

LVGEM (China) Real Estate Investment Company Limited

Solid Execution on Highly Profitable Urban Redevelopment Land Bank

LVGEM announced a solid set of 2019 results with core net profit 26% higher than our estimate. We believe the developer is on track to a 41% 2020E net profit growth with the sales from Shenzhen Urban Redevelopment projects Mangrove Bay No.1 and Meijing Plaza being the key earnings driver for 2020E.

RMB15bn sellable resources in GBA Urban Redevelopment Projects

LVGEM reported a solid set of 2019 results with core net profit beating our estimate by 26%. In 2020, the developer has RMB15bn of sellable resources across Shenzhen and Zhuhai. Of which, we estimate that Mangrove Bay No. 1 and Meijing Plaza in Shenzhen will achieve an aggregate contracted sales of approx. RMB6bn, which will be recognized straight into 2020E revenues. We have lowered our 2020E-2021E net profit estimates by 8% and 15% respectively to reflect the latest project completion schedule, as some revenue recognition have been brought forward into 2019.

2019 core net profit 26% above our estimates

LVGEM's results were stronger than our expectations on higher than expected sales from the completed Mangrove Bay No. 1 project during 2019. Excl. revaluation gains from Investment Properties, we calculate that the 2019 core net profit of LVGEM to be at RMB1,236m (up 43% YoY), which is 26% above our estimate. 2019 revenue rose 53% YoY to RMB6,902m, thanks to solid sales (RMB4.4bn) achieved at Mangrove Bay No. 1 which contributed to ~65% of 2019 revenues. 2019 GP Margins remain at 64%, above industry average, underpinned by urban redevelopment projects.

Baishizhou – Target to complete Ph 1 relocation contracts in 3Q20

The signing of relocation contracts for Ph 1 of the project are ongoing, and the developer targets to complete the Ph 1 process in 3Q20. The project is primarily located at the heart of Shenzhen in Nanshan District and has a total GFA of 3.58m sqm, of which 1.8m sqm are sellable/leasable GFA after excl. resettlement area. The developer will acquire the remaining 75% stake from the controlling shareholder in due course, depending on market conditions and project development progress. This project will take over the baton as the key growth driver of the company from 2022 onwards.

Net gearing rose in 2H19 to 135%, while HK NEO faces challenges

Balance sheet has softened from 1H19 levels, with net debt to equity rising to 135% (1H19: 121%). This is mainly attrib. to the acquisition of Zhuhai Dongqiao project. LVGEM's HK NEO occupancy rate remained at 50%, similar to 1H19 levels. We believe management faces an uphill task to ramp up the occupancy rates and rental income from HK NEO, considering the slowdown in macroeconomy amid the COVID-19 pandemic.

We have trimmed our TP by 8% to HK\$2.72 to reflect rising macro risks

We have trimmed our TP to HK\$2.72/sh (from HK\$3.0/sh) to reflect the rising macro risks amid the COVID-19 outbreak. Our TP is based on a 7.0x target 2020E P/E. Key risks to the stock include (1) Dilution overhang from the conversion of the controlling shareholders' preference shares; (2) Revaluation loss to HK NEO may put further pressure on balance sheet; and (3) Higher than expected acquisition cost of the remaining 75% of Baishizhou project, and potential dilution if equity issuance is required.

Stock code:0095.HK

Rating: Hold

| | |
|-----------------------------------|-------------|
| Price target (HK\$) | 2.72 |
| Previous price target (HK\$) | 3.00 |
| Current price (HK\$, 30 Mar 2020) | 2.32 |
| Upside/downside % | 17% |
| Market cap (HK\$ m) | 11,560 |
| Market cap (US\$ m) | 1,492 |
| Avg daily turnover (US\$ m) | 2.07 |

Source: Bloomberg, AMTD Equity Research

Key forecasts

| (RMB m) | 2019 | 2020e | 2021e | 2022e |
|-----------------|--------|--------|--------|--------|
| Revenue | 6,902 | 8,066 | 10,954 | 12,326 |
| yoy % | 52.9% | 16.9% | 35.8% | 12.5% |
| Core Net Profit | 1,236 | 1,745 | 1,825 | 2,614 |
| yoy % | 43.2% | 41.2% | 4.5% | 43.2% |
| Gross margin | 64.2% | 66.9% | 52.4% | 58.2% |
| Net gearing | 135.2% | 129.7% | 126.8% | 132.8% |
| Core EPS | 0.25 | 0.35 | 0.37 | 0.52 |
| Diluted EPS | 0.14 | 0.20 | 0.21 | 0.31 |
| DPS | 0.06 | 0.08 | 0.08 | 0.12 |
| Diluted DPS | 0.03 | 0.05 | 0.05 | 0.07 |
| BPS | 2.59 | 2.87 | 3.15 | 3.56 |

Source: Company data, AMTD Equity Research

Valuation

| | 2019 | 2020e | 2021e | 2022e |
|------------|------|-------|-------|-------|
| P/E | 8.4 | 6.0 | 5.7 | 4.0 |
| P/BV | 0.80 | 0.73 | 0.66 | 0.59 |
| Div. yield | 2.7% | 3.7% | 3.9% | 5.6% |
| ROE | 9.6% | 12.2% | 11.6% | 14.7% |
| ROA | 2.5% | 3.4% | 3.2% | 4.5% |

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: LVGEM Financial Forecasts and key ratios

| PnL, RMB mn | 2018 | 2019 | 2020e | 2021e | 2022e | Balance Sheet, RMB mn | 2018 | 2019 | 2020e | 2021e | 2022e |
|--|----------------|----------------|--------------|--------------|----------------|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 4,516 | 6,902 | 8,066 | 10,954 | 12,326 | Investment Properties | 22,117 | 23,568 | 23,568 | 23,568 | 23,568 |
| COGS | (1,830) | (2,472) | (2,672) | (5,219) | (5,154) | Interest in JV/Asso | 522 | 522 | 522 | 522 | 522 |
| Gross Profit | 2,686 | 4,430 | 5,393 | 5,735 | 7,172 | PP&E and Others | 1,532 | 2,370 | 2,370 | 2,370 | 2,370 |
| | | | | | | Non-current assets | 24,171 | 26,460 | 26,460 | 26,460 | 26,460 |
| Selling and marketing exp | (133) | (134) | (157) | (213) | (239) | PUD & Held for Sale | 10,710 | 10,633 | 12,633 | 16,719 | 19,513 |
| General and admin exp | (390) | (461) | (539) | (732) | (824) | Deposits and prepayments | 890 | 3,231 | 3,231 | 3,231 | 3,231 |
| Share of results of JV & Asso | (0) | (0) | (0) | (0) | (0) | Cash & Cash Equivalents | 3,674 | 5,543 | 5,217 | 6,821 | 6,156 |
| Reval Gains from Inv Prop | 323 | (20) | - | - | - | Others | 3,967 | 2,870 | 2,870 | 2,870 | 2,870 |
| Others | 327 | 809 | 131 | 178 | 201 | Current assets | 19,241 | 22,277 | 23,950 | 29,640 | 31,769 |
| Net Finance costs | (658) | (1,256) | (812) | (922) | (1,032) | | | | | | |
| Profit before tax | 2,156 | 3,367 | 4,017 | 4,046 | 5,277 | Total Assets | 43,412 | 48,736 | 50,410 | 56,099 | 58,229 |
| Income tax expense | (925) | (1,617) | (2,262) | (2,211) | (2,649) | Contract Liabilities | 2,268 | 2,505 | 1,653 | 2,916 | - |
| Net profit | 1,230 | 1,750 | 1,755 | 1,835 | 2,628 | Bank and Other Borrowings | 5,824 | 11,049 | 11,049 | 11,049 | 11,049 |
| Shareholders' Profit | 1,237 | 1,740 | 1,745 | 1,825 | 2,614 | Trade and Other Payables | 1,384 | 1,112 | 1,112 | 1,112 | 1,112 |
| Minority Interest | (7) | 10 | 10 | 10 | 14 | Others | 2,214 | 3,095 | 3,095 | 3,095 | 3,095 |
| Shareholders' Core Net Profit | 863 | 1,236 | 1,745 | 1,825 | 2,614 | Current liabilities | 11,690 | 17,761 | 16,909 | 18,171 | 15,255 |
| | | | | | | Bank and Other Borrowings | 17,500 | 15,150 | 16,309 | 19,309 | 22,309 |
| Dividends | 234 | 276 | 389 | 407 | 583 | Others | 2,783 | 2,791 | 2,791 | 2,791 | 2,791 |
| EPS - Basic (RMB) | 0.25 | 0.35 | 0.35 | 0.37 | 0.52 | Non-current liabilities | 20,283 | 17,941 | 19,100 | 22,100 | 25,100 |
| Core EPS - Basic (RMB) | 0.18 | 0.25 | 0.35 | 0.37 | 0.52 | Capital and reserves | 11,331 | 12,928 | 14,284 | 15,701 | 17,732 |
| Core EPS - Diluted (RMB) | 0.10 | 0.14 | 0.20 | 0.21 | 0.31 | Shareholders' equity | 11,331 | 12,928 | 14,284 | 15,701 | 17,732 |
| DPS - basic (RMB) | 0.05 | 0.06 | 0.08 | 0.08 | 0.12 | Non-controlling interests & Perp | 107 | 107 | 117 | 127 | 141 |
| DPS - Diluted (RMB) | 0.03 | 0.03 | 0.05 | 0.05 | 0.07 | Total equity | 11,439 | 13,035 | 14,400 | 15,828 | 17,873 |
| BV per share (RMB) | 2.31 | 2.59 | 2.87 | 3.15 | 3.56 | | | | | | |
| | | | | | | Total Liabilities and Equity | 43,412 | 48,736 | 50,410 | 56,099 | 58,229 |
| | | | | | | | | | | | |
| Cash Flow Statement, RMB mn | 2018 | 2019 | 2020e | 2021e | 2022e | Key Ratios, RMB mn | 2018 | 2019 | 2020e | 2021e | 2022e |
| Profit Before Tax | 2,156 | 3,367 | 4,017 | 4,046 | 5,277 | GP Margins | 59% | 64% | 67% | 52% | 58% |
| Operating CF before Working Cap | 2,308 | 4,623 | 4,829 | 4,968 | 6,309 | Net Margins | 27% | 25% | 22% | 17% | 21% |
| PUD | (1,381) | 77 | (2,000) | (4,086) | (2,794) | Core Attri Net Margins | 19% | 18% | 22% | 17% | 21% |
| Deposits & Prepayments | (1,194) | - | - | - | - | ROE | 8% | 10% | 12% | 12% | 15% |
| Trade & Other Payables | 783 | (272) | - | - | - | ROA | 2% | 3% | 3% | 3% | 4% |
| Increase in contract liabilities | 2,268 | 237 | (852) | 1,262 | (2,916) | Net Debt / Total Equity | 138% | 135% | 133% | 130% | 135% |
| Others | (29) | (1,617) | (2,262) | (2,211) | (2,649) | Net Debt / Shareholders' Equity | 139% | 136% | 134% | 131% | 136% |
| Net Operating Cashflows | 2,756 | 3,048 | (284) | (67) | (2,049) | Total Assets / Total Equity | 380% | 374% | 350% | 354% | 326% |
| | | | | | | Total Assets / Shareholders' Equity | 383% | 377% | 353% | 357% | 328% |
| Net Investing Cashflows | (6,419) | (2,079) | - | - | - | Asset Turnover (Contracted Sales) | 5% | 10% | 15% | 19% | 0% |
| Bank & Other Borrowings | (4,995) | 2,914 | 1,160 | 3,000 | 3,000 | | | | | | |
| Others | 8,534 | (1,572) | (1,201) | (1,329) | (1,615) | | | | | | |
| Net Financing Cashflows | 3,539 | 1,342 | (42) | 1,671 | 1,385 | | | | | | |
| | | | | | | | | | | | |
| Net Cash Flows | (124) | 2,311 | (326) | 1,604 | (665) | | | | | | |

Source: Company Data, AMTD Research, E=AMTD Research Estimates

Figure 2: LVGEM 2019 Results Summary

| FY19 Results (RMB '000) | FY19A | FY18A | YoY | FY19E | Diff |
|--|------------------|------------------|-------|------------------|------|
| Sale of properties | 5,962,446 | 3,664,328 | 63% | 3,503,512 | 70% |
| Rental income | 618,674 | 543,176 | 14% | 651,811 | -5% |
| Other Revenues | 321,328 | 308,181 | 4% | 369,817 | -13% |
| Total Revenue | 6,902,448 | 4,515,685 | 53% | 4,525,140 | 53% |
| Cost of sales | (2,472,093) | (1,829,515) | 35% | (1,368,915) | 81% |
| Gross profit | 4,430,355 | 2,686,170 | 65% | 3,156,225 | 40% |
| Other income, other gains and losses | 112,292 | 155,095 | -28% | 155,420 | -28% |
| Selling expenses | (134,059) | (132,982) | 1% | (133,260) | 1% |
| Administrative expenses | (461,498) | (390,433) | 18% | (391,250) | 18% |
| Fair value changes on investment properties | 696,378 | 323,461 | 115% | - | N/A |
| Fair value changes on derivative financial instrum | (20,170) | 172,192 | -112% | - | N/A |
| Share of results of a joint venture | (2) | (8) | -75% | (8) | -75% |
| Finance costs | (1,256,165) | (657,995) | 91% | (738,661) | 70% |
| Profit before tax | 3,367,131 | 2,155,500 | 56% | 2,048,465 | 64% |
| Income tax expense | (1,617,168) | (925,097) | 75% | (1,059,415) | 53% |
| Net profit | 1,749,963 | 1,230,403 | 42% | 989,050 | 77% |
| Owners of the Company | 1,749,884 | 1,237,167 | 41% | 983,613 | 78% |
| Non-controlling interests | 79 | (6,764) | -101% | 5,437 | -99% |
| Core Net Profit (AMTD adjusted) | 1,235,975 | 863,384 | 43% | 983,613 | 26% |
| Key Ratios | | | | | |
| GP Margins | 64.2% | 59.5% | | 69.7% | |
| Core Net Margins | 17.9% | 19.1% | | 21.7% | |
| | FY19A | 1HFY19 | | FY19E | |
| Net Debt to Equity | 135% | 121% | | 124% | |
| Total Assets to Total Equity | 374% | 382% | | 388% | |

Source: Company Data, AMTD Research, E=AMTD Research Estimates

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AMTD Investment Ratings**Stock Rating**

| | |
|-------------|---|
| Buy | Stock with potential return of over 20% over the next 12 months |
| Hold | Stock with potential return of -20% to +20% over the next 12 months |
| Sell | Stock with potential loss of over 20% over the next 12 months |

Analyst Certification

We, Jacky Chan and Karen Huang, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

Firm Disclosure

AMTD Global Markets Limited has an investment banking relationship with LVGEM and/or their affiliate(s) within the past 12 months.

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