

Guangdong Land Holdings Limited

HKSE: 0124

Maintaining Rating & Target

BUY, HK\$4.00

November 2, 2020

MARKET DATA

Share Price:	HK\$	1.16
Market Cap:	HK\$	1,985.39 M
52wk Range:	HK\$	0.72 - 1.40
Ave. Volume:		280,000
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 (6/30)

Cash:	HK\$	2,588.72 M
ST Debt:	HK\$	665.63 M
LT Debt:	HK\$	3,822.07 M
Net Asset Value:	HK\$	6,501.40 M
EBITDA (ttm):	HK\$	3,294.60 M
CFFO (ttm):	HK\$	(262.83) M

Auditor: PricewaterhouseCoopers

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

	2018A	2019A	2020e	2021e
Jun	10.42	464.15	1,898.48A	1,386.62
Dec	301.99	1,372.53	2,105.99	846.31
REV	312.42	1,836.68	4,004.48	2,232.93
<i>P/S</i>	<i>6.35</i>	<i>1.08</i>	<i>0.50</i>	<i>0.89</i>

Diluted EPS (in cents per share)

	2018A	2019A	2020e	2021e
Jun	3.65	(1.98)	101.48A	24.00
Dec	9.46	21.91	13.20	7.77
EPS	13.10	19.93	114.67	31.77
<i>P/E</i>	<i>8.85</i>	<i>5.82</i>	<i>1.01</i>	<i>3.65</i>

Dividend

	2018A	2019A	2020e	2021e
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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GDL Agrees To Acquire Two Greater Bay Area Projects

Two New Projects Acquired. GDL agreed to purchase Jiangmen Yuehai and Huizhou Yuehai from Yuegang Investment, a subsidiary of Guangdong Holdings, the ultimate controlling shareholder of GDL.

Jiangmen Yuehai owns the Jiangmen Ganhua Project, which is located less than four kilometers from the central commercial district of Beixin Sub-district and connected to mass transit, and roughly 10km from GDL's other Jiangmen project. The Project has a site area of 192,652.34m², split between two adjacent parcels. Parcel A has a site area of 174,537.52m² and will have 274,371m² of residential, 119,194.52m² of commercial and 3,035m² for ancillary public facilities. Parcel B has a site area of 18,114.82m² and will have 28,797m² of elderly residential apartments and public service facilities and 12,800.5m² for care homes and health centers. All units will be held for sale. The Ganhua Project will be split into three phases, with pre-sale of Phase 1 commencing in May 2021 and the entire Project slated for completion in December 2026. The Project is currently at the land leveling stage. The purchase price of Jiangmen Yuehai is RMB 954,179,553, which is comprised of RMB 648,179,553 in cash (of which 70% is due on the one year anniversary of deal completion) and the assumption of RMB 306,000,000 in loans. As of August 31, the NAV of Jiangmen Yuehai is RMB 1,275.81 million. Additional details of the Project will be released in the upcoming Circular, which is scheduled for release on November 19.

Huizhou Yuehai owns the Huizhou Dayawan Project, which is located in the Dayawan District of Huizhou, roughly 60km northeast of Shenzhen. The Project has a total site area of 30,698m² and will be developed to have 92,094m², comprised of 81,469m² of residential space, 9,209m² of commercial space, and 1,416m² for ancillary public facilities. Development is expected to be completed in October 2023 and pre-sale is expected to start in March 2022. All units will be held for sale. The Project is currently at the land leveling stage. The purchase price of Huizhou Yuehai is RMB 273,797,700, of which RMB 82,139,310 is payable upon completion and the remainder is due on the one year anniversary of deal completion at a 4.35% interest rate. As of August 31, the NAV of Jiangmen Yuehai is RMB 288,990,472. Additional details of the Project will be released in the upcoming Circular.

This deal looks to be another positive development for GDL as it adds to its portfolio of Greater Bay Area projects. Jiangmen Ganhua also provides a provide that will extend beyond GDH City, providing a better picture of future cash flows beyond its initial project. Another positive for GDL is that the majority of the purchase price is first payable on the one year anniversary of deal completion, which provides GDL greater cash flexibility in the near term while it sells existing units to generate cash.

Laurel House Deliveries Drive Q3 Revenue. Yesterday, GDL reported third quarter results with Revenue of HK\$1,484.28 million, which nears the total Revenue we had estimated for H2:20. Revenue was driven by a surge in deliveries at Laurel House, which totaled 16,417m² in the quarter. Cumulatively, GDL has delivered 73.4% of Laurel House. Occupancy of the commercial units at Laurel House stood at 85.4% at the end of the quarter. The remainder came from the delivery of 3,480m² of space in the NW Land portion of GDH City. Total deliveries of GDH City stand at 18.4%, continuing to sell near our expected levels. GDL posted a slight loss for the quarter, at HK\$12.58 million.

COMPANY UPDATE

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Model Update. Until the acquisitions are completed we are leaving Jiangmen Ganhua and Huizhou Yuehai out of our model, despite our confidence that the acquisition will be approved. The only change to our model was an increase in H2:20 deliveries for Laurel House after the stronger than expected amount of deliveries in Q3.

Maintaining Rating & Target. With better than expected sales in Q3 and the announcement of two new acquisitions, we remain optimistic on the development of the Company's portfolio of projects in a timely and on budget manner. With no significant changes to our model, again noting the new Projects will not be included until the deal is completed, we are reiterating our Buy rating and HK\$4.00 target price on Guangdong Land Holdings. 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 had 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 and has executed on projects developed and acquired to date.

Timing of Deliveries and Pre-Sales

Slower than expected pre-sale activity or deliveries of units or debt capital acquired at higher than expected interest rates 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 Jiangmen Project or the new Zhuhai Project, which 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.

Impact of Pandemics

A recurrence of COVID-19, or another pandemic in the Greater Bay Area could result to delays in construction schedules and/or reduction in prices that could impact the value of properties held for sale.

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 new mixed-use development projects in Jiangmen and Zhuhai. 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)	H1:19A	H2:19A	2019A	H1:20A	H2:20e	2020e	H1:21e	H2:21e	2021e	2022e	2023e
Revenue	464,151	1,372,525	1,836,676	1,898,483	2,105,998	4,004,481	1,386,618	846,309	2,232,927	4,616,840	3,928,044
Cost of Sales	(344,523)	(1,175,725)	(1,520,248)	(1,023,225)	(1,229,730)	(2,252,955)	(542,394)	(285,559)	(827,953)	(1,538,585)	(1,474,301)
Gross Profit	119,628	196,800	316,428	875,258	876,268	1,751,526	844,223	560,750	1,404,974	3,078,256	2,453,743
Selling & Distribution Expenses	(30,794)	(55,243)	(86,037)	(76,531)	(82,650)	(159,181)	(76,531)	(76,531)	(153,062)	(153,062)	(153,062)
Administration Expenses	(50,180)	(67,759)	(117,939)	(62,341)	(64,230)	(126,571)	(66,888)	(69,291)	(136,179)	(147,416)	(160,118)
Other Gains, Net	17,008	570,476	587,484	1,893,074	-	1,893,074	-	-	-	-	-
Finance Costs	(35,813)	(29,298)	(65,111)	(10,354)	(13,548)	(23,902)	(33,880)	(18,871)	(52,751)	(46,132)	90,343
Profit Before Tax	19,849	614,976	634,825	2,619,106	715,840	3,334,946	666,924	396,057	1,062,981	2,731,646	2,230,906
Income Tax Expense	(47,242)	(238,094)	(285,336)	(878,226)	(488,574)	(1,366,800)	(256,193)	(263,010)	(519,203)	(771,538)	(592,723)
Net Income	(27,393)	376,882	349,489	1,740,880	227,266	1,968,146	410,731	133,047	543,779	1,960,108	1,638,183
Minority Interests	(6,498)	(1,928)	(8,426)	(4,069)	(1,395)	(5,464)	-	-	-	-	-
Net Income	(33,891)	374,954	341,063	1,736,811	225,871	1,962,682	410,731	133,047	543,779	1,960,108	1,638,183
Basic EPS (HK Cents/Share)	(1.98)	21.91	19.93	101.48	13.20	114.67	24.00	7.77	31.77	114.52	95.71
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
Diluted EPS (HK Cents/Share)	(1.98)	21.91	19.93	101.48	13.20	114.67	24.00	7.77	31.77	114.52	95.71
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

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	10	100%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	0	0%	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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