

# LVGEM (China) Real Estate Investment Company Limited

## All Eyes On Baishizhou 2H20 Potential Asset Injection

While LVGEM's 1H20 results were blighted by the lack of project completions, we believe market's attention will be focused on the potential 2H20 asset injection of Baishizhou Urban Renewal Project's remaining 75% stake. We believe the stock is currently fairly valued at 7.7x 2020E P/E, while the asset injection will be a key 2H20 swing.

**Transaction value and financing terms of Baishizhou will be key swing**  
LVGEM's 1H20 results were blighted by the lack of project completions, which resulted in a 28% YoY decline in revenues, and a 54% YoY decline in core net profit. This should be expected for LVGEM's high profit margins Urban Renewal Development focused business model, in our view. We believe market's focus will instead be on the potential asset injection of the remaining stake in Baishizhou Urban Renewal Project, which is expected to take place during 2H20 as per company announcement. We believe the transactional valuation and financing terms is market's key focus, and will be a key swing to the stock, in our view.

**The Baishizhou Project will transform LVGEM's land bank and growth**  
LVGEM currently owns 25% of the Baishizhou Urban Renewal Project which is primarily located at the heart of Shenzhen in Nanshan District and has a total GFA of 3.58m sqm. 1.8m sqm of the project are sellable/leasable GFA after excl. resettlement area. Assuming an ASP of RMB120,000/sqm, and we estimate the sellable GFA at ~1.35m sqm (excl. commercial portion held for lease), the total sellable resources would reach ~RMB162bn, in our view. This project will take over the baton as the key contracted sales growth driver of the company from 2022 onwards for the following 8-10 years.

**1H20 revenue and core earnings decline amid lack of project delivery**  
LVGEM's 1H20 revenue declined by 28% YoY to RMB2.46bn, while core net profit declined 54% YoY to RMB262m mainly due to the lack of project delivery and sales of completed properties during the period. The developer only recognized ~RMB2bn sales from four key projects, Mangrove Bay No. 1, Amazing Plaza, International Garden and Suzhou NEO. GP Margins remained stable at 65% (1H19: 70%), while core net margins dropped to 10.6% (1H19: 16.6%) amid the lower other income and lower interest capitalization rate. Net Debt to Equity edged up slightly to 147.7% (2H19: 135.3%) amid the revaluation loss in investment properties.

### RMB16bn of sellable resources available from 2H20 to 2022

The developer has RMB16bn of sellable resources mostly across Shenzhen, Zhuhai, Huazhou and Suzhou from 2H20 through to 2022. Of which, we estimate that Mangrove Bay No. 1 and Meijing Plaza in Shenzhen will achieve an aggregate contracted sales of approx. RMB4bn, which will mostly be available to be recognized straight into 2020E revenues.

### Stock fairly valued at 7.7x 2020E P/E, maintain Hold

We believe the stock is currently fairly valued at 7.7x 2020E P/E, considering the potential 2H20 catalyst from Baishizhou asset injection, balanced with the development risks involved.

Stock code: 0095.HK

Rating: Hold

<b>Price target (HK\$)</b>	<b>2.58</b>
Current price (HK\$, 21 Aug 2020)	2.85
Upside/downside %	-9%
Market cap (HK\$ m)	14,512
Market cap (US\$ m)	1,873
Avg daily turnover (US\$m)	1.71

Source: Bloomberg, AMTD Equity Research

### Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	6,902	7,894	10,747	12,079
yoy %	52.9%	14.4%	36.1%	12.4%
Gross Profit	4,430	5,325	5,653	7,073
yoy %	64.9%	20.2%	6.2%	25.1%
Core Net Profit	1,236	1,655	1,722	2,506
yoy %	43.2%	33.9%	4.1%	45.6%
Gross margin	64.2%	67.5%	52.6%	58.6%
Net gearing	135.3%	133.9%	131.8%	138.4%
EPS	0.25	0.33	0.35	0.50
DPS	0.06	0.07	0.08	0.11
BPS	2.59	2.85	3.12	3.51

Source: Company data, AMTD Equity Research

### Valuation

	2019	2020e	2021e	2022e
P/E	10.3	7.7	7.4	5.1
P/BV	1.0	0.9	0.8	0.7
Div. yield	2.2%	2.9%	3.0%	4.4%
ROE	9.6%	11.6%	11.1%	14.3%
ROA	2.5%	3.1%	2.9%	4.1%

Source: Bloomberg, AMTD Equity Research

### Share price performance



Source: Bloomberg

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Figure 1: LVGEM 1H20 Results Summary

1H FY20 Results (RMB '000)	1H FY20A	FY20E	1H20/20E	1H FY19A	YoY/Chg
Sale of properties	2,030,652	6,937,772	29%	2,988,335	-32%
Rental income	317,355	618,674	51%	302,279	5%
Other Revenues	114,199	337,394	34%	131,470	-13%
<b>Total Revenue</b>	<b>2,462,206</b>	<b>7,893,840</b>	<b>31%</b>	<b>3,422,084</b>	<b>-28%</b>
Cost of sales	(859,214)	(2,569,232)	33%	(1,013,800)	-15%
<b>Gross profit</b>	<b>1,602,992</b>	<b>5,324,608</b>	<b>30%</b>	<b>2,408,284</b>	<b>-33%</b>
Other income, other gains and losses	(52,527)	128,420	-41%	86,424	-161%
Selling expenses	(26,862)	(153,314)	18%	(51,179)	-48%
Administrative expenses	(198,573)	(527,783)	38%	(161,296)	23%
Fair value changes on investment properties	(174,081)	-	N/A	479,228	-136%
Fair value changes on derivative financial instruments	53,849	-	N/A	(47,160)	-214%
Share of results of a joint venture	-	(14)	0%	-	N/A
Finance costs	(686,243)	(909,966)	75%	(490,069)	40%
<b>Profit before tax</b>	<b>518,555</b>	<b>3,861,952</b>	<b>13%</b>	<b>2,224,232</b>	<b>-77%</b>
Income tax expense	(480,196)	(2,198,054)	22%	(1,232,555)	-61%
<b>Net profit</b>	<b>38,359</b>	<b>1,663,898</b>	<b>2%</b>	<b>991,677</b>	<b>-96%</b>
Owners of the Company	37,556	1,654,751	2%	991,860	-96%
Non-controlling interests	803	9,147	9%	(183)	-539%
<b>Core Net Profit</b>	<b>262,000</b>	<b>1,654,751</b>	<b>16%</b>	<b>569,000</b>	<b>-54%</b>
<b>Key Ratios</b>					
GP Margins	65.1%	67.5%		70.4%	-5.3ppt
Core Net Margins	10.6%	21.0%		16.6%	-6.0ppt
	<b>1H FY20A</b>	<b>FY20E</b>		<b>FY19A</b>	<b>YoY/Chg</b>
Net Debt to Equity	147.7%	133.9%		135.3%	12.4ppt
Total Assets to Total Equity	4.1x	3.7x		3.7x	0.3x

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

Figure 2: China Property Developers: Peers Valuation comparison

Date	21/8/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19
<b>China Property Developers</b>										
2202 HK	Vanke	25.70	44,732	6.8x	6.1x	5.5x	1.4x	1.2x	1.0x	4.6%
688 HK	COLI	23.25	32,867	5.6x	6.0x	5.2x	0.8x	0.8x	0.7x	4.5%
3333 HK	Evergrande	19.20	32,357	13.4x	7.2x	6.0x	1.6x	1.4x	1.2x	3.9%
1109 HK	CR Land	34.75	31,974	7.7x	9.1x	7.9x	1.3x	1.2x	1.1x	3.5%
960 HK	Longfor	39.30	30,417	13.5x	11.1x	9.3x	2.3x	2.0x	1.7x	3.5%
2007 HK	Country Garden	10.32	29,342	5.1x	4.4x	3.9x	1.3x	1.1x	0.9x	6.3%
1918 HK	Sunac	35.45	21,321	6.8x	4.8x	4.0x	1.7x	1.3x	1.1x	3.9%
813 HK	Shimao	33.50	15,292	9.2x	8.2x	6.8x	1.5x	1.3x	1.2x	4.9%
3380 HK	Logan	14.84	10,569	7.4x	6.1x	5.1x	2.3x	1.8x	1.4x	6.3%
884 HK	CIFI	6.83	7,243	8.7x	5.9x	4.9x	1.6x	1.4x	1.1x	5.1%
1813 HK	KWG	15.32	6,282	4.9x	6.9x	5.6x	1.2x	1.1x	1.0x	5.5%
1030 HK	Seazen	7.67	6,146	6.1x	4.9x	4.3x	1.6x	1.3x	1.0x	4.6%
3383 HK	Agile	10.54	5,327	5.5x	4.6x	4.1x	0.8x	0.8x	0.7x	9.9%
2777 HK	R&F	9.55	4,307	2.9x	2.9x	2.5x	0.4x	0.4x	0.3x	15.2%
3883 HK	Aoyuan*	9.80	3,418	5.8x	3.8x	3.3x	1.6x	1.3x	1.0x	6.2%
3990 HK	Midea RE	20.55	3,263	5.7x	4.4x	3.5x	1.2x	1.0x	0.8x	8.8%
1238 HK	Powerlong*	6.06	3,239	8.3x	5.7x	4.6x	0.7x	0.7x	0.6x	6.8%
1638 HK	Kaisa	4.07	3,211	8.8x	4.3x	3.4x	0.9x	0.6x	0.5x	2.8%
1233 HK	Times	12.68	3,177	4.0x	3.6x	3.1x	1.2x	0.9x	0.8x	7.6%
3900 HK	Greentown	9.54	3,070	8.1x	7.8x	7.2x	0.7x	0.7x	0.6x	3.6%
123 HK	Yuexiu	1.51	3,017	5.7x	5.1x	4.3x	0.5x	0.5x	0.5x	6.8%
1628 HK	Yuzhou*	4.03	2,882	5.3x	5.1x	3.6x	0.9x	0.8x	0.7x	10.2%
6158 HK	Zhenro	5.04	2,840	7.9x	6.5x	5.1x	1.2x	1.1x	0.9x	2.3%
2772 HK	Zhongliang	5.46	2,523	4.2x	3.7x	3.0x	2.0x	1.4x	1.0x	18.1%
1966 HK	China SCE	4.28	2,321	5.3x	4.7x	3.8x	0.9x	0.8x	0.7x	5.6%
95 HK	Lvgem*	2.85	1,873	10.3x	7.7x	7.4x	1.0x	0.9x	0.8x	2.2%
3301 HK	Ronshine	7.17	1,575	3.5x	2.9x	2.4x	0.7x	0.6x	0.5x	5.1%
832 HK	CCRE*	3.80	1,377	4.8x	3.8x	2.7x	1.0x	0.9x	0.7x	12.4%
272 HK	Shui On Land	1.18	1,228	5.4x	NA	NA	0.2x	0.2x	NA	10.5%
119 HK	Poly Prop	2.55	1,205	2.8x	3.2x	2.7x	0.3x	0.3x	0.3x	8.2%
1996 HK	Redsun*	2.76	1,183	6.7x	4.8x	4.0x	0.6x	0.5x	0.5x	4.5%
2019 HK	Dexin China	3.12	1,087	4.7x	4.4x	3.6x	1.5x	NA	NA	2.9%
1098 HK	Roadking	10.66	1,031	2.7x	NA	NA	0.4x	NA	NA	11.1%
6111 HK	Dafa*	5.00	534	7.9x	7.4x	7.0x	1.1x	1.0x	0.9x	3.2%
230 HK	Minmetals*	0.97	419	3.9x	4.9x	3.6x	0.4x	0.3x	0.3x	8.2%
<b>Total/Average</b>			<b>322,646</b>	<b>6.4x</b>	<b>5.5x</b>	<b>4.6x</b>	<b>1.1x</b>	<b>0.9x</b>	<b>0.8x</b>	<b>6.5%</b>

Source: Bloomberg Estimates, \*AMTD Research Estimates for AMTD Coverage Stocks

Note: As of 21 Aug 2020

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<b>Buy</b>	Stock with potential return of over 20% over the next 12 months
<b>Hold</b>	Stock with potential return of -20% to +20% over the next 12 months
<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

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