

# LVGEM (China) Real Estate Investment Company Limited

## Latest Market Transaction Underpins HK NEO Asset Value

**Swire Properties' recent sale of Cityplaza One should lift investors' concerns over LVGEM's HK NEO valuation, in our view. We thus believe the stock should trade at a narrower disc. to NAV, while bond yield should also tighten. We maintain our Buy Rating with a HK\$5.0/sh target price.**

### Latest market transaction lifts concerns over HK NEO Valuation

Investors have been concerned with LVGEM's HK NEO valuation amid COVID-19, as it represents 10% of our estimated GAV. This is one of the reasons behind the stock trading at a depressed 80% disc. to NAV, in our view. The latest en-bloc sale of Swire's CityPlaza One at HK\$9.8bn implies a 2.36% net cap rate, which is in-line with our valuation assumptions for LVGEM's HK NEO and suggests that valuation for core assets in decentralized areas in HK remain intact. We believe this should ease some of investors' concerns on LVGEM and thus re-rate the stock to a narrower disc. to NAV. We believe that LVGEM's bond yield should also tighten, to reflect the asset quality on its balance sheet.

### Swire Properties' CityPlaza One office sold at HK\$9.8bn

Swire Properties (1972.HK, Non-Rated) has just announced the sale of its Cityplaza One office building at a valuation of HK\$9.85bn, which we calculate to imply a valuation based on a net cap rate of 2.36%. Cityplaza One office building is located in Island East, just across the harbor to LVGEM's HK NEO. Both properties (Cityplaza One and HK NEO) are located in major decentralized office hubs in Hong Kong, namely Island East and Kowloon East, and we thus believe are comparable.

### Kowloon East offices has proved resilient in post-COVID19 era

LVGEM's HK NEO was launched and opened by end-2019 and have now reached 50% occupancy rate by 1H20. The asset contributes to 10% of our estimated GAV. We believe that the decentralization of office spaces in Hong Kong has been gathering pace during the COVID-19 period as corporates seek to lower their fixed overhead rental costs. This has resulted in an increase in office take-up in the Kowloon East. We believe HK NEO's neighbouring building, International Trade Tower, owned by Mapletree, is already close to full occupancy, lowering the competition for HK NEO and will thus drive up occupancy rates. According to Savills Research, vacancy rates in Kowloon East has edged lower on a QoQ basis during 3Q20, while rentals in Kowloon East have been resilient (-0.3% QoQ), compared to a 5% QoQ rental decline in Central.

### Stock is trading at 80% Disc. to NAV, we maintain our HK\$5.0/sh TP

LVGEM is currently trading at a depressed 80% disc. to NAV. We maintain our HK\$5.0/sh target price, which is derived from a target disc. to NAV of 63%. We believe the stock's next catalyst will be dependent on further relocation and development progress of its Baishizhou project.

Stock code: 0095.HK

Rating: Buy

|                                  |             |
|----------------------------------|-------------|
| <b>Price target (HK\$)</b>       | <b>5.00</b> |
| Current price (HK\$, 9 Nov 2020) | 2.65        |
| Upside/downside %                | 89%         |
| Market cap (HK\$ m)              | 13,505      |
| Market cap (US\$ m)              | 1,742       |
| Avg daily turnover (US\$m)       | 1.53        |

Source: Bloomberg, AMTD 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% | 215.1% | 237.3% |
| 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   |

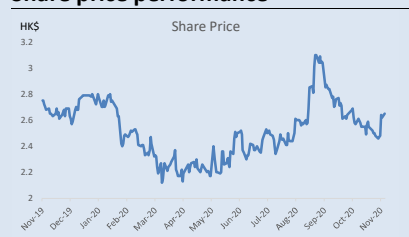
Source: Company data, AMTD Research

### Valuation

|            | 2019 | 2020e | 2021e | 2022e |
|------------|------|-------|-------|-------|
| P/E        | 9.6  | 7.2   | 6.9   | 4.7   |
| P/BV       | 0.9  | 0.8   | 0.8   | 0.7   |
| Div. yield | 2.3% | 3.1%  | 3.2%  | 4.7%  |
| ROE        | 9.6% | 11.6% | 11.1% | 14.3% |
| ROA        | 2.5% | 3.0%  | 2.6%  | 3.5%  |

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 1: China Property Developers: Peers Valuation comparison

| Date                             | 9/11/2020      | 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          | 27.20       | 50,015         | 7.2x        | 6.4x        | 5.7x        | 1.5x        | 1.3x        | 1.1x        | 4.4%        |
| 960 HK                           | Longfor        | 47.85       | 37,041         | 16.2x       | 13.4x       | 11.4x       | 2.7x        | 2.4x        | 2.1x        | 2.8%        |
| 1109 HK                          | CR Land        | 35.40       | 32,557         | 7.7x        | 9.2x        | 7.8x        | 1.3x        | 1.2x        | 1.1x        | 3.4%        |
| 2007 HK                          | Country Garden | 11.02       | 31,318         | 5.4x        | 5.0x        | 4.4x        | 1.4x        | 1.2x        | 1.0x        | 5.9%        |
| 3333 HK                          | Evergrande     | 16.84       | 28,943         | 11.6x       | 7.2x        | 6.2x        | 1.4x        | 1.2x        | 1.1x        | 4.4%        |
| 688 HK                           | COLI           | 20.25       | 28,611         | 4.8x        | 5.2x        | 4.6x        | 0.7x        | 0.7x        | 0.6x        | 5.2%        |
| 1918 HK                          | Sunac          | 31.75       | 19,087         | 6.0x        | 4.3x        | 3.7x        | 1.5x        | 1.2x        | 1.0x        | 4.4%        |
| 813 HK                           | Shimao         | 30.05       | 13,711         | 8.2x        | 7.3x        | 6.0x        | 1.3x        | 1.2x        | 1.0x        | 5.5%        |
| 3380 HK                          | Logan          | 12.78       | 9,098          | 6.3x        | 5.1x        | 4.2x        | 2.0x        | 1.5x        | 1.2x        | 7.4%        |
| 884 HK                           | CIFI           | 5.85        | 6,202          | 7.4x        | 5.1x        | 4.2x        | 1.4x        | 1.1x        | 0.9x        | 6.0%        |
| 3383 HK                          | Agile          | 11.56       | 5,840          | 6.0x        | 4.9x        | 4.5x        | 0.9x        | 0.8x        | 0.7x        | 9.0%        |
| 1030 HK                          | Seazen         | 6.55        | 5,246          | 5.1x        | 4.2x        | 3.6x        | 1.4x        | 1.1x        | 0.9x        | 5.4%        |
| 2777 HK                          | R&F            | 10.42       | 5,043          | 3.1x        | 3.3x        | 2.9x        | 0.4x        | 0.4x        | 0.4x        | 13.9%       |
| 1813 HK                          | KWG            | 11.58       | 4,746          | 3.6x        | 5.1x        | 4.1x        | 0.9x        | 0.8x        | 0.7x        | 7.2%        |
| 3900 HK                          | Greentown      | 13.72       | 4,413          | 11.6x       | 10.7x       | 9.7x        | 1.0x        | 1.0x        | 0.9x        | 2.5%        |
| 123 HK                           | Yuexiu         | 1.59        | 3,175          | 5.9x        | 5.3x        | 4.5x        | 0.5x        | 0.5x        | 0.5x        | 6.5%        |
| 1638 HK                          | Kaisa          | 3.82        | 3,021          | 8.1x        | 4.0x        | 3.1x        | 0.8x        | 0.7x        | 0.6x        | 3.0%        |
| 1238 HK                          | Powerlong*     | 5.56        | 2,970          | 7.5x        | 5.1x        | 4.1x        | 0.6x        | 0.6x        | 0.6x        | 7.4%        |
| 3883 HK                          | Aoyuan*        | 8.26        | 2,879          | 4.8x        | 3.1x        | 2.8x        | 1.3x        | 1.1x        | 0.9x        | 7.4%        |
| 1233 HK                          | Times          | 11.34       | 2,840          | 3.6x        | 3.3x        | 2.8x        | 1.0x        | 0.8x        | 0.7x        | 8.4%        |
| 3990 HK                          | Midea RE       | 17.88       | 2,838          | 4.9x        | 3.7x        | 3.0x        | 1.0x        | 0.8x        | 0.7x        | 10.2%       |
| 6158 HK                          | Zhenro         | 4.96        | 2,794          | 7.7x        | 6.4x        | 5.1x        | 1.2x        | 1.0x        | 0.9x        | 2.3%        |
| 2772 HK                          | Zhongliang     | 5.14        | 2,374          | 3.9x        | 3.6x        | 2.9x        | 1.9x        | 1.3x        | 1.0x        | 19.2%       |
| 1628 HK                          | Yuzhou*        | 3.20        | 2,290          | 4.1x        | 4.0x        | 2.8x        | 0.7x        | 0.6x        | 0.5x        | 12.9%       |
| 1966 HK                          | China SCE      | 3.48        | 1,895          | 4.3x        | 3.8x        | 3.1x        | 0.7x        | 0.6x        | 0.6x        | 6.9%        |
| 95 HK                            | Lvgem*         | 2.65        | 1,742          | 9.6x        | 7.2x        | 6.9x        | 0.9x        | 0.8x        | 0.8x        | 2.3%        |
| 832 HK                           | CCRE*          | 4.18        | 1,524          | 5.3x        | 4.1x        | 2.9x        | 1.1x        | 0.9x        | 0.8x        | 11.3%       |
| 1996 HK                          | Redsun*        | 2.90        | 1,242          | 6.9x        | 5.0x        | 4.2x        | 0.6x        | 0.6x        | 0.5x        | 4.3%        |
| 3301 HK                          | Ronshine       | 5.56        | 1,221          | 2.7x        | 3.0x        | 2.1x        | 0.5x        | 0.5x        | 0.4x        | 6.6%        |
| 272 HK                           | Shui On Land   | 1.09        | 1,133          | 4.9x        | NA          | NA          | 0.2x        | 0.2x        | NA          | 11.4%       |
| 119 HK                           | Poly Prop      | 2.39        | 1,129          | 2.6x        | 3.0x        | 2.5x        | 0.3x        | 0.2x        | 0.2x        | 8.7%        |
| 2019 HK                          | Dexin China    | 2.94        | 1,024          | 4.4x        | 4.1x        | 3.3x        | 1.4x        | NA          | NA          | 3.1%        |
| 1098 HK                          | Roadking       | 10.08       | 974            | 2.5x        | NA          | NA          | 0.4x        | NA          | NA          | 11.7%       |
| 6111 HK                          | Dafa*          | 6.79        | 725            | 10.6x       | 10.0x       | 9.4x        | 1.5x        | 1.3x        | 1.2x        | 2.4%        |
| 230 HK                           | Minmetals*     | 0.90        | 388            | 3.6x        | 4.6x        | 3.3x        | 0.3x        | 0.3x        | 0.3x        | 8.9%        |
| <b>Total/Average</b>             |                |             | <b>320,053</b> | <b>6.2x</b> | <b>5.4x</b> | <b>4.6x</b> | <b>1.1x</b> | <b>0.9x</b> | <b>0.8x</b> | <b>6.9%</b> |

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

Note: As of 9 Nov 2020

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**AMTD Investment Ratings****Stock Rating**

|             |   |
|-------------|---|
| <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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