

Guangdong Land Holdings Limited
HKSE: 0124

Maintaining Rating & Target
BUY, HK\$4.00

December 4, 2020

MARKET DATA

Share Price:	HK\$	1.08
Market Cap:	HK\$	1,848.46 M
52wk Range:	HK\$	0.72 - 1.40
Ave. Volume:		150,000
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	1,383.83
Dec	301.99	1,372.53	2,103.21	843.52
REV	312.42	1,836.68	4,001.70	2,227.34
<i>P/S</i>	<i>5.92</i>	<i>1.01</i>	<i>0.46</i>	<i>0.83</i>

Diluted EPS (in cents per share)

	2018A	2019A	2020e	2021e
Jun	3.65	(1.98)	101.48A	23.90
Dec	9.46	21.91	13.20	7.68
EPS	13.10	19.93	114.68	31.58
<i>P/E</i>	<i>8.24</i>	<i>5.42</i>	<i>0.94</i>	<i>3.42</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 Wins Bidding For Land Parcel In Foshan City

GDL Wins Bidding For Land Parcel In Foshan City. ON November 27, GDL successfully won the bid for the land use rights for 43,284m² of land in Foshan City for RMB 2,707,400,000 in cash. As part of the deal, GDL will build and transfer a 4,860m² nursery to the government of Chancheng District, Foshan City upon completion. The total GFA of the project is expected to be 151,493m² of residential units that are compatible with commercial use. The land is located in the Shiwan area of Chancheng District in Foshan City that is near public transit and other amenities. All units and car parking spaces will be held for sale.

This acquisition is significant as it provides yet another project in the growing Greater Bay Area that should be ripe for strong sales and pricing upon completion. At the present time, GDL was unable to provide any additional information on the project, like timeline or funding sources. Based on the timing of its other projects and the cash outlay for this acquisition, we would expect the vast majority of development expenses for all projects under development to be funded primarily with debt until more cash is generated from unit sales.

SGM For Acquisitions Set. On Tuesday, December 15, GDL will host a Special General Meeting for shareholders to approve the Jiangmen Yuehai and Huizhou Yuehai acquisitions, as announced on October 30. A Circular with information about the acquisitions was released on November 18. Details from the new acquisitions will be included in our model upon approval, which we expect will happen. The SGM will be held at 10:30am at the Renaissance Harbour View Hotel in Wanchai.

Property Management Subsidiary Sold To GDH. On November 19, GDL agreed to sell Shenzhen Yuehai Yueshenghuo Property Management Co., Ltd. to GDH for HK\$8,177,000. The sale price was equal to the June 30, 2020 valuation, which was then adjusted for the HK\$1,362,000 dividend from Shenzhen Yuehai in September 2020. The Company expects to report a Gain on Disposal of roughly HK\$2,107,000. The proceeds will be applied to its property development projects. The transaction was done to better focus GDL's time on its growing property development portfolio. Shenzhen Yuehai has served as property manager on some of GDL's portfolio, which will continue post-sale.

Model Update. We updated the model for the sale of the property management business and the addition of the Foshan City Project, although this had a relatively minimal impact due to its construction timeline. As noted above, we will include the Jiangmen Yuehai and Huizhou Yuehai Projects upon acquisition approval on December 15.

Maintaining Rating & Target. GDL continues to aggressively seek out opportunities in the Greater Bay Area, both from GDH and third parties. We do not foresee any capital issues and believe the Company is prudently growing its Greater Bay Area portfolio, which should reap benefits of growth in the area in future quarters. With more positive news, 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 and a residential project in Foshan. 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	2,103,206	4,001,689	1,383,826	843,517	2,227,343	4,611,256	3,922,460	
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	873,476	1,748,734	841,431	557,958	1,399,390	3,072,672	2,448,159	
Gain on Bargain Purchase	-	-	-	-	2,107	2,107	-	-	-	-	-	
Selling & Distribution Expenses	(30,794)	(55,243)	(86,037)	(76,531)	(82,580)	(159,111)	(76,531)	(76,531)	(153,062)	(153,062)	(153,062)	
Administration Expenses	(50,180)	(67,759)	(117,939)	(62,341)	(64,230)	(126,571)	(66,430)	(68,811)	(135,241)	(146,381)	(158,977)	
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)	(33,869)	(18,874)	(52,743)	(46,194)	90,210	
Profit Before Tax	19,849	614,976	634,825	2,619,106	715,225	3,334,331	664,602	393,742	1,058,344	2,727,035	2,226,331	
Income Tax Expense	(47,242)	(238,094)	(285,336)	(878,226)	(487,876)	(1,366,102)	(255,540)	(262,360)	(517,900)	(770,246)	(591,441)	
Net Income	(27,393)	376,882	349,489	1,740,880	227,349	1,968,229	409,061	131,382	540,444	1,956,789	1,634,890	
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	225,954	1,962,765	409,061	131,382	540,444	1,956,789	1,634,890	
Basic EPS (HK Cents/Share)	(1.98)	21.91	19.93	101.48	13.20	114.68	23.90	7.68	31.58	114.33	95.52	
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	114.68	23.90	7.68	31.58	114.33	95.52	
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	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

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<u>Company</u>	<u>Disclosures</u>
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