

Guangdong Land Holdings Limited

HKSE: 0124

Maintaining Rating & Target

BUY, HK\$4.75

April 4, 2019

MARKET DATA

Share Price:	HK\$	1.65
Market Cap:	HK\$	2,824.04 M
52wk Range:	HK\$	1.56 - 2.21
Ave. Volume:		500,000
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\$	1,013.03 M
ST Debt:	HK\$	470.22 M
LT Debt:	HK\$	2,041.79 M
Net Asset Value:	HK\$	4,660.02 M
EBITDA (ttm):	HK\$	305.14 M
CFFO (ttm):	HK\$	(1,391.48) M

Auditor: PricewaterhouseCoopers

HKD	2017A	2018A	2019e	2020e
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Revenue (in Millions)

Jun	27.80	10.42	2,049.86	487.51
Dec	158.90	301.99	1,492.94	3,649.17
REV	186.69	312.42	3,542.80	4,136.68
<i>P/S</i>	<i>15.13</i>	<i>9.04</i>	<i>0.80</i>	<i>0.68</i>

Diluted EPS (in cents per share)

Jun	(0.01)	3.65	13.41	0.39
Dec	2.89	9.46	12.95	98.28
EPS	2.88	13.10	26.36	98.67
<i>P/E</i>	<i>57.29</i>	<i>12.60</i>	<i>6.26</i>	<i>1.67</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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Development & Pre-Sale Activity At GDH City Continue On Schedule**GDL Portfolio Updates.**

- *GDH City* (formerly referred to as the Buxin Project) is still developing on schedule, as roof sealing was completed on Phase 1 and foundation work had begun on Phase 2. 2,857m² of the NW Land was sold in December 2018 after receiving pre-sale approval, which was before it started marketing the project earlier this year. GDL announced it signed a strategic partnership with the Shanghai Diamond Exchange for the project and retained TeeMall to offer consultancy services for operations management and to help search for commercial tenants. GDL also established a wholly-owned property management company to operate the GDH City Project. Total development cost of the GDH City Project was HK\$3,827 million at the end of 2018, up HK\$789 million from the year ago period.
- *Ruyingju Project* delivered 415m² of residential units in the second half, with an additional 2,324m² of space contracted and waiting to be delivered. It also began selling the car parking spaces in the Project, selling 3,646m² of space and delivering 3,573m², or roughly 44.4% of the total carpark GFA. We expect the majority of the remainder will be delivered in 2019.
- *Laurel House Project* (formerly known as Zhuguanglu) delivered 2,943m², or 4.5% of total residential GFA, with another 1,139m² sold and undelivered as of year end. The Company is in the midst of leasing commercial space in this project. We expect the majority of this project will be delivered in 2019, with a small amount of GFA, along with the carpark spaces, to be delivered in 2020.
- *Baohuaxuan* delivered 680m², bringing its total residential GFA delivered to 86.3%. We expect the remainder of its GFA and most of the carpark spaces to be sold and delivered in 2019.

Model Update. With GDH City moving along as scheduled and all other portfolio assets selling as expected we have made no changes to our model.

Maintaining Rating & Target. We continue to believe Guangdong Land is trading at a significant discount to the value of its portfolio. We expect this discount will be corrected by the market as GDH City continues to progress and other portfolio assets are developed and sold off. With no operational headwinds in view 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 GDL's entire project portfolio, discounted at 6.5%.

COMPANY UPDATE

GDL Portfolio Updates.

- *GDH City* (formerly referred to as the Buxin Project) is still developing on schedule, as roof sealing was completed on Phase 1 and foundation work had begun on Phase 2. 2,857m² of the NW Land was sold in December 2018 after receiving pre-sale approval, which was before it started marketing the project earlier this year. GDL announced it signed a strategic partnership with the Shanghai Diamond Exchange for the project and retained TeeMall to offer consultancy services for operations management and to help search for commercial tenants. GDL also established a wholly-owned property management company to operate the GDH City Project. Total development cost of the GDH City Project was HK\$3,827 million at the end of 2018, up HK\$789 million from the year ago period.
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H2 Results Spurred By GYPD Acquisition. GDL reported second half results with Revenue of HK\$302.0 million, derived from deliveries at Baohuaxuan, Laurel House and Ruyingju. As previously noted, the Company recorded a HK\$296.7 million Gain on Bargain Purchase from the Guangdong Yuehai Property Development (GYPD) acquisition, which owned Baohuaxuan and Laurel House. Administrative and Selling & Distribution Expenses rose to HK\$76.5 million in the second half, with the increases tied to the GYPD acquisition and integration of its operations into GDL. Finance Costs totaled HK\$25.3 million, as the Company borrowed HK\$2,512 million from banks at an effective loan interest rate of 5.51%. Income taxes of HK\$117.6 million included the impact of the HK\$77.17 million over-accrual of land appreciation tax in H1:18 that was reversed in H2. Net Income for the period was HK\$161.9 million, or HK\$9.46 cents per share.

AGM. The AGM will be held on June 6, 2019 at 3pm in the Concord Room of the Renaissance Hotel in Wan Chai.

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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 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 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 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 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 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. 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)	H1:18A	H2:18A	2018A	H1:19e	H2:19e	2019e	H1:20e	H2:20e	2020e	2021e	2022e	2023e
Revenue	10,423	301,998	312,421	2,049,861	1,492,937	3,542,797	487,511	3,649,172	4,136,683	5,323,079	2,803,122	1,898,191
Cost of Sales	(241)	(216,814)	(217,055)	(1,036,706)	(654,242)	(1,690,948)	(196,860)	(538,542)	(735,401)	(904,222)	(489,736)	(378,897)
Gross Profit	10,182	85,184	95,366	1,013,155	838,694	1,851,849	290,651	3,110,630	3,401,282	4,418,857	2,313,386	1,519,294
Other Income & Gains, Net	28,902	(5,238)	23,664	14,623	23,212	37,835	47,272	52,668	99,940	90,137	147,526	197,128
Gain on Bargain Purchase	-	296,737	296,737	-	-	-	-	-	-	-	-	-
Selling & Distribution	(7,767)	(21,742)	(29,509)	(19,849)	(15,951)	(35,800)	(8,913)	(31,044)	(39,957)	(48,262)	(25,622)	(19,287)
Administration Expenses	(40,941)	(54,746)	(95,687)	(64,654)	(60,658)	(125,312)	(62,050)	(49,082)	(111,133)	(96,830)	(96,356)	(100,249)
Other Expenses	(673)	8,856	8,183	-	-	-	-	-	-	-	-	-
Finance Costs	-	(25,271)	(25,271)	(74,159)	(92,066)	(166,225)	(111,351)	(70,026)	(181,377)	(116,635)	-	-
Profit Before Tax	(10,297)	283,780	273,483	869,115	693,232	1,562,347	155,609	3,013,145	3,168,755	4,247,268	2,338,934	1,596,886
Income Tax Expense	74,571	(117,576)	(43,005)	(631,314)	(448,939)	(1,080,253)	(148,243)	(1,331,124)	(1,479,367)	(1,421,948)	(604,904)	(418,380)
Net Income	64,274	166,204	230,478	237,801	244,293	482,094	7,366	1,682,021	1,689,388	2,825,320	1,734,031	1,178,506
Minority Interests	(1,870)	(4,345)	(6,215)	(8,296)	(22,685)	(30,982)	(641)	-	(641)	-	-	-
Net Income	62,404	161,859	224,263	229,505	221,608	451,113	6,725	1,682,021	1,688,747	2,825,320	1,734,031	1,178,506
Basic EPS (Cents/Share)	3.65	9.46	13.10	13.41	12.95	26.36	0.39	98.28	98.67	165.08	101.31	68.86
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 (Cents/Share)	3.65	9.46	13.10	13.41	12.95	26.36	0.39	98.28	98.67	165.08	101.31	68.86
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.

Analyst Certification

I, William Gregozeski, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and subject company. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Other Disclosures

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

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DISCLOSURES (continued)

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