

## Guangdong Land Holdings Limited

HKSE: 0124

Maintaining Rating &amp; Reducing Target

BUY, HK\$4.00

April 30, 2021

**MARKET DATA**

Share Price:	HK\$	1.05
Market Cap:	HK\$	1,797.12 M
52wk Range:	HK\$	0.80 - 1.40
Ave. Volume:		210,000
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** (12/31)

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\$	(2,010.90) M

Auditor: PricewaterhouseCoopers

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

Jun	464.15	1,898.48	2,319.05	854.43
Dec	1,372.53	2,101.85	855.62	3,848.90
<b>REV</b>	<b>1,836.68</b>	<b>4,000.33</b>	<b>3,174.67</b>	<b>4,703.34</b>
<i>P/S</i>	<i>0.98</i>	<i>0.45</i>	<i>0.57</i>	<i>0.38</i>

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

Jun	(1.98)	101.48	15.65	6.04
Dec	21.91	(3.21)	(12.80)	71.56
<b>EPS</b>	<b>19.93</b>	<b>98.27</b>	<b>2.85</b>	<b>77.60</b>
<i>P/E</i>	<i>5.27</i>	<i>1.07</i>	<i>36.84</i>	<i>1.03</i>

**Dividend** (in cents per share)

Dec	0.00	1.53	1.50	1.50
<i>Yield</i>	<i>0.0%</i>	<i>1.5%</i>	<i>1.5%</i>	<i>1.5%</i>

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**Zhongshan GDH City Project Ownership Increased**

**GDH City And Laurel House Deliveries Boost Q1.** GDL reported total Q1 Revenue of HK\$1,424.9 million on the higher deliveries from the NW Land of GDH City and Laurel House. The NW Land of GDH City delivered 10,861m<sup>2</sup>, bringing the total delivered to 33,020m<sup>2</sup>, or 28.8%. Laurel House deliveries totaled 7,536m<sup>2</sup>, bringing total m<sup>2</sup> delivered to 94.1%. The commercial space, GD•Delin, increased the occupancy rate to 88.1% from 85.4% at the end of 2020. The last 193m<sup>2</sup> of Ruyingju was delivered, completing the delivery of its Residential units; 35.8% of the car-parking spaces remain available. Baohuaxuan deliveries were 97m<sup>2</sup>, taking its delivered total to 97.3%. Gross Margin was 42.8%, slightly above our estimate. The Fair Value Gain of its Investment Properties increased HK\$26.5 million, resulting in Net Profit of HK\$212.25 million, or HK\$12.40 cents per share.

**GDL Increases Interest In Zhongshan GDH City Project.** On April 28, the Company announced its wholly-owned subsidiary Guangdong Yuehai Land would purchase 88.2128% of the Zhongshan GDH City Project from its 80%-owned subsidiary Guangzhou Panyu for RMB 1,342,656,507. Guangzhou Panyu will hold the remaining 11.7872%, and bring GDL's cumulative ownership of the Zhongshan Project to 97.64%.

**Updated Dividend Policy.** After surprising with a HK\$1.53 cents per share dividend for fiscal 2020, GDL updated its dividend policy, which now calls for a progressive dividend policy. We previously estimated no dividend payouts going forward given the development of its various projects, but the Company has clarified that it will pay out a dividend going forward. The date of record for the 2020 payment is expected to be on or around June 25, 2021.

**Portfolio Updates.** Updates on GDL's portfolio since the fourth quarter update are on page 2. The completion date of all Projects remain unchanged and on schedule.

**Model Update.** The biggest change to our model was adjusting the cash balance and Minority Interest related to the change in ownership percentage of Zhongshan GDH City, as well as the addition of a permanent annual dividend going forward.

**Maintaining Rating & Reducing Target.** The model changes reflect a shift in cash away from current periods and into later periods, along with an ongoing dividend plan. Additionally, we have decided to increase our discount rate slightly, from 6.5% to 7% to reflect to higher cost of capital the Company has taken on recently. As a result of these changes, we are reiterating our Buy rating on Guangdong Land Holdings and reducing our target price from HK\$5.00 to HK\$4.00. Despite the reduction, the stock is still trading well below the value of its property portfolio. Our target price is based on our DCF model that covers GDL's entire project portfolio, discounted at 7.0%.

## COMPANY UPDATE

**GDH City And Laurel House Deliveries Boost Q1.** GDL reported total Q1 Revenue of HK\$1,424.9 million on the higher deliveries from the NW Land of GDH City and Laurel House. The NW Land of GDH City delivered 10,861m<sup>2</sup>, bringing the total delivered to 33,020m<sup>2</sup>, or 28.8%. Laurel House deliveries totaled 7,536m<sup>2</sup>, bringing total m<sup>2</sup> delivered to 94.1%. The commercial space, GD•Delin, increased the occupancy rate to 88.1% from 85.4% at the end of 2020. The last 193m<sup>2</sup> of Ruyingju was delivered, completing the delivery of its Residential units; 35.8% of the car-parking spaces remain available. Bao-huaxuan deliveries were 97m<sup>2</sup>, taking its delivered total to 97.3%. Gross Margin was 42.8%, slightly above our estimate. The Fair Value Gain of its Investment Properties increased HK\$26.5 million, resulting in Net Profit of HK\$212.25 million, or HK\$12.40 cents per share.

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**Portfolio Updates.** Updates on GDL's portfolio since the fourth quarter update are below. The completion date of all Projects remain unchanged and on schedule.

- **Northern Land & Southern Land (GDH City)**—Construction of the tower superstructures and shopping buildings continue.
- **Chenyuan Road Project (Jiangmen)**—The main structure construction for Phase 1 properties topped out and the main structure construction of buildings in Phases 2-4 are underway. Since starting pre-sales in January, GDL has contracted for 11,809m<sup>2</sup>, which we believe is a strong indication of success of the Project.
- **Zhuhai Jinwan Project**—Main structure construction is underway for Phase 1 and is expected to begin pre-sales in H1:21. Foundation piling works for the other Phases is ongoing.
- **Foshan Laurel House Project**—In the preliminary works stage and expecting receipt of the construction permit in H1:21.
- **Zhongshan GDH City Project**—This Project is undergoing site formation and establishing temporary construction facilities. The construction permit is expected in 2021.
- **Huizhou Dayawan Project**—Pre-sales are expected to begin in March 2022.
- **Jiangmen Ganhua Project**—Pre-sales on Phase 1 are expected to begin in May 2021.

**Model Update.** The biggest change to our model was adjusting the cash balance and Minority Interest related to the change in ownership percentage of Zhongshan GDH City, as well as the addition of a permanent annual dividend going forward.

**Maintaining Rating & Reducing Target.** The model changes reflect a shift in cash away from current periods and into later periods, along with an ongoing dividend plan. Additionally, we have decided to increase our discount rate slightly, from 6.5% to 7% to reflect to higher cost of capital the Company has taken on recently. As a result of these changes, we are reiterating our Buy rating on Guangdong Land Holdings and reducing our target price from HK\$5.00 to HK\$4.00. Despite the reduction, the stock is still trading well below the value of its property portfolio. Our target price is based on our DCF model that covers GDL's entire project portfolio, discounted at 7.0%.

## 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	2,319,045	855,622	3,174,667	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)	(1,571,247)	(403,791)	(1,975,038)	(403,886)	(1,779,533)	(2,183,419)	(3,907,023)	(7,781,054)
<b>Gross Profit</b>	<b>316,428</b>	<b>875,258</b>	<b>354,746</b>	<b>1,230,004</b>	<b>747,799</b>	<b>451,831</b>	<b>1,199,629</b>	<b>450,548</b>	<b>2,069,368</b>	<b>2,519,915</b>	<b>2,679,365</b>	<b>3,845,009</b>
Other Income & Gains, Net	-	-	788	788	-	-	-	-	-	-	-	-
Selling & Distribution Expenses	(86,037)	(76,531)	(132,217)	(208,748)	(126,987)	(85,503)	(212,490)	(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	26,518	-	26,518	-	-	-	-	-
Other Gains, Net	11,844	(1,269)	9,135	7,866	-	-	-	-	-	-	-	-
Finance Costs, Net	(65,111)	(10,354)	(33,521)	(43,875)	(71,428)	(37,679)	(109,107)	(34,679)	(47,019)	(81,698)	(182,525)	(285,445)
<b>Profit Before Tax</b>	<b>634,825</b>	<b>2,619,106</b>	<b>137,346</b>	<b>2,756,452</b>	<b>466,398</b>	<b>214,611</b>	<b>681,009</b>	<b>202,627</b>	<b>1,719,947</b>	<b>1,922,574</b>	<b>1,914,671</b>	<b>2,900,477</b>
Income Tax Expense	(285,336)	(878,226)	(190,672)	(1,068,898)	(196,539)	(444,195)	(640,733)	(110,479)	(504,954)	(615,433)	(472,800)	(509,800)
<b>Net Income</b>	<b>349,489</b>	<b>1,740,880</b>	<b>(53,326)</b>	<b>1,687,554</b>	<b>269,859</b>	<b>(229,584)</b>	<b>40,275</b>	<b>92,148</b>	<b>1,214,993</b>	<b>1,307,141</b>	<b>1,441,871</b>	<b>2,390,677</b>
Minority Interests	(8,426)	(4,069)	(1,563)	(5,632)	(1,989)	10,475	8,487	11,294	9,745	21,038	(132,190)	(178,582)
<b>Net Income</b>	<b>341,063</b>	<b>1,736,811</b>	<b>(54,889)</b>	<b>1,681,922</b>	<b>267,870</b>	<b>(219,109)</b>	<b>48,762</b>	<b>103,442</b>	<b>1,224,738</b>	<b>1,328,179</b>	<b>1,309,681</b>	<b>2,212,095</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>15.65</b>	<b>(12.80)</b>	<b>2.85</b>	<b>6.04</b>	<b>71.56</b>	<b>77.60</b>	<b>76.52</b>	<b>129.25</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>15.65</b>	<b>(12.80)</b>	<b>2.85</b>	<b>6.04</b>	<b>71.56</b>	<b>77.60</b>	<b>76.52</b>	<b>129.25</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
<b>Dividend (in HK Cents/Share)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.53</b>	<b>-</b>	<b>-</b>	<b>1.50</b>	<b>-</b>	<b>-</b>	<b>1.50</b>	<b>1.50</b>	<b>2.00</b>

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	78%	0	0%
HOLD	2	22%	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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- The analyst or a member of the analyst's household has a financial interest in the securities of the subject company, including, but not limited to a long position, short position, rights, warrants, futures, or options.
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## DISCLOSURES (continued)

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