

**Guangdong Land Holdings Limited**  
**HKSE: 0124**

**Maintaining Rating & Raising Target**  
**BUY, HK\$4.75**

**June 4, 2018**

**MARKET DATA**

Share Price:	HK\$	2.00
Market Cap:	HK\$	3,423.08 M
52wk Range:	HK\$	1.54 - 2.02
Ave. Volume:		285,000
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** (12/31)

Cash:	HK\$	1,880.73 M
ST Debt:	HK\$	0.00 M
LT Debt:	HK\$	0.00 M
Net Asset Value:	HK\$	4,676.65 M
EBITDA (ttm):	HK\$	147.88 M
CFFO (ttm):	HK\$	N/A

Auditor: PricewaterhouseCoopers

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

Jun	654.99	27.80	46.68	1,479.83
Dec	436.94	158.90	667.38	1,520.79
<b>REV</b>	<b>1,091.94</b>	<b>186.69</b>	<b>714.06</b>	<b>3,000.62</b>
<i>P/S</i>	<i>3.14</i>	<i>18.34</i>	<i>4.79</i>	<i>1.14</i>

**Diluted EPS** (in cents per share)

Jun	(0.56)	(0.01)	14.51	7.26
Dec	1.59	2.89	(2.79)	13.74
<b>EPS</b>	<b>1.04</b>	<b>2.88</b>	<b>11.72</b>	<b>21.00</b>
<i>P/E</i>	<i>192.31</i>	<i>69.44</i>	<i>17.06</i>	<i>9.52</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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**Acquisitions Look To Be An Accretive Deal For Shareholders**

**GDL Releases Circular on GZ Acquisitions.** Last week, GDL filed its Circular related to the purchase of two projects in Guangzhou, which it intends to acquire from GDH, for a total of RMB 1,200,490,000 in cash and the repayment of RMB 842,139,229 in outstanding loans from GDH, or RMB 2,042,629,229 (HK\$2,528,320,000) in total. GDL will pay RMB 842 million from cash on hand and pay the remaining RMB 1.2 billion from bank borrowings. Earlier this month, it obtained a RMB 500 million banking facility and expects to receive the remaining RMB 700 million prior to completion, all with annual interest rates between 4.75% and 5.00%; the same interest rates as the GDH loans. Vigers Appraisal set the value of the properties at RMB 4,560,000,000, with an adjusted NAV of RMB 1,381,082,000 (which includes an estimated RMB 963.2 million in land appreciation taxes and RMB 321.2 million corporate income taxes), thus making the cash purchase price a 13.1% discount to the adjusted NAV. We expect this acquisition to be approved at its Special General Meeting on Thursday. See page 2 for more details on Zhuguanglu and Baohuaxuan.

**Model Update.** For modelling purposes, we are assuming all Baohuaxuan units are sold in 2018 and delivered between now and through the first half of 2019, with car parking spaces to follow in 2019 and the first half of 2020. We are assuming Zhuguanglu residential deliveries start in late 2018, with the bulk being delivered in 2019 and the remainder in early 2020, with the bulk of car parking spaces being sold in 2020. We are assuming rental income from the commercial space will start in the first half of 2019. We also included a Gain on Bargain Purchase of HK\$233 million, given the discount on this deal. We also note that the use of this cash will require GDL to find debt financing for Buxin, as has been discussed previously.

**Maintaining Rating & Increasing Target.** As we had been discussing in previous reports, we thought finding another Ruyingju-like deal to generate profit to bridge to the beginning of Buxin sales, which this deal will do, would be a catalyst for the stock, which currently sits around its 52-week high. With the addition of Zhuguanglu and Baohuaxuan we are reiterating our Buy rating on Guangdong Land and increasing our target price from HK\$4.50 to HK\$4.75. The increase in target price is based on the effect of this acquisition and continued movement towards completion of the NW Land of Buxin.

## COMPANY UPDATE

**GDL Releases Circular on GZ Acquisitions.** Last week, GDL filed its Circular related to the purchase of two projects in Guangzhou, which it intends to acquire from GDH, for a total of RMB 1,200,490,000 in cash and the repayment of RMB 842,139,229 in outstanding loans from GDH, or RMB 2,042,629,229 (HK\$2,528,320,000) in total. GDL will pay RMB 842 million from cash on hand and pay the remaining RMB 1.2 billion from bank borrowings. Earlier this month, it obtained a RMB 500 million banking facility and expects to receive the remaining RMB 700 million prior to completion, all with annual interest rates between 4.75% and 5.00%; the same interest rates as the GDH loans. Vigers Appraisal set the value of the properties at RMB 4,560,000,000, with an adjusted NAV of RMB 1,381,082,000 (which includes an estimated RMB 963.2 million in land appreciation taxes and RMB 321.2 million corporate income taxes), thus making the cash purchase price a 13.1% discount to the adjusted NAV. We expect this acquisition to be approved at its Special General Meeting on Thursday.

The Zhuguanglu Project is a residential and commercial property with an aggregate gross floor area totaling 119,267 square meters on a 12,168 square meter site. The property includes 65,636m<sup>2</sup> of residential space, 22,817m<sup>2</sup> of commercial space, 18,464m<sup>2</sup> of car parking spaces (229 spaces), and 12,350m<sup>2</sup> of public facilities. Construction has been primarily completed with the remaining RMB 16,000,000 of renovations expected to be completed by the end of August 2018. GDL intends to sell the residential units, which would be expected to start in 2018, lease the commercial units and either sell or lease the car parking space. GDL plans to convert 4,396m<sup>2</sup> of commercial space into an additional 100 car parking spaces, which will result in a total of 18,421m<sup>2</sup> of commercial space and 329 car parking spaces. Through March 31, 2018, the total amount invested in land and development of the project was RMB 2,029,000,000. Vigers estimated current market values of RMB 63,000 to RMB 70,000 per square meter for residential units, RMB 570,000 to RMB 740,000 per car parking space, and lease rates of RMB 70 to RMB 300 per square meter for the commercial space.

The Baohuaxuan Project has a total GFA of 5,240m<sup>2</sup> on a 1,374m<sup>2</sup> site and is comprised of 40 residential units and 20 car parking spaces. All construction has been completed and as of March 31, 2018, 31 residential units with a total GFA of 3,044m<sup>2</sup> had purchase and sale agreements in place, of which 17 units with a total GFA of 1,669m<sup>2</sup> have been delivered. The remaining 9 units and all 20 car parking spaces are expected to be sold. Through March 31, 2018, total amount invested in land and development of the project was RMB 97,550,000. Vigers estimated current market values of RMB 37,000 to RMB 39,500 per square meter for residential units and RMB 400,000 per car parking space.

**Model Update.** For modelling purposes, we are assuming all Baohuaxuan units are sold in 2018 and delivered between now and through the first half of 2019, with car parking spaces to follow in 2019 and the first half of 2020. We are assuming Zhuguanglu residential deliveries start in late 2018, with the bulk being delivered in 2019 and the remainder in early 2020, with the bulk of car parking spaces being sold in 2020. We are assuming rental income from the commercial space will start in the first half of 2019. We also included a Gain on Bargain Purchase of HK\$233 million, given the discount on this deal. We also note that the use of this cash will require GDL to find debt financing for Buxin, as has been discussed previously.

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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 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.

### Permitting Approval

The Company is still seeking final permitting approvals for its development plans for the Buxin Project. Until received, GDL cannot begin construction on the Buxin Project.

### 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 in the pre-construction stage of developing its first property, the Buxin Project, a mixed-use commercial and residential project in the gold and jewelry district of Shenzhen. GDL also owns two investment properties in Shenzhen, a residential project in Guangzhou (Ruyingju Project), has agreed to acquire a residential project (Baohuaxuan) and a mixed use project (Zhuguanglu) in Guangzhou, and is actively seeking additional investment properties and land development projects in Guangdong or other Tier 1 cities. 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	H1:18e	H2:18e	2018e	H1:19e	H2:19e	2019e	2020e	2021e	2022e	2023e
Revenue	27,798	158,896	186,694	46,680	667,377	714,057	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)	-	(443,504)	(443,504)	(758,019)	(654,578)	(1,412,596)	(820,025)	(927,802)	(498,292)	(388,329)
<b>Gross Profit</b>	<b>10,322</b>	<b>155,299</b>	<b>165,621</b>	<b>46,680</b>	<b>223,873</b>	<b>270,553</b>	<b>721,810</b>	<b>866,212</b>	<b>1,588,022</b>	<b>3,550,643</b>	<b>4,173,037</b>	<b>2,222,540</b>	<b>1,429,968</b>
Other Income & Gains, Net	36,578	28,809	65,387	30,869	23,493	54,362	22,100	27,013	49,113	74,509	65,703	107,007	146,082
Gain on Bargain Purchase	-	-	-	213,099	-	213,099	-	-	-	-	-	-	-
Selling & Distribution	(3,194)	(4,376)	(7,570)	(3,327)	(10,172)	(13,498)	(15,859)	(16,146)	(32,004)	(41,595)	(46,706)	(25,046)	(18,728)
Administration Expenses	(34,885)	(39,487)	(74,372)	(40,277)	(63,833)	(104,110)	(64,654)	(60,658)	(125,312)	(111,133)	(101,129)	(105,215)	(109,466)
Other Expenses	(177)	(2,603)	(2,780)	-	-	-	-	-	-	-	-	-	-
Finance Costs	-	-	-	-	(56,768)	(56,768)	(77,081)	(97,393)	(174,474)	(191,661)	(118,224)	-	-
<b>Profit Before Tax</b>	<b>8,644</b>	<b>137,642</b>	<b>146,286</b>	<b>247,044</b>	<b>116,594</b>	<b>363,638</b>	<b>586,317</b>	<b>719,028</b>	<b>1,305,345</b>	<b>3,280,763</b>	<b>3,972,681</b>	<b>2,199,286</b>	<b>1,447,856</b>
Income Tax Expense	(7,162)	(87,325)	(94,487)	1,285	(159,880)	(158,595)	(453,619)	(456,768)	(910,387)	(1,542,624)	(1,459,798)	(570,591)	(381,749)
<b>Net Income</b>	<b>1,482</b>	<b>50,317</b>	<b>51,799</b>	<b>248,329</b>	<b>(43,286)</b>	<b>205,043</b>	<b>132,698</b>	<b>262,260</b>	<b>394,958</b>	<b>1,738,140</b>	<b>2,512,884</b>	<b>1,628,694</b>	<b>1,066,107</b>
Minority Interests	(1,731)	(781)	(2,512)	-	(4,504)	(4,504)	(8,523)	(27,028)	(35,551)	(10,291)	-	-	-
<b>Net Income</b>	<b>(249)</b>	<b>49,536</b>	<b>49,287</b>	<b>248,329</b>	<b>(47,790)</b>	<b>200,539</b>	<b>124,175</b>	<b>235,233</b>	<b>359,407</b>	<b>1,727,849</b>	<b>2,512,884</b>	<b>1,628,694</b>	<b>1,066,107</b>
<b>Basic EPS (HK Cents)</b>	<b>(0.01)</b>	<b>2.89</b>	<b>2.88</b>	<b>14.51</b>	<b>(2.79)</b>	<b>11.72</b>	<b>7.26</b>	<b>13.74</b>	<b>21.00</b>	<b>100.95</b>	<b>146.82</b>	<b>95.16</b>	<b>62.29</b>
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
<b>Diluted EPS (HK Cents)</b>	<b>(0.01)</b>	<b>2.89</b>	<b>2.88</b>	<b>14.51</b>	<b>(2.79)</b>	<b>11.72</b>	<b>7.26</b>	<b>13.74</b>	<b>21.00</b>	<b>100.95</b>	<b>146.82</b>	<b>95.16</b>	<b>62.29</b>
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	6	75%	0	0%
HOLD	0	0%	0	0%
SELL	1	12%	0	0%
NO RATING	1	12%	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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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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- Greenridge Global or an affiliate of Greenridge Global has received compensation for investment banking services from the subject company in the last 12 months.
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## DISCLOSURES (continued)

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