

## Guangdong Land Holdings Limited

HKSE: 0124

Maintaining Rating &amp; Target

BUY, HK\$4.50

November 21, 2017

**MARKET DATA**

Share Price:	HK\$	1.57
Market Cap:	HK\$	2,687.12 M
52wk Range:	HK\$	1.55 - 2.19
Ave. Volume:		514,000
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\$	1,855.99 M
ST Debt:	HK\$	0.00 M
LT Debt:	HK\$	0.00 M
Net Asset Value:	HK\$	4,462.93 M
EBITDA (ttm):	HK\$	143.63 M
CFFO (ttm):	HK\$	(226.96) M

Auditor: Ernst &amp; Young

HKD	2015A	2016A	2017e	2018e
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**Revenue** (in Millions)

Jun	0.24	654.99	27.80A	111.18
Dec	857.69	436.94	56.23	148.36
<b>REV</b>	<b>857.94</b>	<b>1,091.94</b>	<b>84.03</b>	<b>259.53</b>
<i>P/S</i>	<i>3.13</i>	<i>2.46</i>	<i>31.99</i>	<i>10.35</i>

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

Jun	19.59	(0.56)	(0.01)A	3.92
Dec	(10.34)	1.59	(0.53)	4.52
<b>EPS</b>	<b>10.21</b>	<b>1.04</b>	<b>(0.54)</b>	<b>8.44</b>
<i>P/E</i>	<i>15.38</i>	<i>150.96</i>	<i>N/A</i>	<i>18.60</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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**Buxin Continues To Move On Schedule**

**Management Focused On Optimizing Buxin.** Last week we had the chance to sit down with members of GDL to discuss the Buxin project. The Company informed us that progress continues to be made at Buxin, with underground construction on the NW Land nearly done and above ground construction expected to commence within the next few months. As of today, management believes the NW Land is moving on schedule. In regards to the North and South Lands, the Company is working to develop finalized plans for the project, including whether to construct both phases at the same time. Further, it expects to build a sales center on the grounds in the near future and host an event at some point next year to showcase the project to potential purchasers and investors.

As a relatively small property developer with a large asset to develop the Company is aware of the upside that Buxin should provide for the future in terms of proving its ability to execute on a larger project and earning shareholder trust. We expect the stock price will better reflect the true value of the project in the coming year as above ground construction starts on the NW Land and development plans are finalized for the N and S Lands, which should make accurate modelling easier for other potential investors.

**Small Deliveries of Ruyingju in Q3.** Revenue in the third quarter was HK\$31.35 million, from the delivery of 413m<sup>2</sup> of units in the Ruyingju Project. Net Loss for the period was HK\$2.79 million.

**Model Update.** We have made no changes to our model.

**Maintaining Rating & Target.** With no changes made to our model and continued comfort with management's ability to move the Buxin project along on budget and on schedule we are reiterating our Buy rating and HK\$4.50 target price on Guangdong Land. Our target price is based on our DCF model covering the duration of the Buxin project, which is nearly the same as the reassessed NAV of GDL as calculated by Vigers in the GDI Circular.

## RISKS

### Lack of Real Estate Development Experience

GDL has 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.

### 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 Buxin project.

### Capital Management

Delays in the Buxin 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.

### Permitting Approval

The Company is still seeking final permitting approvals for its development plans for the Buxin Project. Until received, GDL cannot begin construction on the Buxin Project.

### Project Development Costs

The Company has not yet released its final projected budget of construction costs for the Buxin Project. This figure could vary from our projections.

### 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 Buxin 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 have risen in recent years before tailing off a bit in 2014 on tighter credit availability, which has negatively impacted not only buyers but also developers in a cash crunch. Should the government move back to tighter credit the Company may not be able to obtain the resale prices it currently projects.

## BUSINESS SUMMARY

Guangdong Land (GDL) recently transitioned from a brewery to a Guangdong-focused real estate investment and development company. The Company is in the pre-construction stage of developing its first property, the Buxin Project, a mixed-use commercial and residential project in the gold and jewelry district of Shenzhen. GDL also owns three investment properties in Shenzhen, a recently acquired residential project in Guangzhou (Ruyingju Project), and is actively seeking additional investment properties and land development projects in Guangdong or other Tier 1 cities. 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)	H1:16A	H2:16A	2016A	H1:17A	H2:17e	2017e	H1:18e	H2:18e	2018e	2019e	2020e	2021e	2022e	2023e
Revenue	654,997	436,944	1,091,941	27,798	56,231	84,029	111,176	148,356	259,532	68,806	3,606,406	5,038,046	2,713,766	1,811,019
Cost of Sales	(606,123)	(294,926)	(901,049)	(17,476)	(23,348)	(40,824)	(1,312)	(1,758)	(3,070)	(781)	(537,769)	(926,913)	(498,192)	(388,329)
<b>Gross Profit</b>	<b>48,874</b>	<b>142,018</b>	<b>190,892</b>	<b>10,322</b>	<b>32,883</b>	<b>43,205</b>	<b>109,864</b>	<b>146,598</b>	<b>256,462</b>	<b>68,024</b>	<b>3,068,637</b>	<b>4,111,133</b>	<b>2,215,574</b>	<b>1,422,690</b>
Other Income & Gains, Net	44,053	39,930	83,983	36,578	29,513	66,091	25,494	17,941	43,435	34,158	41,523	29,253	71,425	109,638
Gain on Bargain Purchase	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Selling & Distribution	(8,083)	(5,469)	(13,552)	(3,194)	(3,394)	(6,588)	(3,778)	(4,038)	(7,817)	(6,482)	(31,245)	(41,266)	(24,996)	(18,677)
Administration Expenses	(40,641)	(32,088)	(72,729)	(34,885)	(35,583)	(70,468)	(36,294)	(37,020)	(73,315)	(76,277)	(79,358)	(82,564)	(85,900)	(89,370)
Other Expenses	(21,876)	(10,702)	(32,578)	(177)	-	(177)	-	-	-	-	-	-	-	-
Finance Costs	-	-	-	-	-	-	-	(12,500)	(12,500)	(85,938)	(103,125)	(29,688)	-	-
<b>Profit Before Tax</b>	<b>22,327</b>	<b>133,689</b>	<b>156,016</b>	<b>8,644</b>	<b>23,420</b>	<b>32,064</b>	<b>95,285</b>	<b>110,980</b>	<b>206,265</b>	<b>(66,514)</b>	<b>2,896,432</b>	<b>3,986,869</b>	<b>2,176,103</b>	<b>1,424,281</b>
Income Tax Expense	(29,300)	(96,390)	(125,690)	(7,162)	(28,149)	(35,311)	(6,584)	(4,696)	(11,279)	(47,551)	(1,309,520)	(1,446,498)	(571,229)	(382,556)
<b>Net Income</b>	<b>(6,973)</b>	<b>37,299</b>	<b>30,326</b>	<b>1,482</b>	<b>(4,729)</b>	<b>(3,247)</b>	<b>88,702</b>	<b>106,284</b>	<b>194,986</b>	<b>(114,065)</b>	<b>1,586,911</b>	<b>2,540,371</b>	<b>1,604,874</b>	<b>1,041,725</b>
Minority Interests	(2,592)	(10,000)	(12,592)	(1,731)	(4,347)	(6,078)	(21,605)	(28,950)	(50,555)	(10,291)	(10,291)	-	-	-
<b>Net Income</b>	<b>(9,565)</b>	<b>27,299</b>	<b>17,734</b>	<b>(249)</b>	<b>(9,076)</b>	<b>(9,325)</b>	<b>67,097</b>	<b>77,334</b>	<b>144,431</b>	<b>(124,356)</b>	<b>1,576,620</b>	<b>2,540,371</b>	<b>1,604,874</b>	<b>1,041,725</b>
<b>Basic EPS (in HK Cents)</b>	<b>(0.56)</b>	<b>1.59</b>	<b>1.04</b>	<b>(0.01)</b>	<b>(0.53)</b>	<b>(0.54)</b>	<b>3.92</b>	<b>4.52</b>	<b>8.44</b>	<b>(7.27)</b>	<b>92.12</b>	<b>148.43</b>	<b>93.77</b>	<b>60.86</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	1,711,537	1,711,537
<b>Diluted EPS (in HK Cents)</b>	<b>(0.56)</b>	<b>1.59</b>	<b>1.04</b>	<b>(0.01)</b>	<b>(0.53)</b>	<b>(0.54)</b>	<b>3.92</b>	<b>4.52</b>	<b>8.44</b>	<b>(7.27)</b>	<b>92.12</b>	<b>148.43</b>	<b>93.77</b>	<b>60.86</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	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	7	88%	0	0%
HOLD	0	0%	0	0%
SELL	1	12%	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.

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