

LVGEM (China) Real Estate Investment Company Limited

Making Progress on Baishizhou Project Phase 1

Construction for Phase 1 of the Baishizhou Project is well under way, in our view, after obtaining the necessary permits in July. We believe it is on track to launch the project for pre-sales by end-2022E/early-2023E. Meanwhile, the developer continues to sell its healthy inventory of prime property assets in the Greater Bay Area.

Baishizhou Project progressing well, construction has begun

LVGEM's Baishizhou Urban Renewal Project has been progressing well since it completed the contract signing for Phase 1 back in April, and with the developer obtaining the planning permit and construction permit in July, foundation works is now well under way. We believe the project is progressing according to plan and the project should begin pre-sales towards the end of 2022E and mostly in 2023E, in our view. We estimate such sales will be booked between 2023E-2024E, paving way for the start of a high-growth period for the developer. This includes the improvement of margins, balance sheet and debt structure. With the stock trading at 86% disc. to NAV, we maintain our Buy rating with the Target Price unchanged at HK\$4.90/sh.

1H21 results reflects the lack of property sales recognized

LVGEM's 1H21 revenues came in at RMB2,030mn, down 18% YoY, while its net profit rose 1,521% to RMB622mn. However, if we exclude the fair value gains on investment properties, we estimate a core net loss of RMB324mn during 1H21 amid the lack of property sales recognition causing an accounting mismatch between its revenue with its SG&A and finance costs. Its GP margin dropped 17.6ppt to 47.5% due to a different project mix during the period, but profitability still remains higher than industry average.

Mangrove Bay No.1 converted into investment property

We believe that much of the RMB1,249mn fair value gain on investment properties was due to the Mangrove Bay No.1 project, which was converted into an investment property. We believe this may result into a drag on LVGEM's balance sheet considering the average cost of financing at 1H21 was 6.5%, above the rental yield. However, we are not overly concerned as we believe management has taken into account the scarcity nature of the project's prime location. This asset will be able to be liquidated relatively easily should the developer require the liquidity any time.

Balance sheet remains solid, one Red Line to go

LVGEM maintained its solid balance sheet after last year's Baishizhou asset injection, with Net Gearing declining 70ppt YoY to 77.6% and Liability to Asset (excl. Contract Liabilities) dropping 12ppt YoY to 62.4%, putting it in the yellow camp as Cash to Short-term Borrowings dipped slightly to 0.8x (below the 1.0x threshold). We believe the company will be able to cross this line by 2023 as more urban renewal projects are complete, especially the Baishizhou project.

Key Risks: (1) Contracted sales lower than expected; and (2) Baishizhou Project construction slower than expected.

Stock code: 0095.HK

Rating: Buy

| Price target (HK\$) | 4.90 |
|-----------------------------------|-------|
| Current price (HK\$, 30 Aug 2021) | 1.84 |
| Upside/downside % | 166% |
| Market cap (HK\$ m) | 9,380 |
| Market cap (US\$ m) | 1,205 |
| Avg daily turnover (US\$m) | 0.89 |

Source: Bloomberg, AMTD Research

Key forecasts

| (RMB m) | 2020 | 2021e | 2022e | 2023e |
|-----------------|--------|--------|--------|--------|
| Revenue | 5,425 | 9,094 | 11,792 | 21,335 |
| yoy % | -21.4% | 67.6% | 29.7% | 80.9% |
| Gross Profit | 2,666 | 5,810 | 6,130 | 11,207 |
| yoy % | -39.8% | 117.9% | 5.5% | 82.8% |
| Core Net Profit | 613 | 1,757 | 1,814 | 3,520 |
| yoy % | -50.7% | 186.8% | 3.3% | 94.0% |
| Gross margin | 49.1% | 63.9% | 52.0% | 52.5% |
| Net gearing | 76.2% | 95.8% | 92.2% | 82.1% |
| EPS | 0.12 | 0.35 | 0.36 | 0.69 |
| DPS | 0.00 | 0.08 | 0.08 | 0.15 |
| BPS | 4.87 | 5.14 | 5.42 | 5.96 |

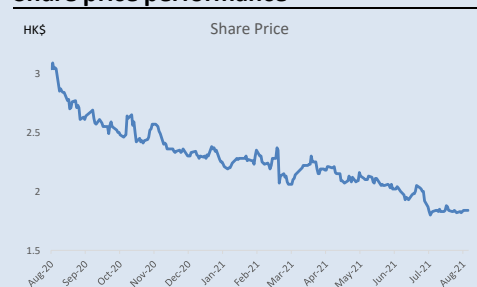
Source: Company data, AMTD Research

Valuation

| | 2020 | 2021e | 2022e | 2023e |
|------------|------|-------|-------|-------|
| P/E | 13.7 | 4.8 | 4.6 | 2.4 |
| P/BV | 0.3 | 0.3 | 0.3 | 0.3 |
| Div. yield | 0.0% | 4.6% | 4.8% | 9.3% |
| ROE | 2.5% | 6.7% | 6.6% | 11.6% |
| ROA | 0.8% | 2.1% | 2.1% | 3.8% |

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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| Figure 1: LVGEM 1H21 Results Summary | | | | | |
|--|------------------|------------------|-------------------|------------------|----------------|
| 1HFY21 Results (RMB '000) | 1HFY21A | FY21E | % of FY21E | 1HFY20A | YoY/Chg |
| Sale of properties | 1,555,986 | 8,090,102 | 19% | 2,030,652 | -23% |
| Rental income | 331,179 | 682,184 | 49% | 317,355 | 4% |
| Other revenues | 143,148 | 321,219 | 45% | 114,199 | 25% |
| Total Revenue | 2,030,313 | 9,093,504 | 22% | 2,462,206 | -18% |
| Cost of sales | (1,066,846) | (3,283,909) | 32% | (859,214) | 24% |
| Gross profit | 963,467 | 5,809,595 | 17% | 1,602,992 | -40% |
| Other income, other gains and losses | 55,268 | 62,771 | 88% | (52,527) | N/A |
| Selling expenses | (72,226) | (213,164) | 34% | (26,862) | 169% |
| Administrative expenses | (227,546) | (545,610) | 42% | (198,573) | 15% |
| Fair value changes on investment properties | 1,249,408 | - | N/A | (174,081) | N/A |
| Fair value changes on derivative financial instruments | 55,177 | - | N/A | 53,849 | 2% |
| Share of results of a joint venture | - | (3) | 0% | - | N/A |
| Finance costs | (833,704) | (1,455,647) | 57% | (686,243) | 21% |
| Profit before tax | 1,189,844 | 3,657,942 | 33% | 518,555 | 129% |
| Income tax expense | (568,229) | (1,902,096) | 30% | (480,196) | 18% |
| Net profit | 621,615 | 1,755,846 | 35% | 38,359 | 1521% |
| Owners of the Company | 638,040 | 1,757,019 | 36% | 37,556 | 1599% |
| Non-controlling interests | (16,425) | (1,173) | 1401% | 803 | N/A |
| Core Attri. Net Profit | (323,776) | 1,757,019 | -18% | 262,000 | N/A |
| Key Ratios | | | | | |
| GP Margin | 47.5% | 63.9% | | 65.1% | -17.6ppt |
| Core Net Margin | -15.9% | 19.3% | | 10.6% | -26.6ppt |
| | 1HFY21A | FY21E | | 1HFY20A | YoY/Chg |
| Net Debt to Equity | 77.6% | 61.6% | | 147.7% | -70.1ppt |
| Liability to Asset (excl. Contract Liabilities) | 62.4% | 64.3% | | 74.4% | -12.0ppt |
| Cash to Short-term Borrowings | 0.8x | 1.9x | | 1.0x | -0.2x |
| Total Assets to Total Equity | 2.7x | 2.9x | | 4.1x | -1.3x |

Source: Company Data, AMTD Research Estimates

Figure 2: China Property Developers: Peers Valuation Comparison

| Date | 30/8/2021 | Share Price | Mkt cap | P/E | | | P/B | | | Div. yield |
|----------------------------------|----------------|-------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Ticker | Name(EN) | (HK\$) | (USD mn) | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 |
| China Property Developers | | | | | | | | | | |
| 2202 HK | Vanke | 20.75 | 34,276 | 5.1x | 4.7x | 4.4x | 0.9x | 0.8x | 0.7x | 6.8% |
| 960 HK | Longfor | 35.05 | 27,303 | 9.8x | 8.0x | 6.8x | 1.6x | 1.4x | 1.3x | 4.6% |
| 1109 HK | CR Land | 28.55 | 26,144 | 7.5x | 6.2x | 5.3x | 0.9x | 0.8x | 0.7x | 4.9% |
| 688 HK | COLI | 17.84 | 25,074 | 4.6x | 4.0x | 3.7x | 0.5x | 0.5x | 0.4x | 7.4% |
| 2007 HK | Country Garden | 8.50 | 24,537 | 5.0x | 4.3x | 3.8x | 0.9x | 0.8x | 0.7x | 6.0% |
| 1918 HK | Sunac | 19.52 | 11,686 | 2.8x | 2.2x | 2.0x | 0.6x | 0.5x | 0.4x | 9.5% |
| 3333 HK | Evergrande | 4.39 | 7,469 | 1.7x | 2.1x | 2.1x | 0.3x | 0.3x | 0.3x | 3.9% |
| 813 HK | Shimao | 15.32 | 6,960 | 3.9x | 3.2x | 2.8x | 0.5x | 0.4x | 0.4x | 11.0% |
| 3380 HK | Logan | 9.23 | 6,544 | 3.5x | 3.1x | 2.7x | 1.1x | 0.8x | 0.7x | 12.3% |
| 1030 HK | Seazen | 6.90 | 5,503 | 4.4x | 3.5x | 3.1x | 1.0x | 0.8x | 0.7x | 6.7% |
| 884 HK | CIFI | 5.10 | 5,478 | 4.5x | 3.8x | 3.3x | 1.0x | 0.8x | 0.7x | 7.5% |
| 3383 HK | Agile | 8.81 | 4,432 | 3.2x | 3.0x | 2.8x | 0.6x | 0.5x | 0.4x | 14.0% |
| 3900 HK | Greentown | 11.86 | 3,800 | 10.9x | 8.3x | 7.6x | 0.8x | 0.7x | 0.6x | 3.3% |
| 1813 HK | KWG | 8.03 | 3,282 | 3.5x | 2.7x | 2.3x | 0.5x | 0.4x | 0.4x | 13.0% |
| 1238 HK | Powerlong* | 5.98 | 3,181 | 5.7x | 4.6x | 3.6x | 0.6x | 0.5x | 0.5x | 7.8% |
| 2777 HK | R&F | 6.60 | 3,180 | 2.6x | 2.9x | 2.5x | 0.2x | 0.2x | 0.2x | 17.0% |
| 123 HK | Yuesiu* | 7.32 | 2,911 | 4.7x | 4.1x | 3.3x | 0.4x | 0.4x | 0.4x | 8.4% |
| 6158 HK | Zhenro | 4.50 | 2,524 | 6.8x | 6.0x | 5.0x | 0.8x | 0.7x | 0.7x | 3.1% |
| 3990 HK | Midea RE | 15.08 | 2,390 | 3.9x | 3.0x | 2.6x | 0.7x | 0.6x | 0.5x | 11.9% |
| 1638 HK | Kaisa | 2.64 | 2,378 | 3.5x | 2.1x | 2.0x | 0.4x | 0.3x | 0.2x | 5.0% |
| 9993 HK | Radianc* | 4.29 | 2,229 | 5.1x | 4.5x | 3.5x | 0.7x | 0.6x | 0.5x | 7.6% |
| 2772 HK | Zhongliang | 4.55 | 2,093 | 3.8x | 3.2x | 2.9x | 1.3x | 1.0x | 0.8x | 10.2% |
| 1233 HK | Times | 7.95 | 2,026 | 2.6x | 2.3x | 2.0x | 0.7x | 0.6x | 0.5x | 10.9% |
| 2103 HK | Sinic* | 4.20 | 1,926 | 6.7x | 6.1x | 4.9x | 1.3x | 1.1x | 0.9x | 4.0% |
| 1966 HK | China SCE | 3.10 | 1,681 | 3.4x | 2.7x | 2.2x | 0.5x | 0.5x | 0.4x | 8.9% |
| 3883 HK | Aoyuan* | 4.65 | 1,610 | 2.2x | 2.0x | 1.8x | 0.6x | 0.5x | 0.4x | 19.9% |
| 272 HK | Shui On Land | 1.25 | 1,294 | NA | NA | NA | 0.2x | NA | NA | 0.0% |
| 1628 HK | Yuzhou* | 1.52 | 1,231 | NA | 8.4x | 5.2x | 0.3x | 0.3x | 0.3x | 23.7% |
| 95 HK | Lvgem* | 1.84 | 1,205 | 13.7x | 4.8x | 4.6x | 0.3x | 0.3x | 0.3x | 0.0% |
| 1996 HK | Redsun* | 2.63 | 1,125 | 5.5x | 4.0x | 3.7x | 0.5x | 0.4x | 0.4x | 5.5% |
| 2019 HK | Dexin China* | 2.84 | 985 | 4.4x | 4.2x | 3.8x | 1.1x | 0.9x | 0.8x | 4.6% |
| 119 HK | Poly Prop | 2.04 | 973 | 3.7x | NA | NA | 0.2x | NA | NA | 6.3% |
| 3301 HK | Ronshine | 4.23 | 914 | 2.6x | 3.0x | 2.4x | 0.3x | 0.3x | 0.3x | 12.2% |
| 1098 HK | Roadking | 8.90 | 856 | NA | NA | NA | 0.3x | NA | NA | 6.2% |
| 832 HK | CCRE* | 1.87 | 713 | 1.8x | 1.8x | 1.7x | 0.4x | 0.3x | 0.3x | 21.8% |
| 6111 HK | Dafa* | 6.69 | 711 | 13.5x | 10.8x | 9.0x | 1.3x | 1.2x | 1.0x | 1.4% |
| 230 HK | Minmetals* | 0.78 | 335 | 23.2x | 10.7x | 6.1x | 0.3x | 0.3x | 0.3x | 2.6% |
| Total/Average | | | 230,957 | 5.6x | 4.4x | 3.7x | 0.7x | 0.6x | 0.5x | 8.4% |

Source: Company Data, *AMTD Research Estimates

Note: As of 30 Aug 2021

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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 |

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