4.4	3.9
P/B (x)	1.6	1.1	1.0	0.9	0.8
ROE (%)	14.3	15.7	17.0	19.9	19.6
ROA (%)	3.4	3.5	3.8	4.4	4.5
DPS(HK\$)	0.14	0.25	0.26	0.35	0.39
Yield (%)	3.22	5.75	5.99	7.97	8.90
Net gearing (%)	58.4	71.4	76.3	66.9	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 5, 2017

Rating: **BUY**

TP: **HK\$ 5.00**

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Share price (HK\$)	4.35
Est. share price return	14.9%
Est. dividend yield	6.0%
Est. total return	20.9%
Previous Rating &TP	BUY, HK\$4.1
Previous Report Date	Feb 27, 2017

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	3.76/2.19
Issued shares (mn)	5,558
Market cap (HK\$ mn)	18,412
3-mth avg daily turnover(HK\$ mn)	6.64
Major shareholder(s) (%)	
Mr. KEI Hoi Pang	76.82%
RRJ Capital	4.56%

Source(s): Bloomberg, ABCI Securities

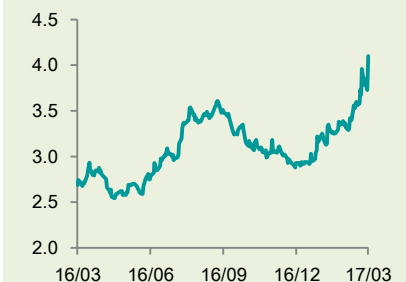
Share Performance (%)

	Absolute	Relative*
1-mth	30.1	26.5
3-mth	47.4	34.8
6-mth	24.5	21.2

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Exhibit 1: Logan's FY16 results

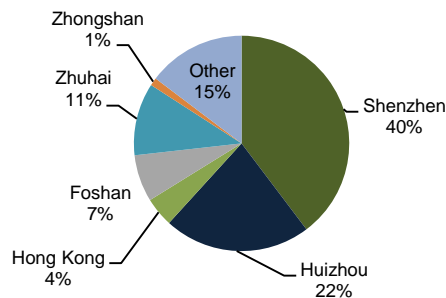
P&L	FY16	FY15	YoY
	RMB mn	RMB mn	(%)
Turnover	20,539	14,574	40.9
Cost of Sales	(13,979)	(10,144)	37.8
Gross Profit	6,560	4,430	48.1
Gross Margin (%)	31.9	30.4	+1.5ppt
Selling and distribution costs	(714)	(573)	24.6
Administrative expense	(557)	(588)	(5.3)
EBIT	5,289	3,269	61.8
EBIT Margin (%)	25.8	22.4	+3.3ppt
Other income	424	135	214.6
Fair Value gains on IP and others	2,764	806	na
Share of profit from JCE/ Assoc.	26	-	na
Finance cost	(372)	(36)	926.8
Profit before tax	8,130	4,174	94.8
Tax	(2,734)	(1,486)	84.0
- LAT	(972)	(563)	72.6
- Enterprise tax	(1,762)	(613)	187.4
Profit after tax	5,396	2,688	100.8
Minority Interest	(712)	(39)	1,747.9
Net profit	4,684	2,649	76.8
Core net profit	3,057	1,935	58.0
Core net margin	14.9	13.3	+1.6ppt
EPS (RMB)	0.55	0.39	41.4
DPS (HK\$)	0.25	0.14	78.6
Payout (%)	40%	32%	+8.0ppt

Operating statistics	FY16	FY15	YoY
			%
Contracted GFA (mn sqm)	2.30	2.49	(7.7)
Contracted ASP (RMB/sqm)	12,495	8,233	51.8
Contracted Sales (RMB mn)	28,716	20,510	40.0
GFA Delivered (mn sqm)	1.86	2.24	(17.0)
Booked ASP (RMB/sqm)	11,353	6,805	66.8
Booked sales (RMB mn)	21,105	15,247	38.4
Balance sheet	Dec-16	Dec-15	YoY
	RMB mn	RMB mn	
Gross debt	33,187	21,044	57.7
Cash	14,570	10,848	34.3
Net debt	18,617	10,197	82.6
Net gearing (%)	71.4%	58.4%	+13.0ppt
Revenue breakdown	FY16	FY15	YoY
	RMB mn	RMB mn	%
- Property Sales	21,105	15,247	38.4
- Property leasing	84	72	17.0
- Construction	212	121	75.8
Total	21,401	15,440	38.6
Less: business tax	(832)	(866)	(3.9)
Total	20,569	14,574	41.1

Source(s): Company, ABCI Securities

Exhibit 2: Logan's saleable resources by region as at Dec 2016

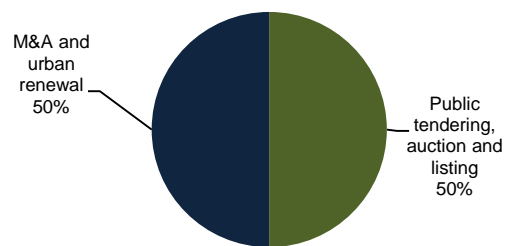
Total saleable resources: RMB 340bn



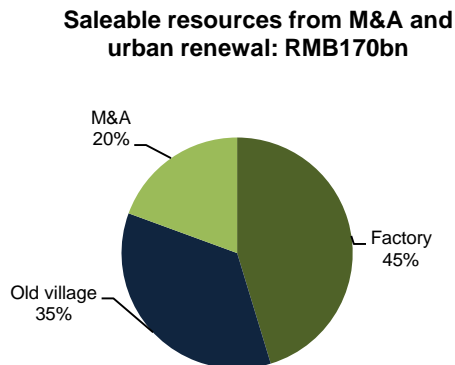
Source(s): Company, ABCI Securities

Exhibit 3: Logan's saleable resources by acquisition type as at Dec 2016

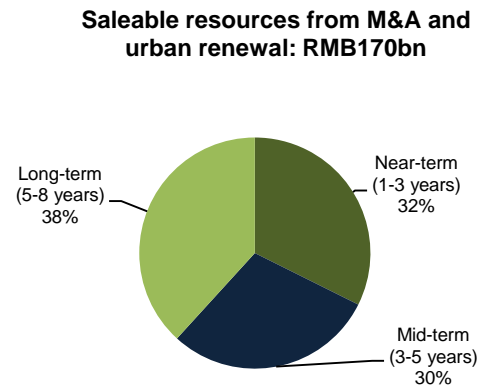
Total saleable resources: RMB 340bn



Source(s): Company, ABCI Securities estimates

Exhibit 4: Logan's saleable resources from M&A and urban renewal (by type) as at Dec 2016


Source(s): Company, ABCI Securities

Exhibit 5: Logan's saleable resources from M&A and urban renewal (by development cycle) as at Dec 2016


Source(s): Company, ABCI Securities

Exhibit 6: Logan's 2017E NAV

	Attr. GFA (mn sqm)	Net assets value (RMB mn)	% of total	Valuation Method	Implied value per sqm (RMB)
Property development					
Greater Shenzhen	7.5	44,430	53%	DCF with WACC of 7.2%	5,918
Shantou	3.0	7,149	8%		2,393
Foshan	1.9	3,857	5%		2,031
HK	0.04	14,635	17%		385,144
Others	4.2	2,452	3%		578
Subtotal	16.6	72,524	86%		4,359
Investment Properties	0.1	11,891	14%	6.0% cap rate on 2017E net rental	
Total 2017E GAV		84,415	100%		
2017E Net cash/ (debt)		(22,072)	-26%		
Total 2017E NAV		62,343	74%		
No. of share outstanding (diluted)		5,558			
NAV per share (RMB)		11.22			
Ex rate		1.12			
NAV per share (HKD)		12.56			
Target discount (%)		60%			
Target Price (HKD)		5.00			
WACC					
WACC	7.2%				
Cost of debt	6.5%				
Cost of equity	10.0%				
Debt/ (Debt + Equity)	55%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	12,498	14,574	20,539	28,628	37,176	40,694
Cost of sales	(8,694)	(10,144)	(13,979)	(17,551)	(23,010)	(26,749)
Gross Profit	3,804	4,430	6,560	11,076	14,167	13,945
SG&A expenses	(940)	(1,161)	(1,271)	(1,567)	(1,841)	(2,189)
EBIT	2,864	3,269	5,289	9,509	12,325	11,756
Finance cost	(94)	(36)	(372)	(424)	(437)	(450)
Share of profit of associates	0	0	26	0	77	404
Other income/ (expenses)	85	135	424	127	116	230
Fair value gain of investment properties	0	0	0	0	0	0
Disposal/one-off items	862	806	2,567	0	0	0
Profit before tax	3,718	4,174	7,933	9,212	12,082	11,940
Tax	(1,297)	(1,486)	(2,734)	(4,274)	(5,302)	(5,031)
Profit after tax	2,421	2,688	5,200	4,938	6,780	6,909
Minority interest	(73)	(39)	(712)	(1,246)	(1,866)	(1,421)
Reported net profit	2,348	2,649	4,488	3,692	4,913	5,488
Less: exceptional items	(588)	(714)	(1,431)	0	0	(0)
Underlying net profit	1,760	1,935	3,057	3,692	4,913	5,488
Per share						
Underlying EPS (RMB)	0.35	0.38	0.55	0.66	0.88	0.99
DPS (HK\$)	0.11	0.14	0.25	0.26	0.35	0.39
Payout ratio (%)	31%	37%	45%	39%	39%	39%
BVPS (RMB)	2.24	2.44	3.50	3.90	4.44	5.04
Growth %						
Revenue	12.4%	16.6%	40.9%	39.4%	29.9%	9.5%
Gross Profit	-7.6%	16.4%	48.1%	68.8%	27.9%	-1.6%
EBIT	-15.4%	14.1%	61.8%	79.8%	29.6%	-4.6%
Underlying net profit	-13.9%	9.9%	58.0%	20.8%	33.1%	11.7%
Margin %						
Gross margin	30.4%	30.4%	31.9%	38.7%	38.1%	34.3%
Gross margin (post-LAT)	27.5%	26.9%	27.6%	29.8%	30.2%	27.8%
EBIT margin	22.9%	22.4%	25.8%	33.2%	33.2%	28.9%
Core net margin	14.2%	14.3%	15.8%	17.2%	18.0%	16.0%
Key assumptions						
Contracted Sales (RMB mn)	13,350	20,510	28,716	35,759	46,582	53,441
GFA sold (mn sqm)	1.82	2.49	2.30	1.91	2.54	2.94
ASP (RMB/sqm)	7,347	8,233	12,503	18,706	18,335	18,187
Booked Sales (RMB mn)	12,215	14,390	20,243	28,310	36,836	40,330
GFA delivered (mn sqm)	1.74	2.24	2.10	1.99	2.15	2.37
Booked ASP (RMB/sqm)	7,022	6,422	9,647	14,211	17,158	17,025

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	39,226	49,760	58,749	70,555	83,907	94,220
Cash	5,576	8,635	13,560	10,670	11,198	34,551
Restricted cash	1,938	2,212	1,237	1,237	1,237	1,237
Trade & other receivables	2,502	10,026	2,943	2,943	2,943	2,943
Property under development	27,875	28,198	40,197	54,893	67,718	54,678
Other current assets	1,334	689	811	811	811	811
Non-current assets	5,610	7,011	27,753	27,836	27,996	28,483
Property, plant & equipment	122	166	184	167	150	133
Investment properties	4,685	6,118	11,891	11,991	12,091	12,191
Investment in Associate and JCE	0	0	15,404	15,404	15,482	15,886
Other non-current assets	803	728	274	274	274	274
Total Assets	44,836	56,772	86,502	98,391	111,903	122,703
Current Liabilities	17,827	22,621	31,055	39,503	48,212	54,304
Short term borrowings	3,824	5,339	5,118	6,118	7,118	8,118
Trade & other payables	5,452	4,667	4,438	4,438	4,438	4,438
Pre-sales deposits	6,391	11,008	19,482	26,930	34,639	39,731
Other current assets	2,160	1,607	2,017	2,017	2,017	2,017
Non-current liabilities	13,691	16,689	29,695	29,695	29,695	29,695
Long term borrowings	12,441	15,706	28,068	28,068	28,068	28,068
Other payables	0	0	0	0	0	0
Other non-current assets	1,251	984	1,627	1,627	1,627	1,627
Total Liabilities	31,519	39,311	60,750	69,199	77,908	84,000
Net Assets	13,317	17,461	25,751	29,192	33,995	38,703
Shareholders' Equity	11,210	13,549	19,427	21,672	24,659	27,995
Minority Interest	2,107	3,912	6,324	7,520	9,336	10,708
Total Equity	13,317	17,461	25,751	29,192	33,995	38,703
Key ratio						
Gross debt (RMB mn)	16,265	21,044	33,187	34,187	35,187	36,187
Net debt (RMB mn)	8,751	10,197	18,389	22,279	22,751	398
Net gearing (%)	66%	58%	71%	76%	67%	1%
Contracted sales/ Total assets (x)	0.30	0.36	0.33	0.36	0.42	0.44

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	2,884	3,292	5,326	9,546	12,363	11,793
Change in Working Capital	(9,585)	(2,640)	6,136	(5,483)	(3,298)	20,002
Tax payment	(1,297)	(1,486)	(2,734)	(4,274)	(5,302)	(5,031)
Operating cash flow	(7,999)	(833)	8,729	(210)	3,763	26,764
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(100)	(100)	(100)	(100)	(100)	(100)
Others	85	135	424	127	116	230
Investing cash flow	(35)	15	304	7	(4)	110
Debt raised	11,621	9,178	138	5,000	5,000	5,000
Debt repaid	0	(1,049)	(4,000)	(4,000)	(4,000)	(4,000)
Interest expenses	(1,239)	(1,592)	(1,918)	(2,190)	(2,255)	(2,320)
Equity raised		1,281				
Dividend to shareholders	(550)	(778)	(1,389)	(1,447)	(1,926)	(2,151)
Others	(50)	(50)	(50)	(50)	(50)	(50)
Financing cash flow	9,782	6,989	(7,220)	(2,687)	(3,231)	(3,521)
Net cash inflow/ (outflow)	1,749	6,171	1,813	(2,890)	528	23,353
Cash- beginning	3,827	5,576	11,747	13,560	10,670	11,198
Cash- year-end	5,576	11,747	13,560	10,670	11,198	34,551

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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