

**Guangdong Land Holdings Limited**  
**HKSE: 0124**
**Maintaining Rating & Target**  
**BUY, HK\$4.50**
**April 10, 2018**
**MARKET DATA**

Share Price:	HK\$	1.70
Market Cap:	HK\$	2,909.62 M
52wk Range:	HK\$	1.54 - 1.94
Ave. Volume:		312,000
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\$	1,880.73 M
ST Debt:	HK\$	0.00 M
LT Debt:	HK\$	0.00 M
Net Asset Value:	HK\$	4,676.65 M
EBITDA (ttm):	HK\$	147.88 M
CFFO (ttm):	HK\$	N/A

Auditor: PricewaterhouseCoopers

HKD	2016A	2017A	2018e	2019e
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**Revenue** (in Millions)

	2016A	2017A	2018e	2019e
Jun	654.99	27.80	1.84	114.97
Dec	436.94	158.90	53.12	172.83
<b>REV</b>	<b>1,091.94</b>	<b>186.69</b>	<b>54.96</b>	<b>287.80</b>
<i>P/S</i>	<i>2.66</i>	<i>15.58</i>	<i>52.94</i>	<i>10.11</i>

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

	2016A	2017A	2018e	2019e
Jun	(0.56)	(0.01)	(0.90)	(1.18)
Dec	1.59	2.89	(1.13)	3.34
<b>EPS</b>	<b>1.04</b>	<b>2.88</b>	<b>(2.03)</b>	<b>2.16</b>
<i>P/E</i>	<i>164.07</i>	<i>59.03</i>	<i>N/A</i>	<i>78.85</i>

**Dividend**

	2016A	2017A	2018e	2019e
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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**Legacy Property Sale Boosts H2:17 Results**

**Legacy Property Sale Boosts H2:17 Results.** GDL reported H2:17 Revenue of HK\$158.9 million, of which nearly all was from the sale of old staff quarters in Shenzhen. The Company did not sell any of its remaining Ruyingju units as market prices continue to exceed the control prices set by the government. Profit Before Tax was HK\$137.6 million, with Other Income of HK\$28.8 million partially offsetting the HK\$46.5 million in operating expenses. Net Income for the second half of 2017 was HK\$49.5 million, or 2.89 HK cents per share.

**Buxin & Ruyingju Updates.** Construction continues on the NW Land of Buxin, with the offices and business apartments in that development expected to be ready for pre-sale in the fourth quarter of 2018. Other than on-site pre-sale activities, an additional point to watch for this year will be GDL seeking outside financing for the development of Buxin.

As noted above, GDL did not sell any units from the Ruyingju Project in the second half of 2017 after selling roughly 900m<sup>2</sup> in the first half. With government policies restricting sales at market prices, we expect management to wait these policies out to maximize returns to GDL. We note that units sold in 2017 were done at a price 30.4% higher than the average selling price in 2016.

**Change in Auditor.** Ernst & Young has been the Company's auditor since listing in 1997, but to promote good corporate governance GDL is switching to PricewaterhouseCoopers to serve as its new independent auditor. There were no disagreements or outstanding issues with Ernst & Young.

**Model Update.** The only change made to our model was pushing out the remainder of the Ruyingju Project, which we now have some sales toward the end of 2018 and the remainder in 2019. As the Buxin Project is moving on schedule we have left that portion as is.

**Maintaining Rating & Target.** The flagship Buxin Project continues to move on schedule with pre-sales on the NW Land expected to commence later this year. Continued movement on the development, obtaining outside financing for the Project, and any potential new Ruyingju-like project could all be seen as catalysts for the stock in the coming months. As such, 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)	H1:17A	H2:17A	2017A	H1:18e	H2:18e	2018e	H1:19e	H2:19e	2019e	2020e	2021e	2022e	2023e
Revenue	27,798	158,896	186,694	1,840	53,124	54,964	114,967	172,831	287,798	3,606,406	5,038,046	2,713,766	1,811,019
Cost of Sales	(17,476)	(3,597)	(21,073)	-	(23,988)	(23,988)	(59,849)	(2,052)	(61,901)	(537,769)	(926,913)	(498,192)	(388,329)
<b>Gross Profit</b>	<b>10,322</b>	<b>155,299</b>	<b>165,621</b>	<b>1,840</b>	<b>29,136</b>	<b>30,976</b>	<b>55,118</b>	<b>170,780</b>	<b>225,898</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	36,578	28,809	65,387	30,869	18,774	49,642	15,934	18,165	34,099	48,265	35,805	77,770	115,760
Gain on Bargain Purchase	-	-	-	-	-	-	-	-	-	-	-	-	-
Selling & Distribution	(3,194)	(4,376)	(7,570)	(3,013)	(3,372)	(6,385)	(3,805)	(4,210)	(8,015)	(31,245)	(41,266)	(24,996)	(18,677)
Administration Expenses	(34,885)	(39,487)	(74,372)	(40,277)	(41,082)	(81,359)	(41,904)	(42,742)	(84,646)	(88,066)	(91,623)	(95,325)	(99,176)
Other Expenses	(177)	(2,603)	(2,780)	-	-	-	-	-	-	-	-	-	-
Finance Costs	-	-	-	-	(12,500)	(12,500)	(32,813)	(53,125)	(85,938)	(103,125)	(29,688)	-	-
<b>Profit Before Tax</b>	<b>8,644</b>	<b>137,642</b>	<b>146,286</b>	<b>(10,581)</b>	<b>(9,045)</b>	<b>(19,626)</b>	<b>(7,469)</b>	<b>88,868</b>	<b>81,398</b>	<b>2,894,466</b>	<b>3,984,361</b>	<b>2,173,023</b>	<b>1,420,597</b>
Income Tax Expense	(7,162)	(87,325)	(94,487)	(4,757)	(4,904)	(9,660)	(4,194)	(4,752)	(8,945)	(1,311,206)	(1,448,135)	(572,815)	(384,086)
<b>Net Income</b>	<b>1,482</b>	<b>50,317</b>	<b>51,799</b>	<b>(15,337)</b>	<b>(13,949)</b>	<b>(29,286)</b>	<b>(11,663)</b>	<b>84,116</b>	<b>72,453</b>	<b>1,583,260</b>	<b>2,536,225</b>	<b>1,600,208</b>	<b>1,036,510</b>
Minority Interests	(1,731)	(781)	(2,512)	-	(5,458)	(5,458)	(8,523)	(27,028)	(35,551)	(10,291)	-	-	-
<b>Net Income</b>	<b>(249)</b>	<b>49,536</b>	<b>49,287</b>	<b>(15,337)</b>	<b>(19,407)</b>	<b>(34,744)</b>	<b>(20,186)</b>	<b>57,088</b>	<b>36,902</b>	<b>1,572,969</b>	<b>2,536,225</b>	<b>1,600,208</b>	<b>1,036,510</b>
<b>Basic EPS (HK Cents)</b>	<b>(0.01)</b>	<b>2.89</b>	<b>2.88</b>	<b>(0.90)</b>	<b>(1.13)</b>	<b>(2.03)</b>	<b>(1.18)</b>	<b>3.34</b>	<b>2.16</b>	<b>91.90</b>	<b>148.18</b>	<b>93.50</b>	<b>60.56</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
<b>Diluted EPS (HK Cents)</b>	<b>(0.01)</b>	<b>2.89</b>	<b>2.88</b>	<b>(0.90)</b>	<b>(1.13)</b>	<b>(2.03)</b>	<b>(1.18)</b>	<b>3.34</b>	<b>2.16</b>	<b>91.90</b>	<b>148.18</b>	<b>93.50</b>	<b>60.56</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

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	6	75%	0	0%
HOLD	0	0%	0	0%
SELL	1	12%	0	0%
NO RATING	1	12%	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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