Lianhe Ratings Global

Rating Report

4 March 2019

Logan Property Holdings Company Limited

Initial Issuer Report

Summary

Issuer Rating	BB+
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	4 March 2019

Operating Data:
Logan Property Holdings Company Limited

	31 Dec 2017	30 Jun 2018
Revenue (RMB: in million)	27,690	15,154
Contracted Sales (RMB: in million)	43,421	35,471
Contracted Average Selling Price (RMB/square meter)	17,096	19,706
Contracted Sales GFA (million square meters)	2.4	1.8
Land Bank GFA (million square meters)	27.4	35.4

GFA: Gross Floor Area
Source: Logan's 2017-2018 annual and interim reports

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Applicable Criteria
General Corporate Rating Criteria (16 July 2018)

Lianhe Ratings Global Limited ("Lianhe Global") has assigned a 'BB+' global scale Long-term Issuer Credit Rating to Logan Property Holdings Company Limited. The Outlook is Stable.

Summary

The Issuer Rating reflects Logan Property Holdings Company Limited ("Logan" or "the company")'s established brand recognition and leading market position in Guangdong Province, especially Shenzhen, and its higher-than-peer profitability which is supported by its low-cost land bank portfolio. However, Logan's rating is constrained by its high financial leverage and over-reliance on the profit contribution from the Shenzhen projects as its land bank portfolio mainly concentrates in Guangdong Province.

The Stable Outlook reflects our expectation that Logan's renowned presence in the Guangdong-Hong Kong-Macau Greater Bay Area ('the Greater Bay Area") and well-managed land acquisition expenditures will continue to underpin its higher-than-peer profitability. The Stable Outlook also reflects our expectation that Logan will expand its operating scale cautiously and manage its debt growth in a prudent manner.

Rating Rationale

High-quality Land Bank and Competitive Land Costs Underpin Higher-than-Peer Profitability: Logan has exhibited a higher-than-peer profitability in the past two years. Its gross margin (excluding depreciation and amortization) steadily improved year-over-year and stayed in the range of 34% to 37% during 2017 to 1H2018. The outstanding performance was attributed to the profit contribution from the projects in the Greater Bay Area, mainly Shenzhen, and its relatively competitive land acquisition costs due to its better utilization of acquisition channels. We believe that the competitive land costs will be able to provide a buffer for Logan's gross margin when the property market is under pressure.

Land Bank Less Diversified but Reduced Concentration: Logan's sales performance in the past years was mainly supported by the sales contribution from its projects in the Greater Bay Area, mainly Shenzhen. The projects in the Greater Bay Area have provided around half of Logan's contracted sales from 2015 to 1H2018. However, Logan has been diversifying its land bank portfolio by gradually stepping into the other cities outside of Guangdong Province in recent years. It cautiously expands its geographic coverage to Guangxi Province, the Yangtze River Delta, Hong Kong and Singapore. At end-June 2018, Logan's exposure outside of Guangdong Province totalled 9.6 million square meters, which accounted for 27% of its total land bank gross floor area ("GFA").

Track Record of Prudent Operating Performance and Cautious Expansion: Though Logan's contracted sales growth was robust, it did not replenish its land bank in an aggressive way or hinge on adding leverage to expand its operating scale in the past years. It prudently budgets the equivalent amount of half of its annual contracted sales for its annual land acquisition expenditures and utilizes various channels, such as mergers and acquisitions ("M&A") and urban renewal projects, to control its overall land acquisition costs which are maintained at a lower level than its peers. Furthermore, Logan's sustainable higher-than-peer gross margin is secured by adopting differentiated operating strategies to manage projects in different locations. It pursues an operating strategy of maintaining a high project turnover rate for projects located in the lower tier cities. For projects in the Greater Bay Area, especially Shenzhen, Logan maintains a relatively slower project turnover rate to control its construction costs and leverages on the elevated property prices to secure a high gross margin.

High but Improving Leverage: Logan's financial leverage was elevated in 2017, which was evident by a debt/capitalisation[1] ratio to 74.9% from 54.8% in 2016. Logan usually allocates the equivalent amount of half of the contracted sales to budget for its annual land acquisition expenditures. In addition, Logan's land acquisition activities are supported by external financing channels. As its contracted sales increased in 2017, the land acquisition expenditures and the debt level correspondingly increased. However, Logan's elevated leverage was partially mitigated by its improving profitability in the first six months ended in 2018. Its gross margin (excluding depreciation and amortization) improved to 37.2% in 1H2018 from 34.8% in 2017. We anticipate that Logan will replenish its land bank in a prudent manner in 2019 and 2020 even though it has had a robust contracted sales growth from 2017 to 2018. We also expect Logan's leverage as measured by a debt/capitalisation ratio to improve and stay in the range of 71% to 73% in the next 12 to 24 months.

Rating Sensitivities

We would consider downgrading Logan's rating if it were to replenish its land bank in an aggressive way which would result in an elevated leverage or it were to under deliver expected contracted sales which would lead to a material deterioration of its profitability as measured by 1) an EBITDA interest coverage ratio at below 3.0x, or 2) a gross margin at below 30%, continuously.

We would consider upgrading Logan's rating if it were to steadily improve its leverage while maintaining a higher-than-peer profitability as measured by 1) an EBITDA interest coverage ratio at above 5.0x, and 2) a debt/land bank ratio at below 70%, persistently.

Company Profile

Logan Property Holdings Company Limited is a Chinese property developer that focuses on mass residential property development in the Greater Bay Area in Guangdong Province. It was established by Mr. Kei Hoi Pang (纪海鹏), who is the current Chairman of Logan, in Shantou in 1996. The company has been listed on the Hong Kong Stock Exchange (3380.HK) since 2013.

Logan is majority owned by Mr. Kei Hoi Pang and Ms. Kei Perenna Hoi Ting (纪凯婷), who is the daughter of Mr. Kei Hoi Pang, through the Kei Family Trust (EXHIBIT 1).

Logan's business coverage extends from property development to property investment and construction. It mainly conducts property development business in Guangdong Province. Over 70% of Logan's land bank in terms of GFA was located in Guangdong Province at end-June 2018. Revenue recognized from the property development sector accounted for over 90% of its total revenue during 2015 to 2017.

Logan has taken the role as a primary land developer for the local governments in Guangdong Province since 2015 with the aim to obtain the land later at competitive prices to control its land acquisition costs. The primary development project on one piece of the land that Logan helped to develop was successfully completed in 1H2018. Therefore, it booked RMB1.07 billion revenue in this segment. Currently Logan has got several pieces of land on hand for primary land development. We expect the revenue to be booked in this segment will enjoy growth and will

[1] Adjusted capitalisation subtracts third-party guarantees. If no adjustments were made for third-party guarantees, the debt/capitalisation ratios for 2016 and 2017 would have been 54.8% and 66.1% respectively.

serve as another major revenue source for the company in the next 12 to 24 months (EXHIBIT 2).

Exhibit 1: Logan's Shareholder Structure as of End-June 2018

Shareholder	Percentage
Kei Family United Limited#	61.93%
Ms. Kei Perenna Hoi Ting*	15.54%
Mr. Kei Hoi Pang	0.35%
Public	22.18%
Total	**100.00%**

Note:
#Kei Family United Limited is held by the Kei Family Trust, whose beneficiaries include Mr.Kei Hoi Pang and Ms. Kei Perenna Hoi Ting.
**Ms. Kei Perenna Hoi Ting is accustomed to act in accordance with Mr. Kei Hoi Pang's directions.*
Source: Logan's 2018 interim report

Exhibit 2: Logan's Revenue Breakdown by Business Segment (RMB: in million)

Revenue / % of total	FY2015		FY2016		FY2017		1H2018	
Property development	14,570	98.75%	20,245	98.57%	26,642	96.22%	13,074	86.28%
Property leasing	68	0.46%	82	0.40%	83	0.30%	46	0.30%
Construction contracts	116	0.79%	212	1.03%	964	3.48%	966	6.38%
Primary land development	N/A	N/A	N/A	N/A	N/A	N/A	1,067	7.04%
Total	**14,754**	**100.00%**	**20,539**	**100.00%**	**27,690**	**100.00%**	**15,154**	**100.00%**

Source: Logan's 2015-2018 annual and interim reports

Business Profile

Market Position

Logan remains as a second-tier player among the Chinese property developers. Its rankings in terms of contracted sales stayed between 30th and 40th during 2015 to 2018. Logan's contracted sales has increased substantially since 2015, especially for the year of 2017 which was 51% higher than that of 2016. However, its sales growths during this period were mainly fueled by the property price increase as evident by its year-over-year rising contracted average selling price (2015: RMB8,194/square meter; 2016: RMB11,870/square meter; 2017: RMB17,096/square meter). Its rankings in terms of contracted sales GFA lagged behind the sales amount and were in the range of 30th to 50th from 2017 to 2018 (EXHIBIT 3).

Though Logan's contracted sales experienced a rapid growth, it did not aggressively replenish its land bank as compared with its peers in the past years. In 2017 and 1H2018, it acquired the new land of around 3 to 4 million square meters and was ranked 40th to 50th (EXHIBIT 4).

Exhibit 3: Logan's Rankings by Contracted Sales Among the Chinese Property Developers

Amount / Ranking	FY2015		FY2016		FY2017		FY2018		Ranking Changes (2018 vs 2015)
Contracted sales amount *	23	38th	37	35th	56	37th	91	32nd	+6
Contracted sales by GFA #	2.72	26th	3.20	28th	2.86	48th	5.66	34th	-8

Note:
**The contracted sales amount is based on statistics from CRIC. Differences may exist between the company's reported amount as a different calculation method was applied. The amount is in RMB billion.*
 # The contracted sales GFA is based on statistics from CRIC. Differences may exist between the company's reported amount as a different calculation method was applied. The amount is in million square meters.
Source: CRIC Information Centre

Exhibit 4: Logan's Rankings by Land Bank and New Land Acquisition Among Chinese Property Developers

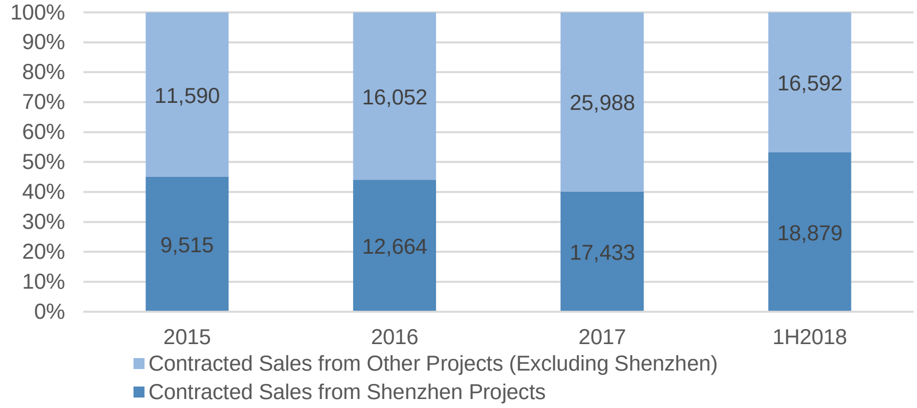
Amount / Ranking	FY2017		FY2018	
Attributable land bank by value	RMB301.8 bn	23rd	N/A	N/A
Land bank by GFA	27.17m sqm	25th	N/A	N/A
New acquisition land bank by value	RMB54.12 bn	48th	RMB44.23 bn	52nd
New land acquisition by GFA	3.98m sqm	46th	3.20m sqm	50th

Note:
sqm: square meters
The amount is based on statistics from CRIC. Differences may exist between company's reported amount as a different calculation method was applied.
Source: CRIC Information Centre

Land Bank Less Diversified but Reduced Concentration

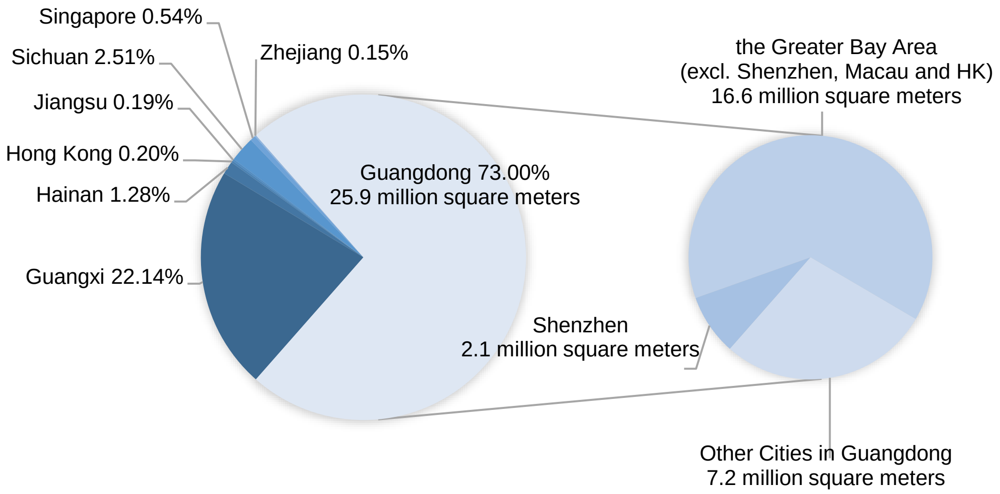
Logan's performance in the past years was mainly supported by the sales contribution from its projects in the Greater Bay Area, mainly Shenzhen. The whole area has provided around half of Logan's contracted sales from 2015 to 1H2018 (EXHIBIT 5 & 6). Having benefited further from the surging property prices in Shenzhen since 2015, Logan's revenue has enjoyed a year-over-year double-digit increase in spite of its growth of contracted sales GFA.

Exhibit 5: Shenzhen Contributed Around Half of Contracted Sales in 2015-1H2018 (in RMB million)



Source: Logan's 2015-2018 annual and interim reports and Lianhe Global

Exhibit 6: Logan's Land Bank Composition at End-June 2018 in Square Meters



Source: Logan and Lianhe Global

The over-reliance on the sales performance from the Shenzhen projects will pose a risk to Logan should the market conditions deteriorate or sales policies change in the local market.

However, Logan has been diversifying its land bank portfolio by gradually stepping into the other cities outside of Guangdong Province in recent years. It has cautiously expanded beyond its home base in Guangdong Province into other domestic markets like the metropolitan or provincial cities in Guangxi Province and the Yangtze River Delta as well as the international markets like Hong Kong and Singapore. At end-June 2018, Logan's exposure outside of Guangdong Province totalled 9.6 million square meters, which accounted for 27% of its total land bank GFA.

We believe Logan's gradual reduction of its land bank concentration will help it partially mitigate the business risk in case of any material deterioration of the property market condition in Guangdong Province. However, we also expect Logan's saleable resources in Shenzhen will still serve as a major revenue contributor to the company in the following 12 to 24 months in view of its sufficient land resources on hand in Shenzhen (GFA at 2.1 million square meters at end-June 2018).

Track Record of Prudent Operating Performance and Cautious Expansion

Though Logan's contracted sales growth was robust, it did not replenish its land bank in an aggressive way or hinge on adding leverage to expand its operating scale quickly in the past years. It prudently budgets the equivalent amount of half of the annual contracted sales for its annual land acquisition expenditures and utilizes various channels, such as M&A and urban renewal projects, to control its overall land acquisition costs which are maintained at a lower level than its peers.

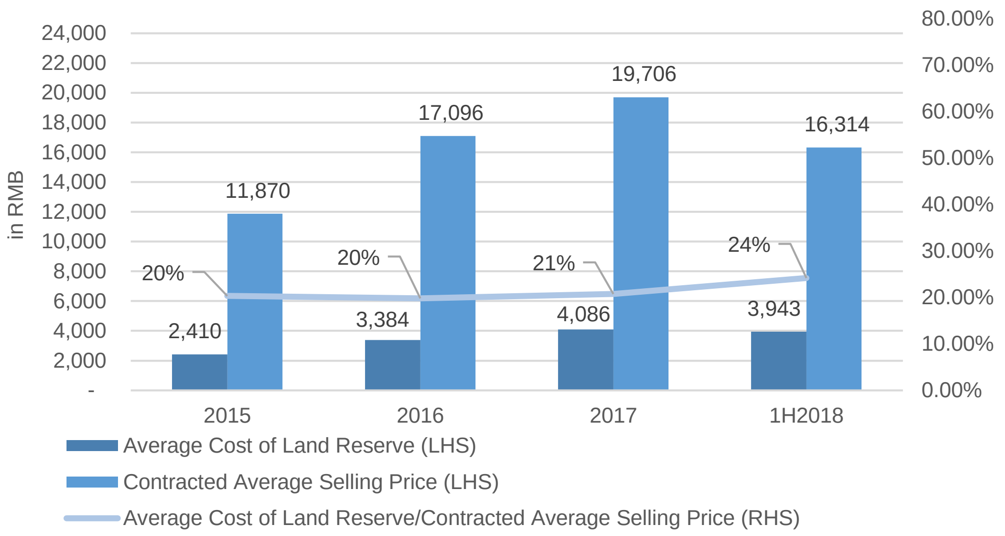
Furthermore, Logan's sustainable higher-than-peer gross margin is secured by adopting differentiated operating strategies to manage projects in different locations. It pursues an operating strategy of maintaining a high project turnover rate for projects located in the lower tier cities, mainly in the cities of Guangxi Province and other tier 3 and 4 cities outside of Guangdong Province in China. Logan is able to turn positive the cash flow in 14 to 16 months after the acquisition of land in those areas. For projects in the Greater Bay Area, especially Shenzhen, Logan maintains a relatively slower project turnover rate to control its construction costs and leverages on the elevated property prices to secure a high gross margin. The adoption of different strategies in different regions improves Logan's operating efficiency and adds credit to its prudent operating performance.

Financial Profile

High-quality Land Bank and Competitive Land Costs Underpin Higher-than-Peer Profitability

Logan has exhibited a higher-than-peer profitability in the past two years. Its gross margin (excluding depreciation and amortization) steadily improved year-over-year and stayed in the range of 30% to 38% during 2015 to 1H2018. The outstanding profitability performance was attributed to the profit contribution from projects located in the Greater Bay Area, mainly Shenzhen, and its relatively competitive land acquisition costs due to the better utilization of both public and M&A channels. Logan's average land costs were comparatively low that its average cost of land bank per square meter only accounted for 20% to 24% of its contracted average selling price in 2015 to 1H2018 (EXHIBIT 7). The competitive land costs will be able to provide a buffer for Logan's gross margin when the property market is under pressure.

Exhibit 7: Logan's Average Cost of Land Reserve is Low



Source: Logan's 2015-2018 annual and interim reports and Lianhe Global

Based in Shenzhen, Logan has been focusing on the property development business in Guangdong Province, especially Shenzhen, since its establishment. Following the Chinese government's policy scheme in developing the Greater Bay Area while facing fierce competition in Shenzhen's property market, Logan has been transferring its focus out from Shenzhen to include more cities in China, especially expanding its footprint in the Greater Bay Area in Guangdong Province. At end-June 2018, Logan's land bank GFA in Guangdong Province accounted for over 70%, of which over 50% was located in the Greater Bay Area (excluding Hong Kong and Macau). Meanwhile, as a result of Logan's expansion in the Greater Bay Area, its total exposure in Shenzhen District diluted to around 6% at end-June 2018. However, Logan still held a land bank GFA of 2.1 million square meters in Shenzhen at end-June 2018, which we believe is sufficient to fuel its contracted sales growth for 2019 and 2020 and to underpin its competitive profit margin.

Moreover, Logan has started to take on urban renewal projects in Guangdong Province in recent years. It will have a competitive advantage over its competitors on the acquisition prices of this land compared with other competitors if it chooses to transfer them into its land bank. Normally, Logan is entitled to enjoy a certain percentage of the premium from the land auction as a primary land developer. This advantage will further help Logan secure its higher-than-peer gross margin and these projects will serve as an alternative channel for Logan's land replenishment in the Greater Bay Area in the future.

We anticipate Logan will decelerate its project delivery pace in Shenzhen and accelerate its project delivery pace in other cities in 2019 and 2020. We also expect that the property prices in China will have an around 5% decrease in 2019 and 2020. As such, we project that Logan's gross margin will decrease from the range of 34% to 37% during 2017 to 1H2018 to the level of 30% to 32% in the next 12 to 24 months.

High but Improving Leverage

Logan's financial leverage was elevated in 2017, which was evident by a debt/capitalisation ratio to 74.9% from 54.8% in 2016. Logan usually allocates the equivalent amount of half of the contracted sales to budget for its annual land acquisition expenditures. And Logan's land acquisition activities are supported by external financing channels. As its contracted sales increased in 2017, the land acquisition expenditures and the debt level correspondingly increased. Total GFA acquired through the public channel totalled 5.7 million square meters in 2017, a 189% increase compared with 2016.

However, Logan's elevated leverage was mitigated by its improving profitability in the first six months of 2018. Its gross margin (excluding depreciation and amortization) improved to 37.2% in 1H2018 from 34.8% in 2017, mainly attributed to the stable revenue contribution from its Shenzhen projects that were partially driven by Shenzhen's increasing property prices.

We anticipate Logan will replenish its land bank in a prudent manner in 2019 and 2020 though it has had a robust contracted sales growth since 2017. Therefore, we expect Logan's leverage as measured by a debt/capitalisation ratio to improve and stay in the range of 71% to 73% in the next 12 to 24 months.

Key Assumptions

- Contracted sales amount: RMB84-98 billion for 2019-2020
- Contracted average selling price: 5% decrease for 2019-2020
- Land acquisition expenditures: 50% of annual contracted sales for 2019-2020
- Cash dividend payout ratio: 35% for 2019-2020

Key Financial Metrics

2016A-2020F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalisation	Quick Ratio
Weighted Average	97.11%	3.41x	72.28%	0.44x

Source: Logan's 2016-2018 annual and interim reports and Lianhe Global's adjustments and forecasts

Liquidity

Logan's liquidity profile is satisfactory. Its RMB25 billion cash on hand was sufficient to cover its RMB11 billion debt due within one year at end-June 2018.

Moreover, Logan maintains a diversified debt profile. Its debt maturity dates were evenly distributed and the short-term debt only accounted for 27% of its total debt at end-June 2018.

Logan's debt was mainly financed by the funding from the onshore market in local currencies. Its offshore debt in foreign currencies accounted for 21% and 27% of its total debt in 2016 and 2017. As Logan's overseas projects (mainly in Singapore) launched for sale in 2018, they will be able to partially hedge Logan's exchange risk in the following years when the debt matures.

As a listed company, Logan has utilized various financing tools to raise its debt in the past, which are not limited to bank borrowings, bond issuance, asset-backed securities and trust loans, etc. The overall average financing costs decreased year-over-year from 6.8% in 2015 to 5.8% in 2017.

Peer Comparisons

Logan is smaller than CIFI Holdings (Group) Co. Ltd. ("CIFI") in terms of revenue scale but its gross margin is higher than CIFI as its land bank is mainly in Guangdong Province with higher contracted average selling prices. CIFI's land bank covers over 50 cities and is more diversified when compared with Logan. However, Logan's overall stake in its property projects is much larger than CIFI as CIFI has taken on many joint venture projects to expand its operating scale while Logan mainly chooses to solely develop the projects in Guangdong Province as it enjoys a competitive advantage on obtaining the land resources in that region to secure a high gross margin.

Yuzhou Properties Company Limited ("Yuzhou")'s scale is smaller than Logan in terms of the contracted sales and land bank GFA. Yuzhou reported a similar level of gross margin (over 30%) as Logan in the past two years (EXHIBIT 8 & 9).

Exhibit 8: Key Financial Metrics

RMB: in million	**Logan**		**CIFI Holdings (Group) Co. Ltd.**		**Yuzhou Properties Company Limited**	
Listing code	**3380.HK**		**884.HK**		**1628.HK**	
Lianhe Global's global scale Long-term Issuer Credit Rating/Outlook	**BB+/Stable**		**BB+/Stable**		**BB/Stable**	
Period	**FY 2017**	**LTM June 2018**	**FY 2017**	**LTM June 2018**	**FY 2017**	**LTM June 2018**
Revenue	27,690	30,461	31,824	39,009	21,701	23,697
Gross Margin (%)	34.37	33.62	27.09	24.14	35.51	34.74
Operating Margin (%)	38.83	36.05	24.21	24.97	31.43	30.76
EBITDA Margin (%)	39.07	36.28	24.27	25.03	31.81	31.10
Net Debt/EBITDA (x)	1.29	1.47	2.19	3.50	1.73	1.75
EBITDA/Interest (x)	4.26	4.77	3.34	2.56	4.06	2.12
Total Debts to Total Capital (%)	55.47	57.36	57.96	61.74	61.25	66.75
Debt/EBITDA (x)	3.13	3.76	6.12	7.23	3.99	4.96
Quick Ratio (x)	0.36	0.34	0.39	0.31	0.32	0.37
Inventory Days	790	675	565	767	743	745

Source: Bloomberg and Lianhe Global

Exhibit 9: Key Operating Metrics

in million square meters	Logan		CIFI Holdings (Group) Co. Ltd.		Yuzhou Properties Company Limited	
Lianhe Global's global scale Long-term Issuer Credit Rating/Outlook	**BB+/Stable**		**BB+/Stable**		**BB/Stable**	
Listing code	**3380.HK**		**884.HK**		**1628.HK**	
Period	**FY 2017**	**1H 2018**	**FY 2017**	**1H 2018**	**FY 2017**	**1H 2018**
Contracted sales (RMB million)	43,421	35,471	104,000	66,032	40,306	21,494
Contracted sales GFA	2.43*	1.83*	6.29	4.33	2.38	1.58
Total land bank GFA	27.43	35.46	31.00	40.40	11.84	17.25
Attributable land bank GFA	N/A	N/A	16.0	21.1	8.8	12.2

*Note: *Excluding parking lots*
Source: Company's 2017-2018 annual and interim reports and Lianhe Global

Appendix I: Logan's Rating Factors

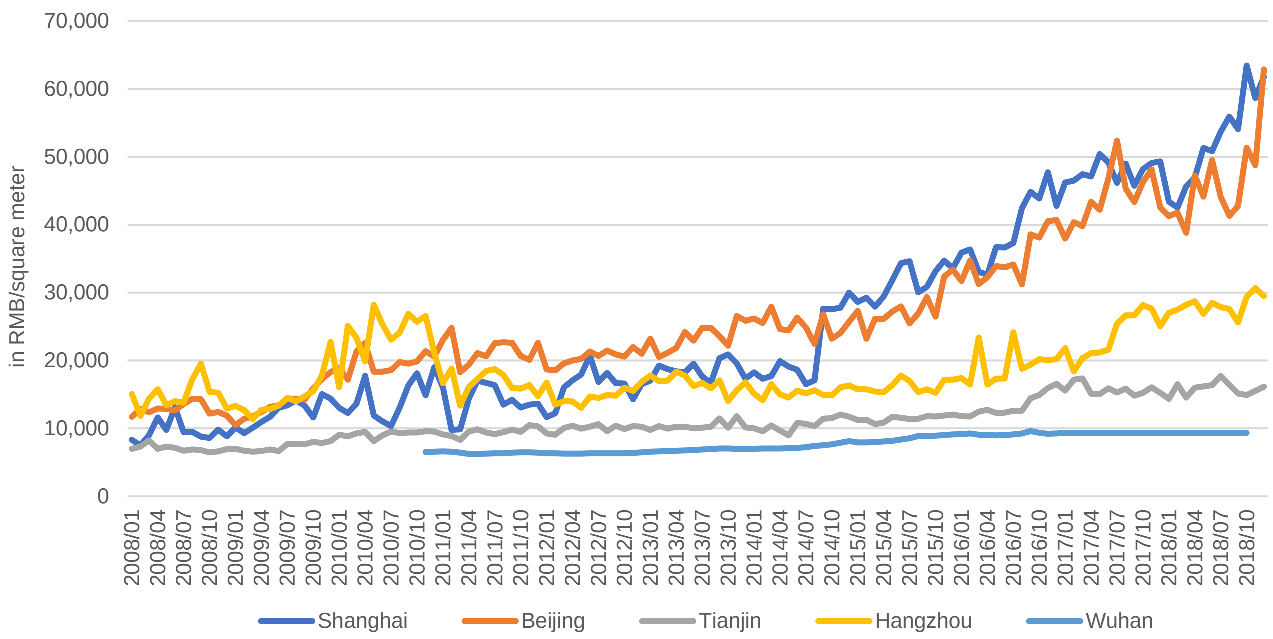
Rating Factors	Weight	Initial Rating
I. Market Demand Analysis	**15.0%**	**a-**
II. Business Analysis[2]	**45.0%**	**bbb**
III. Financial Analysis[3]	**40.0%**	**b**
IV. Base Score	**100.0%**	**bb+**
V. Industry Risk		**bbb**
VI. Qualifiers		
Liquidity		Neutral
Corporate Governance		Neutral
Debt Structure and Financial Policy		Neutral
Idiosyncratic Analysis		Neutral
Stand-Alone Creditworthiness (SAC)		**bb+**
VII. External Support		
Corporate Entity Support		Not Applicable
Issuer Credit Rating		**BB+**

Source: Lianhe Global

[2] Business Analysis contains sub-factors of market position, diversification, competitive position, operating efficiency and profitability.

[3] Financial Analysis contains sub-factors of debt/land bank, EBITDA interest coverage, debt/capitalization and quick ratio.

Appendix II: Major Chinese Cities' Monthly Contracted Average Selling Price



Source: WIND and Lianhe Global's adjustments

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