

GuocoLand (GUOL SP)

Unexciting Outlook

TP cut 5% to SGD1.90; Maintain HOLD

While FY18 sales were in line with expectation, core EBIT was a miss on weaker profitability. Nonetheless, higher valuation for its investment properties led to a 7% improvement in net profit. We cut FY19-20E EPS by 31/48% after pushing out the project completion timeline for its China projects. As such, our RNAV is lowered by 5% to SGD3.45. Our TP is cut to SGD1.90, based on an unchanged RNAV discount of 45%. While valuations are not expensive, we believe the recently implemented policy tightening will continue to weigh on sector sentiment. Furthermore, with majority of its unsold stock in the prime region, it could be more impacted by the measures targeting property investors. Maintain HOLD.

Revenue in line, but core EBIT below

FY18 revenue was in line at SGD1,160m. Driven by better-than-expected profit contribution from Changfeng Residence, a joint venture project in China, and a revaluation gain of SGD142m, net profit came in 16% ahead of our full-year forecast. However, core EBIT was below expectation at just 67% of our full-year estimate due to weaker-than-expected profitability in China and Singapore. GuocoLand kept its full-year DPS unchanged at 7cts.

Higher valuation for commercial properties

The revaluation gain recorded was largely due to higher valuations for Guoco Tower and 20 Collyer Quay. Reflecting unchanged cap rate of 3.5% for its offices and a 10bps cap rate compression to 4.75% for its retail component, Guoco Tower is now valued 4% higher at SGD2,398m. Its owned spaces at 20 Collyer Quay and reversionary interests at the property is valued 6% higher at SGD484m.

Delay in China projects

Progress of its projects in China has been slower than expected. Notably, its mixed development site in Chongqing remains in the planning stage almost two years after its acquisition in Nov 2016. As such, we push out our project completion timeline and conservatively assume contributions from FY2022. With the decline in profitability, we cut our DPS for FY20-21E to 7cts (from 8cts).

FYE Jun (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	1,113	1,160	1,007	1,143	1,015
EBITDA	229	203	268	265	246
Core net profit	364	382	161	111	97
Core FDEPS (cts)	32.8	34.4	14.5	10.0	8.7
Core FDEPS growth(%)	170.5	4.8	(57.8)	(31.2)	(12.7)
Net DPS (cts)	7.0	7.0	7.0	7.0	7.0
Core FD P/E (x)	5.7	6.3	13.1	19.0	21.8
P/BV (x)	0.6	0.6	0.5	0.5	0.5
Net dividend yield (%)	3.7	3.2	3.7	3.7	3.7
ROAE (%)	10.5	10.4	5.1	3.8	3.4
ROAA (%)	4.3	3.9	1.5	1.0	0.9
EV/EBITDA (x)	24.6	33.0	23.9	24.1	26.0
Net gearing (%) (incl perps)	84.2	87.0	81.6	80.5	79.9
Consensus net profit	-	-	252	233	na
MKE vs. Consensus (%)	-	-	(28.7)	(44.4)	na

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HOLD

Share Price	SGD 1.90
12m Price Target	SGD 1.90 (+0%)
Previous Price Target	SGD 2.00

Statistics

52w high/low (SGD)	2.46/1.81
3m avg turnover (USDm)	0.8
Free float (%)	24.0
Issued shares (m)	1,183
Market capitalisation	SGD2.2B
	USD1.6B

Major shareholders:

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

Price Performance

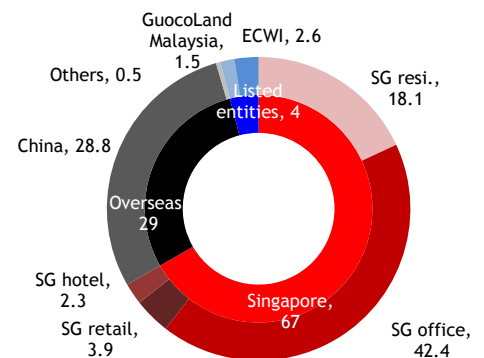


— GuocoLand - (LHS, SGD) — GuocoLand / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(4)	(14)	(17)
Relative to index (%)	(2)	(6)	(15)

Source: FactSet

Exposure summary (% of valuation)



Source: Maybank Kim Eng

Fig 1: Quarterly profit and loss

FYE 30 June	4Q17	3Q18	4Q18	Change		YTD18	% of FY18E	FY18E
	(SGD m)	(SGD m)	(SGD m)	(QoQ %)	(YoY %)			
Revenue	407	231	197	(14.6)	(51.6)	1,160	98.4	1,179
EBITDA	76	43	48	13.7	(36.6)	203	68.9	295
D&A	(2)	(4)	(6)	63.1	184.3	(16)	114.7	(14)
EBIT	74	39	42	9.0	(43.0)	187	66.7	281
Net interest income/(expense)	(21)	(27)	(9)	(68.0)	(58.4)	(85)	123.0	(69)
Other items (recurring)	254	0	142	n.m.	(44.0)	142	n.m.	0
Other items (exceptionals)	(7)	7	(2)	n.m.	(75.5)	(1)	n.m.	0
Associates & JVs	(2)	12	12	1.2	n.m.	204	124.2	164
PBT	299	31	187	>100	(37.6)	447	119.0	376
Taxation	(8)	(7)	(20)	>100	>100	(54)	141.1	(38)
MI	(46)	8	(25)	n.m.	(46.4)	(11)	133.0	(9)
Net income	245	32	141	>100	(42.3)	381	116.1	328

Source: Company, Maybank Kim Eng

Fig 2: Earnings revisions

Key financials	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	1,007	1,143	1,015	1,668	1,900	n.m.	(39.7)	(39.9)	n.m.
EBITDA	268	265	246	380	396	n.m.	(29.6)	(33.0)	n.m.
Net profit, adj.	161	111	97	234	214	n.m.	(31.0)	(48.3)	n.m.

Source: Maybank Kim Eng

Fig 3: GuocoLand's RNAV and TP

Valuation	2019E	% of total	per share	Remarks
	(SGD m)	(%)	(SGD)	
Singapore residential	1,685	18.1	1.52	Mid- to high-end projects.
Singapore investment properties	4,529	48.6	4.08	
Tanjong Pagar Centre	2,678	28.7	2.41	Office, hotel and retail.
Beach Road Site	1,368	14.7	1.23	3.5% cap rate for offices.
20 Collyer Quay	383	4.1	0.35	3.5% cap rate for offices.
Reversionary interests	100	1.1	0.09	Reversionary interests on 20 Collyer Quay and 61 Robinson Road.
China projects	2,683	28.8	2.42	Shanghai and Chongqing.
Changfeng Residence	527	5.7	0.47	50% stake in Shanghai residential project.
Chongqing Project	1,406	15.1	1.27	Mixed development.
Guoman Centre	177	1.9	0.16	Shanghai retail mall.
Guoman Hotel	136	1.5	0.12	Shanghai hotel.
Undeveloped land parcel in Shanghai, net	437	4.7	0.39	Market value of undeveloped land in Changfeng, Shanghai.
GuocoLand Malaysia	139	1.5	0.13	68% stake at market price of MYR0.90.
EcoWorld International	240	2.6	0.22	27% stake at Maybank KE TP of MYR1.11.
Others	44	0.5	0.04	
Gross asset value	9,320	100.0	8.40	
Less: adjusted net liabilities	(5,487)			Including perps.
RNAV	3,833			
Outstanding no. of shares (m)	1,110			Excludes ESOS shares.
RNAV per share	3.45			
TP	1.90			Rounded.
RNAV discount (%)	(45)			

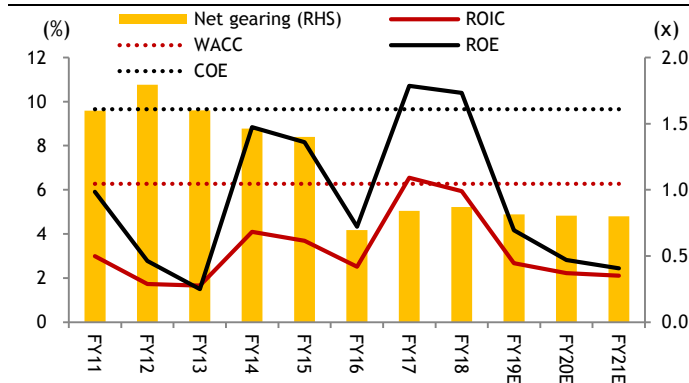
No material impact on RNAV if we use market values for ECWI instead of our TPs.

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.

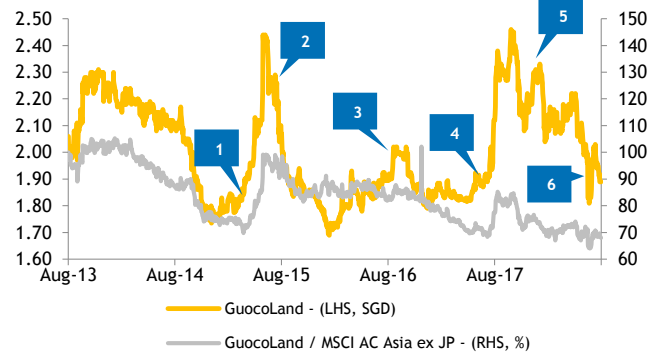
Returns vs cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



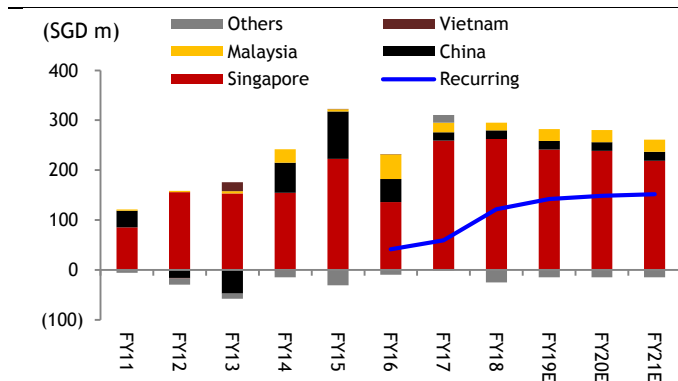
Source: Factset, Company, Maybank Kim Eng

- Positive sector sentiment on privatisation of Keppel Land by Keppel Corp in early 2015.
- Exit from troubled project Dongzhimen.
- Company reported significant pick-up in pre-commitment levels for Guoco Tower.
- Singapore government relaxes cooling measures in March 2017 for the first time since GFC.
- Strong pace of sales at Martin Modern. Wallich Residence achieved high ASP of SGD4,000 psf.
- Surprise policy tightening for Singapore's residential market.

Financial Metrics

- Singapore will continue to account for the bulk of the group's profits.
- We expect development sales recognition to be sustained by pre-sales achieved at Martin Modern and ongoing sales at other projects.
- Stabilisation of TPC will enhance its recurring income base. We expect recurring EBITDA to rise over three-fold from FY16 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	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	5.8	6.3	11.7	16.3	18.3
Core P/E (x)	5.7	6.3	13.1	19.0	21.8
Core FD P/E (x)	5.7	6.3	13.1	19.0	21.8
P/BV (x)	0.6	0.6	0.5	0.5	0.5
P/NTA (x)	0.6	0.6	0.5	0.5	0.5
Net dividend yield (%)	3.7	3.2	3.7	3.7	3.7
FCF yield (%)	nm	8.5	20.0	17.2	16.5
EV/EBITDA (x)	24.6	33.0	23.9	24.1	26.0
EV/EBIT (x)	25.3	35.8	25.2	25.4	27.5

INCOME STATEMENT (SGD m)

Revenue	1,113.2	1,160.2	1,006.9	1,142.6	1,015.5
Gross profit	252.7	280.1	357.6	355.5	336.3
EBITDA	228.6	203.3	267.6	265.5	246.3
Depreciation	(6.5)	(16.1)	(14.0)	(14.0)	(14.0)
EBIT	222.1	187.3	253.6	251.5	232.3
Net interest income / (exp)	(58.5)	(85.3)	(69.7)	(80.3)	(85.0)
Associates & JV	44.9	203.6	43.0	7.3	13.2
Exceptionals	(7.1)	(0.9)	0.0	0.0	0.0
Other pretax income	254.5	142.5	0.0	0.0	0.0
Pretax profit	455.8	447.0	227.0	178.5	160.4
Income tax	(43.2)	(54.3)	(33.9)	(33.6)	(30.4)
Minorities	(55.4)	(11.5)	(13.1)	(15.3)	(14.6)
Reported net profit	357.2	381.3	180.0	129.6	115.5
Core net profit	364.3	382.2	161.3	111.0	96.8
Preferred Dividends	0.0	0.0	(18.6)	(18.6)	(18.6)

BALANCE SHEET (SGD m)

Cash & Short Term Investments	1,118.5	884.9	887.7	900.6	903.1
Accounts receivable	199.0	503.4	300.0	400.0	400.0
Inventory	3,265.4	2,957.9	3,295.4	3,188.7	3,108.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	623.8	618.1	624.1	624.1	624.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	675.6	890.1	848.2	848.2	848.2
Other assets	3,073.4	4,644.9	4,732.1	4,841.0	4,949.3
Total assets	8,955.7	10,499.2	10,687.4	10,802.6	10,833.3
ST interest bearing debt	2,090.5	1,632.0	2,250.0	2,250.0	2,250.0
Accounts payable	377.3	301.1	550.0	600.0	600.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,254.0	3,291.8	2,500.0	2,500.0	2,500.0
Other liabilities	400.0	633.0	652.0	671.0	671.0
Total Liabilities	5,122.2	5,857.7	5,951.8	6,021.4	6,021.4
Shareholders Equity	3,529.9	3,827.6	3,911.3	3,944.5	3,963.7
Minority Interest	303.6	408.9	419.4	431.7	443.3
Total shareholder equity	3,833.4	4,236.5	4,330.7	4,376.2	4,407.0
Perpetual securities	0.0	405.0	405.0	405.0	405.0
Total liabilities and equity	8,955.7	10,499.2	10,687.4	10,802.6	10,833.3

CASH FLOW (SGD m)

Pretax profit	455.8	447.0	227.0	178.5	160.4
Depreciation & amortisation	6.5	16.1	14.0	14.0	14.0
Adj net interest (income)/exp	58.5	85.3	69.7	80.3	85.0
Change in working capital	(739.7)	49.5	207.1	145.6	145.0
Cash taxes paid	(59.2)	(34.0)	(33.9)	(33.6)	(30.4)
Other operating cash flow	(293.3)	(333.0)	(43.0)	(7.3)	(13.2)
Cash flow from operations	(571.3)	231.0	440.8	377.4	360.9
Capex	(98.5)	(27.4)	(20.0)	(14.0)	(14.0)
Free cash flow	(669.8)	203.7	420.8	363.4	346.9
Dividends paid	(99.9)	(77.7)	(77.7)	(77.7)	(77.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	523.2	555.4	(173.8)	0.0	0.0
Perpetual securities distribution	0.0	0.0	(18.6)	(18.6)	(18.6)
Other invest/financing cash flow	(73.8)	(923.3)	(147.9)	(254.3)	(248.0)
Net cash flow	(320.2)	(242.0)	2.8	12.9	2.5

FYE 30 Jun	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.0	4.2	(13.2)	13.5	(11.1)
EBITDA growth	(5.8)	(11.1)	31.6	(0.8)	(7.2)
EBIT growth	(4.6)	(15.7)	35.4	(0.9)	(7.6)
Pretax growth	(41.0)	(1.9)	(49.2)	(21.4)	(10.2)
Reported net profit growth	(41.1)	6.7	(52.8)	(28.0)	(10.9)
Core net profit growth	170.5	4.9	(57.8)	(31.2)	(12.7)
Profitability ratios (%)					
EBITDA margin	20.5	17.5	26.6	23.2	24.3
EBIT margin	19.9	16.1	25.2	22.0	22.9
Pretax profit margin	40.9	38.5	22.5	15.6	15.8
Payout ratio	21.7	20.4	43.2	59.9	67.3
DuPont analysis					
Net profit margin (%)	32.1	32.9	17.9	11.3	11.4
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	2.5	2.7	2.7	2.7	2.7
ROAE (%)	10.5	10.4	5.1	3.8	3.4
ROAA (%)	4.3	3.9	1.5	1.0	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.8	1.8	1.8	1.8
Net gearing (%) (incl perps)	84.2	87.0	81.6	80.5	79.9
Net gearing (%) (excl. perps)	84.2	95.3	89.2	88.0	87.3
Net interest cover (x)	3.8	2.2	3.6	3.1	2.7
Debt/EBITDA (x)	19.0	nm	17.7	17.9	19.3
Capex/revenue (%)	8.8	2.4	2.0	1.2	1.4
Net debt/ (net cash)	3,226.0	4,038.9	3,862.3	3,849.4	3,846.9

Source: Company; Maybank

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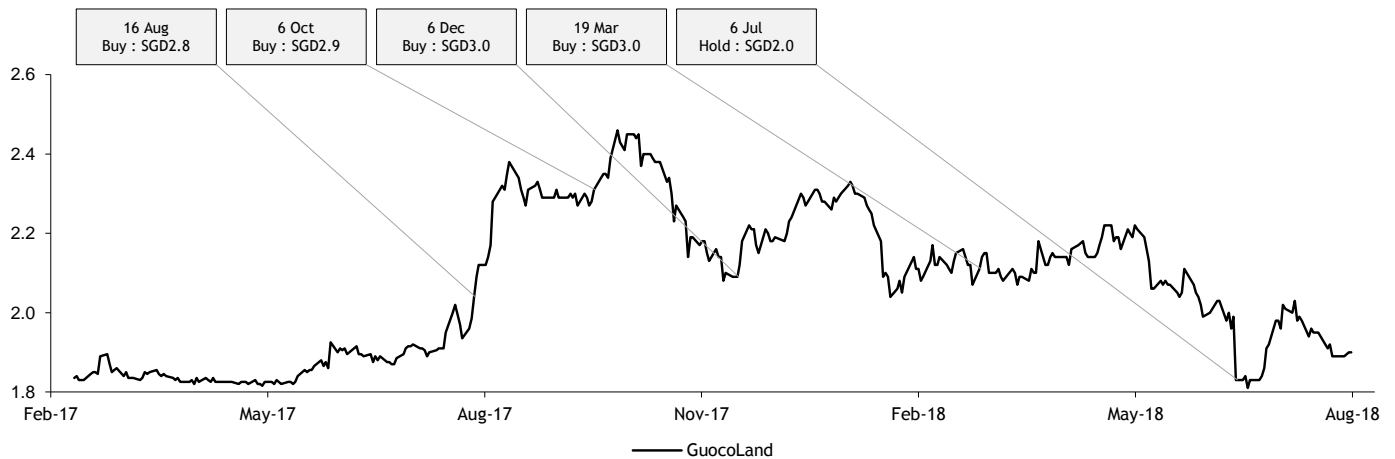
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