

GuocoLand (GUOL SP)

Raising Prime Residential Exposure

Maintain BUY with higher TP of SGD3.00

We lift FY18-20E EPS by 1-15% for newly-acquired Pacific Mansion and higher ASPs for Martin Modern. These are partially offset by higher financing costs from another SGD50m of perpetual securities raised since our last update. Its latest acquisition has increased its prime residential exposure and should allow the group to ride the improving market sentiment. We raise our TP to SGD3.00 from SGD2.95 after incorporating the latest changes, still at a 20% discount to RNAV. Maintain BUY. Risks from sharp property price falls in Singapore and China.

Acquires Pacific Mansion

GUOL has taken a 40% stake in the redevelopment of Pacific Mansion with other Hong Leong-linked entities. The freehold site is located in River Valley, near GUOL's Martin Modern project. According to CBRE, the sale price of SGD980m translates into a land rate of SGD1,806 psf, including bonus balcony areas. This is a slight premium to the SGD1,733 psf paid for a Jiak Kim site in a recent government land tender. Assuming an eventual ASP of SGD3,200 psf, we estimate a development surplus of 6 SGD cts. We believe our assumptions are not aggressive, given a strengthening market and SGD3,200 psf achieved at the recently launched New Futura.

Raising ASPs for Martin Modern

With brisk sales and higher achieved ASPs, we expect GUOL to raise prices for the unsold stock at Martin Modern. URA's latest data showed that 231 units have already been sold at this 450-unit project. We lift ASPs for unsold stock from SGD2,550-2,650 to SGD2,700-2,750 psf for the next two years.

Fund-raising not needed if sales stay brisk

Its 40% stake in Pacific Mansion puts its share of land cost at SGD392m. Assuming a 70% gearing, we believe its initial equity contribution of SGD118m can be comfortably funded. If our home-sales forecasts for its Singapore and China projects are met, we see no need for equity fund-raising. We do not rule out the latter if sales stall.

FYE Jun (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,060	1,113	1,199	1,696	1,745
EBITDA	243	229	304	392	396
Core net profit	135	364	335	243	235
Core EPS (cts)	12.1	32.8	30.2	21.9	21.2
Core EPS growth (%)	(40.6)	170.5	(8.1)	(27.5)	(3.3)
Net DPS (cts)	9.0	7.0	7.0	8.0	8.0
Core P/E (x)	17.4	6.4	7.0	9.6	10.0
P/BV (x)	0.7	0.7	0.6	0.6	0.6
Net dividend yield (%)	4.3	3.3	3.3	3.8	3.8
ROAE (%)	19.8	10.5	9.2	7.2	6.7
ROAA (%)	1.5	4.3	3.4	2.4	2.4
EV/EBITDA (x)	19.0	24.6	22.5	15.8	13.9
Net gearing (%) (incl perps)	69.7	84.2	85.3	67.6	51.4
Consensus net profit	-	-	338	230	210
MKE vs. Consensus (%)	-	-	(0.9)	13.7	20.7

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BUY

Share Price	SGD 2.11
12m Price Target	SGD 3.00 (+42%)
Previous Price Target	SGD 2.95

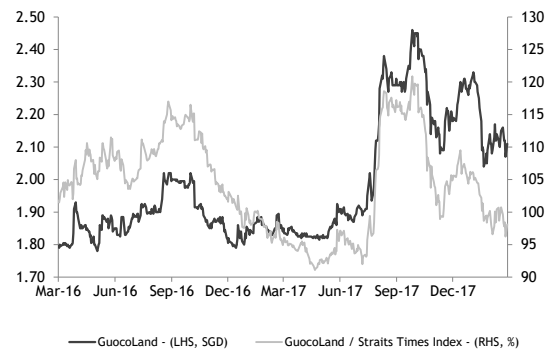
Statistics

52w high/low (SGD)	2.46/1.82
3m avg turnover (USDm)	1.0
Free float (%)	24.0
Issued shares (m)	1,183
Market capitalisation	SGD2.5B USD1.9B

Major shareholders:

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

Price Performance



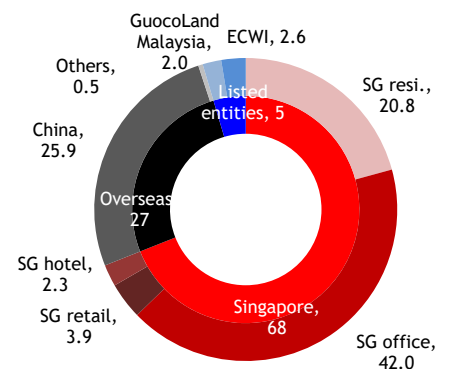
	-1M	-3M	-12M
Absolute (%)	(1)	(4)	13
Relative to index (%)	(2)	(7)	2

Source: FactSet

Link to sector note:

[Singapore Property - Building in Latest Enbloc Deals](#)

Exposure summary (% of valuation)



Source: Maybank Kim Eng

Fig 1: GuocoLand's RNAV and TP

We raise RNAV to SGD3.75 from SGD3.67 after ascribing higher ASPs for Martin Modern (+2cts) and incorporating its newly-acquired Pacific Mansion (+6cts).

Valuation	2018E (SGD m)	% of total (%)	per share (SGD)	Remarks
Singapore residential	1,898	20.8	1.71	Mid- to high-end projects.
Singapore investment properties	4,410	48.2	3.97	
Tanjong Pagar Centre	2,678	29.3	2.41	Office, hotel and retail.
Beach Road Site	1,254	13.7	1.13	3.5% cap rate for offices.
20 Collyer Quay	383	4.2	0.35	3.5% cap rate for offices.
Reversionary interests	95	1.0	0.09	Reversionary interests on 20 Collyer Quay and 61 Robinson Road.
China projects	2,373	25.9	2.14	Shanghai and Chongqing.
Changfeng Residence	458	5.0	0.41	50% stake in Shanghai residential project.
Chongqing Project	1,187	13.0	1.07	Mixed development.
Guoman Centre	172	1.9	0.16	Shanghai retail mall.
Guoman Hotel	132	1.4	0.12	Shanghai hotel.
Undeveloped land parcel in Shanghai, net	424	4.6	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	2.6	0.21	27% stake at Maybank KE TP of MYR1.10.
Others	44	0.5	0.04	
Gross asset value	9,144	100.0	8.24	
Less: adjusted net liabilities	(4,987)			Including perps.
RNAV	4,157			
Outstanding no. of shares (m)	1,110			
RNAV per share	3.75			
TP	3.00			Rounded.
RNAV discount (%)	(20)			

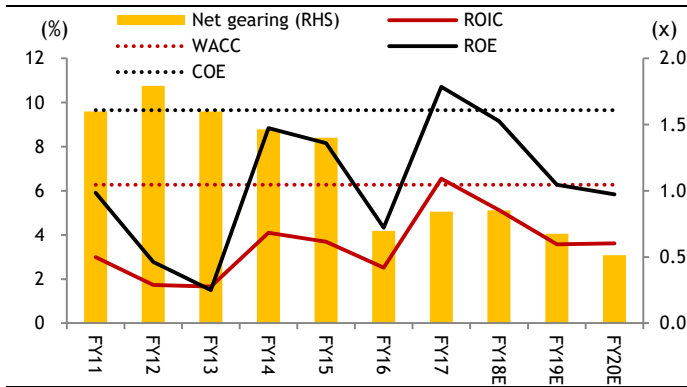
Note: RNAV = SGD3.73 if we use EcoWorld International's MYR1.00 market price instead of MBKE's TP of MYE1.10

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.

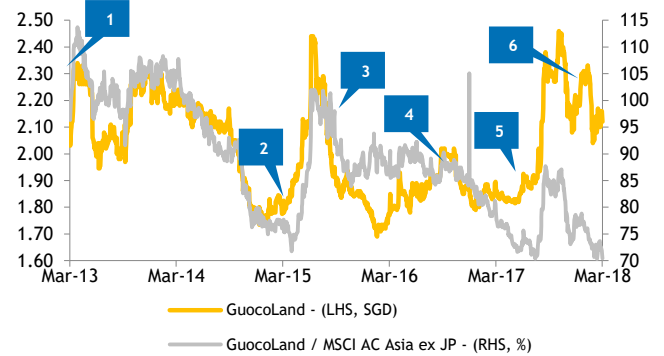
Returns vs cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



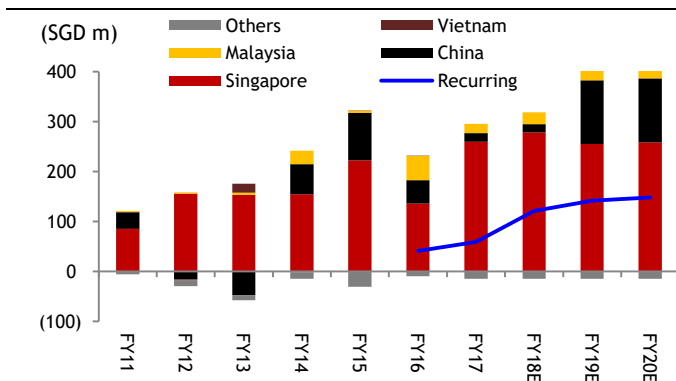
Source: Factset, Company, Maybank Kim Eng

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.
- Completion 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	7.0	9.0	9.2
Core P/E (x)	17.4	6.4	7.0	9.6	10.0
P/BV (x)	0.7	0.7	0.6	0.6	0.6
P/NTA (x)	0.7	0.7	0.6	0.6	0.6
Net dividend yield (%)	4.3	3.3	3.3	3.8	3.8
FCF yield (%)	20.6	nm	1.5	39.7	43.0
EV/EBITDA (x)	19.0	24.6	22.5	15.8	13.9
EV/EBIT (x)	19.8	25.3	23.6	16.3	14.4

INCOME STATEMENT (SGD m)

Revenue	1,059.8	1,113.2	1,198.7	1,695.8	1,744.7
Gross profit	232.7	222.1	289.8	378.0	381.8
EBITDA	242.8	228.6	303.8	392.0	395.8
Depreciation	(10.1)	(6.5)	(14.0)	(14.0)	(14.0)
EBIT	232.7	222.1	289.8	378.0	381.8
Net interest income / (exp)	(38.5)	(58.5)	(69.4)	(58.9)	(52.0)
Associates & JV	(2.7)	44.9	163.9	41.5	27.2
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	384.3	360.6	357.1
Income tax	(150.7)	(43.2)	(40.0)	(63.9)	(64.6)
Minorities	(15.8)	(55.4)	(9.4)	(35.5)	(39.2)
Reported net profit	606.7	357.2	334.9	261.3	253.3
Core net profit	134.7	364.3	334.9	242.9	234.9
Preferred Dividends	(9.4)	0.0	0.0	(18.4)	(18.4)

BALANCE SHEET (SGD m)

Cash & Short Term Investments	1,430.2	1,118.5	997.9	597.7	795.2
Accounts receivable	401.8	199.0	200.0	300.0	400.0
Inventory	2,410.5	3,265.4	3,575.3	3,035.0	2,410.4
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	842.2	798.7	798.7
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	10,517.8	9,724.1	9,501.6
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	3,787.1	3,952.2	4,098.4
Minority Interest	166.1	303.6	505.8	534.1	565.5
Total shareholder equity	3,442.2	3,833.4	4,292.8	4,486.4	4,663.9
Perpetual securities	0.0	0.0	400.0	400.0	400.0
Total liabilities and equity	7,906.6	8,955.7	10,517.8	9,724.1	9,501.6

CASH FLOW (SGD m)

Pretax profit	773.2	455.8	384.3	360.6	357.1
Depreciation & amortisation	10.1	6.5	14.0	14.0	14.0
Adj net interest (income)/exp	38.5	58.5	69.4	58.9	52.0
Change in working capital	484.4	(739.7)	(203.5)	622.5	689.6
Cash taxes paid	(184.8)	(59.2)	(40.0)	(63.9)	(64.6)
Other operating cash flow	(571.2)	(293.3)	(163.9)	(41.5)	(27.2)
Cash flow from operations	550.2	(571.3)	60.2	950.6	1,020.8
Capex	(67.8)	(98.5)	(25.0)	(20.0)	(14.0)
Free cash flow	482.3	(669.8)	35.2	930.6	1,006.8
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	(18.4)	(18.4)
Other invest/financing cash flow	2,010.7	(73.8)	(733.6)	(134.7)	(202.2)
Net cash flow	1,056.9	(320.2)	(120.6)	(400.2)	197.5

FYE 30 Jun	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.6)	5.0	7.7	41.5	2.9
EBITDA growth	(21.6)	(5.8)	32.9	29.0	1.0
EBIT growth	(22.5)	(4.6)	30.5	30.5	1.0
Pretax growth	142.6	(41.0)	(15.7)	(6.2)	(1.0)
Reported net profit growth	168.0	(41.1)	(6.2)	(22.0)	(3.0)
Core net profit growth	(40.6)	170.5	(8.1)	(27.5)	(3.3)
Profitability ratios (%)					
EBITDA margin	22.9	20.5	25.3	23.1	22.7
EBIT margin	22.0	19.9	24.2	22.3	21.9
Pretax profit margin	73.0	40.9	32.1	21.3	20.5
Payout ratio	16.5	21.7	23.2	34.0	35.1
DuPont analysis					
Net profit margin (%)	57.2	32.1	27.9	15.4	14.5
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	9.2	7.2	6.7
ROAA (%)	1.5	4.3	3.4	2.4	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.8	2.0	2.1
Net gearing (%) (incl perps)	69.7	84.2	85.3	67.6	51.4
Net gearing (%) (excl. perps)	69.7	84.2	93.2	73.6	55.9
Net interest cover (x)	6.0	3.8	4.2	6.4	7.3
Debt/EBITDA (x)	15.8	19.0	16.5	9.9	8.6
Capex/revenue (%)	6.4	8.8	2.1	1.2	0.8
Net debt/ (net cash)	2,400.0	3,226.0	4,002.1	3,302.3	2,604.8

Source: Company; Maybank

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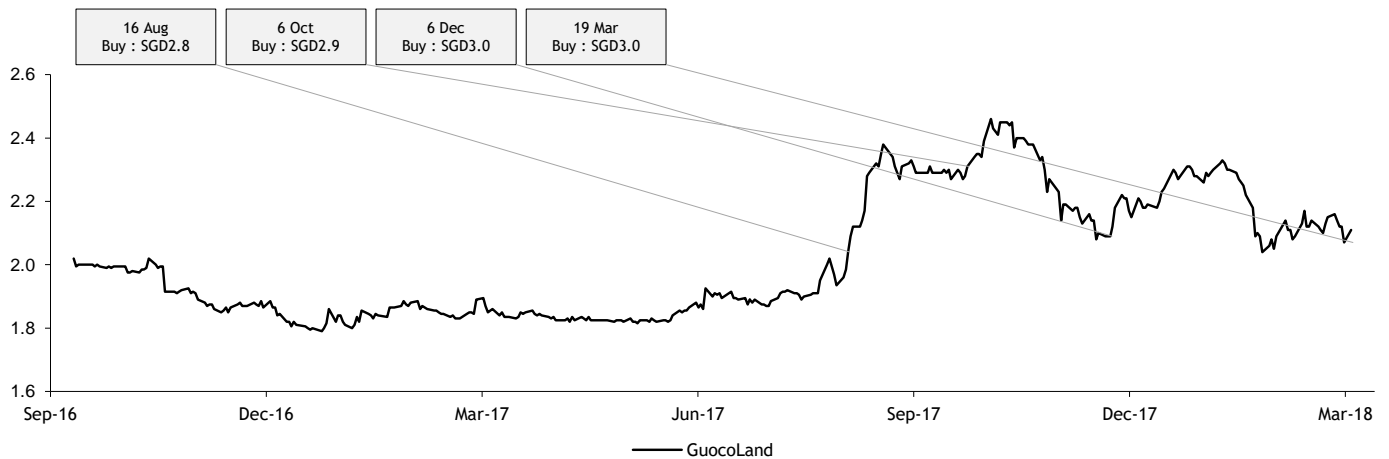
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Historical recommendations and target price: GuocoLand (GUOL SP)



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