



Logan (3380 HK) First project in Hong Kong secured

- The consortium of Logan and KWG have won the tender for Ap Lei Chau in HK at HK\$16.68bn, or HK\$ 22,118/sqft
- Positive outlook for the project as the MTR's South Island line has commenced operation
- Increasing HK property exposure provides a natural currency hedge for Logan, which is beneficial given its USD bond issuance
- Maintain **BUY** with unchanged TP of HK\$4.10, still based on 60% discount to NAV

Company Report

Feb 27, 2017

Rating: **BUY**

TP: **HK\$ 4.10**

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The consortium of Logan and KWG won the tender for Ap Lei Chau site in HK.

Logan secured its first site in HK after several unsuccessful bids, including the one for the Kai Tak site. Logan has allied with KWG (1813 HK) to acquire the 0.76mn-sqft Ap Lei Chau site at HK\$ 16.86bn, or HK\$ 22,118/sqft, higher than the market expectation at HK\$ 10-15k/sqft. ASP range of neighboring luxury projects is HK\$ 20-24k/sqft (while some of the special units can reach HK\$ 40-55k/sqft), but we believe the pricing is reasonable as the MTR's South Island line has recently commenced operation, providing a strong price catalyst for properties located along the new MTR line. Besides, Logan, as one of the leaders in Shenzhen's property market, has accumulated a large customer base with affluent clients interested in purchasing cross-border properties in HK. Assuming the development cost will be shared evenly with KWG, we estimate Logan's post-transaction net gearing would rise to 69% (from 27%).

Incentives behind developing properties in HK. Since 2016, the PRC developers have been actively participating in land tendering in Hong Kong. We believe there are several reasons behind this increased interest: **1) Forex risks hedging.** Many listed PRC developers have raised funds through USD bonds. Increasing their USD/HKD asset exposure can provide a low-cost natural currency hedge especially when RMB is on a downtrend; **2) Branding.** Expanding land portfolio outside China would help improve company image; **3) Better net margin.** Due to lack of land appreciation tax, property development in HK usually attains better net margins. The downside is that projects in Hong Kong usually entail a long development cycle (5-7 years) and the property market is highly correlated to the U.S. interest rate.

Maintain BUY with TP of HK\$4.10. We think the transaction is significant to the group in terms of assets size (~12% of total assets if we assume 50% share of land cost) and improves geographic diversification as existing portfolio is concentrated in Shenzhen region. However, we will factor in the above acquisition in our valuation until more details are revealed in the Group's upcoming results. Maintain **BUY** with unchanged TP of HK\$4.10 based on a 60% discount to NAV.

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

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	7.6	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 (%)	3.28	4.18	5.42	6.88	7.78
Net gearing (%)	65.7	58.4	26.6	7.2	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Share price (HK\$)	3.35
Est. share price return	22.4%
Est. dividend yield	5.4%
Est. total return	27.8%
Previous Rating & TP	BUY, HK\$4.1
Previous Report Date	Feb 9, 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

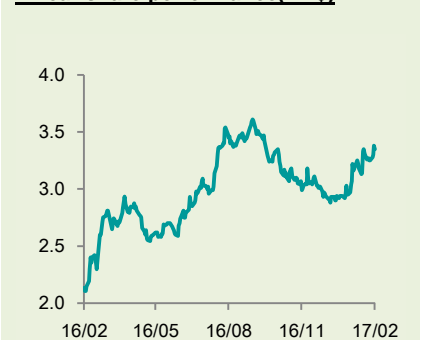
Share Performance

	Absolute	Relative*
1-mth	6.0	3.4
3-mth	10.2	4.7
6-mth	(0.6)	(5.2)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: Ap Lei Chau site and ASP of luxury projects in neighboring area



Project	Completion	Saleable GFA ASP in Feb 2017
		HK\$/sqft
1 Marina South (南區·左岸)	2016	~24,000
2 Larvotto (南灣)	2010	~20,000

Source(s): 28hse.com, ABCI Securities

Exhibit 2: 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)	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
<i>Less: exceptional items</i>	<i>21</i>	<i>(588)</i>	<i>(676)</i>	<i>0</i>	<i>0</i>	<i>0</i>
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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