

**Guangdong Land Holdings Limited**  
**HKSE: 0124**
**Maintaining Rating & Target**  
**BUY, HK\$5.00**
**March 31, 2021**
**MARKET DATA**

Share Price:	HK\$	1.09
Market Cap:	HK\$	1,865.58 M
52wk Range:	HK\$	0.80 - 1.40
Ave. Volume:		250,000
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\$	2,744.00 M
ST Debt:	HK\$	1,210.43 M
LT Debt:	HK\$	6,551.34 M
Net Asset Value:	HK\$	6,955.31 M
EBITDA (ttm):	HK\$	2,824.07 M
CFFO (ttm):	HK\$	N/A

Auditor: PricewaterhouseCoopers

HKD	2019A	2020A	2021e	2022e
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**Revenue (in Millions)**

	2019A	2020A	2021e	2022e
Jun	464.15	1,898.48	2,302.07	854.43
Dec	1,372.53	2,101.85	846.52	3,848.90
<b>REV</b>	<b>1,836.68</b>	<b>4,000.33</b>	<b>3,148.59</b>	<b>4,703.34</b>
<i>P/S</i>	<i>1.02</i>	<i>0.47</i>	<i>0.59</i>	<i>0.40</i>

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

	2019A	2020A	2021e	2022e
Jun	(1.98)	101.48	22.95	11.65
Dec	21.91	(3.21)	5.10	93.89
<b>EPS</b>	<b>19.93</b>	<b>98.27</b>	<b>28.05</b>	<b>105.54</b>
<i>P/E</i>	<i>5.47</i>	<i>1.11</i>	<i>3.89</i>	<i>1.03</i>

**Dividend (in cents per share)**

	2019A	2020A	2021e	2022e
Dec	0.00	1.53	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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**Dividend Announced As Portfolio Development Continues On Schedule**

**Strong Laurel House Sales Drive Down Margins And Profit.** GDL reported Revenue of RMB 2,101.8 million in H2:20, inline with our estimate. The bulk of the Revenue in the period was from Laurel House, which delivered 22,425m<sup>2</sup> in the second half, bringing its amount delivered to 82.6%. There is another 8,545m<sup>2</sup> contracted and awaiting delivery, which brings the total contracted GFA to 95.6%; GD•Delin ended with an occupancy rate of 85.4%. NW Land of GDH City delivered 4,577m<sup>2</sup> in H2:20 after making initial deliveries in June. However, GDL added 20,279m<sup>2</sup> in contracted sales during the period, bringing the total contracted GFA to 38,902m<sup>2</sup> and foreshadows stronger 2021 Revenue. The remainder of the Revenue in the period was from delivery of car parking spaces at Ruyingju. Operating expenses surged in the period, with SG&A more than doubling from the year ago period to HK\$262.0 million. The increase was related to the expansion of sales activities, specifically with GDH City, and the greater number of properties in GDL's portfolio. Net Loss for the Period was HK\$54.9 million, worse than expected due to higher SG&A and lower Gross Margins due to the Revenue mix skewing heavy towards Laurel House.

**Dividend Announced.** GDL announced a dividend of HK1.53 cents per share for the year ending 2020, which comes as a bit of a surprise given it is using a significant amount of cash for its ongoing portfolio development. We believe the dividend shows management's confidence in the development of the portfolio in a profitable and on-budget manner. The date of record for payment is expected to be on or around June 25, 2021.

**Model Update.** The biggest changes to our model was adjusting H1:21 related to GDH City and Laurel House, as well as increasing the SG&A going forward. The net results had a minimal impact on the overall model.

**Maintaining Rating & Target.** The Company reported another period of strong unit sales and deliveries, with the entire portfolio continuing to move on schedule. With no meaningful changes over the model we are reiterating our Buy rating and HK\$5.00 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%.

## COMPANY UPDATE

**Strong Laurel House Sales Drive Down Margins And Profit.** GDL reported Revenue of RMB 2,101.8 million in H2:20, inline with our estimate. The bulk of the Revenue in the period was from Laurel House, which delivered 22,425m<sup>2</sup> in the second half, bringing its amount delivered to 82.6%. There is another 8,545m<sup>2</sup> contracted and awaiting delivery, which brings the total contracted GFA to 95.6%; GD•Delin ended with an occupancy rate of 85.4%. NW Land of GDH City delivered 4,577m<sup>2</sup> in H2:20 after making initial deliveries in June. However, GDL added 20,279m<sup>2</sup> in contracted sales during the period, bringing the total contracted GFA to 38,902m<sup>2</sup> and foreshadows stronger 2021 Revenue. The remainder of the Revenue in the period was from delivery of car parking spaces at Ruyingju. Operating expenses surged in the period, with SG&A more than doubling from the year ago period to HK\$262.0 million. The increase was related to the expansion of sales activities, specifically with GDH City, and the greater number of properties in GDL's portfolio. Net Loss for the Period was HK\$54.9 million, worse than expected due to higher SG&A and lower Gross Margins due to the Revenue mix skewing heavy towards Laurel House.

### **Portfolio Updates.**

- **Northern Land (GDH City)**—Commercial property superstructure topped out and the construction of tower superstructure is underway. Completion is still expected in H2:22.
- **Southern Land (GDH City)**—Construction of the tower superstructure and commercial shopping building's basement structure is in progress. Completion is still expected in 2023.
- **Chenyuan Road Project (Jiangmen)**—Pre-sales started on January 9, 2021 with earthworks, piling superstructure construction and masonry works underway. Expected to be completed in H2:22.
- **Zhuhai Jinwan Project**—Foundation works for Phase 1 has been completed, with foundation pit support and underground structure construction underway for other Phases. Completion is still expected in 2024.
- **Foshan Laurel House Project**—In the design/pre-construction stage, but still expected to be completed in 2023.
- **Zhongshan GDH City Project**—In the design/pre-construction stage, but still expected to be completed in 2023.
- **Huizhou Dayawan Project**—Expected to begin pre-sales in March 2022 and be completed in October 2023.
- **Jiangmen Ganhua Project**—Earthworks and piling works completed in December and construction of the basement structural works is underway. Completion is expected in late 2026.

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## 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 and a residential project in Zhongshan. 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)	2019A	H1:20A	H2:20A	2020A	H1:21e	H2:21e	2021e	H1:22e	H2:22e	2022e	2023e	2024e
Revenue	1,836,676	1,898,483	2,101,849	4,000,332	2,302,074	846,517	3,148,591	854,434	3,848,901	4,703,335	6,586,388	11,626,063
Cost of Sales	(1,520,248)	(1,023,225)	(1,747,103)	(2,770,328)	(1,371,247)	(283,791)	(1,655,038)	(283,886)	(1,289,533)	(1,573,419)	(3,454,316)	(7,508,907)
<b>Gross Profit</b>	<b>316,428</b>	<b>875,258</b>	<b>354,746</b>	<b>1,230,004</b>	<b>930,827</b>	<b>562,725</b>	<b>1,493,553</b>	<b>570,548</b>	<b>2,559,368</b>	<b>3,129,915</b>	<b>3,132,072</b>	<b>4,117,155</b>
Other Income & Gains, Net	-	-	788	788	-	-	-	-	-	-	-	-
Selling & Distribution Expenses	(86,037)	(76,531)	(132,217)	(208,748)	(125,944)	(85,048)	(210,991)	(94,067)	(177,843)	(271,910)	(315,860)	(367,987)
Administration Expenses	(117,939)	(62,341)	(129,805)	(192,146)	(109,504)	(114,038)	(223,542)	(119,176)	(124,558)	(243,734)	(266,308)	(291,099)
FV Gain on Investment Properties	575,640	1,894,343	68,220	1,962,563	-	-	-	-	-	-	-	-
Other Gains, Net	11,844	(1,269)	9,135	7,866	-	-	-	-	-	-	-	-
Finance Costs, Net	(65,111)	(10,354)	(33,521)	(43,875)	(61,428)	(31,679)	(93,107)	(28,679)	(32,319)	(60,998)	(159,890)	(271,838)
<b>Profit Before Tax</b>	<b>634,825</b>	<b>2,619,106</b>	<b>137,346</b>	<b>2,756,452</b>	<b>633,951</b>	<b>331,961</b>	<b>965,912</b>	<b>328,627</b>	<b>2,224,647</b>	<b>2,553,274</b>	<b>2,390,014</b>	<b>3,186,231</b>
Income Tax Expense	(285,336)	(878,226)	(190,672)	(1,068,898)	(241,168)	(255,098)	(496,266)	(140,479)	(627,454)	(767,933)	(585,977)	(577,836)
<b>Net Income</b>	<b>349,489</b>	<b>1,740,880</b>	<b>(53,326)</b>	<b>1,687,554</b>	<b>392,783</b>	<b>76,863</b>	<b>469,646</b>	<b>188,148</b>	<b>1,597,193</b>	<b>1,785,341</b>	<b>1,804,037</b>	<b>2,608,394</b>
Minority Interests	(8,426)	(4,069)	(1,563)	(5,632)	-	10,442	10,442	11,294	9,745	21,038	(132,190)	(235,114)
<b>Net Income</b>	<b>341,063</b>	<b>1,736,811</b>	<b>(54,889)</b>	<b>1,681,922</b>	<b>392,783</b>	<b>87,305</b>	<b>480,088</b>	<b>199,442</b>	<b>1,606,938</b>	<b>1,806,379</b>	<b>1,671,847</b>	<b>2,373,281</b>
<b>Basic EPS (HK Cents/Share)</b>	<b>19.93</b>	<b>101.48</b>	<b>(3.21)</b>	<b>98.27</b>	<b>22.95</b>	<b>5.10</b>	<b>28.05</b>	<b>11.65</b>	<b>93.89</b>	<b>105.54</b>	<b>97.68</b>	<b>138.66</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
<b>Diluted EPS (HK Cents/Share)</b>	<b>19.93</b>	<b>101.48</b>	<b>(3.21)</b>	<b>98.27</b>	<b>22.95</b>	<b>5.10</b>	<b>28.05</b>	<b>11.65</b>	<b>93.89</b>	<b>105.54</b>	<b>97.68</b>	<b>138.66</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

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	8	89%	0	0%
HOLD	0	0%	0	0%
SELL	1	11%	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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