

Logan Group Company Limited

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	14 April 2021

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer and Issuance Credit Rating to Logan Group Company Limited; Issuer Rating Outlook is Stable

Summary

The Issuer Rating reflects Logan Group Company Limited’s (“Logan” or “the company”) established market position, especially in its core market of the Greater Bay Area (“GBA”), track record of prudent operating performance and above-average profitability. However, Logan’s rating is constrained by its geographical focus in Guangdong province.

The Stable Outlook reflects our expectation that Logan will continue expanding its franchise with multi-pronged growth strategy, sustainable contracted sales growth outlook, diversifying revenue source, and replicating the success in the GBA to a nationwide footprint. It also reflects our expectation that Logan will expand its operating scale, replenish its land bank and manage its debt growth in a disciplined manner.

Rating Rationale

Large-scale Regional Developer with Gradual Geographical Expansion: Logan is a large-scale property developer with strong presence in both Shenzhen and the GBA, which enables the company to capture the robust property markets in the region in recent years. The GBA (including Shenzhen) contributed 60.4%, 56.3% and 59.3% of Logan’s contracted sales in 2018-2020, respectively. At end-2020, GBA contributed to 69.6% of Logan’s land bank GFA.

Logan has an ambitious medium-term plan to grow its regional operation into a national property developer. Logan expanded its land bank into populous metropolitan areas in southwest region and the Yangtze River Delta (YRD) region from the GBA. We notice Logan’s diversification strategy has started to pay off in recent years. At end-2020, southwest region, YRD and Singapore jointly accounted for 18.2% and 28.8% of Logan’s land bank GFA and contracted sales, respectively.

Riding on its stronghold in the GBA and the increasing contribution from the other regions, Logan’s attributable contracted sales surged 27.4% and 31.9% in 2019 and 2020, respectively. According to CRIC, Logan’s nationwide ranking in terms of contracted sales reached 24th and 23rd in 2019 and 2020, respectively, compared with 32th in 2018. At end-2020, Logan had a land reserve of 71.3 million square meters (sq.m.) (including urban redevelopment projects’ reserve, or 39.2 million sq.m. excluding this reserve), which we believe is sufficient to support Logan’s contracted sales for the next 4-5 years. We forecast Logan to be able to achieve c. 16-21% contracted sales growth in 2021-2023.

Overall, we anticipate Shenzhen and the GBA will remain the major revenue contributor with 50-60% of Logan’s attributable contracted sales in 2021-2023. Therefore, Logan’s business is subject to the risk of any adverse market conditions or policy headwinds in this region. Nevertheless, Logan’s gradual geographical expansion will help to mitigate this concentration risk in the medium term.

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Applicable Criteria

General Corporate Rating Criteria (16 July 2018)

Business Diversification Offers Additional Growth Impetus: Besides the geographical expansion of its property development segment, Logan adopts a multi-pronged growth strategy through diversifying its business into various business segments. Non-property development businesses, including property leasing, primary land development, and construction and decoration contracts, contributed 22.8% of Logan's total revenue in 2020. It helps Logan to further mitigate industry-specific uncertainties.

Primary land development is an integral part of Logan's business strategy. Logan is able to obtain land at competitive prices through cooperation with local governments for the urban renewal project (URPs). At end-2020, 95% of Logan's URPs (in terms of total land value) were located in the GBA. The segment revenue grew rapidly from RMB1.1 billion in 2018 to RMB6.0 billion in 2020, and its contribution to Logan's total revenue increased to 8.5% in 2020 from 2.4% in 2018. Apart from being another source of revenue, this business will also help Logan to consolidate its market position in the GBA, and sustain its above-peer profit margins.

On the other hand, revenue from the construction and decoration contracts segment grew significantly to RMB10.1 billion in 2020, compared with RMB4.2 billion in 2018. The segment contributed 14.2% to Logan's revenue in 2020, and was the second largest revenue source for the company after the property development business.

Above-Peer Profitability Remains Sustainable: Logan exhibited higher-than-peer profitability in the past years, with its robust gross margins (excluding depreciation and amortization) in the range of 30%-34% in 2018-2020. This was mainly attributed to the significant profit contribution from projects located in Shenzhen and the GBA with competitive land costs.

Going forward, we believe Logan's profit margin will face a number of challenges, including: 1) rising land acquisition costs, 2) price restriction measures in some high-tier cities, especially Shenzhen, and 3) probably lower margin for projects outside the GBA. Nevertheless, we believe Logan's profitability remains well-supported by its low-cost land bank. Moreover, the high-margin nature of primary land development segment will also help Logan to replenish its land bank at competitive costs and sustain its profitability. Logan strives to increase the contribution from URPs to support its contracted sales and total revenue, which URPs usually command higher profit margins compared with those projects acquired through public tender, auction and listing. As a whole, we forecast Logan to be able to maintain an above-peer gross margin in the range of 30-31% for 2021-2023.

Financial Leverage Remains Stable: Logan's management is mindful of cost control and use of financial leverage while growing a national franchise and delivering the projects by the preset targets. We expect Logan to maintain a disciplined approach for land acquisition by allocating 40-50% of the contracted sales proceeds to land purchases. As a result, we forecast Logan's financial leverage ratio, measured by the adjusted gross debt over capitalization, to stay at the range of 50-60% in 2021-2023. Given its disciplined leverage, we forecast Logan's EBITDA interest coverage to stay healthy at 4.0-5.0x in 2021-2023, as its increase in financing costs will be in-line with its revenue growth and sustained profit margins.

At end-2020, Logan had cash of RMB42.9 billion on hand which was sufficient to cover its debts of RMB23.3 billion due within one year. Together with its undrawn facilities of c. RMB40 billion at end-2020, Logan has adequate liquidity to service its capital expenditure.

Rating Sensitivities

We would consider downgrading Logan's rating if it were to (1) aggressively replenish its land bank which would result in an increase in its financial leverage as measured by debt/capitalization to over 70% or a decrease in its EBITDA interest coverage to below 4.0x consistently, and/or (2) its operating performance were to deteriorate such that its contracted sales and/or revenue experience a material decline or liquidity profile is worsened.

We would consider upgrading Logan's rating if it were to (1) considerably increase its operating scale, and (2) improve its financial leverage as measured by an EBITDA interest coverage ratio at above 6.0x, and a debt/capitalization to below 50%, consistently.

Company Profile

Logan is a Chinese property developer that focuses on mass residential property development in the GBA in Guangdong Province. It was established by Mr. Kei Hoi Pang, who is the current chairman of Logan, in Shantou in 1996. The company has been listed on the Hong Kong Stock Exchange (Stock Code: 3380.HK) since December 2013.

Logan is majority owned by Mr. Kei Hoi Pang and Ms. Kei Perenna Hoi Ting, who is the daughter of Mr. Kei Hoi Pang, through the Kei Family Trust.

Logan's Shareholding Structure (at end-June 2020)

Shareholder	Percentage
Kei Family United Limited (held by Kei Family Trust)	61.63%
Ms. Kei Perenna Hoi Ting*	15.46%
Mr. Kei Hoi Pang	0.29%
Public	22.62%
Total	100.0%

*Ms. Kei Perenna Hoi Ting is accustomed to act in accordance with Mr. Kei Hoi Pang's directions.
 Source: Logan

Key Financial Assumptions

- Contracted sales amount: RMB141-205 billion for 2021-2023
- Contracted average selling price: c. 5-8% growth per annum for 2021-2023
- Total revenue: RMB81-115 billion for 2021-2023

Key Financial Metrics

2019A-2023F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	75.4%	4.27x	57.7%	0.7x

Source: Logan's 2019 annual report and 2020 result announcement, Lianhe Global's adjustments and forecasts

Full List of Issuance Ratings

A full list of affirmed issuance ratings is included below. Any rating action on Logan's rating would result in a similar rating action on its USD notes:

- USD300 million 7.50% senior unsecured notes due 2022 affirmed at 'BBB-'
- USD400 million 6.50% senior unsecured notes due 2023 affirmed at 'BBB-'

- USD300 million 5.75% senior unsecured notes due 2025 affirmed at 'BBB'
- USD100 million 4.25% senior unsecured notes due 2024 affirmed at 'BBB'
- USD300 million 5.25% senior unsecured notes due 2025 affirmed at 'BBB'
- USD300 million 4.50% senior unsecured notes due 2028 affirmed at 'BBB'
- USD300 million 4.25% senior unsecured notes due 2025 affirmed at 'BBB'

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