

Guangdong Land Holdings Limited
HKSE: 0124
Maintaining Rating & Target
BUY, HK\$4.75
September 5, 2018
MARKET DATA

Share Price:	HK\$	1.91
Market Cap:	HK\$	3,269.04 M
52wk Range:	HK\$	1.54 - 2.21
Ave. Volume:		345,000
Basic S/O:		1,711.54 M
Fully Diluted S/O:		1,711.54 M
Float:		308.08 M
Board Lot:		2,000
Institutional (SDI) %:		8%
Insider %:		74%

FINANCIAL DATA (06/30)

Cash:	HK\$	1,917.19 M
ST Debt:	HK\$	0.00 M
LT Debt:	HK\$	0.00 M
Net Asset Value:	HK\$	4,699.85 M
EBITDA (ttm):	HK\$	129.73 M
CFFO (ttm):	HK\$	N/A

Auditor: PricewaterhouseCoopers

HKD	2016A	2017A	2018e	2019e
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Revenue (in Millions)

	2016A	2017A	2018e	2019e
Jun	654.99	27.80	10.42A	1,479.83
Dec	436.94	158.90	667.38	1,520.79
REV	1,091.94	186.69	677.80	3,000.62
<i>P/S</i>	<i>2.99</i>	<i>17.51</i>	<i>4.82</i>	<i>1.09</i>

Diluted EPS (in cents per share)

	2016A	2017A	2018e	2019e
Jun	(0.56)	(0.01)	3.65A	7.17
Dec	1.59	2.89	9.89	13.65
EPS	1.04	2.88	13.54	20.82
<i>P/E</i>	<i>184.34</i>	<i>66.33</i>	<i>14.11</i>	<i>9.17</i>

Dividend

	2016A	2017A	2018e	2019e
Dec	0.00	0.00	0.00	0.00
<i>Yield</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>

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Recently Closed Acquisitions Should Provide Bridge To Buxin Project

GZ Acquisitions Close After H1:18 Results. GDL reported H1:18 Revenue of HK\$10.42 million, which was comprised of HK\$8.87 million from the sale of old staff quarters and HK\$1.55 million of rental income. Higher Selling Expenses of HK\$7.77 million were related to the pre-sale activity of the Buxin project, while Administrative Expenses of HK\$40.94 million were up due to the fees incurred surrounding the Baohuaxuan and Zhuguanglu Project acquisitions, which closed on July 11. This was partially offset by HK\$28.90 million in interest-related income. Income taxes of HK\$74.57 million included HK\$77.17 million of over-provided land appreciation tax that was reversed following tax clearance from local tax authorities. Net Income for the period was HK\$62.40 million, or HK\$3.65 cents per share.

Project Portfolio Updates. Buxin has continued to progress, with two of the NW Land buildings constructed to the 19th floor and the other two to the 27th floor. Phase two, which will be constructed on the Southern and Northern Land and include office buildings of 180 meters and 300 meters and a shopping mall, is still expected to start later this year.

Residential units at Baohuaxuan are currently available for sale and it is expected that residential units at Zhuguanglu will be available for sale later in 2018.

Model Update. Other than adjusting the closing date of the GZ deal we have made no changes to our model.

Maintaining Rating & Target. With the Zhuguanglu and Baohuaxuan acquisitions being completed in early July and progress at Buxin moving according to plans, we anticipate the Company will record property sales each period for the coming years as the new projects should bridge to Buxin sales. With increased cash generation from property sales and pre-sales in the near term coupled with a strong outlook for Buxin longer term, we are reiterating our Buy rating and HK\$4.75 target price on Guangdong Land. Our target price is based on our DCF model that covers the new acquisitions and the Buxin projects.

RISKS

Lack of Real Estate Development Experience

GDL has no direct real estate development experience after spending years as a brewery. However, it received an influx of management personnel from its parent company, GDH, who has been successful in real estate in Guangdong.

Foreign Currency Translation

The Company operates in China, but reports results Hong Kong Dollars. Movements between the currencies could impact its financials, specifically the value of its Buxin project.

Capital Management

Delays in the Buxin Project and/or a lack of acquisition opportunities could make it difficult for management to achieve a fair rate of return on its cash position.

Controlled by Guangdong Investment

Guangdong Investment Limited [HK: 270] owns 1,268,522,665 shares, or 74.1%, of Guangdong Land. As such, it maintains control over the future of the Group.

Project Development Costs

The Company has not yet released its final projected budget of construction costs for the Buxin Project. This figure could vary from our projections.

Low Float and Share Turnover

With less than 20% of the shares outstanding in the float and less than US\$1 million trading each day, any trading interest in either direction could cause the stock to move fast and/or make it difficult to trade large positions.

Jewelry District Development

The Buxin Project is dependent in part on the local government to continue to push towards the development of the jewelry market in Luohu and Shuibei, and thus have local and international brands to seek retail and office space in the area.

Land and Real Estate Prices

Land and property values have risen in recent years before tailing off a bit in 2014 on tighter credit availability, which has negatively impacted not only buyers but also developers in a cash crunch. Should the government move back to tighter credit the Company may not be able to obtain the resale prices it currently projects.

BUSINESS SUMMARY

Guangdong Land (GDL) recently transitioned from a brewery to a Guangdong-focused real estate investment and development company. The Company is currently constructing its flagship property, the Buxin Project, a mixed-use commercial and residential project in the gold and jewelry district of Shenzhen. GDL also owns three projects in Guangzhou, including the Ruyingju and Baohuaxuan residential projects and a mixed use project (Zhuguanglu). GDL is a publicly listed subsidiary of Guangdong Investment (GDI [HK: 270]), which is a subsidiary of Guangdong Holdings (GDH), a provincial level State Owned Enterprise.

ESTIMATED INCOME STATEMENT

(in 000s of HKD)	H1:17A	H2:17A	2017A	H1:18A	H2:18e	2018e	H1:19e	H2:19e	2019e	2020e	2021e	2022e	2023e
Revenue	27,798	158,896	186,694	10,423	667,377	677,800	1,479,829	1,520,789	3,000,618	4,370,668	5,100,839	2,720,832	1,818,298
Cost of Sales	(17,476)	(3,597)	(21,073)	(241)	(443,504)	(443,745)	(758,019)	(654,578)	(1,412,596)	(820,025)	(927,802)	(498,292)	(388,329)
Gross Profit	10,322	155,299	165,621	10,182	223,873	234,055	721,810	866,212	1,588,022	3,550,643	4,173,037	2,222,540	1,429,968
Other Income & Gains, Net	36,402	28,985	65,387	28,902	28,870	57,772	20,201	24,876	45,077	71,069	62,203	103,445	142,458
Gain on Bargain Purchase	-	-	-	-	213,099	213,099	-	-	-	-	-	-	-
Selling & Distribution	(3,194)	(4,376)	(7,570)	(7,767)	(10,172)	(17,939)	(15,859)	(16,146)	(32,004)	(41,595)	(46,706)	(25,046)	(18,728)
Administration Expenses	(34,885)	(39,487)	(74,372)	(40,941)	(63,833)	(104,774)	(64,654)	(60,658)	(125,312)	(111,133)	(101,129)	(105,215)	(109,466)
Other Expenses	(1)	(2,779)	(2,780)	(673)	-	(673)	-	-	-	-	-	-	-
Finance Costs	-	-	-	-	(56,768)	(56,768)	(77,081)	(97,393)	(174,474)	(191,661)	(118,224)	-	-
Profit Before Tax	8,644	137,642	146,286	(10,297)	335,070	324,773	584,418	716,891	1,301,309	3,277,324	3,969,181	2,195,725	-
Income Tax Expense	(7,162)	(87,325)	(94,487)	74,571	(161,224)	(86,653)	(453,144)	(456,233)	(909,378)	(1,541,764)	(1,458,923)	(569,701)	(380,843)
Net Income	1,482	50,317	51,799	64,274	173,846	238,120	131,274	260,658	391,931	1,735,560	2,510,259	1,626,023	1,063,389
Minority Interests	(1,731)	(781)	(2,512)	(1,870)	(4,504)	(6,374)	(8,523)	(27,028)	(35,551)	(10,291)	-	-	-
Net Income	(249)	49,536	49,287	62,404	169,341	231,745	122,751	233,630	356,380	1,725,269	2,510,259	1,626,023	1,063,389
Basic EPS (HK Cents)	(0.01)	2.89	2.88	3.65	9.89	13.54	7.17	13.65	20.82	100.80	146.67	95.00	62.13
Basic S/O	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537
Diluted EPS (HK Cents)	(0.01)	2.89	2.88	3.65	9.89	13.54	7.17	13.65	20.82	100.80	146.67	95.00	62.13
Diluted S/O	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537	1,711,537

Source: 0124 documents filed with the HKEX and Greenridge Global estimates

DISCLOSURES**Distribution of Ratings**

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	7	78%	0	0%
HOLD	0	0%	0	0%
SELL	1	11%	0	0%
NO RATING	1	11%	0	0%

Explanation of Ratings

- BUY:** Describes undervalued stocks we expect to provide a total return (capital appreciation + yield) of 15% or more in the next twelve month period.
- HOLD:** Describes fully valued stocks we expect to provide a total return (capital appreciation + yield) of plus or minus 15% in the next twelve month period.
- SELL:** Describes overvalued stocks we expect to provide a total negative return (capital depreciation + yield) of 15% or more in the next twelve month period.
- NO RATING:** Describes stocks that have their investment rating and/or target price temporarily removed for fundamental or compliance-based reasons.

Analyst Certification

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Other Disclosures

<u>Company</u>	<u>Disclosures</u>
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DISCLOSURES (continued)

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