

Guangdong Land Holdings Limited

HKSE: 0124

Maintaining Rating & Reducing Target**BUY, HK\$4.25****September 6, 2019****MARKET DATA**

Share Price:	HK\$	1.26
Market Cap:	HK\$	2,156.54 M
52wk Range:	HK\$	1.17 - 1.98
Ave. Volume:		112,000
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	2017A	2018A	2019e	2020e
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Revenue (in Millions)

Jun	27.80	10.42	464.15A	996.28
Dec	158.90	301.99	987.09	3,126.33
REV	186.69	312.42	1,451.24	4,122.61
<i>P/S</i>	<i>11.55</i>	<i>6.90</i>	<i>1.49</i>	<i>0.52</i>

Diluted EPS (in cents per share)

Jun	(0.01)	3.65	(1.98)A	8.20
Dec	2.89	9.46	9.01	75.11
EPS	2.88	13.10	7.03	83.32
<i>P/E</i>	<i>43.75</i>	<i>9.62</i>	<i>17.92</i>	<i>1.51</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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Sales Continues At All Portfolio Properties

Unit Sales Continue Across Property Portfolio. GDL reported first half results with Revenue of HK\$464.1 million, which was generated from the delivery of 4,440m² from Laurel House, 102m² from Baohuaxuan, and 2,186m² of residential space and 207m² of car parking spaces at Ruyingju. Pre-sales of GDH City during the period was 4,991m². Cost of Sales was HK\$344.5 million, for a Gross Profit of HK\$119.6 million, or 25.8%. SG&A was HK\$80.9 million, up significantly reflecting the greater number of projects GDL owns and increased marketing activity at GDH City. Included in the marketing activities was a well-attended project kick-off event on June 14 for prospective buyers, renters and other partners. Net Finance Expense was HK\$35.8 million and Income Tax Expense was HK\$47.2 million, which was partially offset by HK\$17.0 million in Other Income, most of which was from Foreign Currency Gains. Net Loss for the period was HK\$27.4 million, or 1.98 cents per share, far below our estimate as we had assumed much faster sales of the Laurel House project.

N Land Contract Amendment. On July 4, GDL amended its foundation pit support, earth and stone works, and piling works agreement with the contractor for its Northern Land site of GDH City, which will see GDL pay an additional HK\$44.9 million. The amendment was made primarily to account for the change in policy in Shenzhen requiring off-road vehicles to be new energy vehicles, which has markedly increased to cost to transport materials. The change will ultimately result in a six month delay from the original timeline with this contractor, however management still believes the entirety of the N Land project will be completed as scheduled.

Related Party Sale - Laurel House Units. On September 2, GDL announced it was selling a total of seven units from the Laurel House project to a subsidiary of its ultimate parent company, Guangdong Holdings. A total of 692.65m² was sold for cash at an average price of RMB 70,367 per m², which falls in line with market prices. GDL expects to report a net profit of RMB 2,642,000 from the sale of these units. On July 18, GDL renewed its property management agreement with Yuehai Property Management for Laurel House, which now runs through 2020.

Model Update. Changes to our model include lengthening the time to contract and deliver units at Laurel House, increasing development expenses for GDH City as noted above, and making adjustments for the depreciation of the RMB relative to the HKD.

Maintaining Rating & Reducing Target. The model changes noted above resulted in a reduction in our DCF valuation of the Company, from HK\$4.75 to HK\$4.25. However, with GDH City making progress in terms of construction timeline and partner/tenant negotiations, we continue to believe GDL's stock is undervalued at current prices. As such we are reiterating our Buy rating on Guangdong Land. 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.

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 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 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. 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	H1:19A	H2:19e	2019e	H1:20e	H2:20e	2020e	2021e	2022e	2023e
Revenue	10,423	301,998	312,421	464,151	987,085	1,451,236	996,275	3,126,330	4,122,605	5,020,225	3,359,770	2,286,252
Cost of Sales	(241)	(216,814)	(217,055)	(344,523)	(385,426)	(729,949)	(420,112)	(754,360)	(1,174,472)	(546,581)	(273,415)	(178,333)
Gross Profit	10,182	85,184	95,366	119,628	601,659	721,287	576,163	2,371,970	2,948,133	4,473,643	3,086,355	2,107,919
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)	(39,871)	(70,665)	(39,963)	(61,263)	(101,226)	(110,202)	(93,598)	(82,863)
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)	(39,393)	(594)	(39,987)	(12,458)	141,924	212,645
Profit Before Tax	(10,297)	283,780	273,483	19,849	466,737	486,586	434,757	2,261,031	2,695,788	4,254,154	3,038,325	2,137,453
Income Tax Expense	74,571	(117,576)	(43,005)	(47,242)	(289,816)	(337,058)	(293,710)	(975,435)	(1,269,145)	(880,708)	(684,205)	(451,584)
Net Income	64,274	166,204	230,478	(27,393)	176,921	149,528	141,047	1,285,596	1,426,643	3,373,446	2,354,120	1,685,869
Minority Interests	(1,870)	(4,345)	(6,215)	(6,498)	(22,685)	(29,183)	(641)	-	(641)	-	-	-
Net Income	62,404	161,859	224,263	(33,891)	154,236	120,345	140,406	1,285,596	1,426,002	3,373,446	2,354,120	1,685,869
Basic EPS (HK Cents/Share)	3.65	9.46	13.10	(1.98)	9.01	7.03	8.20	75.11	83.32	197.10	137.54	98.50
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)	9.01	7.03	8.20	75.11	83.32	197.10	137.54	98.50
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	7	88%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	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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<u>Company</u>	<u>Disclosures</u>
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