REAL ESTATE EQUITY RESEARCH

GuocoLand Limited

SGX: F17
Bloomberg: GUOL:SP
ISIN Code: SG1R95002270

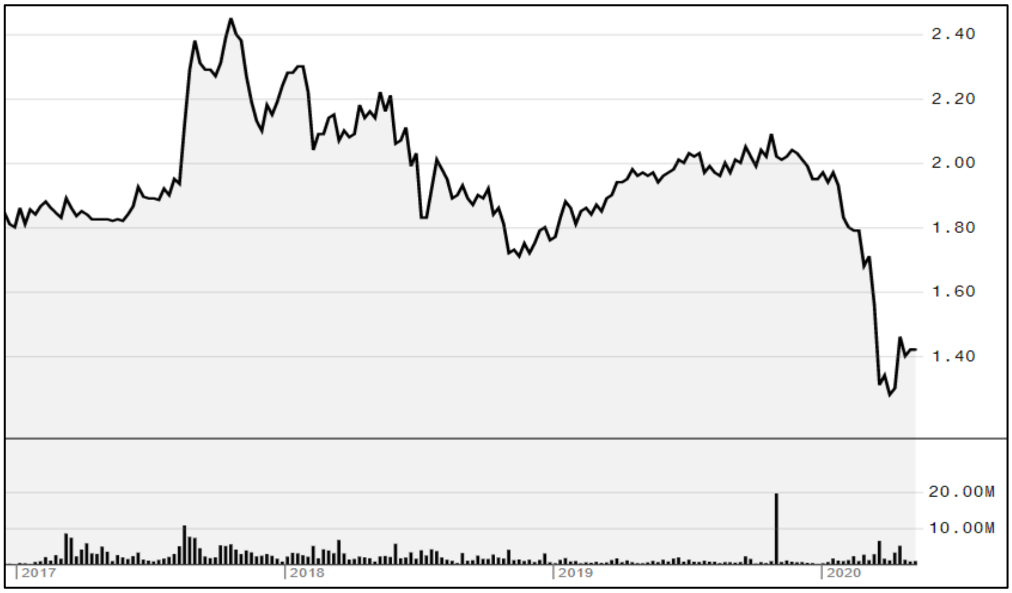
Country: Singapore
Industry: Real estate

26 May 2020
RECOMMENDATION: BUY

Current price: S$1.40
Target price: S$2.10
Issued shares: 1,109.8 million
Market capitalisation: S$1,553.72 million

52-week range: S$1.20 - S$2.10

Price Performance



Source: Bloomberg

Company description

GuocoLand Limited (GuocoLand) is a Singapore-listed property company with operations in the geographical markets of Singapore, China, Malaysia and Vietnam. The principal business activities of GuocoLand and its subsidiaries (the Group) include property development, property investment, hotel operations and property management. The Group's portfolio comprises of residential, hospitality, commercial, retail and integrated developments spanning across the region.

Summary

GuocoLand's share price generally rose in 2019 on the back of strong financials in the first half of FY2020, albeit weaker performance for overall FY2019. Owing to the COVID-19 pandemic, however, the company's share price has dipped since the start of 2020 but has rebounded slightly from a low of S$1.22 on 19 March. Despite softened rents, hotel occupancy and RevPAR, and potentially lower demand for new property purchases, we are expecting a robust performance for FY2020 on the back of a strong first half. Looking ahead, there are potential catalysts such as the company's new mixed-use developments in Singapore and China. Further, there is upside to the Singapore market as a safe-haven location for property investment, which could underpin development sales.

Recommendation

Based on our valuation analysis, we estimate that GuocoLand is trading at a steep discount to book value. The discount is 59.0%, which could imply that the company is undervalued at the current price. This is reinforced by a peer comparison which shows that GuocoLand's P/B ratio of 0.41x is lower than the peers' average P/B of 0.61x. We adopt a relative valuation method to derive an estimated target price of S$2.10 per share if GuocoLand's P/B were to re-adjust to the current peers' average benchmark of 0.61x. Our target price implies a 50.0% upside from the current price of S$1.40 and is a 38.8% discount to book value of S$3.43 as of 31 December 2019. We also note that GuocoLand is attractive in terms of dividend yield, with a dividend yield of 5.00% that is higher than the peers' average of 3.38%. We issue a buy recommendation and our target price is S$2.10.

Key Financials

Year ended 30 June	Revenue (S$ million)	Profit [2] (S$ million)	EPS (S cents)	P/E (x)	DPS (S cents)	Dividend yield (%)	NAV per share (S$)	P/B (x)
2017 actual [1]	1,113.2	357.2	32.19	4.35	7.00	5.00	3.08	0.45
2018 actual [1]	1,141.7	413.2	36.53	3.83	7.00	5.00	3.39	0.41
2019 actual	927.0	255.7	21.30	6.57	7.00	5.00	3.45	0.41
2020 forecast	1,108.0	264.8	22.12	6.33	7.00	5.00	-	-

Figures have been rounded

P/E, P/B and dividend yield are computed based on current price of S$1.40

(1) Restated figures accounting for adoption of Singapore Financial Reporting Standards (International)

(2) Profit attributable to equity holders

Source: GuocoLand, FPA Financial

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OVERVIEW OF BUSINESS

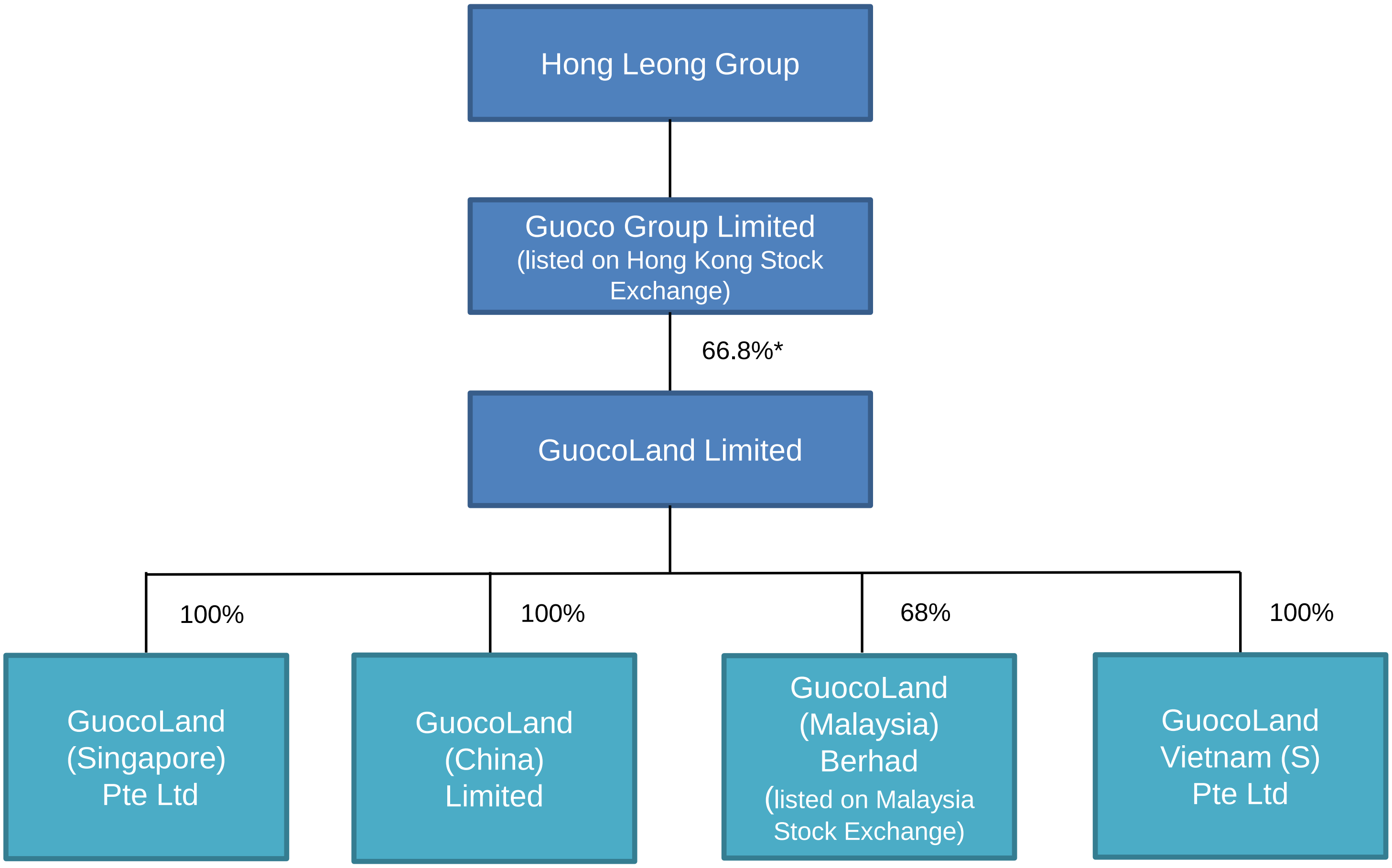
Listed on the Singapore Exchange since 1978, GuocoLand Limited (GuocoLand) is a premier regional property company with operations in the geographical markets of Singapore, China, Malaysia and Vietnam. In 2017, GuocoLand expanded beyond Asia into the United Kingdom and Australia through a strategic partnership with Eco World Development Group Berhad in Eco World International Berhad. The principal business activities of GuocoLand and its subsidiaries (the Group) include property development, property investment, hotel operations and property management.

The parent company of GuocoLand is Guoco Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. Guoco Group Limited is a member of the Malaysian Hong Leong group of companies. As of 31 December 2019, the GuocoLand together with its subsidiaries, had total assets of S$11.0 billion and total equity attributable to equity holders of S$4.2 billion.

(I) Corporate structure

The following chart in **Exhibit 1** illustrates the relationship between each entity within GuocoLand's corporate structure. The ownership interest reflected are with respect to the financial year ended 30 June 2019

Exhibit 1: GuocoLand's corporate structure



*Updated ownership interest of 66.8% as of 30 October 2019 (Previously 65.2% as of 11 September 2019). More details can be found on page 25.

Source: GuocoLand

Guoco Group Limited

Guoco Group Limited (Guoco Group) is a Hong Kong-listed investment holding and management company with operations and investments covering Asia and Europe. The Group (including its subsidiaries and associated companies) is primarily involved in principal investment activities, property development and investment, hospitality and leisure operations and financial services as its core businesses. The Group primarily operates in Hong Kong, China, Singapore, Malaysia, Vietnam and the United Kingdom with a workforce of around 12,000 worldwide. As at 30 June 2019, Guoco Group had approximately total assets of HK$125 billion, total liabilities of HK$44 billion and total equity attributable to equity holders of HK$62 billion.

Guoco Group is the parent company of GuocoLand, which is the property development and investment arm of the former. As of 30 October 2019, Guoco Group owns an approximately 66.8% interest in GuocoLand, through its wholly-owned subsidiary GuocoLand Assets Pte Ltd.

GuocoLand Limited

Within its corporate structure, GuocoLand's subsidiaries consist of GuocoLand (Singapore) Pte Ltd, GuocoLand (China) Limited, GuocoLand (Malaysia) Berhad and GuocoLand Vietnam (S) Pte Ltd. For the financial year ended 30 June 2019, GuocoLand owned a 100%, 100%, 68% and 100% interest in these subsidiaries, respectively.

(II) Overview of the Group's portfolio

The Group's portfolio comprises of residential, hospitality, commercial, retail and integrated developments spanning across the region. We categorized the Group's portfolio into 3 segments, namely development properties, investment properties and hotel ownership and management. **Exhibits 2-4** show the list of properties within each of the 3 segments, sub-categorized into the individual geographical markets, as well as property information such as gross floor area, total units/rooms, units sold and expected completion, wherever applicable.

Exhibit 2: List of the Group's development properties

Country	Name of development	Type or component	Gross floor area (sqm)	Total residential units	No. of residential units sold	Expected completion
Singapore:						
	Guoco Midtown	Midtown Bay (residential), office and retail	90,029	219	More than 25%	Dec 2020
	Tan Quee Lan Street	Residential	48,430	More than 500	Not launched for sale yet	TBA
	Wallich Residence	Residential component of Guoco Tower	23,225	181	More than 50%	Completed
	Meyer Mansion	Residential	22,175	200	35	June 2024
	Martin Modern	Residential	49,084	450	383	June 2020
China:						
	Chongqing 18 Steps	Chongqing 18T Mansion (residential) and commercial	341,000	More than 1,000	Not launched for sale yet	2023
	Guoco Changfeng City	Office, retail, entertainment and cultural centre	195,400	Not applicable	Not applicable	2021
Malaysia:						
	DC Residensi	Residential component of Damansara City	237,421	370	More than 60%	Completed
	Emerald 9 Cheras	Serviced apartments, hotel, office and retail	287,705	477	More than 55%	Apr 2023
	Emerald Hills	Residential	172,023	592 (condominiums)	More than 75%	Sep 2020
				181 (garden terraces)	More than 75%	
Vietnam:						
	The Canary, Binh Dong	Residential, commercial, office, service apartments and hotel	138,000	1,051	Phase 1 is fully sold Phase 2 is close to fully sold	Phase 2 is completed, planning is ongoing for phase 3 and 4

Source: GuocoLand, URA

Exhibit 3: List of the Group's investment properties

Country	Name of property	Type	Gross floor area (sqm)
Singapore			
	20 Collyer Quay	Office	23,248
	Guoco Tower	Office, retail	157,738
Malaysia:			
	PJ City Corporate Hub	Office	38,053
	Commerce One	Office, retail	39,636
	Damansara City	Office, retail	237,421
	Menara HLA, Kuala Lumpur	Office (Portfolio of Tower REIT)	36,866
	HP Towers, Kuala Lumpur	Office (Portfolio of Tower REIT)	32,521

Source: GuocoLand

Exhibit 4: List of the Group's hotel properties

Country	Name of hotel	Hotel brand	Total rooms	Hotel management
Singapore:				
	Sofitel Singapore City Centre	Sofitel	223	No
Malaysia:				
	Sofitel Kuala Lumpur Damansara	Sofitel	312	No
	Thistle Johor Bahru	Thistle	381	Yes
	Thistle Port Dickson	Thistle	251	Yes

Source: GuocoLand

Exhibit 5 summarises the unit sizes, in square feet (sq ft), and the price range per sq ft for some of the current property launches in Singapore.

Exhibit 5: Current launches in Singapore- unit sizes and price range per sq ft

Property	Total no. of units	Type	Size (sq ft)	Price range (S$)	Price range/sq ft (S$)
Midtown Bay	219	1 bedroom	409-527	1,346,360	3,292
		2 bedroom	732-775	2,025,360	2,767
		2 bedroom duplex	990-1152	TBA	n/a
		3 bedroom duplex	1324	TBA	n/a
Meyer Mansion	200	1 bedroom	484	1,345,600	2,780
		2 bedroom	689-883	1,861,600	2,702
		3 bedroom	1109-1356	2,836,000	2,557
		3 bedroom	1109-1389	2,815,200	2,539
		3 bedroom premium	1399-1722	3,636,000	2,599
		3 bedroom premium	1496-1830	3,686,400	2,464
		4 bedroom premium	1722-2099	4,436,000	2,576
		4 bedroom premium	1765-2142	4,486,400	2,542
Wallich Residence	181	1 bedroom	614-646	2,039,150-2,108,000	3,321-3,263
		2 bedroom	861-1098	2,757,400-3,810,550	3,203-3,978
		3 bedroom	1098-1787	3,737,450-4,720,050	3,404-3,950
		4 bedroom	1658-1991	6,350,350-9,380,600	3,830-4,712
		Junior penthouse	3509	17,200,600	4,902

Source: Compiled from respective property development websites

INDUSTRY OVERVIEW

In this section, we will provide an overview of the Singapore property market. Specifically, we will provide a review of the outlook for the residential, office and retail property segments, as well as the hotel market, taking into account the impact of COVID-19.

(I) Singapore residential market

According to the Urban Redevelopment Authority (URA), most key indicators of Singapore's private residential market exhibited declines in the first quarter of 2020 (Q1 2020) from the previous quarter. Except for rental prices that rose by 1.1%, declines were seen in all other key indicators like the price index (-1.0%), take-up (-12.0%), pipeline supply (-0.6%) and vacancy rate (-0.1% point). The published data for the price index, rental index, take-up, pipeline supply and vacancy rate for the private residential market are summarised in **Exhibit 6**.

Exhibit 6: Performance of key indicators for Singapore's private residential market

Key indicators	Change	4Q2019	1Q2020
Price index	-1.0%	153.6	152.1
Rental index	+1.1%	104.5	105.6
Take-up*	-12.0%	2,443	2,149
Pipeline supply*	-0.6%	49,173	48,868
Vacancy rate*	-0.1% point	5.5%	5.4%

* *Figures exclude Executive Condominium (ECs)*

Source: URA

We note that Jones Lang Lasalle (JLL) expects higher downside risks for the residential market in the near term. Sales performance of the prime residential sales market is likely to be dampened by the expected recession caused by the virus outbreak. Capital values for prime properties are expected to soften from a substantial supply of unsold units in the pipeline as well as weaker demand. On supply, JLL said that supply conditions remain favorable in the short term and the low supply level for 2020 is expected to keep vacancy rates low. However, supply of completed units is likely to rebound from 2021 onwards as most redeveloped properties would come onstream by then.

We also note CBRE's views on the residential market. CBRE noted on a 22.7% yoy increase in new home sales in Q1 2020, though the full impact of COVID-19 had not been felt in the period. Moving forward, however, CBRE said imposed measures to contain COVID-19 will have an adverse impact on home sales volume. Developers are expected to delay project launches which will in turn slow down the launch of new units. Softer economic sentiments could hold back buyers and we could see developers with weaker holding power offering more competitive pricing to move units. Given weak economic conditions, CBRE believes that residential prices may continue to correct for the remainder of 2020 while developer sales numbers could hover between 4,000 to 5,000 units (excluding executive condominiums), especially if the severity of COVID-19 is prolonged.

On the outlook for residential transactions in 2020, we note that Colliers International (Colliers) has projected that Singapore's residential transactions will experience an 8.3% yoy decline in 2020. We will adopt this projection in our revenue estimation as a proxy for the first half of 2020.

(II) Singapore office market

According to the URA, most key indicators of Singapore's office market exhibited declines in Q1 2020. While the vacancy rate rose by 0.5% point, decreases were seen for all other indicators like the price index (-4.0%), rental index (-0.8%) and pipeline supply (-9.4%). The published data for the price index, rental index, pipeline supply and vacancy rate for the office market are summarised in **Exhibit 7**.

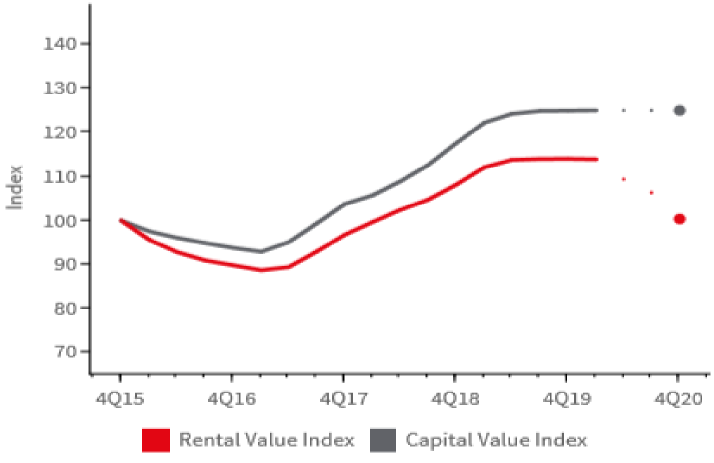
Exhibit 7: Performance of key indicators for Singapore's office market

Key indicators	Change	4Q2019	1Q2020
Price index	-4.0%	138.1	132.6
Rental index	-0.8%	170.0	168.7
Pipeline supply	-9.4%	753,000 sq m (GFA)	682,000 sq m (GFA)
Vacancy rate	+0.5% point	10.5%	11.0%

Source: URA

Owing to the COVID-19 pandemic, JLL said that office leasing activity has slowed, and office rent has contracted for the first time since a recovery in 2017. It added that some landlords have adjusted to more realistic expectations on rentals during the current period of uncertainty and are offering more incentives to attract tenants to renew or commit to new leases. This has led to negative rent growth in the CBD in Q1 2020. Moving forward, JLL said that lacklustre demand is expected to place further downward pressure on rents in 2020, with the rental value index expected to fall over the remaining quarters of 2020, as shown in **Exhibit 8**. Nonetheless, counter measures taken by the government and landlords to help businesses stay afloat could help some of them through the current environment and steer rents towards a soft landing. Capital values are expected to remain more resilient than rents, given low interest rates and limited availability of investment grade offices for sale. Furthermore, Singapore's reputation as a safe-haven would continue to attract global investors who are looking for defensive assets in the current uncertain economic climate.

Exhibit 8: Rental value index and capital value index



Dotted lines indicate near-term outlook
Index base: 4Q15 = 100
Financial Indicators are for the CBD.

Source: JLL

We also note from CBRE that amid current low vacancy rates in the Singapore office market, more occupiers are opting to downsize either through renewal or relocation. CBRE thus expects vacancy levels to rise. We observe from **Exhibit 9** that in Q1 2020, quarter-on-quarter (qoq) increases in vacancy rates have already been registered in the Core CBD (39 basis points) and fringe CBD segments. However, we also note that vacancy rates for the Grade A (Core CBD) segment had decreased by 159 basis points in Q1 2020. This is positive for GuocoLand, given that its properties like Guoco Tower and Guoco Midtown feature Grade A offices in the CBD region.

Exhibit 9: Office vacancy rates in Q1 2020

	Q1 20	Q-o-q	Y-o-y
Islandwide	5.0%	42 bps	-32 bps
Core CBD	4.6%	39 bps	9 bps
Fringe CBD	5.7%	103 bps	25 bps
Decentralised	4.8%	-25 bps	-186 bps
Grade A (Core CBD)	2.4%	-159bps	-241 bps

Source: CBRE Research

On office rental, CBRE said that after 10 quarters of rental growth, the Grade A (Core CBD) office rental cycle had run its course. We note in **Exhibit 10** that office rents for the Grade A (Core CBD) segment decreased by 0.4% qoq, though the decline was less steep compared to other segments. However, CBRE cautioned that weaker business sentiment has led to subdued underlying new demand. In addition, it said that rents are subjected to downward pressures for the rest of 2020, given business uncertainty exacerbated by COVID-19 and the concern of backfilling upcoming vacant stock emerging from tenant relocations.

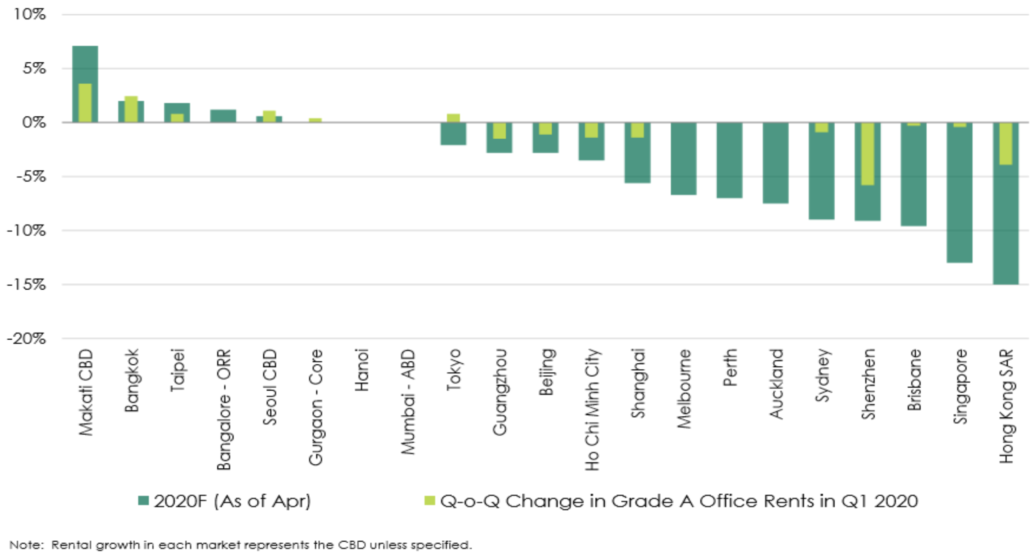
Exhibit 10: Office rents in Q1 2020

	Q1 20	Q-o-q	Y-o-y
Grade A CBD Core	$11.50	-0.4%	3.1%
Grade B CBD Core	$8.65	-0.6%	1.2%
Grade B Islandwide	$8.00	-0.6%	1.3%

Source: CBRE Research

We see in **Exhibit 11** that CBRE has projected a roughly 13% decline in office rental for the CBD market in Singapore. This will be applicable for Guoco Tower and 20 Collyer Quay which are situated in the CBD region. We will adopt this projected figure in our revenue estimation.

Exhibit 11: CBRE 2020 office rental outlook



Source: CBRE Research

Given the above analysis, we note that the outlook for Singapore's office market in 2020 is less optimistic. The expectation is that leasing activities will be weak due to the COVID-19 containment measures. We will thus likely see a reduction in the demand for office spaces. This will induce competitive pricing by landlords to attract tenants which will depress rental rates. GuocoLand's commercial property, 20 Collyer Quay, and the Grade A office component Guoco Tower may likely be affected by lower rental income amid weaker rent. Nonetheless, the impact on the upcoming Guoco Midtown development, which is expected to be completed in the first half 2022, may be less adverse as we expect the COVID-19 situation to stabilise and for rental rates to gradually pick up over the next 2 years.

(III) Singapore retail market

According to the URA, the prices and rentals of retail space in Singapore decreased in Q1 2020 from the previous quarter. Prices of retail space fell by 3.1% while rentals contracted 2.3%. Conversely, an increase was seen for pipeline supply (7.5%) and vacancy rate (0.5% point). The published data for the price index, rental index, pipeline supply and vacancy rate for the retail market are summarised in **Exhibit 12**.

Exhibit 12: Performance of key indicators for Singapore's retail market

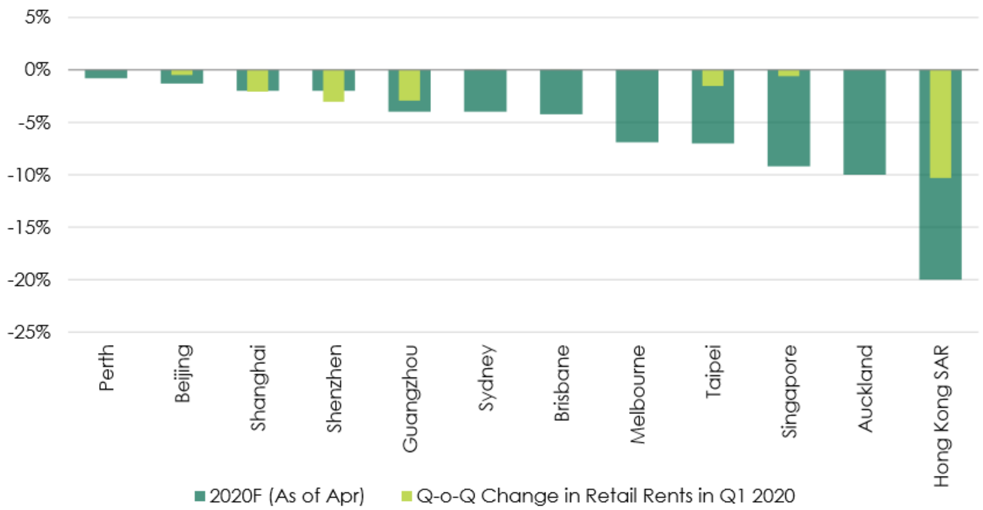
Key indicators	Change	4Q2019	1Q2020
Price index	-3.1%	114.0	110.5
Rental index	-2.3%	101.0	98.7
Pipeline supply	+7.5%	333,000 sq m (GFA)	358,000 sq m (GFA)
Vacancy rate	+0.5% point	7.5%	8.0%

Source: URA

We note from JLL that falling retail sales and footfall in malls as a result of travel restrictions and tightened safe distancing measures amid the COVID-19 outbreak dampened retailer sentiment in Q1 2020. Rents fell in the first quarter largely on the back of rental rebates. JLL said that rents of prime floor space in the secondary and suburban submarkets saw qoq declines, largely on the back of relief measures, including rental rebates offered by landlords to ease retailers' cash flow constraints. Rents in these segments also came under pressure as new leases and renewals were committed at lower rental rates. Moving forward, JLL said retailer sentiment will remain subdued as travel restrictions and strict, tightened distancing measures will continue to dampen footfall and retail sales. Despite relief measures rolled out by the government and landlords, retail consolidation and closures are expected as some retailers may succumb to the pressure of cash flow constraints.

We also note from CBRE that prime retail rents across Singapore declined by 0.6% qoq in Q1 2020. There was minimal correction in retail rents, given that existing tenancies were still locked in and the COVID-19 pandemic in its infancy during the period. Downward pressure on rents was also mitigated by reliefs from landlords like allowing tenants to use security deposits to offset rental payments and offering rental rebates passed down from government property tax rebates. However, CBRE said that rental decline is expected to accelerate in Q2 2020, noting that the reliefs will only be temporary. Considering that retail sales and discretionary consumer spending are likely to further weaken due to the circuit breaker measures, coupled with the softer economic outlook, CBRE expects prime island-wide retail rents to experience major rental corrections, especially on tourism reliant markets while suburban markets may show more resilience. We observe in **Exhibit 13** on page 12 that CBRE has projected for a roughly 8% dip in retail rental in Singapore in 2020.

Exhibit 13: CBRE 2020 retail rental outlook



Source: CBRE Research

Given the above analysis, the expectation is for a weaker retail market performance in 2020. Retail rents are likely to depress further in the second quarter, reflecting the effects of the circuit breaker measures introduced at the start of April. Even as the circuit breaker measures are gradually eased, the Singapore government has announced that the re-opening of the economy will be in phases. Retail businesses may only begin resuming operations in the second phase, but even so, the resumption process will be selective, and businesses that involve the congregation of people are unlikely to restart for quite a while.

(IV) Singapore hotel market

We note from CBRE Hotels that the Singapore hotel market saw a revenue per available room (RevPAR) decline of 62% yoy in the first quarter of 2020, owing to the impact of COVID-19. Hotel occupancy registered 40% in Q1 2020, a 50% decline from a year earlier. Average daily rates (ADR) fell by 20% to S$171. CBRE noted that the expectations for strong growth in the hospitality sector in 2020 have been curtailed and are now uncertain due to the COVID-19 pandemic. In response, the government has rolled out relief measures to alleviate the impact on the market.

Considering that the impact of COVID-19 would likely be more severe in the second quarter of 2020, we expect a steeper decline in RevPAR in Q2 2020 compared to Q1 2020. We will therefore assume as a proxy in our revenue projection, a baseline scenario with a minimum RevPAR decline of 62.0% for the first half of 2020 as a whole.

FINANCIAL ANALYSIS

In this section, we will review GuocoLand's financial fundamentals and provide our financial projections for revenue, earnings and dividends.

(I) Financial fundamentals

Profitability performance

We note from **Exhibit 14** that GuocoLand's revenue performance has dropped in FY2019. Comparing FY2019 and FY2018, total revenue decreased by 18.8% yoy to S$927.0 million in FY2019, following two consecutive years of growth. We note that the lower revenue in FY2019 was largely due a relatively significant dip in contributions by GuocoLand Singapore. This was mainly due to lower contributions from completed residential projects in Singapore, as the inventory of completed unsold units was substantially reduced in the previous year. In addition, revenue from the healthy sales of Martin Modern in Singapore were only partially recognised in FY2019, as the project was still under construction. We checked from the URA website that up till April 2020, 383 units have been sold. We expect the majority of the profits to be recognized in FY2020. We also note from **Exhibit 14** that net profit has declined in FY2019 and the profit margin fell to 31.0%, after maintaining at about 37.0% for the previous two years.

Exhibit 14: Geographic segment revenue, net profit and profit margin

	Year ended 30 June				
S$'000	**2019**	**2018**	**2017**	**2016**	**2015**
Segment revenue					
GuocoLand Singapore	716,542	1,018,367	988,168	651,319	714,682
GuocoLand China	3,721	5,807	27,638	272,374	400,995
GuocoLand Malaysia	114,530	56,427	94,506	131,082	39,799
GuocoLand Vietnam	19,178	2,552	2,828	4,965	4,416
Others [(1)]	72,986	58,516	51	30	29
Total revenue	926,957	1,141,669	1,113,191	1,059,770	1,159,921
Change in total revenue (% yoy)	-18.8%	2.6%	5.0%	-8.6%	-7.3%
Net profit	287,616	422,505	412,570	622,498	243,813
Profit margin	31.0%	37.0%	37.1%	58.7%	21.0%

[(1)] For the year ended 30 June 2019 and 2018, "Others" included hotel operations in Singapore, China and Malaysia, and investment in property development projects in the United Kingdom and Australia.

Source: GuocoLand, FPA Financial

We further analysed GuocoLand's revenue situation based on a business segment breakdown. We note in **Exhibit 15** that total revenue is contributed by the sale of development properties, hotel operations, rental and related income and management fee income.

Exhibit 15: Business segments of total revenue

	Year ended 30 June									
S$'000	2019	% of total	2018	% of total	2017	% of total	2016	% of total	2015	% of total
Sale of development properties	733,383	79.1%	965,554	84.6%	1,001,124	89.9%	1,000,293	94.4%	1,097,282	94.6%
Hotel operations	72,956	7.9%	58,444	5.1%	36,508	3.3%	37,016	3.5%	39,475	3.4%
Rental and related income from investment properties	116,992	12.6%	114,908	10.1%	69,649	6.3%	20,587	1.9%	20,085	1.7%
Management fee income	3,626	0.4%	2,763	0.2%	5,910	0.5%	1,874	0.2%	3,079	0.3%
Total revenue	926,957	100.0%	1,141,669	100.0%	1,113,191	100.0%	1,059,770	100.0%	1,159,921	100.0%

Source: GuocoLand

We note from **Exhibit 15** that the bulk of GuocoLand's revenue stream is from the sale of development properties as reflected by its significant composition of total revenue. This composition, however, has steadily declined over the past few years, with a general rise in the contributions by hotel operations and rental and related income.

More importantly, we see that the individual components of total revenue can be categorized into a non-recurring income segment and recurring income segment. Revenue derived from the sale of development properties tend to be non-recurring. This is because during the construction phases, development properties tend to generate weak income as revenue cannot yet be recognized. In addition, factors such as seasonal demand can influence the demand for new property purchases, and in turn lead to fluctuation in development sales. We note that this non-recurring factor had in part lead to lower revenue in FY2019, due to only partial recognition of sales from Martin Modern. Conversely, we see that income generated from hotel operations and rental tend to be recurring in nature. These business segments deliver a stable steam of revenue as tenants pay rent on a consistent basis. In this regard, we note that revenue from hotel operations and rental and related income had increased in FY2019, indicating stronger performance from these business segments.

Given the above, we think that GuocoLand's financial position is healthy. The reason for the weaker performance in FY2019, as we noted above, is due to the non-recurring income nature of its development properties. Given that GuocoLand derives a large proportion of revenue from the sale of development properties, we would naturally see a weaker performance due to the lull period for the development properties segment. In fact, we note that GuocoLand's revenue and earnings performance have rebounded strongly in the first half of FY2020. As seen in **Exhibit 16** on page 15, revenue and earnings were significantly higher in the first half of FY2020 (ended 31 December 2019) compared to FY2019, with an 84.0% revenue growth and 88.3% growth in net profit. This was attributed to progressive recognition of sales from Martin Modern over the period.

We thus observe from the half-year results that FY2020 was on track to be a strong financial year. We are of the view that GuocoLand's fundamentals are healthy and performance in FY2020 is expected to be robust.

Exhibit 16: Financial performance for half year ended 31 December 2019 for FY2019 and FY2020

S$ million	Half year ended		% change yoy
	31-Dec-19	31-Dec-18	
Revenue	572.1	311.0	84.0%
Net profit	69.5	36.9	88.3%
Profit attributable to equity holders	74.5	37.0	101.4%
Diluted EPS (cents)	5.85	2.48	135.9%

Source: GuocoLand

Debt situation

We note that after growing for 3 consecutive years since 2016, GuocoLand's net debt has decreased in FY2019, as shown in **Exhibit 17**. This is mainly due to repayment of borrowings of S$1,968.8 million during the year, using cash from operations from investment properties and sales of trading properties. Given the lower net debt, we see that GuocoLand's gearing ratio (as computed based on net debt over the total equity attributable to equity holders) of 0.87x in FY2019 is lower compared to FY2017 and FY2018. However, we note that the interest coverage ratio, or debt service ratio, has declined from FY2017 onwards. We also observe that the implied interest rate on GuocoLand's debt (as computed by net interest rate over net debt) has generally risen over the past few years.

Exhibit 17: Yearly comparison of net debt, gearing ratio and interest coverage ratio

S$'000	Year ended 30 June				
	2019	2018	2017	2016	2015
Loans and borrowings	4,489,796	4,923,804	4,344,508	3,830,296	5,280,009
Less: Cash and cash equivalents	823,718	884,934	1,118,483	1,430,249	663,073
Net debt	3,666,078	4,038,870	3,226,025	2,400,047	4,616,936
Equity attributable to equity holders	3,825,698	3,759,063	3,417,662	3,276,147	2,936,448
Perpetual securities	405,949	404,976	-	-	200,295
Total equity attributable to equity holders	4,231,647	4,164,039	3,417,662	3,276,147	3,136,743
Gearing ratio (x)	0.87	0.97	0.94	0.73	1.47
Profit before tax	309,020	484,044	455,800	773,158	318,661
Add: Net interest expense	107,691	122,400	72,392	58,555	64,570
Earnings before interest and tax (EBIT)	416,711	606,444	528,192	831,713	383,231
Interest rate (%)	2.9%	3.0%	2.2%	2.4%	1.4%
Interest coverage ratio (x)	3.87	4.95	7.30	14.20	5.94

Figures have been rounded

Source: GuocoLand, FPA Financial

Focusing on the first half of the current financial year ending 30 June 2020 (1H FY2020), we note in **Exhibit 18** that net debt is 32.6% higher than the previous financial year. The higher total debt was due to partial financing of new land acquisitions like the Tan Quee Lan Street site by loans and borrowings. We also note that GuocoLand had taken up a green loan of S$730 million in May to finance a new luxury residential cum commercial development at Tan Quee Lan Street. The increased borrowings led to a higher gearing ratio of 1.07x in 1H FY2020 compared to 0.84x in 1H FY2020. Nonetheless, given that the increased borrowings are used for the acquisition of assets, we see less of a concern on the higher gearing. The interest coverage ratio improved in 1H FY2020 at 2.70x compared to 1.64x in 1H FY2019. This was due to more robust earnings in 1H FY 2020 as a result of stronger revenue performance from higher progressive recognition of sales from the Martin Modern development.

Exhibit 18: Half yearly comparison of net debt, gearing ratio and interest coverage ratio

	Half year ended 31 Dec 19	Half year ended 31 Dec 18
S$'000	**FY2020**	**FY2019**
Loans and borrowings	5,216,309	4,630,073
Less: Cash and cash equivalents	690,429	1,215,904
Net debt	4,525,880	3,414,169
Equity attributable to equity holders	3,809,834	3,641,779
Perpetual securities	406,370	405,408
Total equity attributable to equity holders	4,216,204	4,047,187
Gearing ratio (x)	1.07	0.84
Profit before tax	87,410	34,495
Add: Net interest expense	51,322	53,542
Earnings before interest and tax (EBIT)	138,732	88,037
Interest coverage ratio (x)	2.70	1.64

Figures have been rounded

Source: GuocoLand, FPA Financial

(II) Financial projections

(a) Revenue projection

We have noted on page 14 that GuocoLand had a strong financial performance for 1H FY2020 ended 31 December 2019. We also noted that the performance in the 2H FY2020 will be weaker due to the impact of COVID-19. As such, we will estimate total revenue for 2H FY2020 by accounting for the impact of COVID-19. Our approach will be to estimate an overall yoy revenue growth rate for 2H FY2020, taking into account industry projections for the individual business segments as a proxy. Specifically, we will derive a revenue growth for 2H FY2020 by weighting the various industry projections by the revenue contributions by each business segment.

Given an overview of our projection approach, we will first discuss the industry projection for the individual business segments. These projections are relevant for the full year 2020, but we will assume them as a proxy for the first half of the year.

Sale of development properties

For the component on sale of development properties, we will be adopting Colliers projection of an 8.3% decline in residential transactions, as noted on page 7.

Rental and related income

Given the CBRE industry projections on office and retail rents in Singapore, we applied these industry projections in the context of GuocoLand. This will be applicable to office rental income from the Grade A office spaces at 20 Collyer Quay and GuocoTower, as well as the retail component of Guoco Tower. We will derive an estimate for weighted projection for GuocoLand's rental income component, based on the 2020 industry projections for office and retail rent as a proxy. The weighting process will be based on the proportioning of net leasable area (NLA) for the office and retail segments.

As noted on page 10 and 11, CBRE has projected a 13% decline in office rent and 8% decline in retail rent. With these CBRE projections, we derive an estimated weighted growth in rental income for GuocoLand, as shown in **Exhibit 19**.

Exhibit 19: Weighted growth of rental income

Segment	NLA (sqm)	% of total NLA	Weighting	CBRE rental projection	Weighted rental projection
Office	1,027,000	91.1%	91.1%	-13.0%	-12.6%
Retail	100,000	8.9%	8.9%	-8.0%	
Total	1,127,000	100%	n/a	n/a	n/a

Source: GuocoLand, FPA Financial

With reference to **Exhibit 19**, we first derive the weightings for the office and retail segments to be 91.1% and 8.9% of total NLA, respectively. We then weight the CBRE projections for each segment to derive a weighted rental projection of -12.6%.

Weighted rental projection = [91.1% x -13.0%] + [8.9% x -8.0%] = -12.6%

Hotel operations

For this component, we will be adopting a 62.0% decline in RevPAR as a proxy to estimate the revenue from hotel operations, as noted earlier on page 12.

Management fee income

With reference to **Exhibit 15** on page 14, we note that the proportioning of the management fee income component has remained relatively stable and near zero over the past few years. We will thus assume no change in this component.

Given the above, we have summarized the industry projection figures we will be using in **Exhibit 20**.

Exhibit 20: Estimated weighted revenue growth for 2H FY2020

Revenue component	% of total revenue in FY2019	Industry projection proxy	Weighted revenue growth
Sale of development properties	79.1%	-8.3%	-13.0%
Hotel operations	7.9%	-62.0%	
Rental and related income from investment properties	12.6%	-12.6%	
Management fee income	0.4%	0.0%	

Source: FPA Financial

With reference to **Exhibit 20**, the sale of development properties, hotel operations, rental and related income and management fee income contributed to 79.1%, 7.9%, 12.6% and 0.4% of total revenue in FY2019. We will use these proportions as a proxy to estimate a weighted revenue growth for 2H FY2020, based on the relevant industry projections for 2020. The estimation of the weighted revenue growth is as follows:

- Weighted revenue growth = [79.1% x -8.3%] + [7.9% x -62.0%] + [12.6% x -12.6%] + [0.4% x 0.0%] = -13.0%

Given our estimated revenue growth of -13.0% for 2H FY2020, we will derive a total revenue of S$535.9 million, as shown in **Exhibit 21**. Summing the actual revenue of S$572.1 million for 1H FY2020 and our forecast revenue of S$535.9 million in 2H FY2020, we will derive an estimated revenue for overall FY2020 of S$1,108.0 million. This will imply a total yoy revenue growth of 19.5% in FY2020, including the impact of COVID-19. We think this is appropriate as GuocoLand had generated strong revenue in 1H FY2020 due to strong sales from Martin Modern. Our estimated 19.5% revenue growth for FY2020, despite the impact of COVID-19, also indicates our confidence in GuocoLand's underlying fundamentals.

Exhibit 21: Projections for total revenue in 2H FY2020 and overall FY2020

S$'000	Total revenue	% change yoy
1H FY2019 actual	310,957	-57.6%
2H FY2019 actual	616,000	44.0%
Overall FY2019 actual	926,957	-18.8%
1H FY2020 actual	572,085	84.0%
2H FY2020 forecast	535,920	-13.0%
Overall FY2020 forecast	1,108,005	19.5%

Source: GuocoLand, FPA Financial

(b) Earnings projection

In our earnings projection, we will assume the change in total revenue for FY2020 as a proxy for the change in earnings in the same period. As noted in our revenue projection, we estimate a 13.0% decline in revenue for 2H FY2020. We therefore assume an earnings dip of 13.0% in the same period and applied a 13.0% discount to net profits of S$250.7 million in 2H FY2019 to estimate a net profit of S$218.1 million in 2H FY2020, as shown in **Exhibit 22**. Adding up the figures for 1H FY2020 and 2H FY2020, we derived an overall net profit of S$287.6 million for FY2020. We also assumed a 13.0% decline in non-controlling interest to achieve an estimate of S$27.9 million in 2H FY2020. Adding up the figures for 1H FY2020 and 2H FY2020, we derived an overall non-controlling interest of S$22.8 million in FY2020, as shown in **Exhibit 22**. We will thus estimate profit attributable to equity holders, as measured by net profit minus non-controlling interest, of S$264.8 million for overall FY2020.

Exhibit 22: Earnings projection

S$'000	Net profit	Non-controlling interest	Profit attributable to equity holders [1]	% change yoy
1H FY2019 actual	36,918	-96	37,014	-84.0%
2H FY2019 actual	250,698	32,038	218,660	26.6%
Overall FY2019 actual	287,616	31,942	255,674	-38.0%
1H FY2020 actual	69,455	-5,077	74,532	101.4%
2H FY2020 forecast	218,107	27,873	190,234	-13.0%
Overall FY2020 forecast	287,562	22,796	264,766	3.6%

(1) Profit attributable to equity holders = net profit - non-controlling interest

Source: GuocoLand, FPA Financial

Given the recent sale of the Guoman Hotel Shanghai, however, we will consider the profits of the hotel sale in our earnings projection.

Details of the sale of Guoman Hotel Shanghai

On 10 April 2020, GuocoLand announced that its indirect wholly-owned subsidiary, Shanghai Xinhaolong Property Development Co. Ltd (SHXHL), entered into an agreement with Shanghai Zhengjiu Industrial Co. Ltd (Shanghai Zhengjiu) for the sale of Guoman Hotel Shanghai together with 256 underground car parking spaces. The buyer Shanghai Zhengjiu is unrelated to GuocoLand. As part of the agreement, SHXHL can choose to sell up to an additional 44 underground car parking spaces (optional parking spaces) to Shanghai Zhengjiu. The consideration per optional parking space would be RMB160,000, or otherwise at another price agreed by both parties. SHXHL had during the execution of the agreement received RMB1,408,000 in earnest money from Shanghai Zhengjiu, which will be returned if SHXHL decides not to sell the optional parking spaces.

The aggregate sales consideration amounted to RMB1,440,960,000 (S$290.7 million), which would be paid by Shanghai Zhengjiu wholly in cash by 4 instalments. The first instalment of RMB288,192,000 (S$58.1 million), was paid upon the execution of the agreement. The net proceeds from the sale will be used for general working capital, including the repayment of debts. As of 31 March 2020, the combined net book value of Guoman Hotel Shanghai and the car parking spaces was RMB509.5 million (S$102.8 million), with a net gain of approximately S$90.6 million expected from the sale.

Given the above, we note that the remaining 3 instalments have not been received and we do not know when the profits will be realized. We will thus assume that the profits from the hotel sale will not be realized by 30 June 2020, at the end of FY2020. As such, we will not include the profits in our earnings projection.

In addition to the sale of Guoman Hotel Shanghai, we will also consider the profits from the Eco World joint venture between GuocoLand and Eco World International Berhad.

Details of the Eco World joint venture

On 27 October 2016, GuocoLand announced that it would subscribe to a 27% stake in Eco World International Berhad (EWI) when the latter launches its its Initial Public Offering ("IPO") on Bursa Malaysia Securities Berhad. On the same day, GuocoLand entered into a Shareholders' Agreement with Eco World Development Group Berhad and Tan Sri Liew Kee Sin, the current Executive Chairman of EcoWorld Malaysia, under which GuocoLand's special purpose vehicle GLL EWI (HK) Limited would hold shares and warrants in EWI upon its listing on Bursa Securities. EWI owns a 75% stake in 3 development projects in London and 100% stake in 1 development project in Sydney, with a combined total estimated gross development value of approximately S$4.1 billion. As at 3 October 2016, the achieved cumulative sales from the 4 projects amounted to approximately S$1.7 billion as at 3 October 2016.

Further on 30 March 2017, GuocoLand announced that GLL EWI (HK) Limited had subscribed for and was allotted 648,000,000 ordinary shares at RM1.20 per ordinary share with 259,200,000 free EWI warrants, representing 27% of the enlarged issued and paid-up share capital of EWI. As of 30 June 2019, GuocoLand and its subsidiaries (the Group) hold a 27% ownership interest in EWI, with the interest considered as a joint venture.

Nonetheless, we note that the Group's share of profits from the EWI joint venture had amounted to approximately S$4.1 million for FY2019, which we think will have minimal impact on our projections. We will therefore not include any expected profits in FY2020 into our projection. Following our decision not to include the profits from the hotel sale and EWI joint venture, our estimate remains at a profitable to equity holders of S$264.8 million in FY2020, as shown in **Exhibit 22** on page 19.

EPS projection

To derive the earnings per share (EPS), we assumed that the accrued distribution for perpetual securities in FY2020 would remain unchanged at S$19.3 million from FY2019, as shown in **Exhibit 23**. Deducting for accrued distribution for perpetual securities, we will derive an adjusted profit attributable to equity holders of S$245.5 million in FY2020. Assuming no change in the number of ordinary shares, we will expect the weighted average number of ordinary shares to stay the same at the end of FY2020 as at the half year ended 31 December 2019. Based on 1,110.0 million ordinary shares, we estimate a diluted EPS of 22.12 S cents for overall FY2020.

Exhibit 23: EPS projection

S$'000	Overall FY2020 forecast
Profit attributable to equity holders	264,766
Less: Accrued distribution for perpetual securities	19,272
Adjusted profit attributable to equity holders	245,494
Weighted average no. of ordinary shares ('000)	1,109,985
Diluted EPS (S cents)	22.12

Source: GuocoLand, FPA Financial

(c) Dividends projection

We note that GuocoLand has paid out stable dividends of 7.00 cents per share for FY2017, FY2018 and FY2019. We thus expect the same amount of annual dividends paid out for FY2020 as well.

POTENTIAL CATALYSTS

(I) Guoco Midtown

Guoco Midtown is an integrated mixed-use development in Singapore that comprises office, retail and commercial components. It is GuocoLand's latest S$2.4 billion integrated development following Guoco Tower, its flagship development at Tanjong Pagar. GuocoLand had purchased the Guoco Midtown site for S$1.62 billion in October 2017 jointly with Guoco Group. As of 30 June 2019, GuocoLand and its subsidiaries have an effective interest of 70% in the development.

Guoco Midtown is located at the intersection of two key development corridors along Beach Road and Ophir-Rochor Road in the Central Business District (CBD), and will be the key connector of the three major office micro-markets of City Hall, Marina Centre and Bugis. The approximately 950,600 square feet (sq ft), or equivalent to 88,314 square metre (sqm), development will comprise 770,000 sqf of premium Grade A office space, the first-ever urban social and business club Midtown Hub, retail and community spaces, and 219 luxury urban homes known as Midtown Bay. The development of Guoco Midtown is expected for completion in the first half of 2022.

Midtown Hub is a first-of-its-kind, members-only business and social club of 80,000 sq ft. It is a purpose-built facility that consists of private office suites, networking lounges as well as meeting and conference facilities. The facility will be open to both office tenants and residents of Guoco Midtown.

Midtown Bay is a 33-storey residential tower comprising 219 units, offering a range of homes from 409 sq ft one-bedroom apartments to 1,324 sq ft three-bedroom duplex units. The residential component of Guoco Midtown launched for viewing and sale on 5 October 2019, with prices starting from S$1.38 million for a one-bedroom unit and S$2.08 million for a two-bedroom unit. As of 31 December 2019, more than 25% of 219 total units have been sold. Midtown Bay is expected to achieve its Temporary Occupation Permit (TOP) on 31 December 2022.

(II) Tan Quee Lan Street

GuocoLand, through its indirect wholly-owned subsidiary, GLL D Pte Ltd (GLL D), together with its joint venture partners, Intrepid Investments Pte Ltd (Intrepid) and Hong Realty (Private) Limited (HR), had been awarded the tender for the land parcel at Tan Quee Lan Street on 12 September 2019, for a bid price of S$800.2 million. Intrepid and HR are subsidiaries of Hong Leong Holdings. The interest holding of GLL D in Tan Quee Lan Street is 60%.

The approximately 11,530.8 sqm (equivalent to 124,116 sq ft) Tan Quee Land Street site is a prime site in District 7 that is situated next to Bugis MRT interchange station. The underground pedestrian links allow the site to be well connected to nearby shopping malls and GuocoLand's new project, Guoco Midtown located along Beach Road. GuocoLand said that the addition of Tan Quee Lan Street will allow it to expand its footprint in the Beach Road area, with the combined site area of Guoco Midtown and the Tan Quee Lan Street site being 50% more than the existing Guoco Midtown. This will add up to a significant 3.2 hectares, and almost 1.5 million sq ft of total gross floor area (GFA).

On 19 May 2020, GuocoLand announced that it had, through its indirect subsidiaries, MTG Apartments Pte Ltd and MTG Retail Pte Ltd, secured a S$730 million green club loan from OCBC Bank, DBS Bank and ICBC Singapore Branch for the construction of a new luxury residential cum commercial development at Tan Quee Lan Street. The loan is GuocoLand's first green loan and the industry's largest green loan for a development project in Singapore to date.

The new 30-storey residential cum commercial development at Tan Quee Lan Street will be located right above the Bugis mass rapid transit (MRT) interchange station. It will feature two residential towers with more than 500 units of luxury apartments as well as a retail podium with food and beverage establishments open to the public. As at time of writing, residential units have yet to be launched for sale.

(III) Chongqing 18 Steps project

The Chongqing 18 Steps project is a large-scale mixed-use development in the Yuzhong District of Chongqing, China, that comprises residential and commercial components with a total GFA of approximately 341,000 sqm. GuocoLand owns a 75% equity stake in the development. The total development cost of the project is expected to be about RMB 7.5 billion (S$1.45 billion), including land cost.

The Chongqing 18 Steps project is situated in a prime location in close proximity to the Jiefangbei (Liberation Square) Central Business District, placing it in a central location with excellent connectivity. Positioned as a new landmark in Chongqing, the first phase of the development features over 1,000 luxurious modern apartments in five high-rise residential towers, with the tallest reaching a maximum height of 193 metres. Being situated close to the riverfront, apartments on the higher floors will offer splendid views overlooking the Yangtze River. As at time of writing, the residential units have yet to be launched for sale. Construction is expected to be completed in 2023.

Apart from the residential towers, the Chongqing 18 Steps project will include integrated retail podiums that will offer a variety of complementary lifestyle and dining options to residents, as well as two conserved buildings that are being restored and converted for commercial and educational use.

VALUATION ANALYSIS

We will present our valuation analysis in three segments. We will first provide a balance sheet analysis to review the premium or discount at which GuocoLand is trading to its book value. We will also provide a peer comparison analysis to analyse GuocoLand's performance against industry peers. Based on the peer comparison, we will then adopt a relative valuation method to derive our estimated target price. Lastly, we will support our valuation analysis with a discussion on owner share purchases.

(I) Balance sheet analysis

We performed a balance sheet analysis for GuocoLand to determine how the company is trading on the market relative to its book value. In other words, we reviewed how much of a premium or discount to book value the company is trading on the market. This would provide a better understanding of whether GuocoLand's share could be potentially undervalued or overvalued.

With reference to **Exhibit 24**, GuocoLand is currently trading at a price of S$1.40 per share, implying a market capitalisation of S$1,553.7 million, based on 1,109.8 million issued shares as at 31 December 2019. As at 31 December 2019, GuocoLand reported total assets of S$10,974.2 million and total liabilities of S$6,287.0 million, implying a net asset value (NAV), or book value of S$4,687.2 million. Perpetual securities and non-controlling interests totaling S$877.4 million are subtracted from the NAV to derive an adjusted NAV of S$3,809.8 million. This would yield an adjusted NAV, or book value per share of S$3.43. Based on the current price of S$1.40, we note that GuocoLand has a low P/B ratio of 0.41x, implying that the company is trading at a 59.0% discount to book value. We think that the discount is steep and GuocoLand could potentially be undervalued at the current price.

Exhibit 24: Balance sheet analysis

	S$'000
Current price (S$), as at 26 May 20	1.40
No. of issued ordinary shares ('000)	1,109,768
Market capitalisation	1,553,675
Balance Sheet	**31-Dec-19**
Non-current assets	6,089,933
Current assets	4,884,306
Total assets	10,974,239
Less:	
Non-current liabilities	(5,186,347)
Current liabilities	(1,100,691)
Total liabilities	(6,287,038)
Net asset value (NAV)/Book value	4,687,201
Less: Perpetual securites and non-controlling interests	(877,367)
Adjusted NAV	3,809,834
No. of issued ordinary shares ('000)	1,109,768
Adjusted NAV per share (S$)	3.43
Price-to-book (x)	0.41

Source: GuocoLand

(II) Peer comparison analysis

We also performed a peer comparison analysis to analyse how GuocoLand is performing relative to its peers. We selected the peer companies, as shown in **Exhibit 25**, based on how similar they are in terms of industry and business operations to GuocoLand. The selected peers are all within the real estate and hospitality industry, and have business operations in property development, property investment and hotel ownership and management.

Exhibit 25: Peer comparison

Company	SGX code	Current price (S$) as at 26/5/20	Market cap (S$ million) as at 26/5/20	EPS [1] (cents)	P/E (x)	DPS [2] (cents)	Dividend yield (%)	NAV per share [3] (S$)	P/B (x)
GuocoLand Ltd	F17	1.400	1,553.72	24.67	5.67	7.00	5.00	3.43	0.41
Peers:									
CapitaLand Ltd	C31	2.900	14,608.46	43.80	6.62	12.00	4.14	4.64	0.63
City Developments Ltd	C09	7.650	6,937.79	59.30	12.90	14.00	1.83	11.60	0.66
Ho Bee Land	H13	2.040	1,357.07	49.95	4.08	10.00	4.90	5.32	0.38
Hotel Properties Limited	H15	2.880	1,501.89	9.35	30.80	10.00	3.47	3.82	0.75
Roxy-Pacific Holdings Ltd	E8Z	0.335	436.84	2.33	14.38	1.29	3.84	0.39	0.86
UOL Group Ltd	U14	6.680	5,635.05	56.77	11.77	17.50	2.62	11.91	0.56
Wing Tai Holdings Ltd	W05	1.730	1,330.47	6.60	26.21	5.00	2.89	4.17	0.41
Peer average	-	-	-	-	**15.25**	-	**3.38**	-	**0.61**

Figures have been rounded

P/E, P/B and dividend yield computed based on respective current prices

[1] Diluted EPS based on trailing earnings over the last 4 quarters

[2] FY2019 annual dividends for the respective companies. Inclusive of special ordinary dividends

[3] As at 31 Dec 19

Source: Respective company data, analyst computations

With reference to **Exhibit 25**, we first note that GuocoLand's price-to-earnings (P/E) ratio of 5.67x is lower than the peer average of 15.25x. We think that a possible explanation could be due to the nature of GuocoLand's business. As noted on page 14, GuocoLand derives a large proportion of its total revenue from the sale of development properties. Typically, development properties tend to generate income on a non-recurring basis due to factors such as demand and time needed for construction. There could thus be perceived risk in terms of the stability of GuocoLand's financial performance due to a greater reliance on a non-recurring stream of income. Given the COVID-19 pandemic, the level of perceived risk is potentially higher. As a result, there could be weaker expectations on earnings and investors are thus willing to pay less per dollar of earnings, which depresses the P/E ratio.

Meanwhile, we also note in **Exhibit 25** that GuocoLand's P/B ratio of 0.41x is lower than the peer average of 0.61x. This is supportive of our earlier conclusion in the balance sheet analysis that GuocoLand is seemingly undervalued. In addition, GuocoLand's dividend yield of 5.00% is higher than the peer average of 3.38%, indicating that the company is attractive in terms dividend yield. This is supported by stable dividends issued over the past few years.

Based on the peer average multiples derived in the peer comparison analysis, we adopted a relative valuation method using the P/B peer average as a benchmark. In other words, we estimated a target price for GuocoLand if its P/B were to adjust to the peer average of 0.61x. Our estimated target price is S$2.10, which would generate a potential upside of 50.0% from the current price of S$1.40. Our estimations are as follows:

- Target price = [P/B peer average] x [adjusted NAV per share] = 0.61 x S$3.43 = S$2.10
- Potential upside from current price = [S$2.10/S$1.40] – 1 = 50.0%

Our estimated target price of S$2.10 implies a 38.8% discount to the adjusted NAV per share of S$3.43.

(III) Owner share purchases

We note that the owner of GuocoLand, Mr. Quek Leng Chan, had increased his stake in the company through two share purchases in late 2019. As of 11 September 2019, Mr. Quek held a total of 832,643,763 ordinary voting shares, representing 70.37% of the total number of ordinary voting shares in GuocoLand. He had subsequently increased his holdings of ordinary voting shares to 851,119,071 and thus his total stake in GuocoLand to 71.93%. This was achieved by the purchase of 17,141,975 shares and 1,333,333 shares on 29 October 2019 and 30 October 2019, respectively, by GuocoLand Assets Pte Ltd (GAPL). GAPL is a wholly-owned subsidiary of Guoco Group, which in turn holds Mr. Quek's stake in GuocoLand. Following the purchase, GAPL's, and in turn Guoco Group's ownership interest in GuocoLand increased from 65.2% (as of 11 September 2019) to 66.8% as of 30 October 2019.

The price of the share purchases on both dates were at S$2.05 per share, representing a discount to book value of 40.2%, based on the NAV per share of S$3.43 as of 31 December 2019. We think that the owner's decision to increase his stake in Guocoland reflects the value of the company's share. We see that the current price of S$1.40 is much lower than the per share value of S$2.05 at which the owner values his company. We think this reinforces our view that the current 59.0% discount to book value is steep and that GuocoLand is potentially undervalued at the current price. This is because we think that GuocoLand has delivered healthy fundamentals, and the sell-down in the share price is mainly due to the unprecedented COVID-19 pandemic. We see underlying value in GuocoLand and think that its shares are offering good value.

SWOT AND COMPETITIVE ANALYSIS

In this section, we undertake a SWOT analysis in **Exhibit 26** to evaluate the various components of the analysis thus far.

Exhibit 26: SWOT analysis

SWOT analysis	
Strengths • Strong financial backing • Award-winning developments • Investor-valued properties	Weaknesses • Limited land bank • Limited number of hotels
Opportunities • New mixed-use developments • Safe-haven property investment market in Singapore	Threats • Weak global economy • Working from home acceptance

(I) Strengths

We first note that GuocoLand’s parent company is Guoco Group, a Hong Kong-listed company which had approximately total assets of HK$125 billion, total liabilities of HK$44 billion and total equity attributable to equity holders of HK$62 billion as of 30 June 2019. As earlier noted, Guoco Group has a market capitalization of approximately HK$34 billion. We also note earlier in our valuation analysis that GuocoLand is controlled by Mr. Quek Leng Chan, whose stake is held by Guoco Group. Mr. Quek is the co-founder of Hong Leong Group Malaysia and is one of the richest men in Malaysia. He was also ranked 217th on the Forbes World’s Billionaires List in 2018. Given its owner’s credentials and financial capabilities, we think that GuocoLand is backed with strong financial support which increases our confidence on the company’s financial stability.

Secondly, we note that GuocoLand’s developments have been recognized for their quality. GuocoLand’s flagship integrated development Guoco Tower has been awarded with two of the highest achievable certifications in the building industry – the Green Mark Platinum award by BCA and the Leadership in Energy and Environment Design (LEED) Platinum certification label by the US Green Building Council. It was also recently reported that Guoco Tower provides a safe environment due to its design and building equipment. The development is equipped with state-of-the-art HVAC (heating, ventilation and air-conditioning) systems that keep the indoor environment cool and healthy. In addition, the building is equipped with air handling units (AHU) that provides air purification and ultraviolet germicidal irradiation (UVGI) systems that kill airborne pathogens. These qualities create value for Guoco Tower during the current virus situation, making its office spaces more attractive to tenants and allowing it to stay ahead of competitors. Besides Guoco Tower, other developments like Martin Modern and Sims Urban Oasis have been awarded the BCA Green Mark Gold Plus award and BCA Construction Excellence Award, respectively. GuocoLand’s latest integrated development, Guoco Midtown, was also recently awarded the BCA Green Mark Platinum award.

Thirdly, we note GuocoLand's properties are recognized and valued by investors. In 2019, the most expensive penthouse unit at Wallich Residence, the residential component of Guoco Tower, was purchased by British Billionaire James Dyson, founder of Dyson Ltd, at a reported price of S$73.8 million. It was reported that the purchase was fuelled in part by Dyson's plans to relocate his company's head office to Singapore and increase business focus in the region. In this regard, we note that GuocoLand's development properties provide value and quality that are sought-after by wealthy overseas investors.

(II) Weaknesses

We note limited land bank for GuocoLand. This could limit its potential to create new developments without having to buy new plots of land. Further, we also see that the company has few hotels currently under its ownership and management. This will limit the ability to benefit from economies of scale.

(III) Opportunities

GuocoLand has new mixed-use developments such as its combined Guoco Midtown and Tan Quee Lan Street development in Singapore and the Chongqing 18 Steps project in China. Given the scale of these projects, we see opportunities for these projects to deliver good returns for GuocoLand.

Further, we note that the Singapore status as a safe-haven market for property investment could continue to attract many foreign purchasers despite the COVID-19 situation. Business Times recently reported that affluent mainland Chinese buyers have been purchasing luxury homes in Asia. In Singapore, it was reported that three Chinese clients had recently purchased six apartments worth a combined S$20 million at Marina One Residences. This reflects the ongoing demand for property investment in Singapore's safe-haven property market. This may bode well for the sale of development units at GuocoLand's luxury residential projects like Wallich Residences and the upcoming Midtown Bay.

(IV) Threats

As we have highlighted, COVID-19 will be the main limiting factor for economies and property markets. The main concern is a prolonged fight against the virus, which will imply weak economic conditions. Further, there have been various reports on a possible increase in acceptance of working from home. This could negatively impact property markets. We will elaborate further on these in our risks section.

INVESTMENT RECOMMENDATION

From our valuation analysis, we note that GuocoLand has a low P/B of 0.41x and is thus trading at a 59.0% discount to its book value. We think that the discount is steep, and the company could potentially be undervalued at the current price. This is reinforced by a peer comparison which shows that GuocoLand's P/B ratio of 0.41x is lower than the peer average P/B of 0.61x. In our valuation analysis, we adopt a relative valuation method to derive an estimated target price of S$2.10 per share if GuocoLand's P/B were to re-adjust to the peer average benchmark of 0.61x. Our target price implies a 50.0% upside from the current price of S$1.40. Our target price also implies a 38.8% discount to the NAV of S$3.43 as of 31 December 2019. We also note that GuocoLand is attractive in terms of dividend yield, with a dividend yield of 5.00% that is higher than the peer average of 3.38%.

We identify potential catalysts in the longer term which may help to improve the company's business performance. These include upcoming developments like the combined Guoco Midtown and Tan Quee Lan Street project in Singapore and the Chongqing 18 Steps project in China. These projects are scheduled for completion in the coming years and will underpin revenue and profit growth. Moreover, we also note that the Singapore market remains as a safe-haven location for property investment and has attracted buying from wealthy mainland Chinese investors, even amidst the COVID-19 pandemic.

Given the above considerations, we think that the sharp sell-down warrants a buy. We will therefore issue a buy recommendation at our target price of S$2.10. Our recommendation implies an optimistic outlook in the longer term, given the potential opportunities ahead. However, there are still risks to our target price which we will highlight in the risk section.

RISKS TO OUR TARGET PRICE

Owing to the COVID-19 pandemic, many economies including Singapore, Malaysia and China have been severely impacted. We also see that markets have been hit hard, with specific sectors such as aviation, tourism and hospitality being affected the most. We see potential changes in the society such as increased working from home and there are global developments that pose a threat to economies and markets as well.

Given the above, we identify 3 factors that will pose as risks to our target price.

(I) Weak global economy

Amid the fight against COVID-19, we have seen the imposition of strict containment measures that have stifled economic activity and thus has resulted in a weak global economic outlook. Due to the deteriorating economic situation, the International Monetary Fund is expecting the global economy to contract by 3% in 2020. In Singapore, for instance, the Ministry of Trade and Industry has for the third time downgraded its 2020 GDP forecast, which now stands at a range of -7.0% to -4.0%. To cushion against the economic fallout, countries have responded by introducing unprecedented fiscal and monetary stimulus to support their economies. However, the concern is a prolonged fight against COVID-19, which could potentially cause a further drag on global economies. This will have a negative impact on property markets. Taking Singapore for example, the weak economic outlook and containment measures have impacted the property market through softer rents and lower residential demand.

(II) Increased working from home

Given the efforts to contain the COVID-19 virus, countries have introduced strict measures to prevent further spread in communities. In Singapore, the implementation of the ‘Circuit Breaker’ has led to about 80% of the workforce to work from home, and even as we approach the end on 1 June, most people are still expected to work from home after the ‘Circuit Breaker’ period. This adjustment has resulted in a lesser need for office spaces and thus weaker leasing activity. With a prolonged COVID-19 pandemic, we are likely to see softer demand for office spaces. This will potentially have a dampening effect on rental rates as we have discussed earlier in our industry overview.

(III) US-China tensions over Hong Kong security law and investor-protection concerns

Recently, we see a resurfacing of US-China tensions not only due to the trade war, but also in relation to a Hong Kong security law and concerns over auditing on Chinese companies. China had announced the decision to enforce a new controversial security law in Hong Kong to tighten its control of the city. US senators responded by proposing a bipartisan bill that would sanction Chinese officials and entities who enforce the new security laws in Hong Kong and penalize banks that engage in business with these entities. Further, investor-protection concerns due to China’s unwillingness to grant US regulators routine access to audit records have led to the passing of legislations that could force Chinese companies to give up their listings on American Stock Exchanges. These tensions between US and China could create uncertainty and dampen investor confidence.

SUSTAINABILITY INFORMATION

As part of its sustainability efforts, GuocoLand believes in the importance of responsible business sustainability to ensure long-term growth, to create value for shareholders and to build a strong relationship with our customers, business partners and other stakeholders for a resilient business.

In its 2019 Sustainability Report, GuocoLand covered selected performance measures from its five Singapore and two China assets, as shown in **Exhibit 27**. The company's Malaysia subsidiary is separately listed on Bursa Malaysia Berhad and publishes its own report.

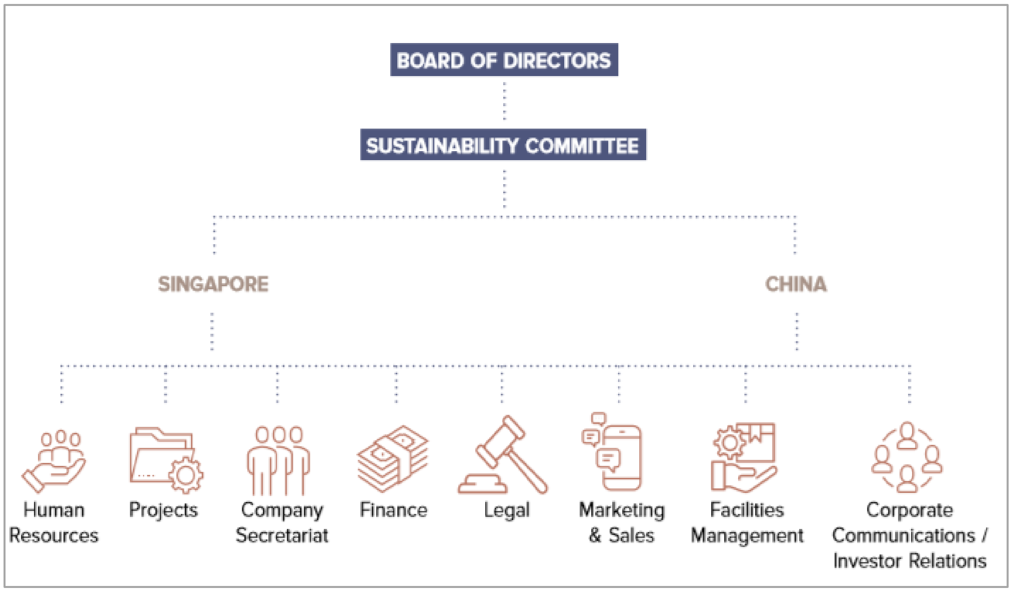
Exhibit 27: Assets covered in the 2019 Sustainability Report

Singapore	China
Guoco Tower	Guoco Changfeng City
Sofitel Singapore City Centre	Guoman Hotel Shanghai
20 Collyer Quay	-
Guoco Midtown	-
Martin Modern	-

Sustainability Governance Structure

The following diagram in **Exhibit 28** illustrates the relationship between the various parties within GuocoLand's Sustainability Governance Structure in relation to Singapore and China. The Board of Directors is supported by the Sustainability Committee, comprising representatives from all business units, and provides oversight of the management and monitoring of the key material topics and their performance targets.

Exhibit 28: GuocoLand's Sustainability Governance Structure



Source: GuocoLand

Stakeholder engagement

GuocoLand identified its key stakeholders by assessing their dependence on, involvement in, as well as influence on the business. The company believes in understanding its stakeholders through ongoing engagement, which it thinks is fundamental to improving its business operations and performance. The stakeholders of the company include employees, investors, customers, regulators/government and suppliers.

The following table in **Exhibit 29** outlines GuocoLand's engagement approach with its key stakeholders.

Exhibit 29: GuocoLand's stakeholder engagement

Stakeholder	Frequency	Engagement Platforms	Key Topics Raised	Our Response
Employees	Throughout the year	• Festive celebrations • Management meetings • Performance review discussions • Lunch talks • Knowledge sharing sessions • Staff excursion • Internal newsletters and e-communications	• Welfare • Health and well-being • Performance	Refer to Our People
Investors	Throughout the year	• Annual General Meeting • Investor meetings • Conferences • Company and site visits • Corporate website • Email and phone channels	• Long term value creation • Strategy for growth • Transparency and timely information • Corporate governance practices	Refer to Chairman's Statement; Business Review; and Corporate Governance in the Annual Report, and Business Ethics & Anti-Corruption
Customers – Tenants/Shoppers/ Home Buyers	Throughout the year	• Tenant meetings • Networking tea/lunch sessions • Customer service teams • Email and phone channels • Social media channels	• Lease terms and facilities management • Quality of product and timely delivery • Customer experience	Refer to Business Ethics & Anti-Corruption; Product Quality, Health & Safety
Regulators / Government	Throughout the year	• On-site inspections • In-person meetings • Email and phone channels	• Environmental compliance • Labour standard compliance • SGX listing requirements	Refer to Sustainable Developments; Occupational Health & Safety; Product Quality, Health & Safety; Business Ethics & Anti-Corruption
Suppliers	Throughout the year	• On-site inspections • In-person meetings	• Occupational health and safety • Product quality, health and safety • Environmental compliance	Refer to Occupational Health and Safety; Product Quality, Health & Safety; Sustainable Developments

Source: GuocoLand

Materiality

The materiality principle guides GuocoLand to determine which relevant topics are sufficiently important such that it is essential to report on them.

Based on a materiality assessment, GuocoLand identified a list of material topics, including energy consumption, environmental compliance, human capital development and relations, occupational health and safety, business ethics and anti-corruption, and product quality, health and safety, which are relevant to its business. This was done through feedback from stakeholders and by reviewing of peers. The material topics, together with the Sustainability Report, are reviewed on an annual basis.

The following table in **Exhibit 30** lists the key material topics and their respective scope of impact for FY2019.

Exhibit 30: GuocoLand's key material topics

MATERIAL TOPIC	GRI STANDARD REPORTED	IMPACT BOUNDARY
Energy Consumption	• Energy (GRI 402)	Managed properties and hotels
Environmental Compliance	• Environmental Compliance (GRI 307)	All construction projects
Human Capital Development & Relations	• Employment (GRI 401) • Training and Education (GRI 404)	Employees
Occupational Health & Safety	• Occupational Health and Safety (GRI 403)	Employees Workers Tenants Visitors
Business Ethics & Anti-Corruption	• Anti-Corruption (GRI 205) • Customer Privacy (GRI 418)	All business operations
Product Quality, Health & Safety	• Customer Health and Safety (GRI 416)	All construction projects and managed properties

Source: GuocoLand

Sustainable developments

As part of its sustainability efforts, GuocoLand remains committed to developing sustainable developments with a green building rating, reducing the energy consumption of its operational properties and complying to all relevant environmental laws and regulations stipulated by the authorities.

In line with its commitment to develop sustainable developments, GuocoLand works with its consultants from the outset of development projects to ensure that the building will achieve a green building rating. The company recognizes that green building ratings have the benefit of enhancing the attractiveness of its developments amongst homebuyers and tenants.

GuocoLand's properties in Singapore are all BCA Green Mark certified, except for 20 Collyer Quay. The company seeks to achieve the Green Mark certification for 20 Collyer Quay in the current FY2020.

The following table in **Exhibit 31** provides a FY2019 performance summary for GuocoLand's properties which are covered in its 2019 Sustainability Report. In terms of energy consumption and environmental compliance, the properties are reported to have achieved their targets. The table further provides the new targets for the current FY2020.

Exhibit 31: Performance summary of GuocoLand's properties

Material Topic	Boundary	FY 2019 Performance	Status	FY 2020 Target
Energy Consumption	Guoco Tower	To formulate an energy reduction plan.	Target met. Achieved 2% reduction of electricity energy consumption.	To achieve 1% reduction of electricity energy consumption.
	Guoman Hotel Shanghai	To formulate an energy reduction plan.	Target met. Achieved 10% reduction of electricity energy consumption.	To achieve 1% reduction of electricity energy consumption.
	20 Collyer Quay			To achieve Green Mark certification in FY 2020.
Environmental Compliance	All assets in Singapore and China	Zero cases for environmental non-compliance.	Target met.	To maintain zero incidents of environmental non-compliance.

Source: GuocoLand

DISCLOSURES/DISCLAIMERS

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