



## Logan (3380 HK) The king of margin

- 1H17 core profit jumped 195% YoY to RMB 2,548mn
- Gross margin improved by 9.1ppt YoY to 39.5%; net gearing declined 4.4ppt YoY to 67.0% in June 2017
- Logan raised its FY17 sales target up to RMB37.0bn (from RMB 34.5bn); 2020 sales target of RMB 80bn implies a 30% CAGR in 2017E-20E
- M&A and urban redevelopment account for 53% of total estimated saleable resources of RMB 388bn
- Maintain **BUY** with revised TP of HK\$ 8.30 based on a NAV discount of 50%

**1H17 results were full of positive surprises.** Core profit jumped 195%YoY to RMB 2,548mn as booked property sales rose 85%YoY to RMB 12.3bn. Booked GFA increased 32% YoY to 1.09mn sqm while booked ASP jumped 41%YoY to RMB 10.6k/sqm. The results were a big positive surprise as Logan had only disclosed a core profit growth of ~100% in its profit alert announcement. Margin also surprised on the upside, as gross margin increased by 9.1ppt YoY to 39.5% while net margin jumped 7.0ppt YoY to 20.6% on rising ASP. Logan City in Huizhou had a gross margin of 60%, which boosted the overall margin. Logan City, with no less than RMB 30bn of saleable resources remaining, would guarantee a decent margin for the next three years. Net gearing declined 4.4ppt HoH to 67.0% as at June 2017, as land acquisition through public tendering amounted to only RMB 12.4bn (or ~64% of 1H17 presales). Logan also declared an interim dividend of HK19cents and a special dividend of HK3cents, representing 40% of its core profit or ~an interim yield of ~3%.

**Big Bay Area focused.** In 1H17, Logan's presales jumped 34%YoY to RMB 19.3bn, driven by a 4%YoY increase in GFA and a 30% YoY hike in ASP. Logan revised up its presales target from RMB 34.5bn to RMB 37bn. For FY17, Logan estimates the total saleable resources to reach RMB 73bn. The revised target therefore assumes a rather conservative sell-through rate of 51%. Based on Logan's estimates, its total landbank will offer more than RMB 388bn of saleable resources, among which ~80% will be located in the Big Bay Area. In 1H17, Logan intensified its effort in M&A and urban redevelopment by acquiring 21 projects (4.76mn sqm) with estimated saleable resources of RMB60bn in 1H17. As of June 2017, 14.8mn sqm of the Group's landbank was acquired from open auction (Average cost: RMB4,680/sqm) while 13.1mn sqm was procured through M&A. Logan is confident in achieving a 30% presales growth each year and by 2020, its presale would reach RMB 80bn.

**Maintain BUY with revised TP of HK\$8.30.** We raise our 2017E-18E core profit forecasts by 29-34% on better-than-expected 1H17 results and gross margin. Factoring in the latest land acquisitions, we revise up the NAV estimate to HK\$ 16.60/ share (from HK\$ 12.56/share) and TP to HK\$ 8.30 (from HK\$ 5.00), based on a reduced NAV discount of 50% (from 60%). Logan differentiates itself from its peers with its superior margin and high presales growth – unsurprisingly, we maintain **BUY** for this Big Bay Area player.

**Risk factors:** 1) Rising land cost in tier-1 cities; 2) Execution risks associated with urban redevelopment projects

### Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	14,574	20,539	31,886	42,934	50,532
Chg (% YoY)	16.6	40.9	55.2	34.7	17.7
Core net profit (RMB mn)	1,935	3,057	4,756	6,606	7,517
Chg (% YoY)	9.9	58.0	55.6	38.9	13.8
Core EPS (RMB)	0.38	0.55	0.86	1.19	1.35
Chg (% YoY)	8.7	43.7	55.6	38.9	13.8
BVPS (RMB)	2.4	3.5	4.0	4.7	5.5
Chg (% YoY)	8.7	43.4	13.1	17.9	17.2
Core PE (x)	16.4	11.4	7.3	5.3	4.6
P/B (x)	2.6	1.8	1.6	1.3	1.1
ROE (%)	14.3	15.7	21.6	25.5	24.8
ROA (%)	3.4	3.5	4.5	5.5	5.3
DPS(HK\$)	0.14	0.25	0.40	0.48	0.55
Yield (%)	1.93	3.44	5.46	6.64	7.55
Net gearing (%)	58.4	71.4	77.6	82.6	42.4

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

August 11, 2017

Rating: **BUY**

TP: **HK\$ 8.30**

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Share price (HK\$)	7.27
Est. share price return	14.2%
Est. dividend yield	5.5%
Est. total return	19.7%
Previous Rating & TP	BUY, HK\$5.00
Previous Report Date	May 17, 2017

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	7.39/2.76
Issued shares (mn)	5,495
Market cap (HK\$ mn)	39,464
3-mth avg daily turnover(HK\$ mn)	86.17
Major shareholder(s) (%)	
Mr. KEI Hoi Pang	76.82%

Source(s): Bloomberg, ABCI Securities

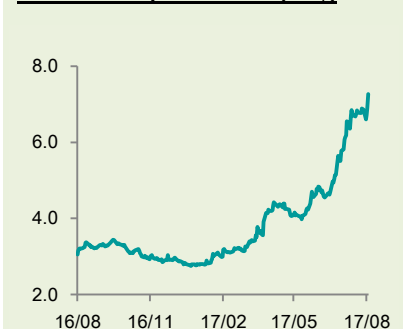
### Share Performance (%)

	Absolute	Relative*
1-mth	17.1	12.7
3-mth	75.5	63.2
6-mth	127.5	98.2

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-Year share performance(HK\$)



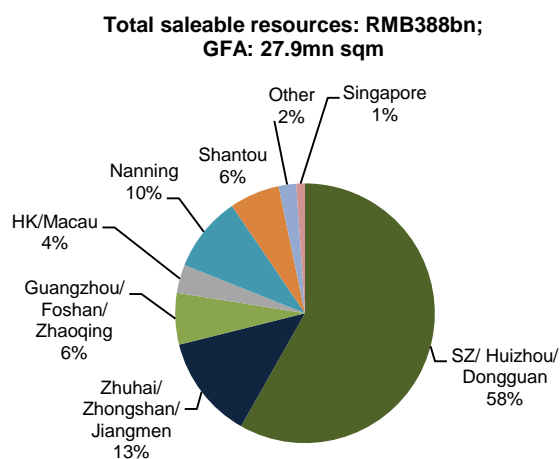
Source(s): Bloomberg, ABCI Securities

**Exhibit 1: Logan's 1H17 results**

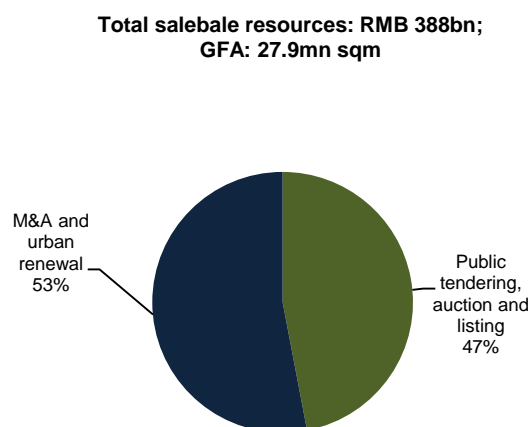
P&L	1H17	1H16	YoY
	RMB mn	RMB mn	(%)
<b>Turnover</b>	12,382	6,363	94.6
Cost of Sales	(7,493)	(4,432)	69.1
<b>Gross Profit</b>	<b>4,889</b>	<b>1,931</b>	<b>153.2</b>
<b>Gross Margin (%)</b>	<b>39.5</b>	<b>30.3</b>	<b>+9.1ppt</b>
Selling and distribution costs	(296)	(225)	31.6
Administrative expense	(288)	(198)	46.0
<b>EBIT</b>	<b>4,305</b>	<b>1,509</b>	<b>185.3</b>
<b>EBIT Margin (%)</b>	<b>34.8</b>	<b>23.7</b>	<b>+11.1ppt</b>
Other income	310	77	299.6
Fair Value gains on IP and others	1,771	556	218.3
Other exceptional items	(130)	(79)	na
Share of profit from JCE/ Assoc.	99	0	na
Finance cost	(318)	(42)	652.6
<b>Profit before tax</b>	<b>6,037</b>	<b>2,021</b>	<b>198.7</b>
<b>Tax</b>	<b>(2,282)</b>	<b>(653)</b>	<b>249.6</b>
- LAT	(1,025)	(240)	326.8
- Enterprise tax	(1,257)	(413)	204.7
<b>Profit after tax</b>	<b>3,755</b>	<b>1,369</b>	<b>174.4</b>
Minority Interest	(356)	(71)	400.6
<b>Net profit</b>	<b>3,399</b>	<b>1,298</b>	<b>162.0</b>
<b>Core net profit</b>	<b>2,548</b>	<b>864</b>	<b>194.8</b>
<b>Core net margin</b>	<b>20.6</b>	<b>13.6</b>	<b>+7.0ppt</b>

Operating statistics	1H17	1H16	YoY
			%
Presales GFA (mn sqm)	1.19	1.14	4.4
Presales ASP (RMB/sqm)	15,452	11,901	29.8
Presales Sales, ex-car park (RMB mn)	18,405	13,579	35.5
Presales Sales (RMB mn)	19,313	14,390	34.2
GFA Delivered (mn sqm)	1.09	0.83	32.0
Booked ASP (RMB/sqm)	10,556	7,502	40.7
Property sales booked, ex-car park (RMB mn)	11,522	6,205	85.7
Property sales booked (RMB mn)	12,260	6,613	85.4
<b>Balance sheet</b>	<b>Jun-17</b>	<b>Dec-16</b>	<b>YoY</b>
	<b>RMB mn</b>	<b>RMB mn</b>	
Gross debt	41,362	33,187	24.6
Cash	23,453	14,797	58.5
<b>Net debt</b>	<b>17,909</b>	<b>18,389</b>	<b>(2.6)</b>
<b>Net gearing (%)</b>	<b>67.0</b>	<b>71.4</b>	<b>(4.4)</b>

Source(s): Company, ABCI Securities

**Exhibit 2: Logan's saleable resources by region as at Jun 2017**


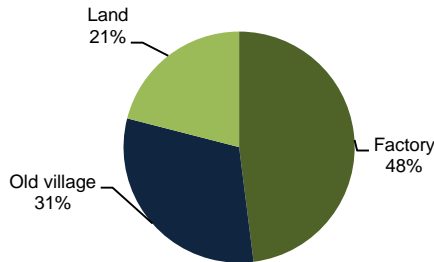
Source(s): Company, ABCI Securities

**Exhibit 3: Logan's saleable resources by acquisition type as at Jun 2017**


Source(s): Company, ABCI Securities

**Exhibit 4: Logan's saleable resources from M&A and urban renewal (by type) as at June 2017**

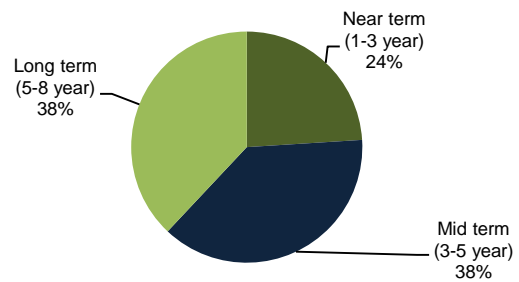
Sellable resources from M&amp;A and urban renewal: RMB204bn ; GFA:13.14mn sqm



Source(s): Company, ABCI Securities

**Exhibit 5: Logan's saleable resources from M&A and urban renewal (by development cycle) as at June 2017**

Sellable resources from M&amp;A and urban renewal: RMB204bn ; GFA:13.14mn sqm



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)
<b>Property development</b>					
Greater Shenzhen	9.1	48,110	45%	DCF with WACC of 7.0%	5,305
Shantou	3.6	7,469	7%		2,070
Foshan	2.3	3,971	4%		1,731
HK	0.0	16,085	15%		423,300
Others	2.9	10,212	10%		3,508
<b>Subtotal</b>	<b>17.9</b>	<b>85,847</b>	<b>80%</b>		<b>4,801</b>
Investment Properties	0.1	20,808	20%	1.5x Book value	
<b>Total 2017E GAV</b>		<b>106,655</b>	<b>100%</b>		
2017E Net cash/ (debt)		(24,755)	-23%		
Perpetual Capital securities		(2,363)	-2%		
<b>Total 2017E NAV</b>		<b>79,537</b>	<b>75%</b>		
No. of share outstanding (diluted)		5,558			
<b>NAV per share (RMB)</b>		<b>14.31</b>			
Ex rate		1.16			
<b>NAV per share (HKD)</b>		<b>16.60</b>			
Target discount (%)		50%			
<b>Target Price (HKD)</b>		<b>8.30</b>			
<b>WACC</b>					
WACC	7.0%				
Cost of debt	6.0%				
Cost of equity	10.0%				
<b>Debt/ (Debt + Equity)</b>	55%				

Source(s): Company, ABCI Securities estimates

**Consolidated income statement (2014A-2019E)**

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
<b>Revenue</b>	12,498	14,574	20,539	31,886	42,934	50,532
Cost of sales	(8,694)	(10,144)	(13,979)	(19,023)	(25,882)	(33,144)
<b>Gross Profit</b>	3,804	4,430	6,560	12,862	17,052	17,388
SG&A expenses	(940)	(1,161)	(1,271)	(1,736)	(1,941)	(2,574)
<b>EBIT</b>	2,864	3,269	5,289	11,126	15,110	14,814
Finance cost	(94)	(36)	(372)	(202)	(208)	(214)
Share of profit of associates	0	0	26	0	98	485
Other income/ (expenses)	85	135	424	115	64	104
Fair value gain of investment properties	0	0	0	0	0	0
Disposal/one-off items	862	806	2,567	0	0	0
<b>Profit before tax</b>	3,718	4,174	7,933	11,039	15,065	15,188
Tax	(1,297)	(1,486)	(2,734)	(4,891)	(6,355)	(6,105)
<b>Profit after tax</b>	2,421	2,688	5,200	6,148	8,710	9,082
Minority interest & PCS distribution	(73)	(39)	(712)	(1,392)	(2,104)	(1,566)
<b>Reported net profit</b>	2,348	2,649	4,488	4,756	6,606	7,517
Less: exceptional items	(588)	(714)	(1,431)	0	(0)	(0)
<b>Underlying net profit</b>	1,760	1,935	3,057	4,756	6,606	7,517
<b>Per share</b>						
Underlying EPS (RMB)	0.35	0.38	0.55	0.86	1.19	1.35
DPS (HK\$)	0.11	0.14	0.25	0.40	0.48	0.55
Payout ratio (%)	31%	37%	45%	46%	41%	41%
BVPS (RMB)	2.24	2.44	3.50	3.95	4.66	5.46
<b>Growth %</b>						
Revenue	12.4%	16.6%	40.9%	55.2%	34.7%	17.7%
Gross Profit	-7.6%	16.4%	48.1%	96.1%	32.6%	2.0%
EBIT	-15.4%	14.1%	61.8%	110.4%	35.8%	-2.0%
Underlying net profit	-13.9%	9.9%	58.0%	55.6%	38.9%	13.8%
<b>Margin %</b>						
Gross margin	30.4%	30.4%	31.9%	40.3%	39.7%	34.4%
Gross margin (post-LAT)	27.5%	26.9%	27.6%	31.9%	32.1%	28.7%
EBIT margin	22.9%	22.4%	25.8%	34.9%	35.2%	29.3%
Core net margin	14.2%	14.3%	15.8%	19.3%	20.1%	17.0%
<b>Key assumptions</b>						
Contracted Sales (RMB mn)	13,350	20,510	28,716	44,267	51,712	74,499
GFA sold (mn sqm)	1.82	2.49	2.30	2.61	2.96	4.48
ASP (RMB/sqm)	7,347	8,233	12,503	16,950	17,490	16,642
Booked Sales (RMB mn)	12,215	14,390	20,243	31,373	42,383	49,940
GFA delivered (mn sqm)	1.74	2.24	2.10	2.24	2.60	3.08
Booked ASP (RMB/sqm)	7,022	6,422	9,647	13,980	16,296	16,216

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (2014A-2019E)**

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
<b>Current assets</b>	39,226	49,760	58,749	68,448	81,759	102,921
Cash	5,576	8,635	13,560	8,194	2,779	16,474
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	55,262	73,989	81,455
Other current assets	1,334	689	811	811	811	811
<b>Non-current assets</b>	5,610	7,011	27,753	38,105	38,286	38,853
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	25,674	25,772	26,257
Other non-current assets	803	728	274	274	274	274
<b>Total Assets</b>	44,836	56,772	86,502	106,553	120,046	141,775
<b>Current Liabilities</b>	17,827	22,621	31,055	44,949	52,629	68,542
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	32,375	39,055	53,969
Other current assets	2,160	1,607	2,017	2,017	2,017	2,017
<b>Non-current liabilities</b>	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
<b>Total Liabilities</b>	31,519	39,311	60,750	74,644	82,324	98,238
<b>Net Assets</b>	13,317	17,461	25,751	31,909	37,722	43,537
<b>Shareholders' Equity</b>	11,210	13,549	19,427	21,976	25,900	30,365
Perpetual capital securities	0	0	0	2,363	2,363	2,363
Minority Interest	2,107	3,912	6,324	7,570	9,458	10,809
<b>Total Equity</b>	13,317	17,461	25,751	31,909	37,722	43,537
<b>Key ratio</b>						
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	24,755	31,170	18,475
Net gearing (%)	66%	58%	71%	78%	83%	42%
Contracted sales/ Total assets (x)	0.30	0.36	0.33	0.42	0.43	0.53

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	11,163	15,148	14,851
Change in Working Capital	(9,585)	(2,640)	6,136	(352)	(10,174)	9,374
Tax payment	(1,297)	(1,486)	(2,734)	(4,891)	(6,355)	(6,105)
<b>Operating cash flow</b>	<b>(7,999)</b>	<b>(833)</b>	<b>8,729</b>	<b>5,920</b>	<b>(1,381)</b>	<b>18,120</b>
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(100)	(100)	(100)	(100)	(100)	(100)
Others	85	135	424	(10,154)	64	104
<b>Investing cash flow</b>	<b>(35)</b>	<b>15</b>	<b>304</b>	<b>(10,274)</b>	<b>(56)</b>	<b>(16)</b>
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)	(2,021)	(2,081)	(2,141)
Equity raised		1,281				
Dividend to shareholders	(550)	(778)	(1,389)	(2,207)	(2,682)	(3,052)
Others	(50)	(50)	(50)	2,217	(215)	(215)
<b>Financing cash flow</b>	<b>9,782</b>	<b>6,989</b>	<b>(7,220)</b>	<b>(1,011)</b>	<b>(3,979)</b>	<b>(4,408)</b>
<b>Net cash inflow/ (outflow)</b>	<b>1,749</b>	<b>6,171</b>	<b>1,813</b>	<b>(5,365)</b>	<b>(5,415)</b>	<b>13,695</b>
Cash- beginning	3,827	5,576	11,747	13,560	8,194	2,779
<b>Cash- year-end</b>	<b>5,576</b>	<b>11,747</b>	<b>13,560</b>	<b>8,194</b>	<b>2,779</b>	<b>16,474</b>

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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