

LVGEM (China) Real Estate Investment Company Limited

All Eyes on Baishizhou as Phase 1 Starts Construction

Baishizhou project has finally completed its Phase 1 contract signing and is due to start construction imminently. We believe this is encouraging progress and should alleviate some investors' concerns following the completion of its asset injection in Aug 2020. We see deep value in the stock at 85% Disc. to NAV. Maintain Buy.

Baishizhou Project makes significant progress, pre-sale by 2023E

LVGEM's Baishizhou project has made significant project, as they have recently completed the Phase 1 of its contract signing. As a result, we believe the project will start contributing to 2023E contracted sales, in-line with the original planning. Meanwhile, LVGEM's balance sheet has significantly improved as the injection of the Baishizhou project has enlarged its equity base, deleveraging its balance sheet in the process. We maintain our Buy rating as we see deep value in its stock, which is trading at 85% disc. to NAV. We believe there could be potential surprise for an earlier than expected pre-sales if the project meets pre-sale permit requirements ahead of schedule and this could be a potential catalyst to unlock the deep value.

2020 results hampered by lack of project launches

LVGEM's 2020 net profit came in at RMB3,453m, however, after we excluded the Gain on Disposal of Associate, we estimate that the core net profit to be at RMB613m down 50% YoY. Revenues were down 21% YoY to RMB5,425m. However, we are not concerned with the decline as this is only due to the lack of sales contribution from its trophy asset, Mangrove Bay No. 1, during the year. This project has close to RMB3bn of completed sellable resources readily available for sale and due to its prime location, we do not consider it as completed inventory due to strong demand for it.

Balance Sheet greatly enhanced, two out of Three-Red-Lines passed

The company's balance sheet has been greatly enhanced during the year thanks to the asset injection of Baishizhou which has enlarged the company's equity base by 114% YoY to RMB27.9bn. As a result net debt to equity has declined to 76.2% (2019: 135.3%), while Liabilities to Assets (Excl. Contract Liabilities) has declined to 61.8% (2019: 71.8%). Cash to Short Term Debt ratio is still at 0.86x (below 1.0x), but we believe this ratio is not as challenging a task to meet the regulatory target of the Three Red Lines.

Baishizhou: Potential surprise for earlier than expected pre-sales

While the current schedule for the pre-sales of Baishizhou is in 2023E, we believe there could be potential catalyst to the share price if the project meets pre-sale permit requirements ahead of schedule. Nonetheless, as the project starts construction, we expect the balance sheet to be under near term pressure once more up until the launch of the project's pre-sales. Phase 1 of the project has a total GFA of 675,780sqm. Projects in the neighbouring area are now fetching an ASP of RMB140,000-190,000/sqm, which has already risen from the ASP of RMB120,000sqm 1-2 years ago.

Key Risks: (1) Project delays in Baishizhou Project; (2) Dilution from the conversion of preferred shares; (3) lower than expected contracted sales achieved.

Stock code: 0095.HK

Rating: Buy

Price target (HK\$)	5.00
Current price (HK\$, 1 Apr 2021)	2.14
Upside/downside %	134%
Market cap (HK\$ m)	10,907
Market cap (US\$ m)	1,402
Avg daily turnover (US\$m)	1.42

Source: Bloomberg, AMTD Research

Key forecasts

(RMB m)	2019	2020	2021e	2022e
Revenue	6,902	5,425	10,747	12,079
yoy %	52.9%	-21.4%	98.1%	12.4%
Gross Profit	4,430	2,666	5,653	7,073
yoy %	64.9%	-39.8%	112.0%	25.1%
Core Net Profit	1,236	613	1,722	2,506
yoy %	43.2%	-50.4%	181.0%	45.6%
Gross margin	64.2%	49.1%	52.6%	58.6%
Net gearing	135.3%	76.2%	205.1%	231.5%
EPS	0.25	0.18	0.35	0.50
DPS	0.06	0.00	0.08	0.11
BPS	2.59	2.80	3.12	3.51

Source: Company data, AMTD Research

Valuation

	2019	2020	2021e	2022e
P/E	7.2	10.1	5.2	3.6
P/BV	0.7	0.6	0.6	0.5
Div. yield	3.1%	0.0%	4.3%	6.2%
ROE	9.6%	2.5%	11.1%	14.3%
ROA	2.5%	0.8%	2.6%	3.5%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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Figure 1: LVGEM FY20 Financial Summary					
FY20 Results (RMB '000)	FY20A	FY20E	Diff (%)	FY19A	YoY/Chg
Sale of properties	4,512,643	6,937,772	-35%	5,962,446	-24%
Rental income	620,167	618,674	0%	618,674	0%
Other Revenues	292,017	337,394	-13%	321,328	-9%
Total Revenue	5,424,827	7,893,840	-31%	6,902,448	-21%
Cost of sales	(2,759,122)	(2,569,232)	7%	(2,472,093)	12%
Gross profit	2,665,705	5,324,608	-50%	4,430,355	-40%
Other income, other gains and losses	3,931,008	128,420	2961%	112,292	3401%
Selling expenses	(127,165)	(153,314)	-17%	(134,059)	-5%
Administrative expenses	(474,547)	(527,783)	-10%	(461,498)	3%
Fair value changes on investment properties	(239,322)	-	N/A	696,378	-134%
Fair value changes on derivative financial instruments	93,506	-	N/A	(20,170)	-564%
Share of results of a joint venture	(2)	(14)	-86%	(2)	0%
Finance costs	(1,533,101)	(909,966)	68%	(1,256,165)	22%
Profit before tax	4,316,082	3,861,952	12%	3,367,131	28%
Income tax expense	(865,007)	(2,198,054)	-61%	(1,617,168)	-47%
Net profit	3,451,075	1,663,898	107%	1,749,963	97%
Owners of the Company	3,453,380	1,654,751	109%	1,749,884	97%
Non-controlling interests	(2,305)	9,147	-125%	79	-3018%
Core Net Profit (AMTD adjusted)	612,590	1,654,751	-63%	1,235,975	-50%
Key Ratios					
GP Margins	49.1%	67.5%		64.2%	-15.0ppt
Core Net Margins	11.3%	21.0%		17.9%	-6.6ppt
	FY20A	FY20E		FY19A	YoY/Chg
Net Debt to Equity	76.2%	122.9%		135.3%	-59.1ppt
Total Assets to Total Equity	2.7x	3.8x		3.7x	-1.1x

Source: Company Data, AMTD Research Estimates

IMPORTANT DISCLOSURES

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

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