



LVGEM (95 HK)

Slower sales for better margins

- FY16 core profit rose 942% YoY to RMB 604mn; gross margin from property sales rose from 31.4% in FY15 to 47.0% in FY16
- 2016 presales of RMB 827mn missed our forecast as presales of Mangrove Bay No.1 has been deferred to 2017
- Management targets to achieve RMB 4.5b in FY17 with higher ASP and margins
- Maintain **BUY** with revised TP of HK\$ 2.50 (from HK\$ 2.70), still based on a 60% discount to NAV

FY16 core profit jumped 942% YoY to RMB 604mn. LVGEM's FY16 revenue surged 279% YoY to RMB 4,590mn, mainly due to the booking of its Shenzhen project, Hongwan Garden. Gross margin from the property sales segment rose from 31.4% in FY15 to 47.0% in FY16, attributable to the low land cost of Hongwan Garden as it is a redevelopment project. Core profit grew 942%YoY RMB 604mn, implying a net margin of 13.2%. LVGEM's FY16 presale was RMB 827mn (-74%YoY). As a result of the reduced cash inflow, net gearing rose to 80.9% by end-Dec 2016, compared to 68.6% in Dec 2015. Both presales and core profit in FY16 are below our forecasts because sales of LVGEM's major Shenzhen project, Mangrove Bay No.1, have been deferred to 2017 from 4Q16.

Expect FY17E presale to be RMB 4.5bn with better ASP and margins. According to the management, the Group's saleable resources in and outside Shenzhen amounted to RMB10bn and RMB3-4bn. The Group only targets to achieve RMB 4.5bn in presales to achieve better ASP and margins. With the two Shenzhen projects entering the completion stage, the Group can soon start selling at spot and book profits in 2017. ASP of these projects can be higher as presale prices are tightly monitored by the local government. In FY16, LVGEM acquired a Zhuhai redevelopment projects at RMB 2.1bn and a hotel in California, U.S. at US\$ 22.6mn for resale after refurbishment. Potential injection of the 12mn sqm landbank (mainly redevelopment projects in Shenzhen) by its parent company is pending regulatory approvals with no definite timeline given at present. We currently assume asset injection to take place in 2018-19.

Maintain BUY with revised TP of HK\$ 2.50. Due to the weaker-than-expected FY16 results and delay in project launch, we cut our NAV forecast to HK\$ 6.34 (from HK\$ 6.68) and TP to HK\$2.50 (HK\$ 2.70), still based on 60% discount to NAV. Despite its relatively small landbank, the real potential of LVGEM lies on the huge asset injection by its parent company. The ability to secure new projects in Zhuhai and the U.S. also shows the Group's ability to grow organically. Maintain **BUY**.

Risk factors: 1) Complicated regulations governing the redevelopment process; 2) Uncertain timing regarding asset injection from parent; 3) Dilution impact of issuance of convertible preference shares; 4) Higher-than-expected land appreciation tax from projects with low land cost.

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	1,210	4,590	5,504	6,906	10,633
Chg (% YoY)	(75.0)	279.3	19.9	25.5	54.0
Core net profit (RMB mn)	58	604	751	810	1,428
Chg (% YoY)	(95)	942	24	8	76
Core EPS (RMB)	0.01	0.07	0.09	0.10	0.17
Chg (% YoY)	(97)	937	21	8	76
BVPS (RMB)	0.97	1.10	1.10	1.12	1.18
Chg (% YoY)	(34.4)	13.2	(0.4)	2.6	4.5
Core PE (x)	269.6	26.0	21.5	20.0	11.3
P/B (x)	2.0	1.8	1.8	1.7	1.6
ROE (%)	0.7	6.7	8.2	8.6	14.5
ROA (%)	0.2	2.3	2.4	2.2	3.3
DPS(HK\$)	0.01	0.05	0.06	0.07	0.12
Yield (%)	0.5	2.3	2.9	3.1	5.5
Net gearing (%)	68.6	80.9	80.9	95.4	153.1

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 17, 2017

Rating: **BUY**

TP: **HK\$ 2.50**

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Share price (HK\$)	2.16
Est. share price return	15.7%
Est. dividend yield	2.9%
Est. total return	18.6%
Previous Rating & TP	BUY, HK\$2.70

Previous Report Date Nov 3, 2016

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	2.64/1.74
Issued shares (mn)	4,693
Market cap (HK\$ mn)	10,185
3-mth avg daily turnover (HK\$ mn)	4.18
Major shareholder(s) (%):	
Mr WONG Hong King	75.00%

Source(s): Bloomberg, ABCI Securities

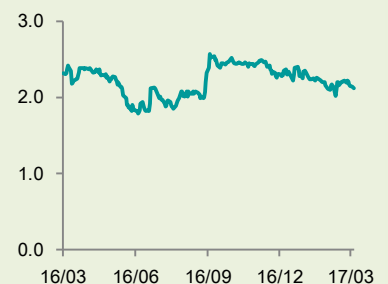
Share Performance

	Absolute	Relative*
1-mth	0.5	(1.0)
3-mth	(7.7)	(15.4)
6-mth	(14.2)	(16.8)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: LVGEM's FY16 results

P&L	FY16	FY15	YoY
	RMBmn	RMBmn	(%)
Turnover	4,590	1,210	279.3
Cost of Sales	(2,294)	(575)	299.1
Gross Profit	2,296	635	261.3
Gross Margin (%)	50.0	52.5	(2.5ppt)
Selling and distribution costs	(58)	(57)	3.2
Administrative expense	(349)	(259)	34.8
EBIT	1,889	320	490.1
EBIT Margin (%)	41.2	26.4	+14.7 ppt
Other income	42	61	(31.1)
Fair Value gains on IP and others	329	473	na
Share of profit from JCE/ Assoc.	(0)	(0)	(70.0)
Finance cost	(407)	(263)	54.6
Profit before tax	1,853	591	213.6
Tax	(1,045)	(166)	527.5
- LAT	(695)	(50)	1,278.7
- Enterprise tax	(350)	(116)	201.4
Profit after tax	809	425	90.5
Minority Interest	(6)	(7)	(6.4)
Net profit	802	418	92.0
Core net profit	604	58	942.1
Core net margin	13.2	4.8	+8.4 ppt
Core basic EPS (RMB)	0.129	0.012	942%
DPS (RMB)	0.050	0.010	400%
Payout (%)	35%	70%	(36ppt)

Operating statistics	FY16	FY15	YoY
			%
Contracted Sales (RMB mn)	827	3,146	(73.7)
Property sales booked (RMB mn)	3,956	576	586.9
Balance sheet	Dec-16	Dec-15	YoY chg
	RMBmn	RMBmn	ppt
Gross debt	11,976	8,234	45.5
Cash	4,531	2,768	63.7
Net debt	7,445	5,466	36.2
Net gearing (%)	80.9%	68.6%	+12.4ppt
Revenue breakdown	FY16	FY15	YoY Chg
	RMBmn	RMBmn	%
- Property Sales	3,956	576	587.0
- Property leasing	430	413	4.3
- Comprehensive services	204	222	(8.2)
Total	4,590	1,210	279.3
Gross margin	FY16	FY15	YoY Chg
	%	%	ppt
- Property Sales	47.0%	31.4%	15.6%
- Property leasing	85.3%	85.4%	-0.1%
- Comprehensive services	34.3%	45.9%	-11.6%
Total	50.0%	52.5%	-2.5%

Source(s): Company, ABCI Securities



Exhibit 2: LVGEM's 2017E NAV

	Attr. GFA	Net assets value		Valuation	Implied value per sqm (RMB)
	(mn sqm)	(RMB mn)	% of total	Method	
Shenzhen	1.5	15,123	38%	DCF with WACC of 9.9%	10,045
Maoming	2.5	3,170	8%		1,276
Others	0.2	726	2%		3,578
HK	0.0	436	1%	Book value	24,370
Property development	4.2	19,456	48%		4,640
Property investment & management	0.25	19,910	50%	3% cap rate of 2017E rental income	80,693
Comprehensive services		764	2%	10x 2017E PE	
Total 2017E GAV		40,130	100%		
Convertible preference share		(5,959)	-15%		
2017E Net cash/ (debt)		(7,614)	-19%		
Total 2017E NAV		26,557	66%		
No. of share outstanding		4,694			
NAV per share (RMB)		5.66			
Ex rate		1.12			
NAV per share (HKD)		6.34			
Target discount (%)		60%			
Target Price (HKD)		2.50			

WACC	9.9%
Cost of debt	6.0%
Cost of equity	18.0%
Debt/ (Debt + Equity)	65%

Source(s): Company, ABCI Securities estimates

Exhibit 3: NAV change assuming all convertible preference shares/CB are converted

	RMB mn
Total 2017E NAV	26,557
Add: Book value of convertible preference share	5,959
Add: Book value of convertible bond (USD100mn)	680
Adjusted 2017E NAV	33,195
Full dilution (no. of shares in millions)	8,388
- outstanding shares	4,694
- convertible preference share	3,413
- convertible bond	281
NAV per share- assuming full conversion (RMB)	3.96
NAV per share- assuming no conversion (RMB)	5.66
Change	-30%

Source(s): Company, ABCI Securities estimates



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	4,851	1,210	4,590	5,504	6,906	10,633
Cost of sales	(2,493)	(575)	(2,294)	(2,743)	(3,723)	(5,603)
Gross Profit	2,357	635	2,296	2,761	3,182	5,030
SG&A expenses	(193)	(315)	(407)	(754)	(891)	(1,202)
EBIT	2,165	320	1,889	2,007	2,291	3,828
Finance cost	(217)	(263)	(407)	(492)	(662)	(832)
Share of profit of associates	(0)	(0)	(0)	-	-	-
Other income/ (expenses)	19	61	42	69	110	120
Fair value gain of investment properties	895	-	-	-	-	-
Disposal/one-off items	-	473	329	-	-	-
Profit before tax	2,861	591	1,853	1,584	1,739	3,116
Tax	(1,132)	(166)	(1,045)	(826)	(916)	(1,593)
Profit after tax	1,729	425	809	758	823	1,523
Minority interest	(0)	(7)	(6)	(7)	(14)	(95)
Reported net profit	1,728	418	802	751	810	1,428
<i>Less: exceptional items</i>	(528)	(360)	(198)	(0)	0	(0)
Underlying net profit	1,200	58	604	751	810	1,428
Per share						
Core EPS (RMB)	0.26	0.01	0.07	0.09	0.10	0.17
DPS (HK\$)	-	0.01	0.05	0.06	0.07	0.12
Payout ratio (%)	0%	140%	67%	70%	70%	70%
BVPS (RMB)	1.48	0.97	1.10	1.10	1.12	1.18
Growth %						
Revenue	146.2%	-75.0%	279.3%	19.9%	25.5%	54.0%
Gross Profit	191.1%	-73.0%	261.3%	20.3%	15.3%	58.1%
EBIT	253.3%	-85.2%	490.1%	6.3%	14.1%	67.1%
Underlying net profit	339.6%	-95.2%	942.1%	24.3%	7.8%	76.4%
Margin %						
Gross margin	48.6%	52.5%	50.0%	50.2%	46.1%	47.3%
Gross margin (post-LAT)	35.4%	22.2%	29.4%	33.6%	30.6%	32.7%
EBIT margin	44.6%	26.4%	41.2%	36.5%	33.2%	36.0%
Core net margin	21.8%	5.8%	12.2%	13.8%	11.9%	14.3%
Key assumptions						
Contracted Sales (RMB mn)		3,410	827	4,871	6,292	10,413
GFA sold (mn sqm)		0.21	0.18	0.35	0.69	0.87
ASP (RMB/sqm)		16,621	4,482	13,821	9,062	11,967
Booked Sales (RMB mn)		576	3,956	4,689	6,001	9,671
GFA delivered (mn sqm)		0.08	0.15	0.33	0.63	0.82
Booked ASP (RMB/sqm)		6,856	26,376	14,318	9,533	11,763

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	7,879	10,385	11,525	16,860	22,326	28,511
Cash	1,099	1,515	2,792	7,608	10,996	9,609
Restricted cash	742	1,253	1,739	1,739	1,739	1,739
Trade & other receivables	825	2,124	1,451	1,451	1,451	1,451
Property under development	4,932	5,403	5,533	6,052	8,130	15,702
Other current assets	280	90	9	9	9	9
Non-current assets	12,630	13,607	14,399	14,479	14,559	14,639
Property, plant & equipment	392	333	294	274	254	234
Investment properties	11,143	11,973	12,227	12,227	12,227	12,227
Investment in Associate and JCE	522	525	528	628	728	828
Other non-current assets	573	775	1,350	1,350	1,350	1,350
Total Assets	20,509	23,992	25,925	31,339	36,885	43,150
Current Liabilities	5,065	7,193	5,816	10,999	16,289	22,031
Short term borrowings	1,762	1,676	3,580	8,580	13,580	18,580
Trade & other payables	1,861	1,102	921	921	921	921
Pre-sales deposits	679	3,627	100	282	572	1,314
Other current liabilities	762	788	1,215	1,215	1,215	1,215
Non-current liabilities	8,464	8,825	10,910	10,910	10,910	10,910
Long term borrowings	6,254	6,558	8,396	8,396	8,396	8,396
Other payables	-	-	-	-	-	-
Other non-current liabilities	2,210	2,268	2,514	2,514	2,514	2,514
Total Liabilities	13,529	16,019	16,727	21,909	27,199	32,941
Net Assets	6,980	7,973	9,198	9,430	9,686	10,209
Shareholders' Equity	6,954	1,982	3,066	3,291	3,533	3,961
Convertible preference share	-	5,860	5,860	5,860	5,860	5,860
Minority Interest	26	92	233	240	254	349
Total Equity	6,980	7,934	9,159	9,391	9,647	10,170
Key ratio						
Gross debt (RMB mn)	8,016	8,234	11,976	16,976	21,976	26,976
Net debt (RMB mn)	6,175	5,466	7,445	7,629	9,242	15,628
Net gearing (%)	88%	69%	81%	81%	95%	153%
Contracted sales/ Total assets (x)	0%	14%	3%	16%	17%	24%

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	2,213	373	1,929	2,047	2,331	3,868
Change in Working Capital	(2,774)	195	(2,926)	402	(795)	(5,582)
Tax payment	(219)	(166)	(1,045)	(826)	(916)	(1,593)
Operating cash flow	(780)	401	(2,042)	1,623	620	(3,306)
Purchase of PP&E	(20)	(20)	(20)	(20)	(20)	(20)
Addition of Investment Properties	(510)	-	-	-	-	-
Others	(161)	(39)	(58)	(31)	10	20
Investing cash flow	(691)	(59)	(78)	(51)	(10)	0
Debt raised	4,390	10,000	10,000	10,000	10,000	10,000
Debt repaid	(1,867)	(9,251)	(5,571)	(5,000)	(5,000)	(5,000)
Interest expenses	(606)	(594)	(624)	(1,230)	(1,655)	(2,080)
Equity raised	-	-	-	-	-	-
Dividend to shareholders	-	(81)	(407)	(526)	(567)	(1,000)
Others	0	-	-	(0)	(0)	0
Financing cash flow	1,917	74	3,398	3,243	2,777	1,919
Net cash inflow/ (outflow)	447	415	1,278	4,816	3,387	(1,387)
Cash- beginning	653	1,099	1,515	2,792	7,608	10,996
Cash- year-end	1,099	1,515	2,792	7,608	10,996	9,609

Source(s): Company, ABCI Securities estimates

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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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