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CCXAP

CCXAP affirms Logan Group Company Limited's long-term credit rating at BBB_g-, with stable outlook

Hong Kong, 12 October 2020 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") affirms the BBB_g- long-term credit rating of Logan Group Company Limited ("Logan" or the "Company"), formerly known as Logan Property Holdings Company Limited. The rating outlook is stable.

Logan's rating reflects the Company's (1) quality land bank in the Great Bay Area; (2) sound profitability; and (3) good liquidity. However, the rating is also constrained by its (1) limited geographic diversification; and (2) moderate debt leverage with growing debt burden.

Corporate Profile

Logan is an integrated property developer and focuses on residential property development in China, particularly in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area"). The Company had a total land bank of gross floor area ("GFA") of 39.2 million square meters ("sqm") as of 30 June 2020, with approximately 70% of its land bank (by saleable value) in the Greater Bay Area. Logan was listed on the main board of the Hong Kong Stock Exchange (Stock Code: 3380.HK) in 2013.

Rating Rationale

Credit Strengths

Quality land bank in the Great Bay Area, with diversified acquisition channels. Logan had a vast land bank of aggregated GFA of 39.2 million sqm (equivalent to expected saleable value of RMB479.1 billion) as of 30 June 2020, with approximately 70% of its land bank (by saleable value) located in the Greater Bay Area. Besides, the Company had a potential land bank of GFA of 24.8 million sqm (equivalent to saleable value of RMB454.9 billion) from its M&A and urban renewal projects. The Company's current large land bank, along with its ongoing land replenishment, is sufficient for the Company's development needs for the next two to three years.

The quality of Logan's land bank is high as featured by (1) a relatively low average cost of land of RMB4,518 per sqm as of 30 June 2020; and (2) prime locations in areas with strong development prospects, particularly in the Great Bay Area. Logan also diversified its means in acquiring land bank such as participating in urban redevelopment projects, lowering its exposure to competitive public auction market. Among its newly added saleable resources of RMB129.2 billion in the first half of 2020, around half of them were obtained through urban redevelopment projects, with comparatively lower land premium.

With high-quality land bank, Logan achieved fast contracted sales growth over the past years and demonstrated resilience during the COVID-19 outbreak. For the first quarter of 2020, Logan recorded attributable contracted sales of RMB15.9 billion, dropping by 6.8% Year-over-Year ("YoY"), lower than a fall of 24.7% for the national property sales. With epidemic easing in China since May, the Company's contracted sales rebounded gradually with attributable contracted sales of RMB83.5 billion for the first nine months of 2020, increasing by 16.5% YoY. We expect the Company is on track to meet its full-year target of attributable contracted sales of RMB110 billion for 2020 (representing a YoY growth rate of 20%), underpinned by its strong sales execution ability and sufficient saleable resources of approximately RMB134 billion for the second half of 2020.

Sound profitability underpinned by low land cost and effective cost control. The Company's profitability is comparatively strong among other Chinese peers. It recorded gross profit margin of 31%-35% and net profit margin of 20-25% in the year of 2017 to 2019, and reported a gross profit margin of 32.0% and net profit margin of 20.4% for the last twelve months ended 30 June 2020. The outstanding profitability is underpinned by the Company's (1) relatively low cost of land projects; and (2) effective control of construction cost through the use of its own construction company. Underpinned by the Company's high profitability, its interest coverage capability is relatively strong. Its EBIT interest coverage ratio was within a range of 4.0x to 5.0x over the past three years, and recoded 4.2x for the last twelve months ended 30 June 2020. With its strong profitability and management intension in moderating debt leverage, we believe that the Company's interest coverage will remain robust over the next 12 to 18 months.

Good liquidity buffer. Logan's liquidity buffer is good with a cash holding of RMB41.9 billion as of 30 June 2020, representing 1.3 times of its short-term debt. In addition, the Company's weighted average funding cost on indebtedness was 5.93% as of 30 June 2020, relative to 6.1% at end-2019. The lower funding cost was mainly contributed by the decrease in interest rate of its new borrowings during 2020H1. In the first nine months of 2020, the Company issued three tranches of senior unsecured notes totaled USD580 million, with coupon range between 4.25% and 6.95%. The Company also raised onshore corporate and private bonds of RMB6.5 billion during the same period, with coupon rate between 4.69% and 4.8%. We believe that Logan's good track record in accessing capital markets and diversified funding sources can provide some buffers when additional funding is needed.

Credit Challenges

Limited geographical diversification. Logan's geographic concentration in south China, particularly in the Great Bay Area, may expose the Company's performance to the economic and regulatory changes in any specific city or region. For example, the tight regulatory measures in Shenzhen include imposing purchase restrictions and increasing down payment requirements, which could weigh on the Company's contracted sales in the city. Nonetheless, the Company's strong capability to achieve contracted sales growth in the past in the context of tight regulatory measures could partially mitigate the adverse impact of geographic concentration. Besides, the Company has continued to diversify its geographic coverage by expanding outside the Great Bay Area such as the Yangtze River Delta and Guangxi Province, which can partially alleviate its concentration risks. However, we expect sales contribution from the Great Bay Area will remain high at around 60% in the next 12 to 18 months, given the Company's large land bank in the area.

Moderate debt leverage with growing debt burden. Along with its property business expansion, the Company's adjusted total debt (including perpetual capital securities) increased by RMB7.8 billion to RMB79.9 billion as of 30 June 2020, as compared with the amount at end-2019. It had a moderate net gearing ratio of 76.3% at mid-2020, slightly decreased from 77.4% at end-2019. In addition, Logan's increasing proportion of short-term debt, from below 30% at end-2018 to approximately 40% at end-2019 and mid-2020, may impose refinancing risk in the near term. The Company's proven refinancing capability with relatively low funding cost could help reduce the adverse impact of its debt leverage and heightened short-term debt level. Besides, we see that the Company was exposed to foreign currency risk with 46% of its debts denominated in USD or SGD (approximately RMB36.5 billion) as of 30 June 2020, which was mainly hedged by its offshore projects in Hong Kong and Singapore.

Rating Outlook

The stable outlook on Logan's rating reflects our expectation that the Company will maintain a strong market position in the Greater Bay Area and continue to prudently diversify its land bank profile. We also expect Logan's credit metrics to remain at a manageable level over the next 12 to 18 months.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Real Estate Development Industry (December 2019).

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