



August 9, 2016
Company Report
Rating: BUY
TP: HK\$ 4.70

Share price (HK\$) 3.20
Est. share price return 46.9%
Est. dividend yield 4.7%
Est. total return 51.6%

Previous Rating & TP HK\$4.70, BUY
Previous Report Date Jun 22, 2016

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Key Data

52Wk H/L(HK\$)	3.58/2.1
Issued shares (mn)	5,558
Market cap (HK\$ mn)	17,371
3-mth avg daily turnover (HK\$ mn)	9.07
Major shareholder(s) (%):	
Mr. Kei Hoi Pang	76.71
RRJ Capital	4.56
Value Partner	1.50

Source(s): Company, Bloomberg, ABCI Securities

FY15 Revenue breakdown (%)

Property development	98.7
Construction	0.5
Property investment	0.8

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	9.5	0.2
3-mth	20.0	8.1
6-mth	45.5	24.9

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Logan (3380 HK)
Solid 1H16 results; maintain BUY

- 1H16 core profit jumped 24.9% YoY to RMB 864mn; gross margin improved 0.6ppt YoY to 30.3%
- Logan raises presales target from RMB 24bn to RMB 28bn on strong presales in 1H16 (+ 71%YoY to RMB 14.4bn)
- Maintain BUY with unchanged TP of HK\$ 4.70 based on a 50% NAV discount

1H16 core profit rose 24.9%YoY to RMB 864mn. Logan's 1H16 core profit increased 24.9% YoY to RMB 864mn as revenue rose 23.4% YoY to RMB 6,363mn. Gross margin edged up by 0.6ppt YoY to 30.3% on the back of a 19.9% YoY rise in booked ASP. The high-margin project, Logan City, represented 21% of booked sales in 1H16 compared to 25% a year ago. As property price in Shenzhen continues to rise and high-ASP project Acesite Mansion will soon contribute to profits upon completion, we expect 2H16 gross margin to rise further. On the balance sheet side, net gearing increased to 74.6% in June 2016 from 58.4% in Dec 2015 mainly due to the acquisition of Guangming project in Shenzhen (RMB 14,060mn). Despite a higher gearing, finance cost trended lower from 6.8% in Dec 2015 to 6.3% in June 2016. Logan successfully issued three tranches of non-public domestic bonds in 2016: RMB2.5bn at 5.8% with 3-year tenor in Jan 16; RMB 500mn at 5.2% with 4-year tenor in May 2016; RMB3bn at 5.15% with 5-year tenor in July 2016. This indicates the Group has been able to obtain low-cost debts.

Raising sales target to RMB 28bn. Logan's 1H16 presales surged 71%YoY to RMB 14.4bn, achieving 60% of the original annual target of RMB 24bn. Presales in July remained strong and grew 46% YoY to RMB 2.45bn. Due to better-than-expected presales, Logan raises its FY16 sales target to RMB 28bn. In 4Q16, Logan will launch its new flagship project, Jiuzuan(玖钻), in the Hongshan station, which should boost sales in 2H16. The project was acquired back in Sep 2015 at RMB 19k/sqm, which is fairly inexpensive considering a site near the Shangtang station, which is only a station away from Hongshan, was sold at RMB 57k/sqm to Jinmao and its JV partner in June 2016. Presale of the recently acquired Guangming project is likely to start in May 2017. Based on current price of the nearby projects (RMB 50k/sqm), we expect Guangming project to achieve a gross margin of 25%-30%.

Maintain BUY with TP of HK\$ 4.70. With over 70% of saleable resources located in Greater Shenzhen, we expect Logan will continue to benefit from the short housing supply in Shenzhen. Logan announced its first urban redevelopment project in Nanshan, Shenzhen, as the Group continues to seek quality projects with close proximity to the city's metro stations. Since the interim results are in line with your expectations, we keep our earnings forecasts and TP unchanged at HK\$ 4.70, based on a 50% discount to our NAV estimate of HK\$ 9.45/share. Maintain BUY.

Results and Valuation

FY ended Dec 31	2014A	2015A	2016E	2017E	2018E
Revenue (RMB mn)	12,498	14,574	18,666	22,602	24,740
Chg (% YoY)	12.4	16.6	28.1	21.1	9.5
Core net profit (RMB mn) ¹	1,760	1,974	2,596	3,065	3,578
Chg (% YoY)	(13.9)	12.1	31.5	18.1	16.7
Underlying EPS (RMB)	0.35	0.39	0.47	0.55	0.64
Chg (% YoY)	(13.9)	10.9	19.6	18.1	16.7
BVPS (RMB)	2.2	2.4	2.8	3.1	3.6
Chg (% YoY)	52.8	8.7	13.0	12.8	14.3
Underlying PE (x)	7.8	7.1	5.9	5.0	4.3
P/B (x)	1.2	1.1	1.0	0.9	0.8
ROE (%)	15.7	14.6	17.0	17.8	18.1
ROA (%)	3.9	3.5	3.8	3.7	3.7
DPS(HK\$)	0.11	0.14	0.15	0.20	0.20
Yield (%)	3.44	4.38	4.69	6.25	6.25
Net gearing ² (%)	65.7	58.4	36.2	Net cash	Net cash

¹Core net profit = Net profit - revaluation gain of investment properties and one-off items

²Net gearing = Net debt/Total equity

Source(s): Bloomberg, ABCI Securities estimates

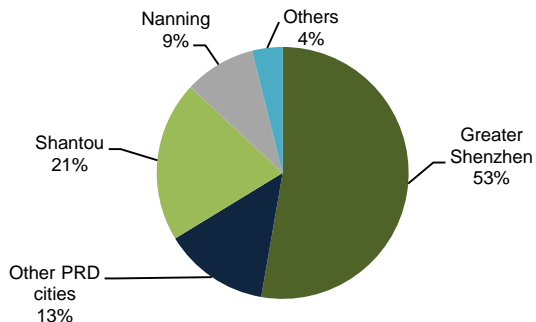
The proposed share injection from the HK-listed Logan to the A-share listed China Jialing was cancelled in July 2016. In light of the backdoor listing rules published by the CSRC in June 2016, Logan decided to abort the injection plan due to uncertainty in approval. China Jialing will become an A-share platform for the toll road assets owned by Logan's chairman Mr Ji Haipeng and be completely separated from Logan's HK-listed property operation.

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

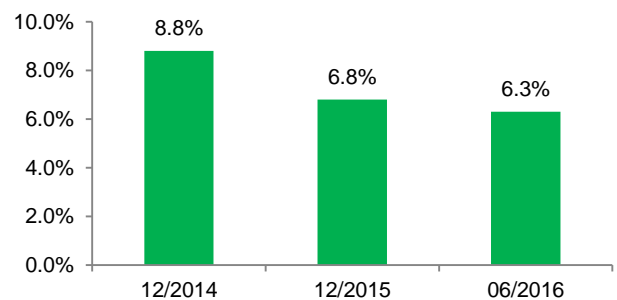
Exhibit 1: Logan's 1H16 results

P&L	1H16	1H15	YoY Chg	Operating statistics	1H16	1H15	YoY Chg
	RMBmn	RMBmn	(%)		1H16	1H15	(%)
Turnover	6,363	5,156	23.4	Presales GFA (mn sqm)	1.14	1.25	(8.4)
Cost of Sales & direct operating costs	(4,432)	(3,621)	22.4	Presales ASP (RMB/sqm)	11,901	6,624	79.7
Gross Profit	1,931	1,535	25.8	Presales Sales, ex-carpark (RMBmn)	13,579	8,247	64.7
Gross Margin (%)	30.3	29.8	+0.6ppt	Presales Sales (RMBmn)	14,390	8,414	71.0
Selling and distribution costs	(225)	(207)	8.5	GFA Delivered (mn sqm)	0.83	0.83	(0.2)
Administrative expense	(198)	(223)	(11.3)	Booked ASP (RMB/sqm)	7,502	6,255	19.9
EBIT	1,509	1,106	36.5	Property sales booked, ex-carpark (RMBmn)	6,205	5,184	19.7
EBIT Margin (%)	23.7	21.4	+2.3ppt	Property sales booked (RMBmn)	6,613	5,374	23.1
Other income, gains and losses	77	50	54.7	Balance sheet			
Fair value gain of investment properties	556	515	8.0		Jun-16	Dec-15	HoH %
Other exceptional items	(79)	(14)	na		RMBmn	RMBmn	
Share of profit from JCE/ Associates	0	0	na	Gross debt	28,153	21,044	33.8
Finance cost	(42)	(23)	83.8	Cash	12,438	10,848	14.7
Profit before tax	2,021	1,634	23.7	Net debt	15,716	10,197	54.1
Tax	(653)	(559)	16.7	Net gearing (%)	74.6	58.4	+16.2ppt
- LAT	(240)	(172)	39.7				
- Enterprise tax	(413)	(387)	6.5				
Profit after tax	1,369	1,075	27.3				
Minority Interest	(71)	(44)	63.5				
Net profit	1,298	1,031	25.8				
Core net profit	864	692	24.9				
Core net margin	13.6	13.4	+0.2ppt				

Source(s): Company, ABCI Securities

Exhibit 2: 1H16 presales breakdown (Total: RMB14.4bn)


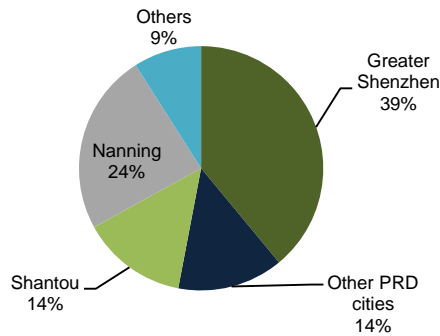
Source(s): Company, ABCI Securities

Exhibit 3: Average borrowing cost


Source(s): Company, ABCI Securities

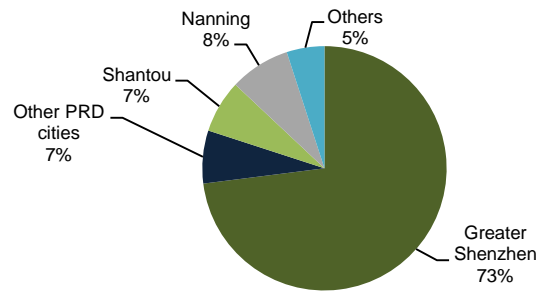


Exhibit 4: Landbank distribution as of June 2016
(Total GFA: 14.08mn sqm; Average land cost: RMB 3,409/sqm)



Source(s): Company, ABCI Securities

Exhibit 5: Breakdown of saleable resources as of June 2016 (RMB160bn)



Source(s): Company, ABCI Securities

Exhibit 6: Logan's 2016E 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	25,066	56%	DCF with WACC of 7.2%	4,953
Shantou	1.8	6,480	15%		3,541
Foshan	1.0	946	2%		949
Others	5.4	12,171	27%		2,247
Subtotal	13.3	44,663	86%		3,357
Investment Properties	0.1	7,027	14%		1.5x Book value
Total 2016E GAV		51,689	100%		
2016E Net debt		(7,168)	-14%		
Total 2016E NAV		44,521	86%		
No. of share outstanding (diluted)		5,558			
NAV per share (RMB)		8.01			
Ex rate		1.18			
NAV per share (HKD)		9.45			
Target discount (%)		50%			
Target Price (HKD)		4.70			
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	18,666	22,602	24,740
Cost of sales	(7,004)	(8,694)	(10,144)	(11,891)	(13,445)	(14,358)
Gross Profit	4,116	3,804	4,430	6,775	9,157	10,382
SG&A expenses	(729)	(940)	(1,161)	(1,410)	(1,896)	(2,172)
EBIT	3,387	2,864	3,269	5,365	7,262	8,211
Finance cost	(103)	(94)	(36)	(106)	(111)	(116)
Share of profit of associates	0	0	0	0	56	138
Other income/ (expenses)	28	85	135	123	216	360
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	5,382	7,423	8,593
Tax	(1,252)	(1,297)	(1,486)	(2,138)	(2,981)	(3,463)
Profit after tax	2,056	2,421	2,688	3,244	4,442	5,130
Minority interest	(32)	(73)	(39)	(648)	(1,377)	(1,551)
Reported net profit	2,024	2,348	2,649	2,596	3,065	3,578
<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	2,596	3,065	3,578
Per share						
Underlying EPS (RMB)	0.41	0.35	0.39	0.47	0.55	0.64
DPS (RMB)	0.11	0.11	0.14	0.15	0.20	0.20
Payout ratio (%)	27%	31%	36%	32%	36%	31%
BVPS (RMB)	1.47	2.24	2.44	2.75	3.11	3.55
Growth %						
Revenue	68.8%	12.4%	16.6%	28.1%	21.1%	9.5%
Gross Profit	60.8%	-7.6%	16.4%	52.9%	35.2%	13.4%
EBIT	63.3%	-15.4%	14.1%	64.1%	35.4%	13.1%
Underlying net profit	75.3%	-13.9%	12.1%	31.5%	18.1%	16.7%
Margin %						
Gross margin	37.0%	30.4%	30.4%	36.3%	40.5%	42.0%
Gross margin (post-LAT)	34.2%	27.5%	26.9%	31.0%	34.2%	35.2%
EBIT margin	30.5%	22.9%	22.4%	28.7%	32.1%	33.2%
Core net margin	18.5%	14.2%	14.3%	17.4%	19.4%	20.2%
Key assumptions						
Contracted Sales (RMB mn)	13,208	13,350	20,510	26,398	39,391	40,478
GFA sold (mn sqm)	1.64	1.82	2.49	2.17	2.19	2.08
ASP (RMB/sqm)	8,043	7,347	8,233	12,153	17,983	19,422
Booked Sales (RMB mn)	10,385	12,215	14,390	18,469	22,392	24,515
GFA delivered (mn sqm)	1.24	1.74	2.24	1.90	1.64	1.58
Booked ASP (RMB/sqm)	8,376	7,022	6,422	9,733	13,669	15,498

Source: 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	60,951	76,496	89,865
Cash	3,827	5,576	8,635	12,664	28,354	42,833
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	35,361	35,215	34,106
Other current assets	117	1,334	689	689	689	689
Non-current assets	4,187	5,610	7,011	7,109	7,261	7,496
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	56	193
Other non-current assets	297	803	728	728	728	728
Total Assets	27,812	44,836	56,772	68,060	83,758	97,361
Current Liabilities	13,635	17,827	22,621	31,550	43,967	53,602
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	18,937	30,354	38,989
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	48,239	60,656	70,292
Net Assets	7,350	13,317	17,461	19,821	23,102	27,070
Shareholders' Equity	7,336	11,210	13,549	15,311	17,265	19,731
Minority Interest	14	2,107	3,912	4,510	5,837	7,338
Total Equity	7,350	13,317	17,461	19,821	23,102	27,070
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	7,168	(7,522)	(21,001)
Net gearing (%)	61%	66%	58%	36%	-33%	-78%
Contracted sales/ Total assets (x)	0.47	0.30	0.36	0.39	0.47	0.42

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	5,388	7,284	8,233
Change in Working Capital	(3,053)	(9,585)	(5,751)	2,060	12,917	11,160
Tax payment	(1,252)	(1,297)	(1,486)	(2,138)	(2,981)	(3,463)
Operating Cash flow	(902)	(7,999)	(3,945)	5,310	17,221	15,930
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(100)	(100)	(100)	(100)	(100)	(100)
Others	28	85	135	123	216	360
Investing Cash flow	(92)	(35)	15	3	96	240
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)	(834)	(1,112)	(1,112)
Others	1,168	(50)	(50)	(50)	(50)	(50)
Financing Cash flow	2,285	9,782	6,989	(1,284)	(1,627)	(1,692)
Net cash inflow/ (outflow)	1,291	1,749	3,059	4,029	15,691	14,478
Cash- beginning	2,537	3,827	5,576	8,635	12,664	28,354
Cash- year-end	3,827	5,576	8,635	12,664	28,354	42,833

Source(s): Company, ABCI Securities estimates



Disclosures

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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 from 2010-2014

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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