

Guangdong Land Holdings Limited
HKSE: 0124
Maintaining Rating & Raising Target
BUY, HK\$5.00
December 16, 2020
MARKET DATA

| | | |
|------------------------|------|-------------|
| Share Price: | HK\$ | 1.08 |
| Market Cap: | HK\$ | 1,848.46 M |
| 52wk Range: | HK\$ | 0.72 - 1.40 |
| Ave. Volume: | | 130,000 |
| 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 2019A 2020e 2021e 2022e
Revenue (in Millions)

| | | | | |
|------------|-----------------|-----------------|-----------------|-----------------|
| Jun | 464.15 | 1,898.48A | 1,386.83 | 854.43 |
| Dec | 1,372.53 | 2,103.21 | 846.52 | 3,848.90 |
| REV | 1,836.68 | 4,001.69 | 2,233.34 | 4,079.21 |
| <i>P/S</i> | <i>1.01</i> | <i>0.46</i> | <i>0.83</i> | <i>0.45</i> |

Diluted EPS (in cents per share)

| | | | | |
|------------|--------------|---------------|--------------|---------------|
| Jun | (1.98) | 101.48A | 23.00 | 14.05 |
| Dec | 21.91 | 12.68 | 7.38 | 100.41 |
| EPS | 19.93 | 114.15 | 30.38 | 114.46 |
| <i>P/E</i> | <i>54</i> | <i>0.95</i> | <i>3.55</i> | <i>0.94</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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Shareholders Approve Jiangmen Ganhua and Huizhou Dayawan Acquisitions
Jiangmen Ganhua and Huizhou Dayawan Acquisitions Approved.

Yesterday, shareholders approved the acquisition of a 51% equity interest in Jiangmen Yuehai and 100% of the equity of Huizhou Yuehai from Guangdong Holdings, the ultimate controlling shareholder of GDL, and Yuegang Investment, a subsidiary of GDH. Jiangmen Yuehai owns the Jiangmen Ganhua Project, a three phase project with 274,371m² of residential, 28,797m² of elderly residential apartments and public service facilities, 119,194.52m² of commercial, 12,800.5m² for care homes and health centers, and 3,035m² for ancillary public facilities. Huizhou Yuehai owns the Huizhou Dayawan Project, which is comprised of 81,469m² of residential space, 9,209m² of commercial space, and 1,416m² for ancillary public facilities, as well as a clubhouse and kindergarten on site that total 1,699m² and are currently under lease, along with 6,541m² of car park spaces, of which 76% have been delivered.

Model Update. We have added the Jiangmen Ganhua and Huizhou Dayawan projects into our model, starting in February 2021, which is the expected completion date. The two projects add to the Net Profit estimates of the Company starting in 2023, and extends GDL's cash flow stream well beyond the GDH City project.

Maintaining Rating & Raising Target. The approval from shareholders to acquire the Jiangmen Ganhua and Huizhou Dayawan projects add two promising developments to GDL's growing portfolio of Greater Bay Area properties. The acquisitions are structured in a cash-friendly way for GDL and should provide a strong cash flow stream beyond GDH City. With the expected cash flows from these new projects, we are reiterating our Buy rating on Guangdong Land Holdings and raising our target price from HK\$4.00 to HK\$5.00. 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

Construction costs, capital costs and project timelines could vary from our estimates, which could have a positive or negative impact on 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 Foshan, Huizhou, Zhuhai and two 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

| (in 000s of HKD) | H1:19A | H2:19A | 2019A | H1:20A | H2:20e | 2020e | H1:21e | H2:21e | 2021e | 2022e | 2023e | 2024e |
|-------------------------------------|-----------------|----------------|----------------|------------------|----------------|------------------|----------------|----------------|------------------|------------------|------------------|------------------|
| Revenue | 464,151 | 1,372,525 | 1,836,676 | 1,898,483 | 2,103,206 | 4,001,689 | 1,386,826 | 846,517 | 2,233,343 | 4,703,335 | 6,586,388 | 9,377,340 |
| Cost of Sales | (344,523) | (1,175,725) | (1,520,248) | (1,023,225) | (1,228,749) | (2,251,974) | (540,185) | (283,791) | (823,977) | (1,573,419) | (3,454,316) | (5,774,695) |
| Gross Profit | 119,628 | 196,800 | 316,428 | 875,258 | 874,457 | 1,749,715 | 846,640 | 562,725 | 1,409,366 | 3,129,915 | 3,132,072 | 3,602,645 |
| Selling & Distribution Expenses | (30,794) | (55,243) | (86,037) | (76,531) | (82,580) | (159,111) | (89,334) | (85,048) | (174,381) | (197,809) | (250,321) | (292,745) |
| Administration Expenses | (50,180) | (67,759) | (117,939) | (62,341) | (64,230) | (126,571) | (66,430) | (68,811) | (135,241) | (146,381) | (158,977) | (172,767) |
| 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) | (25,025) | (35,379) | (41,141) | (31,679) | (72,820) | (60,998) | (159,890) | (274,491) |
| Profit Before Tax | 19,849 | 614,976 | 634,825 | 2,619,106 | 704,729 | 3,323,835 | 649,736 | 377,188 | 1,026,924 | 2,724,728 | 2,562,885 | 2,862,643 |
| Income Tax Expense | (47,242) | (238,094) | (285,336) | (878,226) | (486,354) | (1,364,580) | (256,093) | (259,621) | (515,713) | (777,668) | (596,710) | (594,572) |
| Net Income | (27,393) | 376,882 | 349,489 | 1,740,880 | 218,375 | 1,959,255 | 393,643 | 117,568 | 511,211 | 1,947,060 | 1,966,174 | 2,268,070 |
| Minority Interests | (6,498) | (1,928) | (8,426) | (4,069) | (1,395) | (5,464) | - | 8,780 | 8,780 | 12,014 | (140,952) | (180,898) |
| Net Income | (33,891) | 374,954 | 341,063 | 1,736,811 | 216,980 | 1,953,791 | 393,643 | 126,348 | 519,990 | 1,959,074 | 1,825,222 | 2,087,172 |
| Basic EPS (HK Cents/Share) | (1.98) | 21.91 | 19.93 | 101.48 | 12.68 | 114.15 | 23.00 | 7.38 | 30.38 | 114.46 | 106.64 | 121.95 |
| 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) | (1.98) | 21.91 | 19.93 | 101.48 | 12.68 | 114.15 | 23.00 | 7.38 | 30.38 | 114.46 | 106.64 | 121.95 |
| 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 | 9 | 90% | 0 | 0% |
| HOLD | 0 | 0% | 0 | 0% |
| SELL | 1 | 10% | 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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