



Logan (3380 HK) Logan City as lucrative growth driver

- Thanks to spillover effect of Shenzhen's housing demand, Logan City was ranked 9th by individual project sales in 2016
- Logan City, with rising ASP and cheap land cost, will be a margin driver for the Group
- Logan issued a 5-year US\$ 200mn bond at 5.75% in Jan 2017, which should reduce its overall borrowing cost
- Maintain **BUY** with revised TP of HK\$4.10 (from HK\$4.30), still based on 60% discount to NAV

Logan City project will be a margin driver. In 2016, Logan City (Huizhou) generated RMB 8.5bn in presales, ranking 9th by individual project sales amount in China according to CRIC. The project accounts for 30% of Logan's FY16 presales of RMB 28.7bn (+40%YoY). Impressive sale of Logan City reflects strong spillover effect of housing demand from Shenzhen to neighboring cities as a result of the strengthened HPR measures. Besides, ASP of the project reached RMB 15.5k/sqm in 2016, compared to ~RMB 7,000/sqm in 2015, boosting overall presales ASP by 55%YoY to RMB 12.5k/sqm for FY16. We estimate the GPM of Logan City to be ~70% given the low land cost (~RMB 200/sqm) when acquired in 2007. In the next 2-3 years, Logan City will still be the Group's core margin driver.

Impressive ability in bond issuances. Logan issued a 5-year US\$ 200mn bond at 5.75% in Jan 2017, which helped down its overall borrowing cost. Back in 2014, coupon rates of Logan's USD bonds issued were high at 9.75%-11.25%. Since 2015, Logan has issued ~RMB 12bn of domestic corporate bonds at much lower coupon rates at 3.4%-5.8%. Despite the suspension of corporate bond approval and harsher HPR in China, Logan's much improved debt profile has enabled Logan to return to the offshore bond market at a reduced interest cost.

Raise FY16E-17E core profits by 16-24%; reiterate BUY. Due to the better-than-expected presales of high-margin Logan City project, we raise our core profit forecasts by 16-24% for FY16E-17E. However, we lower our NAV estimate to HK\$ 10.34/share (from HK\$ 10.85), with the assumption of a lower RMB/HK\$ exchange rate in the future. We adjust down our TP to HK\$ 4.10 (from HK\$4.30) based on an unchanged NAV discount of 60%. Maintain **BUY**.

Risk factors: 1) Rising land cost in tier-1 cities; 2) Property tightening measures in tier-1 cities; 3) Geographic concentration risk

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	12,498	14,574	20,541	25,658	28,824
Chg (% YoY)	12.4	16.6	40.9	24.9	12.3
Core net profit (RMB mn)	1,760	1,974	3,002	3,813	4,313
Chg (% YoY)	(13.9)	12.1	52.1	27.0	13.1
Core EPS (RMB)	0.35	0.39	0.54	0.69	0.78
Chg (% YoY)	(13.9)	10.9	38.4	27.0	13.1
BVPS (RMB)	2.2	2.4	2.8	3.3	3.8
Chg (% YoY)	52.8	8.7	14.7	16.3	15.8
Core PE (x)	8.4	7.5	5.5	4.3	3.8
P/B (x)	1.3	1.2	1.1	0.9	0.8
ROE (%)	15.7	14.6	19.3	21.1	20.6
ROA (%)	3.9	3.5	4.4	4.7	4.7
DPS(HK\$)	0.11	0.14	0.18	0.23	0.26
Yield (%)	3.30	4.20	5.45	6.92	7.83
Net gearing (%)	65.7	58.4	26.6	7.2	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Feb 9, 2017

Rating: **BUY**

TP: HK\$ 4.10

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Share price (HK\$)	3.33
Est. share price return	23.1%
Est. dividend yield	5.5%
Est. total return	28.6%
Previous Rating & TP	BUY, HK\$4.3
Previous Report Date	Nov 3, 2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	3.76/2.16
Issued shares (mn)	5,558
Market cap (HK\$ mn)	17,204
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

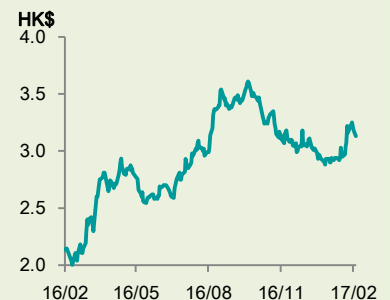
Sector Performance

	Absolute	Relative*
1-mth	6.5	2.7
3-mth	(1.3)	(5.2)
6-mth	(5.4)	(9.0)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: Top 10 project by sales in 2016

Rank	Project name	City	Amount RMBbn	GFA sold '000 sqm	ASP RMB/sqm
1	地产.尚海郦景	Shanghai	13.97	182	76,868
2	中天未来方舟	Guiyang	12.10	1,430	8,462
3	恒大海花岛	Danzhou	11.15	1,309	8,518
4	天津全运村	Tianjin	10.96	373	29,410
5	华发城建未来荟	Zhuhai	10.67	463	23,059
6	林肯公园	Beijing	9.70	306	31,714
7	深业上城	Shenzhen	9.31	154	60,625
8	金融城	Guiyang	9.03	647	13,957
9	龙光城	Huizhou	8.50	550	15,455
10	花果园	Guiyang	8.49	935	9,082

Source(s): CRIC, ABCI Securities

Exhibit 2: Logan's bond issuance

	Month	Amount RMBmn	Coupon %	Tenor year
Domestic bond				
Public corporate bond	Aug-15	4,000	5.00%	5
Public corporate bond	Aug-15	1,000	4.77%	4
Non- public corporate bond	Jan-16	2,500	5.80%	3
Non- public corporate bond	May-16	500	5.20%	4
Non- public corporate bond	Jul-16	3,000	5.15%	5
Public corporate bond	Oct-16	1,400	3.40%	3
Offshore bond				
		USDmn		
Senior note	May-14	300	11.25%	5
Senior note	Dec-14	250	9.75%	3
Senior note	Jan-16	260	7.70%	4
Senior note	Jan-17	200	5.75%	5

Source(s): Company, ABCI Securities



Exhibit 3: 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	5.1	16,013	35%	DCF with WACC of 7.2%	3,164
Shantou	1.8	4,114	9%		2,249
Foshan	1.3	3,760	8%		2,851
Others	7.1	22,160	48%		3,115
Subtotal	15.3	46,048	87%		3,005
Investment Properties	0.1	7,027	13%	1.5x Book value	
Total 2017E GAV		53,074	100%		
2017E Net debt		(1,750)	-3%		
Total 2017E NAV		51,324	97%		
No. of share outstanding (diluted)		5,558			
NAV per share (RMB)		9.24			
Ex rate		1.12			
NAV per share (HKD)		10.34			
Target discount (%)		60%			
Target Price (HKD)		4.10			
WACC					
Cost of debt	7.2%				
Cost of equity	6.5%				
Debt/ (Debt + Equity)	10.0%				
	55%				

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2013A-2018E)

FY Ended Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
Revenue	11,119	12,498	14,574	20,541	25,658	28,824
Cost of sales	(7,004)	(8,694)	(10,144)	(12,957)	(14,891)	(16,408)
Gross Profit	4,116	3,804	4,430	7,584	10,767	12,416
SG&A expenses	(729)	(940)	(1,161)	(1,477)	(1,751)	(2,182)
EBIT	3,387	2,864	3,269	6,107	9,016	10,234
Finance cost	(103)	(94)	(36)	(106)	(111)	(116)
Share of profit of associates	0	0	0	0	0	75
Other income/ (expenses)	28	85	135	131	181	259
Fair value gain of investment properties	0	0	0	0	0	0
Disposal/one-off items	(3)	862	806	0	0	0
Profit before tax	3,309	3,718	4,174	6,132	9,086	10,453
Tax	(1,252)	(1,297)	(1,486)	(2,429)	(3,636)	(4,224)
Profit after tax	2,056	2,421	2,688	3,704	5,450	6,229
Minority interest	(32)	(73)	(39)	(701)	(1,637)	(1,915)
Reported net profit	2,024	2,348	2,649	3,002	3,813	4,313
Less: exceptional items	21	(588)	(676)	0	0	0
Underlying net profit	2,045	1,760	1,974	3,002	3,813	4,313
Per share						
Underlying EPS (RMB)	0.41	0.35	0.39	0.54	0.69	0.78
DPS (HK\$)	0.11	0.11	0.14	0.18	0.23	0.26
Payout ratio (%)	27%	31%	36%	34%	34%	34%
BVPS (RMB)	1.47	2.24	2.44	2.80	3.25	3.77
Growth %						
Revenue	68.8%	12.4%	16.6%	40.9%	24.9%	12.3%
Gross Profit	60.8%	-7.6%	16.4%	71.2%	42.0%	15.3%
EBIT	63.3%	-15.4%	14.1%	86.8%	47.6%	13.5%
Underlying net profit	75.3%	-13.9%	12.1%	52.1%	27.0%	13.1%
Margin %						
Gross margin	37.0%	30.4%	30.4%	36.9%	42.0%	43.1%
Gross margin (post-LAT)	34.2%	27.5%	26.9%	31.4%	35.2%	35.9%
EBIT margin	30.5%	22.9%	22.4%	29.7%	35.1%	35.5%
Core net margin	18.5%	14.2%	14.3%	18.0%	21.2%	21.3%
Key assumptions						
Contracted Sales (RMB mn)	13,208	13,350	20,510	28,800	32,307	40,440
GFA sold (mn sqm)	1.64	1.82	2.49	2.30	1.88	2.05
ASP (RMB/sqm)	8,043	7,347	8,233	12,538	17,165	19,764
Booked Sales (RMB mn)	10,385	12,215	14,390	20,344	25,448	28,599
GFA delivered (mn sqm)	1.24	1.74	2.24	2.05	1.79	1.75
Booked ASP (RMB/sqm)	8,376	7,022	6,422	9,921	14,199	16,352

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2013A-2018E)

As of Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
Current assets	23,624	39,226	49,760	61,764	73,645	84,997
Cash	3,827	5,576	8,635	14,488	19,082	30,945
Restricted cash	678	1,938	2,212	2,212	2,212	2,212
Trade & other receivables	1,316	2,502	10,026	10,026	10,026	10,026
Property under development	17,686	27,875	28,198	34,349	41,636	41,126
Other current assets	117	1,334	689	689	689	689
Non-current assets	4,187	5,610	7,011	7,109	7,206	7,378
Property, plant & equipment	97	122	166	163	160	157
Investment properties	3,793	4,685	6,118	6,218	6,318	6,418
Investment in Associate and JCE	0	0	0	0	0	75
Other non-current assets	297	803	728	728	728	728
Total Assets	27,812	44,836	56,772	68,873	80,850	92,375
Current Liabilities	13,635	17,827	22,621	32,077	39,936	46,732
Short term borrowings	2,754	3,824	5,339	6,339	7,339	8,339
Trade & other payables	3,382	5,452	4,667	4,667	4,667	4,667
Pre-sales deposits	6,347	6,391	11,008	19,465	26,324	32,119
Other current assets	1,152	2,160	1,607	1,607	1,607	1,607
Non-current liabilities	6,827	13,691	16,689	16,689	16,689	16,689
Long term borrowings	6,228	12,441	15,706	15,706	15,706	15,706
Other payables	0	0	0	0	0	0
Other non-current assets	599	1,251	984	984	984	984
Total Liabilities	20,462	31,519	39,311	48,767	56,626	63,421
Net Assets	7,350	13,317	17,461	20,106	24,224	28,954
Shareholders' Equity	7,336	11,210	13,549	15,542	18,074	20,938
Minority Interest	14	2,107	3,912	4,563	6,150	8,015
Total Equity	7,350	13,317	17,461	20,106	24,224	28,954
Key ratio						
Gross debt (RMB mn)	8,983	16,265	21,044	22,044	23,044	24,044
Net debt (RMB mn)	4,477	8,751	10,197	5,344	1,750	(9,112)
Net gearing (%)	61%	66%	58%	27%	7%	-31%
Contracted sales/ Total assets (x)	0.47	0.30	0.36	0.42	0.40	0.44

Source(s): Company, ABCI Securities estimates

Consolidated cash flow statement (2013A-2018E)

FY ended Dec 31 (RMB mn)	2013A	2014A	2015A	2016E	2017E	2018E
EBITDA	3,403	2,884	3,292	6,130	9,039	10,257
Change in Working Capital	(3,053)	(9,585)	(5,751)	3,600	927	7,720
Tax payment	(1,252)	(1,297)	(1,486)	(2,429)	(3,636)	(4,224)
Operating cash flow	(902)	(7,999)	(3,945)	7,301	6,330	13,753
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(100)	(100)	(100)	(100)	(100)	(100)
Others	28	85	135	131	181	259
Investing cash flow	(92)	(35)	15	11	61	139
Debt raised	3,615	11,621	9,178	5,000	5,000	5,000
Debt repaid	(841)	0	(1,049)	(4,000)	(4,000)	(4,000)
Interest expenses	(1,107)	(1,239)	(1,592)	(1,400)	(1,465)	(1,530)
Equity raised			1,281			
Dividend to shareholders	(550)	(550)	(778)	(1,009)	(1,281)	(1,449)
Others	1,168	(50)	(50)	(50)	(50)	(50)
Financing cash flow	2,285	9,782	6,989	(1,459)	(1,797)	(2,030)
Net cash inflow/ (outflow)	1,291	1,749	3,059	5,853	4,594	11,863
Cash- beginning	2,537	3,827	5,576	8,635	14,488	19,082
Cash- year-end	3,827	5,576	8,635	14,488	19,082	30,945

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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