

Guangdong Land Holdings Limited HKSE: 0124

Maintaining Rating & Reducing Target
BUY, HK\$4.00

November 7, 2019

MARKET DATA

Share Price:	HK\$	1.26
Market Cap:	HK\$	2,156.54 M
52wk Range:	HK\$	1.17 - 1.98
Ave. Volume:		134,000
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\$	1,055.23 M
ST Debt:	HK\$	250.10 M
LT Debt:	HK\$	1,938.24 M
Net Asset Value:	HK\$	4,601.32 M
EBITDA (ttm):	HK\$	385.46 M
CFFO (ttm):	HK\$	N/A

Auditor: PricewaterhouseCoopers

HKD	2018A	2019e	2020e	2021e
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Revenue (in Millions)

Jun	10.42	464.15A	964.54	1,954.46
Dec	301.99	653.15	2,829.88	3,446.41
REV	312.42	1,117.30	3,794.41	5,400.87
<i>P/S</i>	<i>6.90</i>	<i>1.93</i>	<i>0.57</i>	<i>0.40</i>

Diluted EPS (in cents per share)

Jun	3.65	(1.98)A	1.86	40.07
Dec	9.46	(0.96)	44.76	87.11
EPS	13.10	(2.94)	46.62	127.17
<i>P/E</i>	<i>9.62</i>	<i>N/A</i>	<i>2.70</i>	<i>0.99</i>

Dividend

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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Third Quarter Deliveries Not As Robust As Expected

Third Quarter Deliveries Not As Robust As Expected. Third quarter Revenue was fairly strong, at HK\$300.9 million, which came from the delivery of 2,908m² of space in Laurel House and 1,351m² delivered from Ruyingju. However, GDL would need to have a very strong fourth quarter to meet our previous estimates for the second half, which we have since reduced. Net Loss for the quarter was HK\$27.5 million.

GDH City Update. The GDH City Project continues to move on track, with construction on schedule and 3,312m² of NW Land contracted during the third quarter, bringing the total contracted pre-sale amount to 8,303m².

Model Update. The only significant change to our model was adjusting the delivery and margins of the Laurel House project, which negatively impacted our estimates through H1:21.

Maintaining Rating & Reducing Target. The changes to our model relating to the delivery timing and margins on Laurel House was enough to move our valuation of GDL. Our new target price is HK\$4.00, which is still far below the current stock price. As such, we are reiterating our Buy rating on Guangdong Land Holdings and again note the significant discount the stock is trading at relative to the value of its portfolio. Our target price is based on our DCF model that covers GDL's entire project portfolio, discounted at 6.5%.

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.

Timing of Deliveries and Pre-Sales

Slower than expected pre-sale activity or deliveries of units could have a negative impact on our model and valuation estimate of the Company.

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 GDH City project.

Capital Management

Delays in the GDH City 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 GDH City or Jiangmen Projects. These figures could vary from our estimates.

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 GDH City 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 in China has primarily risen in recent years, but have been subject to fluctuations based on factors such as availability of credit and limitations on sale prices for new units.

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 GDH City 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, Laurel House, along with a parcel of land in Jiangmen. 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

	H1:18A	H2:18A	2018A	H1:19A	H2:19e	2019e	H1:20e	H2:20e	2020e	2021e	2022e	2023e
Revenue	10,423	301,998	312,421	464,151	653,150	1,117,301	964,538	2,829,875	3,794,413	5,400,866	3,359,770	2,625,984
Cost of Sales	(241)	(216,814)	(217,055)	(344,523)	(376,885)	(721,408)	(536,627)	(1,197,689)	(1,734,317)	(1,944,158)	(1,056,027)	(825,553)
Gross Profit	10,182	85,184	95,366	119,628	276,265	395,893	427,911	1,632,185	2,060,097	3,456,707	2,303,743	1,800,431
Other Income & Gains, Net	24,333	(669)	23,664	17,008	11,925	28,933	-	-	-	-	-	-
Gain on Bargain Purchase	-	296,737	296,737	-	-	-	-	-	-	-	-	-
Selling & Distribution Expenses	(7,767)	(21,742)	(29,509)	(30,794)	(36,531)	(67,325)	(39,645)	(58,299)	(97,944)	(114,009)	(93,598)	(86,260)
Administration Expenses	(40,941)	(54,746)	(95,687)	(50,180)	(60,658)	(110,838)	(62,050)	(49,082)	(111,133)	(96,830)	(96,356)	(100,249)
Other Expenses	(673)	8,856	8,183	-	-	-	-	-	-	-	-	-
Finance Costs	4,569	(29,840)	(25,271)	(35,813)	(46,318)	(82,131)	(42,688)	(5,802)	(48,490)	(19,837)	117,129	185,580
Profit Before Tax	(10,297)	283,780	273,483	19,849	144,683	164,532	283,527	1,519,002	1,802,529	3,226,032	2,230,919	1,799,503
Income Tax Expense	74,571	(117,576)	(43,005)	(47,242)	(149,599)	(196,841)	(251,080)	(752,860)	(1,003,940)	(1,049,431)	(565,612)	(439,383)
Net Income	64,274	166,204	230,478	(27,393)	(4,916)	(32,309)	32,447	766,142	798,589	2,176,600	1,665,306	1,360,120
Minority Interests	(1,870)	(4,345)	(6,215)	(6,498)	(11,510)	(18,008)	(641)	-	(641)	-	-	-
Net Income	62,404	161,859	224,263	(33,891)	(16,426)	(50,317)	31,806	766,142	797,948	2,176,600	1,665,306	1,360,120
Basic EPS (HK Cents/Share)	3.65	9.46	13.10	(1.98)	(0.96)	(2.94)	1.86	44.76	46.62	127.17	97.30	79.47
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
Diluted EPS (HK Cents/Share)	3.65	9.46	13.10	(1.98)	(0.96)	(2.94)	1.86	44.76	46.62	127.17	97.30	79.47
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

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	8	89%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	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.

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<u>Company</u>	<u>Disclosures</u>
Guangdong Land Holdings Limited	8

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