

GuocoLand (GUOL SP)

Compelling Valuation

Good proxy for strengthening SG market; BUY

1HFY18 net profit was in line with ours and consensus estimates. We fine-tuned our model to incorporate the recent issuance of perpetual securities and trim our FY19-20E core EPS by 2% in each year for higher financing cost. Our RNAV is lowered marginally to SGD3.67 for lower MBKE TP for Eco World International. Maintain BUY and SGD2.95 TP, based on an unchanged 20% RNAV discount. GuocoLand offers investors good exposure to the strengthening residential and office markets in Singapore. Trading at 0.68x P/BV and a 39% RNAV discount, the stock's valuation is compelling when compared to its larger developer peers (1.1x P/BV, 10% RNAV discount) and office REITs (1.0x P/BV).

Results inline; Stronger recognition from Singapore

2Q18 revenue growth of 60% YoY was underpinned by stronger sales for residential developments in Singapore. Contributions from associates fell to SGD9m due to high-base effects from land sales in 2Q17 and earnings recognition from the completion of Changfeng Residences in 1Q18. 2Q18 net gearing inched up 0.1ppt sequentially to 0.84x after deposits for the Beach Road site was made. Overall, 1H18 was in line at 65% of FY18E.

Sales update

94% of Sims Urban Oasis has been sold and should support earnings recognition this year. The high-end market appears to be strengthening with GuocoLand achieving strong ASPs for the five units sold at the recent preview of Wallich Residence. With 47% of the project now sold, we also see scope for higher ASPs at Martin Modern and expect price support from the high price paid for the Jiak Kim site nearby. With 400 units of saleable stock from these projects, it is well-positioned to capture the recent pick up in market sentiment. In the medium term, it could restock its residential inventory with part of the Beach Road site.

Diversifies funding sources with perpetual securities

GuocoLand diversified its funding sources with the issuance of [SGD350m in perpetual securities](#) (PS) on 23 Jan. The PS was issued at a fixed coupon rate of 4.60% with the first reset date in Jan 2025 at 7Y SOR +3.609%. It may redeem all outstanding PS at par in Jan 2023. This issuance will lower its FY18E net gearing by 15bps to 0.85x, but incurs higher interest cost of SGD4m a year, net of savings from retired debt.

FYE Jun (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,060	1,113	1,193	1,689	1,738
EBITDA	243	229	298	385	389
Core net profit	135	364	330	241	207
Core EPS (cts)	12.1	32.8	29.7	21.7	18.6
Core EPS growth (%)	(40.6)	170.5	(9.4)	(27.1)	(14.0)
Net DPS (cts)	9.0	7.0	7.0	8.0	8.0
Core P/E (x)	18.5	6.9	7.6	10.4	12.1
P/BV (x)	0.8	0.7	0.7	0.6	0.6
Net dividend yield (%)	4.0	3.1	3.1	3.6	3.6
ROAE (%)	19.8	10.5	9.0	7.1	6.0
ROAA (%)	1.5	4.3	3.4	2.4	2.2
EV/EBITDA (x)	19.0	24.6	23.3	16.3	14.5
Net gearing (%) (incl perps)	69.7	84.2	84.9	67.1	51.7
Consensus net profit	-	-	330	210	182
MKE vs. Consensus (%)	-	-	0.1	22.0	22.5

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BUY

Share Price	SGD 2.25
12m Price Target	SGD 2.95 (+31%)
Previous Price Target	SGD 2.95

Statistics

52w high/low (SGD)	2.46/1.82
3m avg turnover (USDm)	0.8
Free float (%)	24.0
Issued shares (m)	1,183
Market capitalisation	SGD2.7B
	USD2.0B

Major shareholders:

Guoco Group Ltd.	65.2%
Guocoland Executives Share Option Scheme	6.2%
KWEK LENG HAI	3.0%

Price Performance



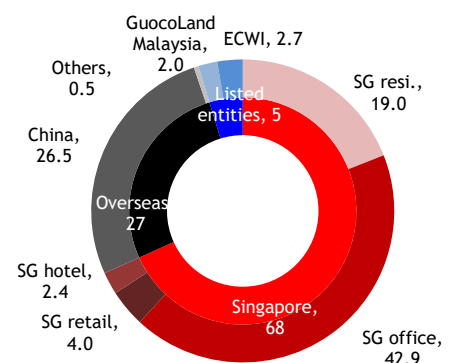
	-1M	-3M	-12M
Absolute (%)	0	(5)	21
Relative to index (%)	(3)	(9)	5

Source: FactSet

Companies mentioned

Eco World International (ECWI MK, CP MYR1.12, HOLD, TP MYR1.10)

Exposure summary (% of valuation)



Source: Maybank Kim Eng

Fig 1: Quarterly profit and loss

FYE 30 June	2Q17 (SGD m)	1Q18 (SGD m)	2Q18 (SGD m)	Change		YTD18 (SGD m)	% of FY18E	FY18E (SGD m)
				(QoQ %)	(YoY %)			
Revenue	232	362	371	2.4	59.7	733	61.4	1,193
EBITDA	51	40	72	77.9	39.6	112	37.7	298
D&A	(1)	(2)	(4)	64.4	>100	(6)	44.1	(14)
EBIT	50	38	68	78.7	35.9	106	37.3	284
Net interest income/(expense)	(15)	(22)	(28)	25.1	82.2	(50)	71.8	(69)
Other items (recurring)	0	0	0	n.m.	n.m.	0	n.m.	0
Other items (exceptionals)	4	(9)	3	n.m.	(30.9)	(6)	n.m.	0
Associates & JVs	45	171	9	(94.7)	(79.9)	180	109.5	164
PBT	84	178	52	(70.7)	(37.7)	230	60.7	379
Taxation	(16)	(15)	(12)	(20.6)	(26.5)	(27)	68.4	(39)
MI	(10)	3	3	(1.1)	n.m.	5	(57.1)	(9)
Net income	57	166	43	(74.0)	(24.8)	209	63.2	330
Less: Exceptionals	(4)	9	(3)	n.m.	(30.9)	6	n.m.	0
Net income, adj.	53	174	40	(77.0)	(24.3)	214	65.0	330

Source: Company, Maybank Kim Eng

Fig 2: GuocoLand's RNAV and TP

We trim RNAV to SGD3.67 from SGD3.68 for lower MBKE TP for Eco World International (ECWI MK, CP MYR1.12, HOLD, TP MYR1.10)

Valuation	2018E (SGD m)	% of total (%)	per share (SGD)	Remarks
Singapore residential	1,703	19.0	1.53	Mid- to high-end projects.
Singapore investment properties	4,410	49.3	3.97	
Tanjong Pagar Centre	2,678	29.9	2.41	Office, hotel and retail.
Beach Road Site	1,254	14.0	1.13	3.5% cap rate for offices.
20 Collyer Quay	383	4.3	0.35	3.5% cap rate for offices.
Reversionary interests	95	1.1	0.09	Reversionary interests on 20 Collyer Quay and 61 Robinson Road.
China projects	2,373	26.5	2.14	Shanghai and Chongqing.
Changfeng Residence	458	5.1	0.41	50% stake in Shanghai residential project.
Chongqing Project	1,187	13.3	1.07	Mixed development.
Guoman Centre	172	1.9	0.16	Shanghai retail mall.
Guoman Hotel	132	1.5	0.12	Shanghai hotel.
Undeveloped land parcel in Shanghai, net	424	4.7	0.38	Market value of undeveloped land in Changfeng, Shanghai.
GuocoLand Malaysia	182	2.0	0.16	68% stake at Market Price of MYR1.20. Implied P/BV of 0.6x.
EcoWorld International	238	2.7	0.21	27% stake at Maybank KE TP of MYR1.10.
Others	44	0.5	0.04	
Gross asset value	8,949	100.0	8.06	
Less: adjusted net liabilities	(4,874)			Including perps.
RNAV	4,075			
Outstanding no. of shares (m)	1,110			
RNAV per share	3.67			
TP	2.95			Rounded.
RNAV discount (%)	(20)			

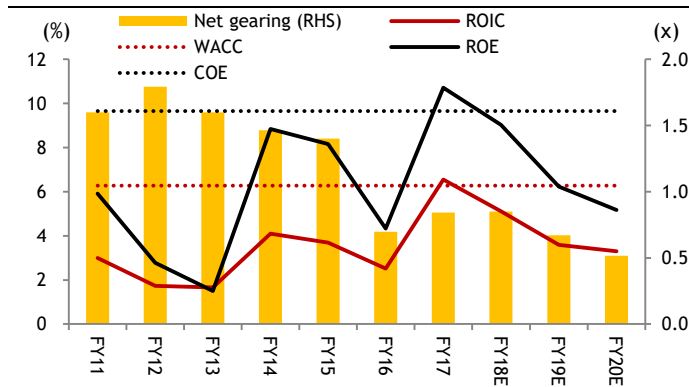
Note: RNAV = SGD3.68 if we use the MYR1.12 market price (instead of MBKE TP of MYE1.10) for EcoWorld International.

Source: Maybank Kim Eng

Value Proposition

- Mid-cap property developer based in Singapore. It also has businesses in China, Malaysia and Vietnam.
- GuocoLand offers exposure to the mid to high-end residential market in Singapore.
- Returns could pick up as TPC turns operational and previously trapped capital in Dongzhimen is redeployed for better returns.
- Owns an effective 68% stake in GuocoLand Malaysia and 27% of EcoWorld International, both of which are listed on Bursa Malaysia.

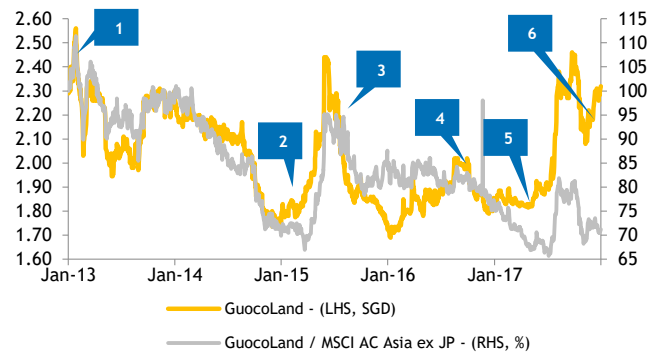
Returns vs cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



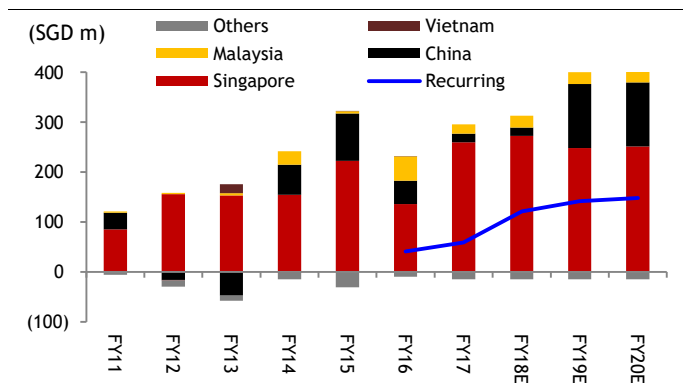
Source: FactSet, Company, Maybank Kim Eng

1. Stock peaked when market thought the home-price rally was unsustainable and expected cooling measures.
2. Positive sector sentiment on privatisation of Keppel Land by Keppel Corp in early 2015.
3. Exit from troubled project Dongzhimen.
4. Company reported significant pick-up in pre-commitment levels for Guoco Tower.
5. Singapore government relaxes cooling measures in March 2017 for the first time since GFC.
6. Strong pace of sales at Martin Modern. Wallich Residence achieved high ASP of SGD4,000 psf.

Financial Metrics

- Singapore will continue to account for the bulk of the group's profits.
- We expect development sales recognition to improve over the next three years as sales momentum in the high-end market gathers pace.
- Stabilisation of TPC will enhance its recurring income base. We expect recurring EBITDA to rise over three-fold to SGD140m+ a year by FY19E.
- We value its investment properties by adopting cap rate assumptions of 3.50% for offices, and 4.75% for hotels and retail. Our SGD2,400 psf valuation of Guoco Tower is not aggressive when compared to high prices seen in recent transactions.

EBITDA breakdown



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Strong rebound in high-end home prices in Singapore.
- Pick-up in office prices.
- Monetisation of commercial assets with outright sale or spin-off into funds.

Downside

- Overpaying for land.
- Poor execution of development project.
- Sharp increase in interest rates, which could dampen demand for properties and drive down asset prices.

FYE 30 Jun	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	3.5	5.8	7.6	9.7	11.2
Core P/E (x)	18.5	6.9	7.6	10.4	12.1
P/BV (x)	0.8	0.7	0.7	0.6	0.6
P/NTA (x)	0.8	0.7	0.7	0.6	0.6
Net dividend yield (%)	4.0	3.1	3.1	3.6	3.6
FCF yield (%)	19.3	nm	1.2	37.0	40.1
EV/EBITDA (x)	19.0	24.6	23.3	16.3	14.5
EV/EBIT (x)	19.8	25.3	24.4	16.9	15.0

INCOME STATEMENT (SGD m)

Revenue	1,059.8	1,113.2	1,192.7	1,688.6	1,737.5
Gross profit	232.7	222.1	284.0	371.1	374.9
EBITDA	242.8	228.6	298.0	385.1	388.9
Depreciation	(10.1)	(6.5)	(14.0)	(14.0)	(14.0)
EBIT	232.7	222.1	284.0	371.1	374.9
Net interest income / (exp)	(38.5)	(58.5)	(69.4)	(57.8)	(50.9)
Associates & JV	(2.7)	44.9	163.9	41.5	1.5
Exceptionals	562.0	(7.1)	0.0	0.0	0.0
Other pretax income	19.7	254.5	0.0	0.0	0.0
Pretax profit	773.2	455.8	378.6	354.8	325.5
Income tax	(150.7)	(43.2)	(39.0)	(62.7)	(63.4)
Minorities	(15.8)	(55.4)	(9.4)	(35.5)	(39.2)
Reported net profit	606.7	357.2	330.1	256.6	222.9
Core net profit	134.7	364.3	330.1	240.5	206.8
Preferred Dividends	(9.4)	0.0	0.0	(16.1)	(16.1)

BALANCE SHEET (SGD m)

Cash & Short Term Investments	1,430.2	1,118.5	1,060.6	658.2	827.5
Accounts receivable	401.8	199.0	200.0	300.0	400.0
Inventory	2,410.5	3,265.4	3,575.4	3,035.1	2,410.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	494.8	623.8	634.8	640.8	640.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	427.9	675.6	724.6	681.1	681.1
Other assets	2,741.4	3,073.4	4,267.7	4,352.0	4,456.6
Total assets	7,906.6	8,955.7	10,463.1	9,667.0	9,416.4
ST interest bearing debt	2,122.1	2,090.5	2,000.0	2,000.0	1,500.0
Accounts payable	339.4	377.3	400.0	500.0	600.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,708.2	2,254.0	3,000.0	1,900.0	1,900.0
Other liabilities	295.0	400.0	425.0	438.0	438.0
Total Liabilities	4,464.4	5,122.2	5,825.0	4,837.8	4,437.8
Shareholders Equity	3,276.1	3,529.9	3,782.3	3,945.2	4,063.2
Minority Interest	166.1	303.6	505.8	534.1	565.5
Total shareholder equity	3,442.2	3,833.4	4,288.1	4,479.3	4,628.7
Perpetual securities	0.0	0.0	350.0	350.0	350.0
Total liabilities and equity	7,906.6	8,955.7	10,463.1	9,667.0	9,416.4

CASH FLOW (SGD m)

Pretax profit	773.2	455.8	378.6	354.8	325.5
Depreciation & amortisation	10.1	6.5	14.0	14.0	14.0
Adj net interest (income)/exp	38.5	58.5	69.4	57.8	50.9
Change in working capital	484.4	(739.7)	(203.6)	622.5	689.6
Cash taxes paid	(184.8)	(59.2)	(39.0)	(62.7)	(63.4)
Other operating cash flow	(571.2)	(293.3)	(163.9)	(41.5)	(1.5)
Cash flow from operations	550.2	(571.3)	55.4	944.8	1,015.1
Capex	(67.8)	(98.5)	(25.0)	(20.0)	(14.0)
Free cash flow	482.3	(669.8)	30.4	924.8	1,001.1
Dividends paid	(55.5)	(99.9)	(77.7)	(77.7)	(88.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,371.2)	523.2	655.5	(1,100.0)	(500.0)
Perpetual securities distribution	(9.4)	0.0	0.0	(16.1)	(16.1)
Other invest/financing cash flow	2,010.7	(73.8)	(666.0)	(133.5)	(226.9)
Net cash flow	1,056.9	(320.2)	(57.8)	(402.5)	169.4

FYE 30 Jun	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.6)	5.0	7.1	41.6	2.9
EBITDA growth	(21.6)	(5.8)	30.3	29.2	1.0
EBIT growth	(22.5)	(4.6)	27.9	30.7	1.0
Pretax growth	142.6	(41.0)	(16.9)	(6.3)	(8.3)
Reported net profit growth	168.0	(41.1)	(7.6)	(22.3)	(13.1)
Core net profit growth	(40.6)	170.5	(9.4)	(27.1)	(14.0)
Profitability ratios (%)					
EBITDA margin	22.9	20.5	25.0	22.8	22.4
EBIT margin	22.0	19.9	23.8	22.0	21.6
Pretax profit margin	73.0	40.9	31.7	21.0	18.7
Payout ratio	16.5	21.7	23.5	34.6	39.8
DuPont analysis					
Net profit margin (%)	57.2	32.1	27.7	15.2	12.8
Revenue/Assets (x)	0.1	0.1	0.1	0.2	0.2
Assets/Equity (x)	2.4	2.5	2.8	2.5	2.3
ROAE (%)	19.8	10.5	9.0	7.1	6.0
ROAA (%)	1.5	4.3	3.4	2.4	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.8	2.0	2.1
Net gearing (%) (incl perps)	69.7	84.2	84.9	67.1	51.7
Net gearing (%) (excl. perps)	69.7	84.2	91.9	72.4	55.6
Net interest cover (x)	6.0	3.8	4.1	6.4	7.4
Debt/EBITDA (x)	15.8	19.0	16.8	10.1	8.7
Capex/revenue (%)	6.4	8.8	2.1	1.2	0.8
Net debt/ (net cash)	2,400.0	3,226.0	3,939.4	3,241.8	2,572.5

Source: Company; Maybank

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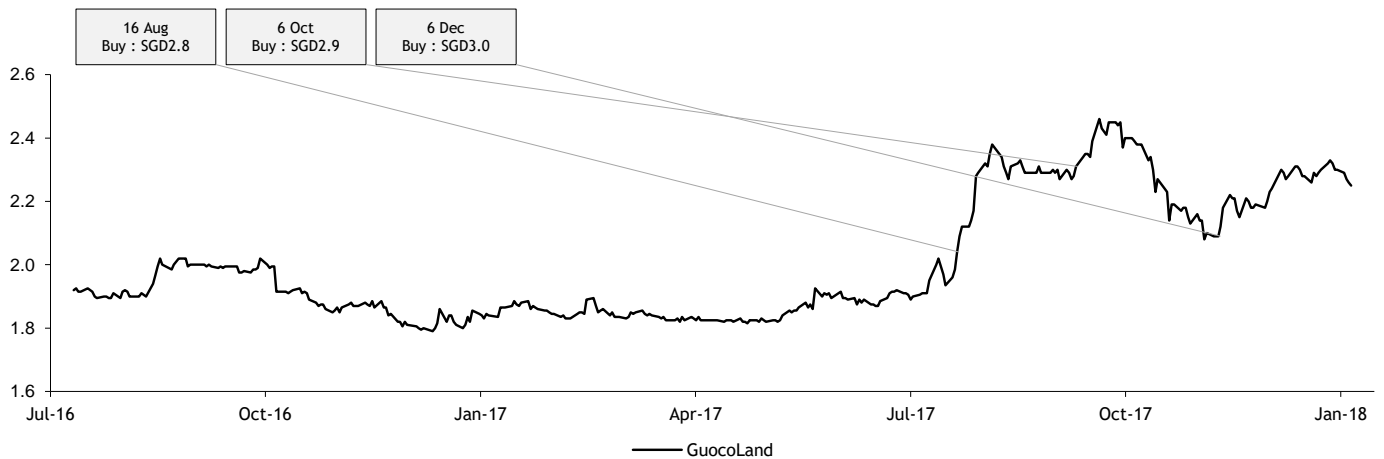
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