F·P·A FINANCIAL
Investment Perspectives
18 February 2021

REAL ESTATE EQUITY RESEARCH

GuocoLand Limited

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

RECOMMENDATION: BUY

Current Price: S$1.590
Current Target Price: S$2.030

Issued Shares (less ESS shares): 1,109.8 million
Market Capitalisation: S$1,764.6 million

52 Week Range: S$1.200 - S$1.810

PRICE PERFORMANCE

COMPANY DESCRIPTION

GuocoLand Limited (GuocoLand or the Company) is a Singapore-listed property company with operations in the geographical markets of Singapore, China and Malaysia. The principal business activities of GuocoLand and its subsidiaries (the Group) include property development, property investment, hotel operations and property management.

SUMMARY

The Group reported a 44% year-on-year (y-o-y) decrease in revenue to S$319.6 million mainly due to lower progressive recognition of sales from the Group's residential projects in Singapore. Cost of sales increased to S$224.6 million, resulting in gross profit of S$95.0 million. Other income increased by 58% y-o-y to S$25.2 million in part due to net fair value gain on derivative financial instruments and the sale of a cultural building in Shanghai. At the same time, other expenses decreased by 93% y-o-y to S$1.1 million. Administrative expenses decreased by 20% y-o-y to S$38.1 million in line with lower sales activities. Finance costs fell by 17% y-o-y to S$42.8 million mainly due to lower borrowing cost. Meanwhile, the Group recorded higher share of profit of associates and joint ventures of S$8.0 million compared to S$7.0 million a year ago. Higher tax expenses were incurred owing to related taxes incurred from the disposal of the Shanghai building and the recognition in under provision for prior years' taxes in relation to a Malaysian subsidiary. The Group also incurred losses from discontinued operation in Vietnam. Consequently, the Group reported profit attributable to equity holders of S$22.9 million. Group earnings per share (EPS) was 1.20 cents for the period as compared to 5.85 cents a year ago. Meanwhile, no half-yearly dividends were distributed for the period as in the previous financial year.

RECOMMENDATION

Since our company update issued on 9 October 2020, when GuocoLand's share price closed at S$1.520, we note that the Company's share price reached a high of S$1.660 on 15 January 2021, following news of a privatization offer for GL Limited by Guoco Group. We believe the surge in share price likely reflected market expectations of a potential GuocoLand privatization. After a recent market correction, the share price has traded between S$1.560 and S$1.600. In terms of valuation, we note from our peer comparison analysis that GuocoLand's P/B of 0.46x is lower than the peer average P/B of 0.59x. Adopting a relative valuation approach, we estimated a target price of S$2.030 if GuocoLand's P/B were to adjust to the peer average of 0.59x. Our current target price of S$2.030 implies a 27.7% upside to the current price of S$1.590. Further, we believe that recent share purchases by GuocoLand's major controlling shareholder reflect positively on the value of the Company. Given the above, we will maintain a buy recommendation on GuocoLand.

KEY FINANCIALS

Year ended 30 June	Revenue (S$ million)	Profit* (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share (S$)	P/B (x)
2018 actual	1,141.7	413.2	36.53	4.35	7.00	4.40	3.39	0.47
2019 actual	927.0	255.7	21.30	7.46	7.00	4.40	3.45	0.46
2020 actual	941.8	114.1	8.57	18.55	6.00	3.77	3.47	0.46
2021 forecast**	738.2	80.8	5.55	28.65	3.89	2.45	3.44	0.46
2022 forecast	871.1	146.7	11.49	13.84	7.00	4.40	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$1.59
**Profit attributable to equity holders of the company*
***Reported NAV per share as at 31 Dec 20*
Source: Company, FPA Financial

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FINANCIAL REVIEW FOR 1H FY2021

Financial performance

For half year ended 31 December 2021 (1H FY2021), the Group reported a 44% year-on-year (y-o-y) decrease in revenue to S$319.6 million from S$572.1 million. This was mainly due to lower progressive recognition of sales from the Group's residential projects in Singapore, as the construction of Martin Modern reaches close to completion. At the same time, revenue from the Group's investment properties was similar from a year ago while hotel business revenue declined by 75%. Cost of sales fell by 43% y-o-y to S$224.6 million from S$393.4 million, in line with the drop in revenue. Thus, the Group recorded gross profit of S$95.0 million compared to S$178.6 million a year ago.

During the period, other income increased by 58% y-o-y to S$25.2 million, partially due to a S$4.8 million net fair value gain on derivative financial instruments compared with a loss of S$14.0 million a year ago. Further, the Group completed the disposal of the Changfeng cultural building in Shanghai for RMB610 million, or approximately S$126.0 million based on SGD/CNY exchange rate of 4.84, which also contributed to the higher other income through S$6.8 million in gain on disposal of investment properties.

Other expenses decreased by 93% to S$1.1 million from S$15.5 million a year ago. This was given the net fair value gain instead of loss on derivative financial instruments, which had offset a net foreign exchange loss of S$0.1 million compared with a net gain of S$0.7 million a year ago. Administrative expenses decreased by 20% y-o-y to S$38.1 million in line with lower sales activities. Finance costs fell by 17% to S$42.8 million from S$51.3 million from a year ago mainly due to lower borrowing cost. Meanwhile, share of profit of associates and joint ventures of S$8.0 million compared to S$7.0 million a year ago.

The Group recorded a profit before tax of S$46.1 million for the period, down by 47% compared to S$87.4 million a year ago. At the same time, tax expenses rose by 78% y-o-y to S$31.9 million, in part due to related taxes incurred from the disposal of the Shanghai building, which largely resulted in higher effective tax rate for the period. The increase in tax expenses was also partially due to the Group's recognition of an under provision for prior years' taxes of RM14 million, or approximately S$4.6 million based on SGD/MYR exchange rate of 3.05, in relation to its subsidiary, GuocoLand (Malaysia) Berhad (GLM).

In October 2020, the Group entered into an agreement to dispose its two subsidiaries in Vietnam for approximately USD28 million, or approximately S$37.2 million based on USD/SGD exchange rate of 1.33. Upon completion of this transaction, the Group will not have any business operations in Vietnam. Accordingly, the Group's Vietnam operation results have been presented as discontinued operation. Net of tax, the Group recorded S$10,000 in loss from discontinued operation for the period.

Net of tax expenses, the Group reported profit from continuing operations of S$14.2 million compared to S$69.5 million a year ago. Further adjusting for the S$10,000 in loss from discontinued operation, profit for the period was little changed at S$14.2 million. This comprised S$22.9 million in profit attributable to equity holders and an S$8.6 million loss attributable to non-controlling interests. Profit attributable to ordinary equity holders of S$13.3 million was recorded after deducting accrued distribution for perpetual securities of S$9.6 million in respect to 1H FY2021 from the S$22.9 million in profit attributable to equity holders.

Consequently, the Group's earnings per share (EPS) was 1.20 cents for the period as compared to 5.85 cents a year ago. No half-yearly dividends were distributed for the period as in the previous financial year.

The Group's financial results are summarised as in **Exhibit 1** on the next page.

Exhibit 1: Financial results for 1H FY2021

[S$'000]	Half year ended 31-Dec-20	Half year ended 31-Dec-19	y-o-y change
Revenue	319,599	572,085	-44.1%
Cost of sales	(224,622)	(393,437)	-42.9%
Gross profit	94,977	178,648	-46.8%
Other income	25,177	15,972	57.6%
Administrative expenses	(38,075)	(47,392)	-19.7%
Other expenses	(1,084)	(15,530)	-93.0%
Finance costs	(42,822)	(51,322)	-16.6%
Share of profit/(loss) of associates & joint ventures (net of tax)	7,961	7,034	13.2%
Profit before tax	46,134	87,410	-47.2%
Tax expense	(31,914)	(17,955)	77.7%
Profit from continuing operations	14,220	69,455	-79.5%
Loss from discontinued operation (net of tax)	(10)	-	n/m
Profit for the period	14,210	69,455	-79.5%
Profit attributable to:			
Equity holders of the company	22,886	74,532	-69.3%
Non-controlling interests	(8,676)	(5,077)	70.9%
	14,210	69,455	-79.5%
Profit attributable to equity holders of the company	22,886	74,532	-69.3%
Less: accrued distribution for perpetual securities	(9,609)	(9,546)	0.7%
Profit attributable to ordinary equity holders of the company	13,277	64,986	-79.6%
Weighted average no. of ordinary shares ('000)	1,109,768	1,109,985	-
Diluted EPS (cents)	1.20	5.85	-79.6%
DPS (cents)	-	-	-

Source: Company, FPA Financial

Capital management

The Group reported total assets of S$11,048.4 million as at 31 December 2020, compared to S$11,138.6 million as at the 30 June 2020. The decrease in total assets was in part due to the Group's disposal of the Shanghai cultural building and Menara Guoco office building in Malaysia with carrying value of RMB576 million and RM242 million respectively. In August 2020, Menara Guoco was acquired for RM242.1 million by Tower Real Estate Investment Trust (Tower REIT) through its trustee, MTrustee Berhad. As at 31 December 2020, Menara Guoco comprised 31% of the Tower REIT portfolio composition. In terms of ownership, the Group has a 68.00% equity interest in GLM, which in turn holds a 21.66% equity interest in Tower REIT. Accordingly, the Group has an effective equity interest of 14.73% in Tower REIT. The two transactions noted above had largely contributed to a decrease in investment properties and assets held for sale, which stood at S$4,843.2 million and S$20.3 million respectively as at 31 December 2020. At the same time, the decrease in total assets was also partially contributed by a decrease in trade & other receivables by 53% to S$94.7 million. The decrease was mainly due to the collection of sales proceeds and the refund of the deposit paid for the Group's residential land parcels situated in Chongqing. We note from GuocoLand that land deposits amounting to S$66.4 million have been fully refunded in 1H FY2021.

Meanwhile, total liabilities decreased to S$6,327.8 million from S$6,377.2 million as at 30 June 2020. The decrease was largely due to a 2% decrease in total loans and borrowings to S$5,169.0 million from S$5,265.2 million, which was mainly due to repayments made during the period. This had in part offset an increase in non-current other payables and current trade & other payables.

Consequently, the Group reported total equity, or net assets, of S$4,720.6 million compared with S$4,761.4 million as at 30 June 2020. Excluding S$490.6 million in non-controlling interests, equity attributable to equity holders was S$4,230.0 million as at 31 December 2020. Adjusting for perpetual securities of S$406.9 million, equity attributable to ordinary equity holders stood at S$3,823.1 million. As a result, the Group reported a net asset value (NAV) per share of S$3.44 as at 31 December 2020, based on 1,109.8 million issued ordinary shares after excluding 73.6 million shares acquired for the Executive Share Scheme (ESS) 2018. A summary of the Group's balance sheet is shown in **Exhibit 2**.

Exhibit 2: Summary of the Group's balance sheet

[S$'000]	As at 31-Dec-20	As at 30-Jun-20
Total assets	11,048,445	11,138,555
Total liabilities	6,327,849	6,377,205
Net assets/total equity	4,720,596	4,761,350
Equity attributable to equity holders	4,229,997	4,257,916
Equity attributable to ordinary equity holders	3,823,071	3,851,424
No. of issued ordinary shares (exclude ESS shares)	1,109,768	1,109,768
NAV per share (S$)	3.44	3.47
Total debt	5,168,967	5,265,249
Cash & cash equivalents	998,338	933,892
Net debt	4,170,629	4,331,357
Gearing (x)	0.99	1.02

Source: Company, FPA Financial

As noted above, the Group's total debt decreased to S$5,169.0 mainly due to repayments made over 1H FY2021. Net of S$998.3 million in cash & cash equivalents, net debt amounted to S$4,170.6 million. As such, the Group's gearing, as computed by net debt over equity attributable to equity holders, stood at approximately 1.0 time as at 31 December 2020.

OPERATIONAL UPDATES

Here, we will provide updates on the sales status of the Group's current residential launches in Singapore, China and Malaysia, and an update on the Group's investment properties in Singapore.

Singapore

The Group's uncompleted residential launches in Singapore include Martin Modern, Midtown Bay and Meyer Mansion. Currently, we note that these projects are expected to achieve their Temporary Occupation Permit (TOP) in 2021, 2022 and 2024 respectively. The launched residential component of the Group's flagship Guoco Tower development, Wallich Residence, has been completed. We note that Midtown Modern, the new 558-unit residential project at the Group's Guoco Midtown II development project, is expected to be launched shortly in 2021. At the same time, the Group also has a joint-venture development, The Avenir, which was launched since early 2020.

According to data from the Urban Redevelopment Authority (URA), Martin Modern, Midtown Bay and Meyer Mansion are approximately 91%, 28% and 26% sold respectively as at time of writing. From October 2020 to time of writing, URA data showed that a total of 26 new sale transactions with a total sales price of S$76.6 million were recorded across these projects, as shown in **Exhibit 3**. Year-to-date (YTD) in 2021, we note that a total of 7 units were sold across the projects - 5 in January and 2 in February.

Exhibit 3: Group's residential new sales transactions in Singapore

	New sale transactions from Oct 20 to Feb 21 (1)					
	No. of units			Total sales price (S$)	Price psf (S$)	
Project name	Q4 2020	YTD 2021 (2)	Total		Min.	Max.
Martin Modern	9	3	12	36,502,000	2,448	2,811
Midtown Bay	4	2	6	9,949,900	2,485	3,288
Meyer Mansion	6	2	8	30,162,100	2,521	3,127
Total	19	7	26	76,614,000	-	-

(1) Refers to period from Oct 20 up till time of writing
(2) Refers to period from Jan 21 up till time of writing
Source: URA, FPA Financial

We also note from the Company that Wallich Residence was 63% sold as at 31 December 2020 and continues to register sales with prices remaining firm. Notably, we note from URA data that a S$62 million resale transaction for a 21,108 square feet (sq ft) apartment, representing a price per sq ft of S$2,937, was executed in October 2020. According to the Straits Times, the penthouse apartment was sold by British billionaire inventor James Dyson after he purchased it for a reported S$73.8 million.

Further, The Avenir has recorded relatively strong sales from October 2020 to time of writing. During the period, a total of 25 units were sold at a total sales price of approximately S$112.5 million, according to URA data. Year-to-date (YTD) in 2021, we note that a total of 8 units were sold across the projects - 6 in January and 2 in February. As at time of writing, the project is approximately 16% sold, with 62 out of 376 units being sold. We have summarized the data for new sales transactions at The Avenir in **Exhibit 4** on the next page.

Exhibit 4: New sales transactions for The Avenir

Project name	New sale transactions from Oct 20 to Feb 21 [1]					
	No. of units			Total sales price (S$)	Price psf (S$)	
	Q4 2020	YTD 2021 [2]	Total		Min.	Max.
The Avenir	17	8	25	112,529,400	2,838	3,367

(1) Refers to period from Oct 20 up till time of writing

(2) Refers to period from Jan 21 up till time of writing

Source: URA, FPA Financial

Meanwhile, we note from the Company that the Group's investment properties in Singapore continued to contribute to its recurrent income. As at 31 December 2020, Guoco Tower registered committed occupancies of 91% for its office component and 99% for its retail component, while occupancy of 20 Collyer Quay stood at 95%.

China

In China, the Company updated that the Group had in September 2020 launched the sales of the residential component of its 18T development in Jiefangbei area of Yuzhong District, Chongqing. As at 31 December 2020, 33% of the launched units have been sold.

Malaysia

Within Greater Kuala Lumpur, the Company announced that 96% of the first phase of condominium units and 98% of the garden terrace houses at Emerald Hills have been sold as at 31 December 2020. In addition, 76% of the 816 units at Emerald 9 have been sold.

In Selangor, Garland Residence, which is part of the 1,000 acre master-planned township of Emerald Rawang, has been fully sold as at the end of 2020.

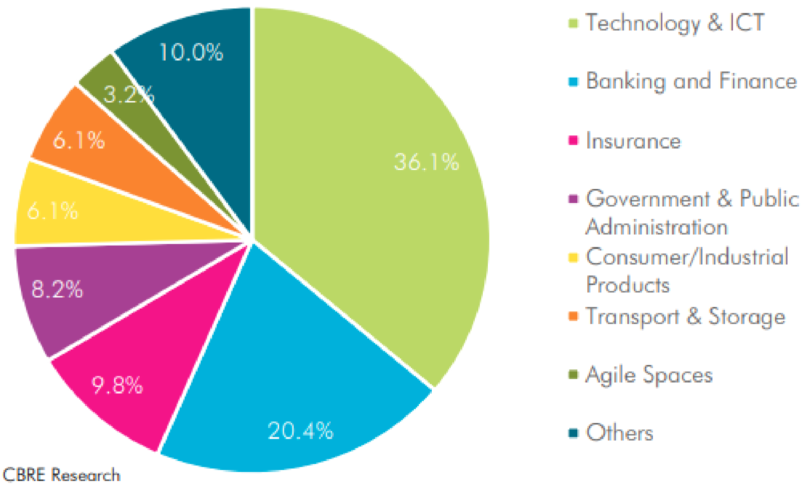
INDUSTRY OVERVIEW

(I) Office real estate sector review

Singapore

According to CBRE, owing to the acceleration of digitalisation, the workforce is evolving into two practices: office-based and remote working. Key sectors that belong to the latter are the information & communications, finance & insurance, and professional services. In 2020, the technology and non-bank financial services firms were the top office demand drivers and accounted for at least 50% of leasing volume, as in CBRE data shown in **Exhibit 5**. Looking ahead in 2021, CBRE expects leasing demand to be led by these sectors given high demand for their services.

Exhibit 5: Office leasing demand by sector in 2020



Source: CBRE Research
Note: Based on preliminary leasing volume for 2020
Others: Legal & accounting, business services, energy & commodities, manufacturing, pharmaceutical, construction, and real estate.

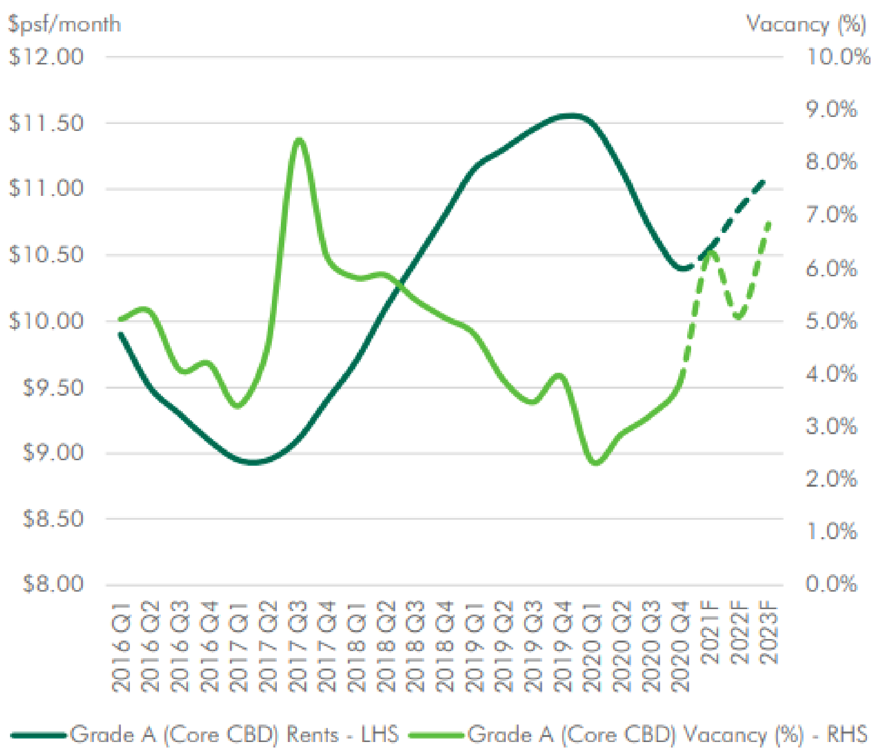
CBRE also notes that occupiers are showing stronger preference for prime office buildings with tech-enabled specifications vis-à-vis the ageing office stock with older specifications. In 2020, most of the negative net absorption stemmed from the Grade B market, which tallied -0.79 mil sq ft. Conversely, the Grade A (Core CBD) market registered 0.51 mil sq ft. of positive net absorption in 2020. Further, we note that the Grade A office market had recorded a stable vacancy rate of 3.9% in 2020 from a year ago.

In terms of supply, CBRE's estimated total new supply for office over 2021-2023 is at 3.40 million sq ft, equivalent to an annual average supply of 1.13 million sq ft. This would be 32.2% lower than the historical 10-year annual average supply. In 2021, 1.24 million sq ft of new office stock would be added.

Meanwhile, in terms of office rents, CBRE highlighted that the office market recorded a full-year rental correction of 10.0% y-o-y in 2020. However, the correction was cushioned by the additional fiscal and job support measures provided by the government, including rental relief and property tax rebates. Further, the Grade A (Core CBD) office market was underpinned by a relatively tight vacancy rate of 3.9% as at end 2020.

In 2021, CBRE expects the office market to remain under some pressure in the first half, before witnessing some improvement in the second half of the year. CBRE believes that the overall office market is poised to benefit from the gradual economic recovery in 2021, as well as the gains in employment. Growing sectors such as technology, financial services and professional services are expected to support office demand in 2021. Continued demand for office space and limited Grade A supply in the pipeline would support office rental growth in the second half of 2021. However, the recovery would be uneven, with prime office buildings expected to benefit first, as occupiers leverage on the current downturn to ride on the "flight to quality" strategy. This would lead to an increasing vacancy in the older office stock, and prompt landlords to be more flexible in incentives and negotiations. With reference to **Exhibit 6** below, CBRE forecasts that office rents would gradually recover over the next 3 years. In Q4 2020, office rents registered slightly below $10.50 psf/month. In 2021, rents are expected to increase to about $10.50 psf/month and exceed $11.00 psf/month in 2023.

Exhibit 6: CBRE rental and vacancy forecast



Source: CBRE Research

China

In Chongqing, the office market performed well with the economy slowly recovering and the epidemic under control, according to Savills. Savills highlighted that the net absorption of Grade A office in Chongqing increased 53% quarter-on-quarter (q-o-q) to 85,000 sq m in Q4 2020, pushing the vacancy rate down 3.6 percentage points to 27.5%, a ten-year low. Meanwhile, the average rent of the Grade A office market remained stable at RMB85.5 per sq m per month in Q4 2020. In terms of demand, information technology, consumer services and financial enterprises' office demand ranked the top three with 18.9%, 16.8% and 14.6%.

On the outlook, Savills believes that the current supply pressure in Chongqing Grade A office market is quite high, and the office market is expected to see a peak in 2021. The entry of quality projects alone may push the vacancy rate of the office market higher. With the central government positioning the Chengdu-Chongqing Economic Circle as "two centres with national influence", we note from Savills that Chongqing is expected to see increase in leasing demand for the office market.

Malaysia

According to Cushman & Wakefield (C&W), office leasing activity in Kuala Lumpur (KL) remained sluggish at the end of Q4 2020 as businesses remained cautious and continued their wait-and-see approach. C&W expects this situation to persist given work-from-home (WFH) arrangements being the default. Nonetheless, C&W noted that the KL office market witnessed a few leasing transactions, with occupiers taking vacated spaces at more attractive rental rates. In Q4 2020, the overall all-grade office occupancy rate for KL CBD remained at 77.3%, while KL Fringe grew to 70.4%. Accordingly, the vacancy rate for these submarkets stood at 22.7% and 29.6% respectively, while that for the overall market was at 22.07%.

Meanwhile, we note from C&W that rents remained stabile in Q4 2020 despite the impact of the COVID-19 pandemic. In the period, average asking rental rates stabilized at RM6.02 per sf per month. C&W noted that office landlords are generally remaining confident, with market activity slowly recovering due to the easing of Conditional Movement Control Order (CMCO) restrictions towards the end of Q4 2020. However, the outlook remains challenging given rising COVID-19 cases in Greater KL, and thus WFH arrangements are anticipated to prolong into Q1 2021.

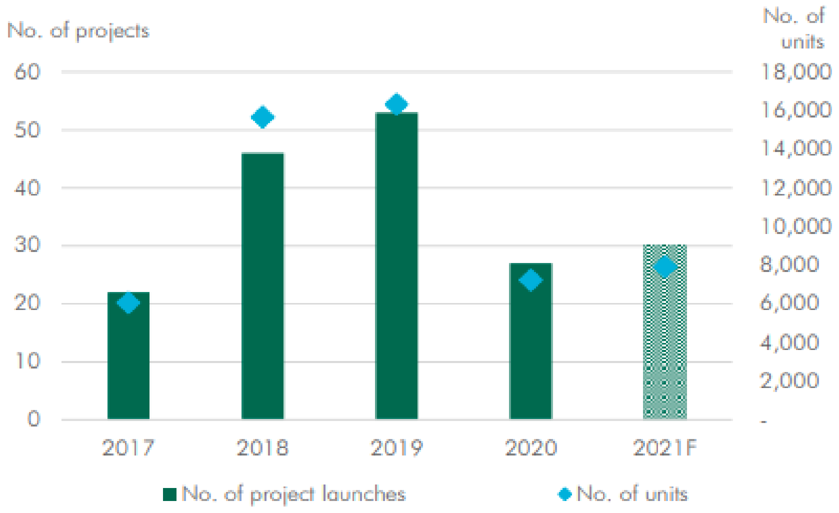
(II) Residential real estate sector review

Singapore

According to CBRE, Singapore's residential market performed well in 2020, with 9,982 new homes sold which was a 0.7% y-o-y increase from 2019. We note from CBRE that strength in the residential market could be attributed to the healthy take-up of projects that are well located and relatively affordable, as well as the strengthening purchasing power of investors from leveraging on low interest rates. Despite the volatilities that were brought about by the pandemic, CBRE said Singapore continues to project itself as a safe haven for investments. Looking ahead, CBRE expects the same demand drivers to apply. Meanwhile, we note from URA data has shown that the residential market recorded strong growth in new private home sales in January 2021. During the month, 1,609 new private homes were sold, up by 160% from 620 recorded a year ago.

On launches, developers are expected to capitalise on sales momentum in 2020 to clear their remaining project inventory in 2021. Further, there is also more certainty and clarity as the COVID-19 pandemic situation seems to be under control. According to CBRE forecasts shown in **Exhibit 7** below, there may potentially be about 30 projects comprising 7,940 units for sale in 2021. Buying sentiment is expected to remain strong and help support demand for upcoming new launches.

Exhibit 7: Project launches

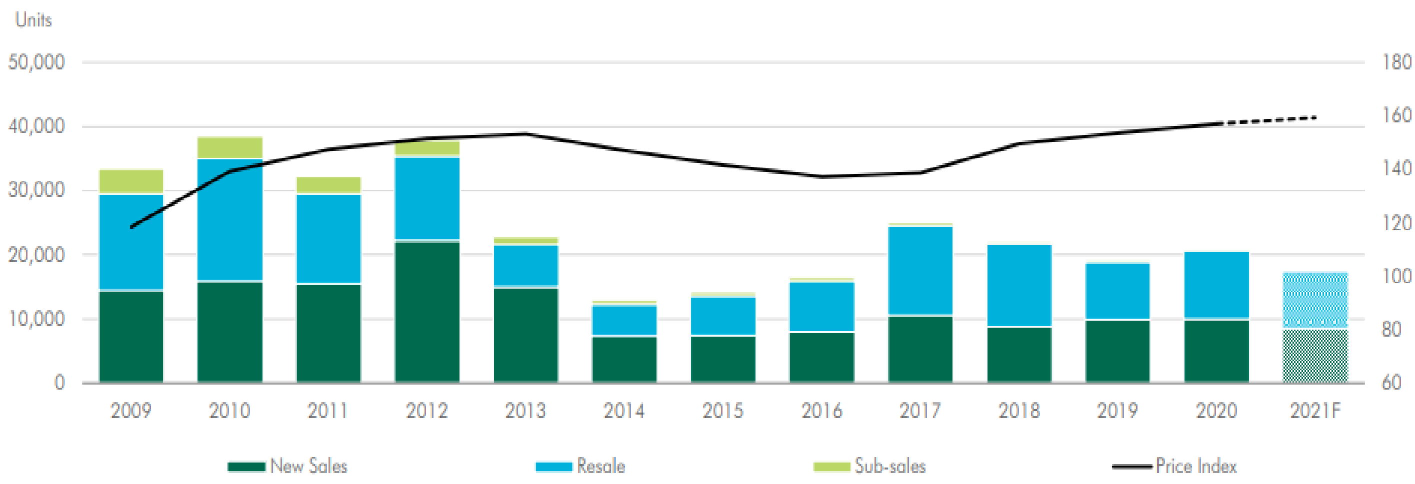


Source: CBRE Research

Meanwhile, we note from CBRE that residential demand in 2020 has been driven by local demand. Foreign demand has taken a backseat in the beginning of 2020 due to countrywide lockdowns. At the start of 2020, foreigners and permanent residents accounted for 22.1% of total purchases, but it has decreased to 17.4% by Q4 2020, according to CBRE. CBRE highlighted that residential sales transactions will continue to be dominated by local demand, although foreign investors are likely to return as Singapore's ability to manage the pandemic well will further lend credence to itself being a stable city to invest in.

In 2021, CBRE expects the Private Residential Property Index to continue to edge up and may achieve 2% growth in 2021, as shown in **Exhibit 8** on the next page. New home sales are likely to fall in the region of 8,000 to 9,000 units. While CBRE expects a relatively healthy pipeline of launches, majority of the new projects are located in the CCR and RCR, where their higher price quantum may limit the potential pool of buyers.

Exhibit 8: Total private residential demand

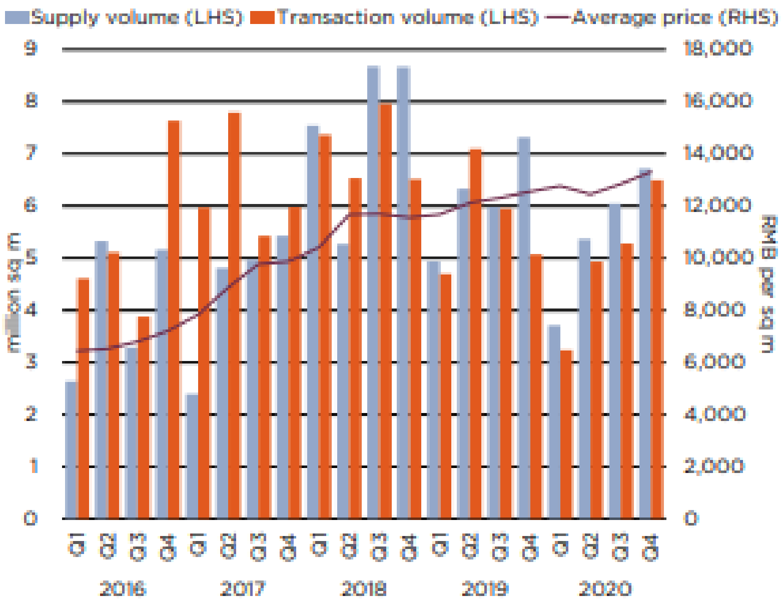


Source: CBRE Research

China

According to Savills, the supply of firsthand commodity housing in the main urban area of Chongqing increased 11.1% q-o-q to 6.7 million sq m in Q4 2020. The transaction volume of first-hand commodity housing in the main urban area increased 22.9% q-o-q to 6.5 million sq m in Q4 2020. In terms of prices, the transaction price of first-hand housing in the main urban area rose slightly to RMB13,300 per sq m. A summary of residential supply, volume and price in the main urban area of Chongqing is shown in **Exhibit 9**.

Exhibit 9: Residential supply, volume and price in the main urban area, Q1 2016 to Q4 2020



Source: Savills

SHARE PRICE PERFORMANCE REVIEW

Since our last company update issued on 9 October 2020, when GuocoLand's share price closed at S$1.520, we note that the Company's share price reached S$1.640 at close on 27 October 2020 before dipping to S$1.440 on 3 November 2020. It then rebounded above S$1.500 in part due to increasing investor optimism on the back of positive vaccine news, and in turn the potential of a global economic recovery in 2021. In particular, we note that the share price reached a high of S$1.660 on 15 January 2021, following news of a privatization offer for GL Limited, an SGX-listed company in which Hong Kong-listed Guoco Group, the parent of GuocoLand, is a major controlling shareholder. The surge in share price likely reflected market expectations of a potential GuocoLand privatization (we will further discuss this on page 30). Currently, the share price has moderated in line with a recent market correction and traded between S$1.560 and S$1.600.

Meanwhile, we note that Mr Quek Leng Chan, who is the major controlling shareholder of both GuocoLand and Guoco Group as well as a member of the Company's Board of Directors, has been increasing his interest in the Company through share purchases by GuocoLand Assets Pte Ltd (GAPL). Since our last company update report, GAPL has acquired a total of 278,000 shares over 16 separate acquisitions at a price per share ranging from S$1.42 to S$1.57, as shown in **Exhibit 10**. The latest acquisition was on 13 November 2020 when it purchased 5,000 shares at S$1.47 per share. Following the above share acquisitions by GAPL, Mr Quek held a total of 851,628,771 shares in the Company, representing a total interest of 71.97%.

Exhibit 10: Details of the share acquisitions

Date of acquisition	Purchaser	No. of shares acquired	Price per share (S$)	Shares held after acquisition	Total interest after acquisition
15-Oct-20	GAPL	8,000	1.53	851,358,771	71.94%
16-Oct-20	GAPL	17,000	1.54	851,375,771	71.94%
19-Oct-20	GAPL	30,000	1.57	851,405,771	71.95%
20-Oct-20	GAPL	20,000	1.56	851,425,771	71.95%
21-Oct-20	GAPL	20,000	1.57	851,445,771	71.95%
22-Oct-20	GAPL	20,000	1.57	851,465,771	71.95%
29-Oct-20	GAPL	20,000	1.51	851,485,771	71.95%
30-Oct-20	GAPL	20,000	1.4772	851,505,771	71.96%
2-Nov-20	GAPL	7,000	1.41857	851,512,771	71.96%
3-Nov-20	GAPL	20,000	1.44	851,532,771	71.96%
4-Nov-20	GAPL	16,000	1.44	851,548,771	71.96%
5-Nov-20	GAPL	20,000	1.47	851,568,771	71.96%
6-Nov-20	GAPL	15,000	1.46167	851,583,771	71.96%
9-Nov-20	GAPL	20,000	1.47	851,603,771	71.96%
12-Nov-20	GAPL	20,000	1.4775	851,623,771	71.97%
13-Nov-20	GAPL	5,000	1.47	851,628,771	71.97%
Total	-	**278,000**	-	-	-

Source: Company, FPA Financial

FINANCIAL PROJECTIONS

Given the Group's 1H FY2021 financial results, we will now provide our projections for the Group's revenue, earnings and dividends for the full year ending 30 June 2021 (FY2021) and 30 June 2022 (FY2022).

(I) Revenue projection

Historically, the Group derives the largest proportion of its revenue from its property development business. With reference to **Exhibit 11**, revenue from the sale of development properties made up 81.9% of total Group revenue in FY2020, increasing from 79.1% in FY2019. In contrast, revenue from hotel operations contributed 5.5% of total revenue compared with 7.9% in FY2019. This could be in part due to the Group's sale of its Guoman Hotel in Shanghai during the second half of FY2020 and the fact that the hospitality sector has been negatively impacted by the COVID-19 pandemic. Meanwhile, the revenue proportioning for rental & related income from investment properties and management fee income remained relatively stable in FY2020.

Exhibit 11: Breakdown of the Group's revenue

	FY2019 actual		FY2020 actual	
Revenue breakdown	**S$ million**	**% of total**	**S$ million**	**% of total**
Sale of development properties	733.4	79.1%	771.4	81.9%
Rental & related income from investment properties	117.0	12.6%	116.4	12.4%
Hotel operations	73.0	7.9%	51.5	5.5%
Management fee income	3.6	0.4%	2.6	0.3%
Total	927.0	100.0%	941.8	100.0%

Source: Company, FPA Financial

Revenue projection for FY2021

Given the reported 1H FY2021 financial results as discussed on page 3, we will project revenue for 2H FY2021 in order to derive an overall revenue figure for full year FY2021. To do so, we will estimate the y-o-y change in revenue for the individual segments in 2H FY2021.

Revenue from sale of development properties

The Group recorded strong revenue performance in 1H FY2020 on the back of higher progressive recognition of sales from Martin Modern. In 1H FY2021, however, with the construction of Martin Modern nearing completion, the Group recorded lower progressive recognition of sales from its residential projects in Singapore.

As noted on page 11, Singapore's residential market has recorded strong y-o-y growth in new private home sales in January 2021. Looking ahead, we anticipate residential demand to be supported by lower-for-longer interest rates and a gradual recovery in the Singapore economy with the progressive rollout of vaccines. Further, we foresee stronger foreign residential investments given Singapore's status as an investment safe-haven. Meanwhile, we also expect stronger sales performance at the Group's residential component of its 18T development in Chongqing. Housing demand is likely to be supported by cheaper borrowing costs and economic growth in China. However, sales performance at the Group's residential launches in Malaysia could be stifled by extended lockdowns to deal with the elevated COVID-19 health concerns. Against this backdrop, we are inclined to be positive on the overall sales performance of the Group's property development business in 2H FY2021.

While there may not be strong sales recognition in 2H FY2021 given that the Group's projects like Midtown Bay and Meyer Mansion are still relatively far from completion, we would still expect revenue from the Group's sale of development properties to be stronger compared to a year ago. This is due to the fact that 2H FY2020 had coincided with the peak of the COVID-19 pandemic, when residential showflats were closed owing to nation lockdowns and foreign demand was negatively impacted due to border controls. As such, we would assume a 15% y-o-y growth in development sales revenue in 2H FY2021 from 2H FY2020.

Revenue from rental & related income

In Singapore, the Group's investment properties, Guoco Tower and 20 Collyer Quay, have achieved relatively healthy committed occupancies as at 31 December 2020, as noted on page 7. We also note from CBRE that Singapore's office market is expected to benefit from the gradual economic recovery in 2021, as well as the gains in employment. Growing sectors such as technology, financial services and professional services are expected to support office demand in 2021. For Malaysia, we note from C&W that office leasing activity in KL is expected to remain weak due to WFH arrangements being the default. While rents were stable in Q4 2020, vacancy rates may rise going forward given the potential of an extended CMCO period to curb the rising infection cases in the country.

Nonetheless, we noted on page 3 that the Group's investment properties delivered relatively resilient performance in 1H FY2021 despite the challenging COVID-19 environment, maintaining stable revenue performance from a year ago. Given the above, we would assume a 5% y-o-y increase in revenue from rental & related income in 2H FY2021.

Revenue from hotel operations

As noted on page 3, the Group's hotel revenue decreased by 75% y-o-y in 1H FY2021. While hotel performance in Singapore has broadly improved since the easing of the Circuit Breaker measures in early June and with the government's efforts to revive the domestic tourism sector, domestic demand is unlikely to compensate for the lack of international demand for hotel stays. As it stands, Singapore has maintained border control measures given ongoing health concerns in other parts of the world, where new strains of coronavirus have been reported. At the same time, Malaysia has reimposed lockdowns which could be further extended given the elevated health concerns. While countries have started to progressively rollout vaccine treatments, the speed of access varies across different countries. The main concern is that it could take a few years before international travel could recover, and the negative impact on hospitality and tourism could be prolonged. Against this backdrop, we expect a continuation of weak revenue performance from the Group's hotel business in Singapore and Malaysia.

Nonetheless, we do not expect hotel revenue performance in 2H FY2021 to be weaker than 2H FY2020 during the period of hotel closures owing to the implementation of the Circuit Breaker measures in Singapore. Relative to a year ago, there should be some improvement in hotel revenue performance. Thus, we would assume a 5% y-o-y growth in revenue generated by the Group's hotel business in 2H FY2021.

Revenue from management fee income

We would assume revenue from management fee income to remain unchanged in 2H FY2021 from a year ago.

Given the above, we will now estimate revenue generated by each segment in 2H FY2021. First, we would assume the FY2020 revenue proportioning figures in **Exhibit 11** on page 14 as a proxy for the breakdown in 2H FY2020, given that segment revenue figures are undisclosed in the Company's half-yearly financial statements.

Adopting the respective revenue proportioning for each segment, the revenue breakdown for 2H FY2020 will be as shown in **Exhibit 12**.

Exhibit 12: Breakdown of the Group's revenue for 2H FY2020

	2H FY2020	
Revenue breakdown	**S$ million**	**% of total**
Sale of development properties	302.9	81.9%
Rental & related income from investment properties	45.7	12.4%
Hotel operations	20.2	5.5%
Management fee income	1.0	0.3%
Total	369.8	100.0%

Source: Company, FPA Financial

We will now adopt the expected y-o-y change in revenue for each segment as discussed on the previous page to derive the projected revenue for the individual segments in 2H FY2021 as shown in **Exhibit 13**.

Exhibit 13: Projected revenue for 2H FY2021

	2H FY2020	2H FY2021 forecast	y-o-y change
Revenue breakdown	**S$ million**	**S$ million**	**%**
Sale of development properties	302.9	348.3	15.0%
Rental and related income from investment properties	45.7	48.0	5.0%
Hotel operations	20.2	21.2	5.0%
Management fee income	1.0	1.0	0.0%
Total	369.8	418.6	-

Source: Company, FPA Financial

Consequently, the projected revenue for full year FY2021 would be S$738.2 million as shown in **Exhibit 14**.

Exhibit 14: Projected revenue for FY2021

Period	Total revenue (S$ million)	y-o-y change (%)
FY2020		
1H actual	572.1	84%
2H actual	369.8	-40%
Full year (actual)	941.9	2%
FY2021		
1H actual	319.6	-44%
2H forecast	418.6	13%
Full year (forecast)	738.2	-22%

Source: Company, FPA Financial

Revenue projection for FY2022

In our revenue projection for FY2022, we will derive the total revenue generated for the period by estimating a weighted change in total revenue for the period.

Revenue from sale of development properties

As noted on page 14, we are positive on the outlook for Singapore's residential market demand going forward. Lower-for-longer interest rates and a gradual economic recovery are expected to support home buying. Further, foreign residential investments should return given Singapore's status as an investment safe-haven. In FY2022, the Group is likely to record higher progressive recognition of sales from Midtown Bay, which is slated for completion in 2022. Some sales recognition could also be expected from Midtown Modern which will be launched shortly. Similarly, higher progressive sales recognition at the residential component of the Group's 18T development in Chongqing can be expected in FY2022 with further construction progress. At the same time, we could also see an improvement in sales performance at the Group's residential launches in Malaysia once the virus situation comes under control. Against this backdrop, we would assume a 20% y-o-y growth in revenue from the Group's sale of development properties in FY2022.

Revenue from rental & related income

We would expect the Group's investment properties to provide a resilient source of recurring income in FY2022. The Singapore office market is expected to benefit from the gradual economic recovery and a return of office leasing demand as more people return to the workplace. An increasing trend of Chinese technology companies setting up regional offices in Singapore would also help to underpin office demand. Further, we note from CBRE that office rents are expected to recover going forward. We would thus assume a 10% y-o-y growth in revenue from rental & related income from investment properties in FY2022.

Revenue from hotel operations

As discussed earlier on page 15, COVID-19 health concerns still remain elevated in many parts of the world, despite the rollout of vaccines. This has resulted in a continuation of border control measures which has stifled inbound tourist arrivals. Until a resumption of international travel, which could take a few years, we would anticipate weak revenue performance from the Group's hotel business in Singapore and Malaysia. We would thus assume no change in revenue from hotel operations in FY2022 from FY2021.

Revenue from management fee income

We would assume revenue from management fee income to remain unchanged in FY2022 from FY2021.

Based on our expected y-o-y change in revenue for the respective segments as discussed on the previous page, we would estimate a weighted change in revenue of 18% y-o-y for FY2022, as shown in **Exhibit 15**.

Exhibit 15: Projected weighted change in revenue for FY2022

		FY2022 forecast	
Segment	% of total revenue	y-o-y change (%)	weighted change in revenue (%)
Sale of development properties	81.9%	20%	16%
Rental & related income from investment properties	12.4%	10%	1%
Hotel operations	5.5%	0%	0%
Management fee income	0.3%	0%	0%
Total	100.0%	-	18%

Source: FPA Financial

Accordingly, the projected revenue for FY2022 would be S$871.1 million = [118% x S$738.2 million in projected revenue for FY2021], as shown in **Exhibit 16**.

Exhibit 16: Projected Group revenue for FY2021 and FY2022

Period	Total revenue (S$ million)	y-o-y change (%)
FY2020 actual	941.8	2%
FY2021 forecast	738.2	-22%
FY2022 forecast	871.1	18%

Source: Company, FPA Financial

(II) Earnings projection

Given our projected revenue figures for FY2021 and FY2022, we will now estimate the Group's earnings for these periods.

Cost of sales

We will estimate cost of sales for FY2021 and FY2022 based on the expected gross margin for each period. With reference to **Exhibit 17**, we note that the Group has maintained a stable gross margin of 31.9% in FY2019 and FY2020. In 1H FY2021, gross margin was at 29.7% which could be due to higher of cost of sales owing to additional costs incurred for ensuring COVID-19 safety control measures.

Exhibit 17: Gross margin over the years

	FY2019 actual	FY2020 actual	1H FY2021 actual	FY2021 forecast	FY2022 forecast
	S$ million	S$ million	S$ million	S$ million	S$ million
Revenue	927.0	941.8	319.6	740.5	873.8
Cost of sales	631.1	641.7	224.6	520.6	595.1
Gross profit	295.9	300.1	95.0	219.9	278.7
Gross margin	31.9%	31.9%	29.7%	29.7%	31.9%

Source: Company, FPA Financial

For FY2021 and FY2022, we estimate cost of sales of S$520.6 million and S$595.1 million respectively. Accordingly, gross margin would be 29.7% in FY2021 before recovering to FY2019/FY2020 levels in FY2022.

Other income

The breakdown of the Group's other income for FY2018 to FY2020 is summarised in **Exhibit 18**.

Exhibit 18: Breakdown of the Group's other income from FY2018 to FY2020

		Actual	
	FY2018	FY2019	FY2020
	S$'000	S$'000	S$'000
Dividend income from equity securities	50	-	-
Fair value gain on investment properties	142,465	197,413	-
Gain on disposal of property, plant and equipment	33	-	126,157
Gain on disposal of interest in a subsidiary	-	-	2,798
Income from forfeiture of deposit	413	2,494	1,380
Interest income from fixed deposits with banks	10,902	16,827	12,883
Interest income from a joint venture	-	3,050	5,236
Net foreign exchange gain	-	12,759	4,935
Rental income	3,222	3,202	3,371
Others	6,919	3,053	5,858
Total	164,004	238,798	162,618

Source: Company, FPA Financial

As noted on page 3, the Group recorded higher other income in 1H FY2021 partially due to a S$4.8 million net fair value gain on derivative financial instruments compared with a loss of S$14.0 million a year ago. For FY2020, the Group incurred S$65.5 million in loss on derivative financial instruments in relation to interest rate swaps. During the period, especially in 2H FY2020 when the COVID-19 pandemic was at its peak, interest rates declined as central banks adopted aggressive monetary easing to provide economic support. Since then, we note that interest rates have risen in tandem with gradual economic recovery. Thus, we anticipate the Group to record fair value gains on its interest rate swaps going forward. In our projection, we would assume the same amount of fair value gain on derivative financial instruments of S$4.8 million in 2H FY2021 as in 1H FY2021. Accordingly, the fair value gain would be S$9.6 million for full year FY2021, which we would further assume in FY2022.

Meanwhile, we also noted on page 3 that the Group completed the disposal of the Changfeng cultural building in Shanghai, which contributed to other income in 1H FY2021 through S$6.8 million in gain on disposal of investment properties. Given the one-off nature of the transaction, we would assume no gain on disposal of investment properties in 2H FY2021. Accordingly, projected gain on disposal of investment properties for FY2021 would be S$6.8 million. We would assume no divestment of investment properties by the Group in FY2022 and in turn zero gain on disposal.

Further, we also note that interest income decreased by 28% y-o-y to S$7.6 million in 1H FY2021 from S$10.6 million a year ago. For 2H FY2021, we would assume the same amount of interest income of S$7.6 million in 1H FY2021, implying total interest income of about S$15.1 million for FY2021. In FY2022, we see the possibility of the Group utilising its internal funds to fund the construction of its development projects. Accordingly, we could expect lower interest income with lower bank deposits. To account for this, we would assume a 10% y-o-y drop in interest income for FY2022 which would amount to S$13.7 million = [90% x S$15.2 million]

We have summarized our projected figures for other income in **Exhibit 19**.

Exhibit 19: Projected other income for FY2021 and FY2022

		FY2021		FY2022
[S$'000]	1H actual	2H forecast	Full year forecast	Full year forecast
Interest income	7,564	7,564	15,128	13,615
Net fair value gain on derivative financial instruments	4,788	4,788	9,576	9,576
Gain on disposal of investment properties	6,840	-	6,840	-
Other items*	5,985	5,985	11,970	11,970
Total	25,177	18,337	43,514	35,161

**Non-specified items in the Company's 1H FY2021 financial statements have been classified under this category by FPA*

Source: Company, FPA Financial

The above projected figures for FY2021 and FY2022 imply the assumption that there would be no fair value gains or losses on the Group's investment properties.

Administrative expenses

As noted on page 3, administrative expenses decreased by 20% y-o-y to S$38.1 million in line with lower sales activities. We would assume administrative expenses in 2H FY2021 to be the same as 1H FY2021, implying total administrative expenses of S$76.2 million for FY2021. We would further assume this figure for FY2022.

Finance costs

As noted on page 3, the Group reported a 17% y-o-y drop in finance costs of S$42.8 million in 1H FY2021 due to lower borrowing costs. Looking ahead, interest rates could potentially rise with an economic expansion. However, we do not foresee inflation to rise enough to induce any significant increases in interest rates. Nonetheless, we anticipate the Group to incur higher interest expense as it draws down facilities to fund the construction costs of its projects. For instance, we note that the Group had in May 2020 secured a S$730 million green loan for its Guoco Midtown II development at Tan Quee Lan Street. We could expect the Group to gradually draw down this facility amid ongoing construction in FY2022.

Given the above, we would assume the same amount of finance costs in 2H FY2021 as in 1H FY2021, implying total finance costs of S$85.6 million for FY2021. For FY2022, we would assume a 10% y-o-y increase in finance costs to account for a potential increase in interest expense due to construction spending. Accordingly, the projected finance costs for FY2022 would be S$94.2 million = [110% x S$85.6 million]. We have summarized the projected finance costs for FY2021 and FY2022 in **Exhibit 20**.

Exhibit 20: Projected finance costs for FY2021 and FY2022

	FY2020 actual	FY2021 forecast	FY2022 forecast
	S$ million	S$ million	S$ million
Finance costs	108.3	85.5	94.2

Source: Company, FPA Financial

Other expenses

As noted on page 3, the Group reported a 93% y-o-y decrease in other expenses to S$1.1 million in 1H FY2021. This was given a net fair value gain on derivative financial instruments of S$4.8 million during the period, compared with a loss of S$14.0 million a year ago. As discussed on the previous page, we have accounted for a fair value gain on derivative financial instruments for 2H FY2021 which is recorded under other income. Meanwhile, the Group incurred a net foreign exchange loss of S$0.1 million in 1H FY2021 compared with a net gain of S$0.7 million a year ago. For 2H FY2021, we would assume no foreign exchange gains or losses. Given the adjustments, other expenses for 2H FY2021 would amount to S$1.0 million, as shown in **Exhibit 21** on the next page.

Accordingly, the projected other expenses for FY2021 would be approximately S$2.0 million after summing total expenses for 1H FY2021 and 2H FY2021, as shown in **Exhibit 21** on the next page. We would further assume this figure for FY2022. These projected figures imply the assumption that there would be no fair value gains or losses on the Group's investment properties.

Exhibit 21: Projected other expenses for FY2021 and FY2022

	Actual					Forecast	
	FY2018 S$'000	FY2019 S$'000	FY2020 S$'000	1H FY2021 S$'000	2H FY2021 S$'000	FY2021 S$'000	FY2022 S$'000
Fair value loss on investment properties	-	-	8,275	-	-	-	-
Fair value loss on derivative financial instruments	1,207	25,988	65,475	-	-	-	-
Impairment loss on property, plant and equipment	2,289	-	-	n/d	-	-	-
Impairment loss on investment in a joint venture	-	-	47,000	n/d	-	-	-
Loss on disposal of property, plant and equipment	-	1	-	n/d	-	-	-
Loss on disposal of interests in a subsidiary	11,931	-	-	n/d	-	-	-
Loss on liquidation of subsidiaries	890	-	-	n/d	-	-	-
Net foreign exchange loss	2,634	-	-	125	-	125	125
Others	6,556	11,452	7,679	n/d	-	-	-
Other items*	-	-	-	959	959	1,918	1,918
Total	25,507	37,441	128,429	1,084	959	2,043	2,043

n/d: not disclosed

**Non-specified items in the Company's 1H FY2021 financial statements have been classified under this category by FPA*

Source: Company, FPA Financial

Share of profits from associates and joint ventures

The Group's associates comprise of Tower REIT and GLM Emerald (Sepang) Sdn Bhd (Emerald Sepang) in which the Group has an ownership interest of 14.73% and 32.20% respectively, as shown in **Exhibit 22**.

Exhibit 22: Group's associates

			Group effective interest	
Associate	Principal activity	Country of incorporation	30-Jun-20	30-Jun-19
Tower REIT	Investment in real estate and real estate related assets	Malaysia	14.73%	14.73%
GLM Emerald (Sepang) Sdn Bhd	Property development and operation of an oil palm estate	Malaysia	32.20%	32.20%

Source: Company

As noted on page 5, the Group has an effective equity interest of 14.73% in Tower REIT through its 68.00% equity interest in GLM which holds a 21.66% equity interest in Tower REIT. Tower REIT has a portfolio comprising of three prime commercial buildings in Kuala Lumpur, namely Menara Guoco, Menara HLX and Plaza Zurich. Meanwhile, we note that Emerald Sepang is involved in the Group's property development business in Malaysia.

We have summarized the breakdown of the Group's share of profit from associates from FY2018 to FY2020 in **Exhibit 23**.

Exhibit 23: Breakdown of Group's share of profit from associates from FY2018 to FY2020

	Group's share of profit/(loss)		
Joint venture	FY2018 S$'000	FY2019 S$'000	FY2020 S$'000
Tower REIT	1,122	528	573
GLM Emerald (Sepang) Sdn Bhd	1,612	462	(2,397)
Total	2,734	990	(1,824)

Source: Company, FPA Financial

Meanwhile, the Group's material joint ventures include Shanghai Xinhaojia Property Development Co. Ltd (Shanghai Xinhaojia), EcoWorld International Berhad (EWI) and Carmel Development Pte Ltd (Carmel), in which the Group has ownership interest of 50%, 27% and 40% respectively, as shown in **Exhibit 24**.

Exhibit 24: Group's material joint ventures

			Group ownership interest	
Joint ventures	**Principal activity**	**Country of incorporation**	**30-Jun-20**	**30-Jun-19**
Shanghai Xinhaojia Property Development Co. Ltd	Property development	The People's Republic of China	50%	50%
EcoWorld International Berhad	Property development	Malaysia/ United Kingdom & Australia	27%	27%
Carmel Development Pte Ltd	Investment holding	Singapore	40%	40%

Source: Company

Shanghai Xinhaojia is the Group's joint venture in relation to its residential project in Shanghai, Changfeng Residence, which was completed and substantially sold in 2018. EWI is a listed entity on the Malaysia Stock Exchange in which the Group has joint control. EWI is principally engaged in property development in international markets outside of Malaysia, mainly in the United Kingdom and Australia. Meanwhile, Carmel is the Group's joint venture in relation to the development of The Avenir, as discussed on page 6.

In FY2018, the Group recorded a strong share of profit of S$204.2 million from joint ventures mainly due to substantial profit recognition of S$209.4 million through Shanghai Xinhaojia in relation to development sales at Changfeng Residence, which was offset by negative contributions from other joint ventures. Owing to this strong profit recognition in FY2018, which was absent in FY2019, share of profit in FY2019 dropped to S$11.8 million. In FY2020, share of profit from joint ventures was underpinned by stronger performance by EWI.

We have summarized the breakdown of the Group's share of profit from joint ventures from FY2018 to FY2020 in **Exhibit 25**.

Exhibit 25: Breakdown of Group's share of profit from joint ventures from FY2018 to FY2020

	Group's share of profit/(loss)		
	FY2018	**FY2019**	**FY2020**
Joint venture	**S$'000**	**S$'000**	**S$'000**
Shanghai Xinhaojia Property Development Co. Ltd	209,406	7,932	1,673
EcoWorld International Berhad	(4,967)	4,064	18,963
Carmel Development Pte Ltd	-	(1,600)	-
Non-material joint ventures	(221)	1,403	2,110
Total	204,218	11,799	22,746

Source: Company, FPA Financial

Given the above, the Group recorded a share of profit from associates and joint ventures of S$207.0 million, S$12.8 million and S$20.9 million in FY2018, FY2019 and FY2020 respectively, as shown in **Exhibit 26** on the next page.

Exhibit 26: Breakdown of Group's share of profit from associates and joint ventures from FY2018 to FY2020

	Group's share of profit/(loss)		
	FY2018	FY2019	FY2020
	S$'000	S$'000	S$'000
Associates	2,734	990	(1,824)
Joint ventures	204,218	11,799	22,746
Total	206,952	12,789	20,922

Source: Company, FPA Financial

For the current financial year, FY2021, the Group's recorded share of profit from associates and joint ventures of S$8.0 million in the first half, as noted in **Exhibit 1** on page 4.

While we do not have the detailed breakdown of the Group's share of profit from associates and joint ventures for 1H FY2021, we would assume zero contribution from the Group's associates in 2H FY2021 and FY2022. While Tower REIT could provide a source of stable recurring income, we could expect this to be offset by weak performance from Emerald Sepang due to the negative impact on residential sales amid the current lockdown situation in Malaysia.

For the Group's joint ventures, we do not expect the Group to recognize much profit from Shanghai Xinhaojia given that Changfeng Residence is mostly sold and most of the share of profit has been recorded in FY2018. We would thus assume zero share of profit from Shanghai Xinhaojia in 2H FY2021 and FY2022. Similarly, we would also assume zero share of profit from EWI in these periods. For Carmel, we would assume that the Group does not recognise any share of profit in 2H FY2021. We would, however, expect the Group to recognize some profit in FY2022 given strong sales performance from The Avenir as noted on page 6.

We will now provide an estimation of the Group's share of profit from Carmel in FY2022. To do so, we will estimate the total development sales and costs in relation to The Avenir.

<u>Total development sales</u>

The Avenir development has a site area of 128,352 sq ft and a plot ratio of 3.84. Accordingly, the estimated gross floor area of the project would be approximately 492,872 sq ft = [3.84 x 128,352 sq ft]. At the same time, we note that the price per sq ft for units sold at The Avenir thus far have ranged from approximately S$2,700 to S$3,300. In our estimation, we would assume a price per sq ft of S$3,000, which would imply a total development sales of S$1,478.6 million = [S$3,000 x 492,872 sq ft].

Given the estimated total development sales, we will now estimate the costs involved, which would include land cost, construction costs, interest costs, project management fees and marketing fees.

<u>Land cost</u>

The Company announced that the development site was acquired for S$980 million.

<u>Construction costs</u>

In our projection, we would assume construction costs at S$300 per sq ft, which would imply total construction costs of S$147.9 million = [S$300 x 492,872 sq ft].

Interest costs

In our projection, we would assume that a drawdown of facilities would be made by the Group in order to fund the land and construction costs, which would imply interest costs incurred. We note that the interest rates on the Group's medium-term notes ranged from 3.4% to 4.1% per annum, as disclosed in the Company's Annual Report 2020 (AR 2020). As a proxy, we would adopt a 3.50% interest rate in our projections herein.

As disclosed in the Company's AR 2020, Carmel incurred interest expenses of S$9.8 million and S$14.9 million in FY2019 and FY2020 respectively. We will assume that the interest expenses were fully incurred on borrowings used to fund the land cost. Based on S$14.9 million interest expense in FY2020, the borrowings can be estimated to be S$425.7 million = [100%/3.50% x S$14.9 million]. Accordingly, the estimated interest costs associated with purchasing the land would be S$84.3 million, under the assumption that interest expenses would be incurred for an additional 4 years, as shown in **Exhibit 27**.

Exhibit 27: Estimated interest costs incurred by Carmel in relation to the land acquisition

	Actual		Forecast				
S$ million	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	Total
Interest expense	9.8	14.9	14.9	14.9	14.9	14.9	84.3

Source: Company, FPA Financial

Meanwhile, we will assume that the Group would draw down facilities of S$147.9 million in relation to funding the full amount of construction costs. In particular, we would assume a S$50 million drawdown in each FY2022 and FY2023, and the remaining S$47.9 million in FY2024. Accordingly, total interest costs incurred would be S$10.4 million, under the assumption that interest expenses would be incurred from FY2022 to FY2024, as shown in **Exhibit 28**.

Exhibit 28: Estimated interest costs incurred in relation to construction costs

Period	Drawdown amount S$ million	Interest rate %	Interest expense S$ million
FY2022	50.0	3.5%	1.8
FY2023	100.0	3.5%	3.5
FY2024	147.9	3.5%	5.2
Total	-	-	10.4

Source: FPA Financial

Combined, the estimated interest costs in relation to the land and construction costs would be S$94.7 million = [S$84.3 million + S$10.4 million].

Project management fees

We would assume that a 10% project management fee which would amount to estimated project management fees of S$14.8 million = [10% x S$147.9 million in construction costs].

Marketing fees

We would assume that a 2% marketing fee would be incurred in relation to marketing the project. Accordingly, estimated marketing fees would be S$29.6 million = [2% x S$1,478.6 million in total development sales].

Given the cost projections from page 24-25, the total estimated cost of the development would be S$1,267.0 million as shown in **Exhibit 29**.

Exhibit 29: Estimated cost breakdown of The Avenir development

Cost breakdown	S$ million
Land cost	980.0
Construction costs	147.9
Interest costs	94.7
Project management fees	14.8
Marketing fees	29.6
Total	1,267.0

Source: Company, FPA Financial

After-tax development profit

Based on the estimated costs involved, the estimated development profit would amount to S$211.6 million = [S$1,478.6 million in development sales – S$1,267.0 million in estimated costs]. Assuming a tax rate of 17% on the total development profit, the estimated after-tax development profit would be S$175.7 million, as shown in **Exhibit 30**.

Exhibit 30: Estimated after-tax development profit from The Avenir development

	S$ million
Total development sales	1,478.6
Less: estimated costs	(1,267.0)
Total development profit	211.6
Less: taxation at 17% tax rate	(36.0)
After-tax development profit	175.7

Source: FPA Financial

Estimated progress sales recognition for The Avenir

In terms of recognition, we would assume no progress sales recognised for The Avenir in 2H FY2021. Given the project's TOP in 2025, we would assume that progress sales recognition of 20%, 20% 20% and 40% would be achieved in FY2022, FY2023, FY2024 and FY2025 respectively. Accordingly, the estimated amount recognised in FY2022 would be S$35.1 million = [20% x S$175.7 million], as shown in **Exhibit 31**.

Exhibit 31: Estimated schedule progress sales recognition for The Avenir

Period	% of progress sales recognition	Amount recognised (S$ million)
FY2022	20%	35.1
FY2023	20%	35.1
FY2024	20%	35.1
FY2025	40%	70.3
Total	100%	175.7

Source: FPA Financial

Group's share of profit from Carmel

Given the Group's 40% ownership interest in Carmel, the estimated share of profit for FY2022 would be S$14.1 million = [40% x S$35.1 million], as shown in **Exhibit 32**.

Exhibit 32: Estimated Group's share of profit from Carmel

Period	Amount recognised (S$ million)	Group ownership (%)	Group's share of profit (S$ million)
FY2022	35.1	40%	14.1
FY2023	35.1	40%	14.1
FY2024	35.1	40%	14.1
FY2025	70.3	40%	28.1
Total	175.7	-	70.3

Source: FPA Financial

As we have assumed zero share of profits from associates and joint ventures for 2H FY2021, the projected share of profit for FY2021 would be S$8.0 million, as shown in **Exhibit 33**. For FY2022, we have assumed that the Group would only recognise a share of profit of S$14.1 million from Carmel, and zero share of profit from its remaining joint ventures and associates.

Exhibit 33: Projected share of profits from associates and joint ventures for FY2021 and FY2022

	Actual	Forecast		
	1H FY2021	2H FY2021	FY2021	FY2022
	S$ million	S$ million	S$ million	S$ million
Associates and joint ventures	8.0	-	8.0	14.1

Source: Company, FPA Financial

Projected profit before share of profit from associates & joint ventures and tax

Given the projections for the income statement items from page 19 till now, we would estimate profit before share of profit from associates & joint venture and tax of S$59.1 million for 2H FY2021, and in turn S$97.3 million for FY2021. At the same time, the projected profit before share of profit from associates & joint venture and tax for FY2022 would be S$138.8 million. We have summarized the projections for profit before tax in **Exhibit 34**.

Exhibit 34: Projected profit before share of profit from associates & joint venture and tax

	1H FY2021 actual	2H FY2021 forecast	FY2021 forecast	FY2022 forecast
	S$ million	S$ million	S$ million	S$ million
Revenue	319.6	418.6	738.2	871.1
Cost of sales	(224.6)	(296.0)	(520.6)	(595.1)
Gross profit	95.0	122.6	217.6	276.0
Other income	25.2	18.3	43.5	35.2
Administrative expenses	(38.1)	(38.1)	(76.2)	(76.2)
Other expenses	(1.1)	(0.9)	(2.0)	(2.0)
Finance costs	(42.8)	(42.8)	(85.6)	(94.2)
Profit before share of profit from associates & joint ventures and tax	38.2	59.1	97.3	138.8

Figures may not add up due to rounding

Source: Company, FPA Financial

Tax expenses

As noted on page 3, the Group incurred higher tax expenses of S$31.9 million in 1H FY2021 mainly due to the disposal of the Shanghai building and recognition of an under provision for prior years' taxes in relation to GLM.

For 2H FY2021 and FY2022, we would assume a tax rate of 17% to be levied on the Group's profit before share of profit from associates & joint ventures and tax for the respective periods.

Thus, the projected tax expenses for 2H FY2021 would be S$10.0 million = [17% x S$59.1 million]. Consequently, the projected total tax expenses for FY2021 would be S$41.9 million = [S$31.9 million + S$10.0 million]. Meanwhile, projected tax expenses for FY2022 would be S$23.6 million = [17% x S$138.8 million].

We have summarized the projected tax expenses for 2H FY2021, FY2021 and FY2022 in **Exhibit 35**.

Exhibit 35: Projected tax expenses for 2H FY2021, FY2021 and FY2022

	Actual		Forecast	
S$ million	1H FY2021	2H FY2021	FY2021	FY2022
Total tax expense	31.9	10.0	41.9	23.6

Source: Company, FPA Financial

Projected profit after tax

After adjusting for the projected share of profit from associates and joint ventures (discussed on the previous page) and tax expenses as discussed above, we would estimate profit after tax of S$63.4 million and S$129.3 million for FY2021 and FY2022 respectively.

As noted in **Exhibit 1** on page 4, the Group recorded a loss attributable to non-controlling interests of S$8.6 million for 1H FY2021, which we would assume in 2H FY2021. Accordingly, the loss attributable to non-controlling interests for FY2021 would be approximately S$17.4 million. We would further assume this figure for FY2022. Accordingly, profit attributable to equity holders would be S$80.8 million and S$146.7 million for FY2021 and FY2022 respectively, after adjusting for loss attributable to non-controlling interests.

Meanwhile, we would assume S$9.6 million in profit attributable to perpetual securities holders for 1H FY2021 in 2H FY2021. Accordingly, the total amount for full year FY2021 would be S$19.2 million, which will be assumed for FY2022 as well. Adjusting for this, profit attributable to ordinary equity holders would be S$61.6 million and S$127.5 million for FY2021 and FY2022 respectively. Consequently, we estimate EPS of 5.55 cents and 11.49 cents for FY2021 and FY2022 respectively

We have summarized our earnings projection for FY2021 and FY2022 in **Exhibit 36** on the next page.

Exhibit 36: Earnings projections for FY2021 and FY2022

	FY2021 forecast S$ million	FY2022 forecast S$ million
Revenue	738.2	871.1
Cost of sales	(520.6)	(595.1)
Gross profit	217.6	276.0
Other income	43.5	35.2
Administrative expenses	(76.2)	(76.2)
Other expenses	(2.0)	(2.0)
Finance costs	(85.6)	(94.2)
Profit before share of profit from associates & joint ventures and tax	97.3	138.8
Share of profit/(loss) from associates and joint ventures	8.0	14.1
Tax expense	(41.9)	(23.6)
Profit after tax	63.4	129.3
Profit attributable to:		
Equity holders of the company	80.8	146.7
Non-controlling interest	(17.4)	(17.4)
	63.4	129.3
Profit attributable to equity holders of the company	80.8	146.7
Less: profit attributable to perpetual securities holders	(19.2)	(19.2)
Profit attributable to ordinary equity holders of the company	61.6	127.5
Weighted average no. of units in issue (million)	1,109.8	1,109.8
EPS (cents)	5.55	11.49

Figures may not add up due to rounding

Source: FPA Financial

(III) Dividends projection

In FY2018 and FY2019, the Group paid dividends per share (DPS) of 7.0 cents. Owing to the impact of COVID-19, we note that a lower DPS of 6.0 cents was paid on 19 November 2020 in respect to FY2020.

With reference to **Exhibit 37**, we note that payout ratio has risen sharply over the 3-year period from FY2018 to FY2020. In FY2020, the payout ratio was 70.0%, which we would assume for FY2021. Accordingly, the projected DPS for FY2021 would be 3.89 cents. For FY2022, we would assume the same dividends of 7.0 cents per share as paid in respect to FY2018 and FY2019, which would imply a payout ratio of about 61%.

Exhibit 37: Projected dividends for FY2021 and FY2022

	FY2018 actual	FY2019 actual	FY2020 actual	FY2021 forecast	FY2022 forecast
DPS (cents)	7.00	7.00	6.00	3.89	7.00
EPS (cents)	36.53	21.30	8.57	5.55	11.49
Payout ratio (%)	19.2%	32.9%	70.0%	70.0%	60.9%

Source: Company, FPA Financial

VALUATION ANALYSIS

We will present our valuation analysis in two segments. We will first perform an updated peer comparison analysis to account for the changes in the financial position of GuocoLand and its selected peers. Next, we then provide a discussion on a potential privatization offer for GuocoLand.

(I) Peer comparison analysis

The results of our updated peer comparison analysis is summarized in **Exhibit 38**.

Exhibit 38: Updated peer comparison table

Company	SGX code	Price (S$) as at 18 Feb 21	Market cap (S$ million)	EPS [1] (cents)	P/E (x)	DPS [2] (cents)	Dividend yield (%)	NAV per share [3] (S$)	P/B (x)
GuocoLand Ltd	F17	1.590	1,764.58	3.92	40.56	6.00	3.77	3.44	0.46
Peer companies:									
CapitaLand Ltd	C31	3.130	15,813.70	25.80	12.13	12.00	3.83	4.73	0.66
City Developments Ltd	C09	7.120	6,457.13	20.90	34.07	14.00	1.97	11.66	0.61
Ho Bee Land	H13	2.390	1,589.90	57.25	4.17	8.00	3.35	5.32	0.45
UOL Group Ltd	U14	7.380	6,225.62	15.27	48.33	17.50	2.37	11.34	0.65
Peer average	-	-	-	-	**24.68**	-	**2.88**	-	**0.59**

Figures have been rounded
(1) 12-month trailing diluted EPS based on latest half-yearly or quarterly financial statements
(2) Based on 12-month trailing dividends or last annual dividends
(3) NAV per share for peer companies are as at 30 Jun 20. Company's NAV per share as at 31 Dec 20.
Source: Respective company data, FPA Financial

Based on the above results, we note that GuocoLand's current PB of 0.46x is lower than the peer average P/B of 0.59x. Adopting a relative valuation approach, we will estimate a current target price of S$2.030 if GuocoLand were to trade at the peer average PB of 0.59x as follows:

- Current target price = [peer average P/B] x [NAV per share as at 31 Dec 2020] = 0.59 x S$3.44 = S$2.030

Our current target price of S$2.030 implies a 27.7% upside to the current price of S$1.590.

(II) Potential privatization offer

We noted earlier on page 13 that GuocoLand's share price had on 15 January 2021 risen on news of a privatization offer for GL Limited by Guoco Group, the parent of the Company. Guoco Group had announced its intention to privatise and delist GL Limited at an offer price of S$0.70 per share, which was at a 25% premium to GL Limited's last traded price prior to the privatization announcement. As at 15 January 2021, Guoco Group held a 70.84% deemed interest in GL Limited.

We believe that the surge in GuocoLand's share price was likely driven by market expectations of a potential privatization offer for GuocoLand as well. As noted on page 13, GuocoLand's major controlling shareholder Mr Quek also has majority control over its parent Guoco Group. We further noted that Mr Quek had increased his interest in the Company over 1H FY2021. As at 13 November 2020, Mr Quek held a total interest of 71.97% in the Company.

In the event of a privatisation offer, the estimated cost of acquiring the remaining 28.03% stake would be approximately S$495 million = [28.03% x current market capitalisation of S$1,764.6 million]. Further, assuming a 25% privatisation bid premium, the estimated offer price per share would be S$1.988 = [125% x S$1.590], implying a total acquisition cost of approximately S$618 million.

Meanwhile, we note from the Business Times (BT) that low interest rates and the difficulty of finding good investment opportunities could provide an incentive for controlling shareholders to invest money in listed companies which they own and are familiar with. Thus, there could be a persistent trend for asset heavy groups to be taken private, according to BT. As noted earlier in our peer comparison, GuocoLand is trading at a PB of 0.46x at the current price of S$1.590, implying a discount of approximately 55% to NAV. This could suggest that the Company is substantially undervalued. According to BT, investors buying into companies with a large shareholder and at a deep discount to book value can take comfort from the large shareholder having plenty of skin in the game and from having some protection in terms of the discount to book. Thus, we believe that GuocoLand is offering good value which warrants the potential upside in share price.

INVESTMENT RECOMMENDATION

Since our company update issued on 9 October 2020, when GuocoLand's share price closed at S$1.520, we note that the Company's share price reached a high of S$1.660 on 15 January 2021, following news of a privatization offer for GL Limited byGuoco Group. We believe the surge in share price likely reflected market expectations of a potential GuocoLand privatization. After a recent market correction, the share price has traded between S$1.560 and S$1.600.

In terms of valuation, we note from our peer comparison analysis that GuocoLand's P/B of 0.46x is lower than the peer average P/B of 0.59x. Adopting a relative valuation approach, we estimate a target price of S$2.030 if GuocoLand's P/B were to adjust to the peer average of 0.59x. Our current target price of S$2.030 implies a 27.7% upside to the current price of S$1.590. Further, we believe that recent share purchases by GuocoLand's major controlling shareholder reflect positively on the value of the Company.

Meanwhile, the Group's revenue and earnings performance are expected to improve going forward. We believe this will be supported by the Group's resilient recurring income from its investment properties and stronger progressive recognition of revenue from residential unit sales in Singapore.

Given the above, we will maintain a buy recommendation on GuocoLand. However, there are risks to our current target price which we will highlight in the next section.

RISKS TO THE UPSIDE IN TARGET PRICE

We will highlight below risk factors that could limit the upside in our current target price.

Risk of currency fluctuations

As noted on page 3, the Group had recorded a net foreign exchange loss of S$0.1 million in 1H FY2021 compared with a net gain of S$0.7 million a year ago. This could be due to an appreciation of the Singapore Dollar (SGD) against the Malaysian Ringgit and Chinese Yuan. Amid the current COVID-19 environment, we anticipate that Singapore's status as a safe haven for investments could spur capital inflow, which would imply an increase in demand for SGD. This can potentially result in a stronger SGD which may have a negative impact on the Group's earnings due to currency exchange losses.

Virus resurgence and reinstatement of lockdown measures

Currently, we note that the COVID-19 situation in the Group's geographical markets of Singapore and China have broadly stabilized. This has allowed for the resumption in residential sales of current project launches and construction works for the Group's development projects. Meanwhile, however, we note that Malaysia has recently extended the period of its Movement Control Order (MCO) in view of high COVID-19 infection cases. This could have a negative impact on the sales performance of the Group's current residential launches in Malaysia.

Global economic slowdown due to continuation of control measures

While many countries have progressively rolled out vaccine treatments, we note that COVID-19 health concerns remain elevated in many parts of the world due to high daily infection numbers and the discovery of new coronavirus strains in parts of the world like Europe and the Middle East. Consequently, control measures to curb the spread of COVID-19 could remain in place for a prolonged period. This could perpetuate a global economic slowdown which could negatively impact the Group's earnings. According to the International Monetary Fund (IMF), the global economy is projected to grow 5.5% in 2021 and 4.2% in 2022, amid ongoing uncertainty. However, IMF notes that the strength of the recovery is projected to vary significantly across countries.

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