F·P·A FINANCIAL
Investment Perspectives

9 October 2020

REAL ESTATE EQUITY RESEARCH

GuocoLand Limited

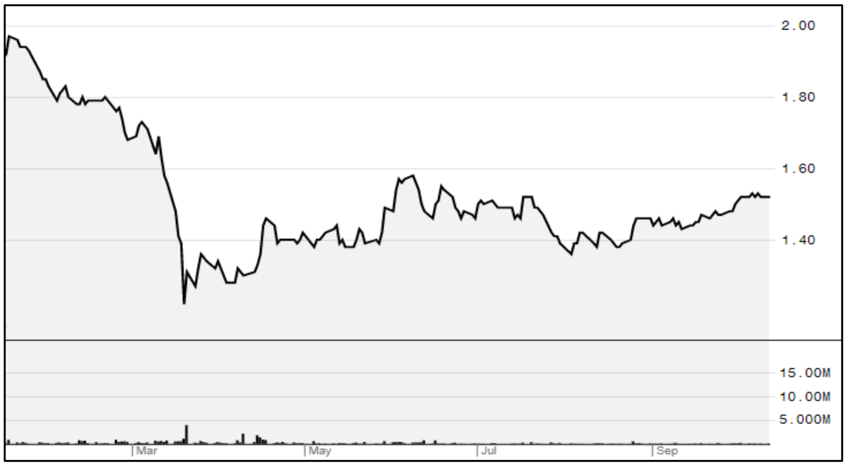
SGX: F17
Bloomberg: GUOL:SP
ISIN Code: SG1R95002270

RECOMMENDATION: BUY

Current Share Price (as of 9 Oct 20): S$1.52
Current Target Price: S$1.98

Market Capitalisation: S$1,686.9 million
Issued Shares (exclude ESS shares): 1,109.8 million
52 Week Range: S$1.200 - S$2.100

PRICE PERFORMANCE



Source: Bloomberg

COMPANY DESCRIPTION

GuocoLand Limited (GuocoLand or the company) 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.

SUMMARY

The Group reported higher revenue of S$941.8 million for the full year ended 30 June 2020 (FY2020), mainly due to overall revenue growth in its property development business. Cost of sales increased in line with revenue to S$641.8 million, resulting in marginally higher gross profit of S$300.1 million. Meanwhile, lower other income of S$162.6 million was reported in the period, mainly due to an absence of fair value gain on the Group's investment properties. At the same time, other expenses were higher at S$128.4 million, mainly due to impairment loss provided for the Group's joint venture investment and higher fair value loss on derivative financial instruments. Lower administrative expenses of S$88.2 million and marginally higher finance costs of S$108.3 million were incurred. Share of profit of associates & joint ventures increased by 64% to S$20.9 million. As a result, the Group reported an after-tax profit of S$90.0 million, which comprises a S$24.0 million in loss attributable to non-controlling interests and S$114.1 million in profit attributable to equity holders of the company. Based on a weighted average number of ordinary shares of 1,109.8 million, earnings of 8.57 cents per share were reported, after accounting for accrued distribution for perpetual securities. A dividend of 6.0 cents per share is expected to be paid out on 19 November 2020.

RECOMMENDATION

Since our initiation report issued on 26 May 2020, GuocoLand's share price rebounded and reached a high of S$1.58 on 8 June 2020. While the share price did fall below S$1.40 in early August, we note that it has since recovered to a range of S$1.43 to S$1.53 recently. In terms of valuation, we note from our peer comparison analysis that GuocoLand's P/B of 0.44x is lower than the peer average P/B of 0.57x. Adopting a relative valuation approach, we estimate a target price of S$1.98 if GuocoLand's P/B were to adjust to the peer average of 0.57x. Our current target price of S$1.98 implies a 30.3% upside to the current share price of S$1.52. We also note that GuocoLand is relatively attractive in terms of dividend yield. Further, we expect recent share purchases by the company's major controlling shareholder to reflect positively on the company's valuation. We believe this will help to underpin the company's share price. Meanwhile, with a broad-based recovery in Singapore's real estate sector and hotel market, we expect the Group's major operating segment in Singapore to underpin overall revenue going forward. Given the above considerations, we have maintained a buy recommendation on GuocoLand. Our current recommendation reflects our view on the potential upside for the company's share price.

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	4.16	7.00	4.61	3.39	0.45
2019 actual	927.0	255.7	21.30	7.14	7.00	4.61	3.45	0.44
2020 actual	941.8	114.1	8.57	17.74	6.00	3.95	3.47	0.44
2021 forecast	947.6	136.8	10.62	14.31	6.00	3.95	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$1.52
**Profit attributable to equity holders of the company*
Source: GuocoLand, FPA Financial

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CONTENTS

FINANCIAL REVIEW FOR FY2020

Financial performance

The Group reported revenue of S$941.8 million for the full year ended 30 June 2020 (FY2020), a 2% increase from S$927.0 million for the full year ended 30 June 2019 (FY2019). This was mainly due to a 6% revenue growth in the Group's property development business, which was partially offset by a 30% decrease in revenue from the Group's hotel business. Revenue from the Group's investment properties decreased marginally in the period. Meanwhile, cost of sales increased in line with revenue to S$641.8 million in FY2020, resulting in marginally higher gross profit of S$300.1 million.

Other income decreased by 31.9% year-on-year (y-o-y) to S$162.6 million in FY2020, in part due to an absence of fair value gain on the Group's investment properties. The S$162.6 million mainly comprised of S$126.2 million in gain on sale of the Guoman Hotel in Shanghai and S$18.1 million in interest income.

Higher other expenses of S$128.4 million were reported for FY2020, compared to S$37.4 million in FY2019. This was mainly due to S$47.0 million in impairment loss provided for the Group's joint venture investment in EcoWorld International Berhad (EWI), higher fair value loss on interest rate swaps of S$65.5 million and a fair value loss of S$8.3 million on investment properties. Meanwhile, administrative expenses decreased by 5.4% y-o-y to S$88.2 million while finance costs increased marginally by 0.5% y-o-y to S$108.3 million.

Share of profit of associates and joint ventures was higher at S$20.9 million compared to S$12.8 million in the previous financial year. During the period, the Group's recorded a total loss of S$1.8 million from its associates, Tower Real Estate Investment Trust (Tower REIT) and GLM Emerald (Sepang) Sdn Bhd (Emerald Sepang), of which it holds an ownership interest of 14.73% and 32.20% respectively. At the same time, the Group recorded a total share of profit of S$22.7 million from its joint ventures, Shanghai Xinhaojia Property Development Co. Ltd (Shanghai Xinhaojia), Carmel Development Pte Ltd (Carmel) and EWI, of which it holds an ownership interest of 50.00%, 27.00% and 40.00% respectively.

Consequently, the Group reported a profit before tax of S$158.7 million. During the period, the Group recorded a S$47.2 million increase in tax expense to S$68.7 million, mainly due to the disposal of Guoman Hotel Shanghai. After accounting for tax expense, the Group reported an after-tax profit of S$90.0 million. This comprised S$114.1 million in profit attributable to equity holders of the company and a S$24.0 million in loss attributable to non-controlling interests. Of the S$114.1 million in profit attributable to equity holders of the company, S$95.1 million was attributed to ordinary equity holders of the company and S$18.9 million was attributed to perpetual securities holders. Given S$95.1 million in profit attributable to ordinary equity holders, an earnings per share (EPS) of 8.57 cents was reported, based on a weighted average number of ordinary shares of 1,109.8 million. Meanwhile, a dividend of 6.0 cents per share has been recommended, which will be paid on 19 November 2020 if approved at the AGM to be held on 23 October 2020.

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

Exhibit 1: Financial results for FY2020

Financial indicator	FY2020 S$ million	FY2019 S$ million	y-o-y change
Revenue	941.8	927.0	1.6%
Cost of sales	(641.8)	(631.1)	1.7%
Gross profit	300.1	295.9	1.4%
Other income	162.6	238.8	(31.9%)
Administrative expenses	(88.2)	(93.3)	(5.4%)
Other expenses	(128.4)	(37.4)	243.3%
Finance costs	(108.3)	(107.7)	0.5%
Share of profit/(loss) of associates & joint ventures (net of tax)	20.9	12.8	63.6%
Profit before tax	158.7	309.0	(48.6%)
Tax expense	(68.7)	(21.4)	221.0%
Profit for the period after tax	90.0	287.6	(68.7%)
Profit attributable to:			
Equity holders of the company	114.1	255.7	(55.1%)
Non-controlling interest	(24.0)	31.9	n/m
	90.0	287.6	(68.7%)
Profit attributable to equity holders of the company	114.1	255.7	(55.1%)
Less: profit attributable to perpetual securities holders	(18.9)	(19.3)	(2.1%)
Profit attributable to ordinary equity holders of the company	95.1	236.4	(59.8%)
Weighted average no. of ordinary shares (million)	1,109.8	1,109.8	-
EPS (cents)	8.57	21.30	-
DPS (cents)	6.00	7.00	-

Figures have been rounded
Source: GuocoLand, FPA Financial

Capital management

As at 30 June 2020, the Group reported total assets of S$11,138.6 million, compared to S$10,031.4 million a year ago. The higher assets was in part due to an increase in inventories mainly due to the acquisition of the Tan Quee Lan Street site in Singapore, as well as higher cash & cash equivalents and trade & other receivables. These were partially offset by a decrease in plant and equipment mainly due to the sale of Guoman Hotel in Shanghai and a decrease in non-current assets related to associates & joint ventures.

At the same time, total liabilities increased to S$6,377.2 million from S$5,388.9 million as at the end of FY2019. The increase was largely attributed to higher loans & borrowings largely due to financing of the new land acquisition at Tan Quee Lan Street in Singapore. At the same time, higher non-current other payables were recorded mainly due to contributions by the Group's joint venture partners for their equity interests in the Tan Quee Lan Site (as represented by non-controlling interests).

As such, total equity or net asset value of S$4,761.4 million was reported at the end of FY2020. This comprised S$4,257.9 million in equity attributable to equity holders and S$503.4 million in non-controlling interests. Meanwhile, we note that GLL IHT Pte Ltd, a wholly owned subsidiary of the Group, had in 2018 issued subordinated perpetual securities which bear distributions at a rate of 4.6% per annum for the period from 23 January 2018 to 22 January 2025. As at 30 June 2020, the Group had perpetual securities of S$406.5 million on its balance sheet. Deducting these perpetual securities from S$4,257.9 million in equity attributable to equity holders would yield an equity attributable to ordinary equity holders of S$3,851.4 million

Given S$3,851.4 million in equity attributable to ordinary equity holders, the Group's net asset value (NAV) per share amounted to S$3.47 as at 30 June 2020, based on 1,109.8 million issued ordinary shares (after adjusting for 73.6 million shares acquired for the Executive Share Scheme (ESS) 2018 as at 30 June 2020). The balance sheet data are as summarized in **Exhibit 2**.

Exhibit 2: Group's balance sheet

	As at 30 June 2020	As at 30 June 2019
	S$ million	S$ million
Total assets	11,138.6	10,031.4
Total liabilities	6,377.2	5,388.9
Net assets/Total Equity	4,761.4	4,642.5
Equity attributable to equity holders	4,257.9	4,231.6
Equity attributable to ordinary equity holders (1)	3,851.4	3,825.7
No. of issued shares	1,109.8	1,109.8
NAV per share (S$)	3.47	3.45
Total loans & borrowings	5,265.2	4,489.8
Less: cash & cash equivalents	933.9	823.7
Net debt	4,331.3	3,666.1
Gearing ratio (2)	1.02	0.87

Figures have been rounded

(1) Refers to equity attributable to equity holders less perpetual securities

(2) Based on net debt over equity attributable to equity holders

Source: GuocoLand, FPA Financial

As earlier noted, the Group reported an increase in loans & borrowings largely due to the financing of the new land acquisition at Tan Quee Lan Street in Singapore. We also note that the Group had S$124.9 million in current unsecured medium-term notes and S$725.5 million in non-current unsecured medium-term notes. The unsecured fixed rate medium-term notes were issued by GLL IHT Pte Ltd with a tenor of between 1 to 6 years and interest rates as at the reporting date ranging from 3.4% to 4.1% per annum. As at 30 June 2020, total loans & borrowings amounted to S$5,265.2 million, higher compared to S$4,489.8 million a year ago, as shown in **Exhibit 2** on the previous page. After deducting for cash & cash equivalents of S$933.9 million, net debt amounted to S$4,331.3 million at the end of FY2020. As a result, the Group's gearing, as computed by net debt over equity attributable to equity holders, stood at approximately 1.0 time.

Given the above, we note that the Group's gearing ratio has increased in FY2020. With a gearing ratio of 1.0 time, the Group appears to be quite heavily leveraged in relation to its equity. To evaluate the Group's overall debt risk, we will review how the parent of GuocoLand, the Hong Kong-listed Guoco Group Limited, has performed in terms of capital management. With reference to **Exhibit 3**, the parent has reported higher net debt of HK$15.2 billion as at 30 June 2020 due to higher total borrowings, and lower cash & short term funds and trading financial assets. As a result, gearing stood at approximately 0.27 time at the end of FY2020. We note that this gearing is still relatively low and thus the debt risk of the parent appears to be manageable. Overall, we note that the debt position of the parent remains healthy. Given this evaluation, we believe that GuocoLand's parent has the financial capability to provide support for the Group.

Exhibit 3: Guoco Group Limited's capital management

	As at 30 June 2020	As at 30 June 2019
	HK$ billion	HK$ billion
Total borrowings	37.2	35.4
Less:		
Cash and short term funds	(12.4)	(14.0)
Trading financial assets	(9.6)	(12.8)
	(22.0)	(26.8)
Net debt	15.2	8.6
Total equity attributable to equity shareholders of the company	56.1	62.1
Gearing ratio	0.27	0.14

Figures have been rounded

Source: Guoco Group Limited, FPA Financial

BUSINESS AND OPERATING SEGMENT PERFORMANCE REVIEW FOR FY2020

Business segment performance review

In FY2020, the Group's revenue performance was largely supported by overall growth in its property development business, which is the main source of revenue through the sale of development properties. During the period, revenue from the sale of development properties in Singapore, Malaysia and Vietnam increased by 5.2% to S$771.4 million from S$733.4 million a year ago. In terms of country breakdown, revenue from Singapore and Malaysia increased by 5.9% and 13.9% y-o-y to S$650.9 million and S$113.5 million respectively. Revenue from Vietnam fell by 63.3% y-o-y to S$7.0 million.

Revenue performance for the Group's property investment business was relatively stable in FY2020 from FY2019. During the period, revenue generated by rental & related income from the Group's investment properties in Singapore, Malaysia and China decreased marginally by 0.5% y-o-y to S$116.4 million. In terms of country breakdown, revenue from Singapore increased by 2.6% to S$104.4 million from S$101.7 million a year ago, while that for Malaysia and China fell by 25.2% and 8.7% y-o-y to S$8.6 million and S$3.4 million respectively.

However, revenue performance for the Group's hotel business was significantly impacted due to the COVID-19 pandemic. During the period, revenue generated from hotel operations in Singapore, Malaysia and China decreased by nearly 30% to S$51.5 million from S$73.0 million in the previous year. In terms of country breakdown, hotel revenue from Singapore and Malaysia decreased by 19.8% and 27.1% y-o-y to S$22.0 million and S$21.1 million respectively. Hotel revenue from China fell by 49.5% y-o-y to S$8.3 million, in part due to a less-than-full-year revenue recognition given that Guoman Hotel Shanghai had been sold in April 2020. Meanwhile, revenue from management fee income decreased by 27.8% to S$2.6 million from S$3.6 million a year ago.

Exhibit 4 below summarises the breakdown of the Group's revenue in terms of business segment.

Exhibit 4: Breakdown of Group revenue in terms of business segment

Business segment	FY2020 S$ million	FY2019 S$ million	y-o-y change
Sale of development properties	771.4	733.4	5.2%
Rental and related income from investment properties	116.4	117.0	-0.5%
Hotel operations	51.5	73.0	-29.5%
Management fee income	2.6	3.6	-27.8%
Total revenue	941.8	927.0	1.6%

Figures have been rounded

Source: GuocoLand, FPA Financial

Operating segment performance review

For FY2020, the GuocoLand Singapore segment recorded a 5.5% increase in revenue to S$756.0 million from S$716.5 million a year ago. However, profit for the year fell by 68.7% y-o-y to S$95.4 million due to the absence of fair value gain on investment properties in the period.

The GuocoLand China segment recorded an 8.1% decrease in revenue to S$3.4 million in FY2020 from S$3.7 million a year ago. A loss of S$13.5 million was recorded for the period compared to a profit of S$18.9 million in FY2019, mainly because completed projects in China were substantially sold in prior years and new projects are under construction and have not been launched in the year.

The GuocoLand Malaysia segment recorded an 8.2% y-o-y increase in revenue to S$123.9 million in FY2020, mainly due to the disposal of a land parcel located in Melaka. A loss of S$2.7 million was recorded for the period mainly due to additional tax provided during the year in relation to prior years. This loss was however 10.0% lower than the loss of S$3.0 million recorded a year ago.

The GuocoLand Vietnam segment recorded lower revenue and profit of S$7.0 million and S$0.6 million respectively in FY2020 compared to FY2019. This was mainly because inventory had been substantially reduced in FY2019.

The Others segment includes the performance of hotels in Singapore, China (not applicable for the period following the sale of Guoman Hotel Shanghai on 10 April 2020) and Malaysia, and the performance of the Group's joint venture investment in EWI. For FY2020, the segment recorded a 29.5% decrease in revenue to S$51.5 million due to a decline in hotel revenue. At the same time, the segment recorded a profit of S$36.2 million as compared to a loss of S$12.7 million in the previous financial year. This was mainly due to the gain from the sale of Guoman Hotel in Shanghai, which was partially offset by the impairment loss provided for the investment in EWI.

The breakdown of revenue and profit for the Group's operating segments are summarized as in **Exhibit 5** below.

Exhibit 5: Operating segment breakdown of revenue and profit

	FY2020		FY2019		y-o-y change	
Operating segment	Revenue (S$ million)	Profit/(loss) (S$ million)	Revenue (S$ million)	Profit/(loss) S$ million	Revenue	Profit/(loss)
GuocoLand Singapore	756.0	95.4	716.5	305.2	5.5%	-68.7%
GuocoLand China	3.4	(13.5)	3.7	18.9	-8.1%	n/m
GuocoLand Malaysia	123.9	(2.7)	114.5	(3.0)	8.2%	-10.0%
GuocoLand Vietnam	7.0	0.6	19.2	5.7	-63.5%	-89.5%
Others	51.5	36.2	73.0	(12.7)	-29.5%	n/m
Unallocated	0.0	(25.9)	0.0	(26.4)	0.0%	-1.9%
Total	941.8	90.0	926.9	287.6	1.6%	-68.7%

Source: GuocoLand, FPA Financial

REAL ESTATE SECTOR AND HOTEL MARKET OVERVIEW

In this section, we discuss the overview of the real estate sector markets for the Group's geographical markets in 2020 and 2021, specifically for the office and residential markets. We will also provide an overview of the hotel markets in Singapore and Malaysia.

Office real estate sector market overview

Singapore

We note from Cushman & Wakefield (C&W) that Grade A CBD office leasing activity in Q3 2020 remained sluggish despite the easing of the Circuit Breaker measures since early June. Tenants are seeking short term renewals amid business uncertainty and office space has been under-utilized as work from home (WFH) remains the default. C&W has noted that in the immediate to short term, the market is expecting some space to be vacant when occupiers renew their leases. At the same time, C&W noted that Grade A CBD rents continued to decline by 5.1% q-o-q to $9.84 per square feet (psf) per month in Q3 2020 in line with the weak market sentiment.

Nonetheless, we note that vacant spaces are being taken up amid the moderate office leasing activity. The Business Times has reported that Toyota Motor Asia Pacific and QBE Insurance (Singapore) have leased a combined total of 5,760 sqm of office space at Guoco Tower, following Grab's relocation to one-north. In addition, American e-commerce giant Amazon is expected to take over some of Citigroup's office space - three floors covering about 8,361 square metre (sqm) - at Asia Square Tower 1. Staff will be expected to move into the new offices in early 2021. At the same time, we note from C&W that geopolitical tensions have nudged Chinese tech firms to pivot to Singapore, taking up office space in the city-state. The Business Times has recently reported that multinational conglomerate Tencent Holdings has set up its regional hub in Singapore. In addition, ByteDance is planning to make Singapore its regional hub for its expansion into the rest of Asia and has applied for a license to operate a digital bank here. According to C&W's estimates, there were approximately 350,000 sf of new leases and expansions in office spaces by tech firms since the start of 2020. The firm is projecting take-up by tech firms to increase to 400,000-500,000 sf in 2021.

On the outlook, we note from C&W that Q4 2020 would remain challenging as WFH remains prevalent in the short to medium term. C&W expects the office sector to be reshaped by the increase in the remote working trend due to structural factors, which will impact the leasing demand in the next 12-18 months. In addition, a number of banks and energy firms have given up space amid a rise in retrenchments due to the recession. While we note an increasing office demand from Chinese tech companies, this could only partially offset the fall in demand induced by WFH factors. Against this backdrop, we note that C&W projected the full-year rental change for the office market to be -10% in 2020, with a further decline to be expected in 2021.

Malaysia

According to C&W, overall occupancy for office space in Greater Kuala Lumpur decreased to 76.9% in Q 2020 largely due to the low pre-commitment levels in newly completed projects. At the same time, Grade A average rent increased to RM5.97 psf per month, given that most landlords have maintained asking rental levels despite weakened demand for office space in the quarter.

On the outlook, we note from C&W that office leasing activities are expected to remain slow for the rest of 2020 as market sentiment fell due to the COVID 19 outbreak. Meanwhile, with many firms keen to conserve cash and budgets for fit out costs slashed, C&W noted that rates for renewals are becoming more resilient whereas rents for new leases are expected to experience a larger decrease in the future, especially if landlords start offering incentives for renewals.

China

According to CBRE, new office supply in 18 major cities in China fell by 52% y-o-y to 1.2 million sqm in Q2 2020. Nationwide net absorption turned positive over the quarter, rising to 350,000 sqm. CBRE noted that leasing activity recovered in most cities, except for Beijing which had experienced a lockdown in June due to an outbreak of new COVID-19 cases. Meanwhile, average office rents fell by 1.5% q-o-q in Q2 2020 and are expected rents to bottom-out in the coming 12-24 months.

On the outlook, we note from CBRE that leasing activity is expected to gain momentum in 2H2020, supported by demand from financial, Technology, Media & Telecom (TMT), and pharmaceutical companies. While an overall down trend in rents is expected, CBRE noted that rents in core submarkets in tier I cities and leading tier II cities such as Hangzhou and Chengdu are expected to stabilize.

Residential real estate sector market overview

Singapore

According to the latest flash estimate by URA, the price index for private residential properties in Singapore increased by 0.8% to 153.8 in Q3 2020 from 152.6 in Q2 2020, as shown in **Exhibit 6**.

Exhibit 6: Flash estimate of the private residential property price index for Q3 2020

	Price Index		q-o-q change	
Category	Q2 2020	Q3 2020	Q2 2020	Q3 2020
All Residential	152.6	153.8	0.3%	0.8%
Landed property	170.3	176.8	0.0%	3.8%
Non-landed property	148.7	148.7	0.4%	0.0%
CCR (1)	134.6	128.0	2.7%	-4.9%
RCR (2)	150.0	155.0	-1.7%	3.3%
OCR (3)	177.4	180.4	0.1%	1.7%

(1) Core Central Region (CCR) comprises Postal Districts 9, 10, 11 Downtown Core Planning Area and Sentosa
(2) Rest of Central Region (RCR) comprises area within Central Region that is outside those covered by CCR
(3) Outside Central Region (OCR)
Source: URA, FPA Financial

In Q3 2020, prices of landed private residential properties rose by 3.8% q-o-q as represented by the increase in the price index to 176.8 from 170.3. At the same time, overall prices of non-landed properties were stable, with the price index remaining unchanged at 148.7. Prices of non-landed private residential properties in the CCR fell by 4.9% q-o-q in Q3 2020. In contrast, prices in the RCR and OCR rose by 3.3% and 1.7% q-o-q respectively.

In terms of sales, we note from the Business Times that new home sales in August registered 1,227 units (excluding executive condominiums), the highest since 1,270 recorded in September 2019. New home sales in August were reportedly driven by domestic demand, with Singaporean buyers making up 84.7% of the total new non-landed private homes sold in the month. On market segment breakdown, we note that majority of new home buying in August was in the RCR, which made up 49.2% of total units sold. The OCR accounted for 40.5%, while the CCR made up the remaining 10.3%. Further, it was also reported that buyers were also willing to pay more, reflected by higher median prices on a psf basis in August compared to July. Separately, we note from the Business Times that DBS Group Research (DBS) expects sales volume at private residential projects to continue to be underpinned by HDB upgraders in Singapore. According to DBS, demand has remained stable even as the pandemic brought about a challenging environment, with total private residential sales in the year to date (Sep 20) being up 7% y-o-y.

Meanwhile, we also note from CBRE Research that continued low interest rates and Singapore's position as a safe haven could be expected to support a resurgence of buying activity in luxury residential apartments in the second half of 2020.

Malaysia

According to the latest 1H2020 property market update by Ministry of Finance (MOF) Malaysia, residential property transactions declined by 24.6% y-o-y to 75,318 in 1H2020. In value terms, total transactions amounted to RM25.61 billion in 1H2020, down by 26.1% from 1H2019. The number of new launches in the primary market fell by 43.6% to 13,294 units in 1H2020 from 23,591 units in 1H2019. At the same time, sales performance was weaker in 1H2020 compared to 1H2019. MOF Malaysia attributed the lower new launches and poor sales performance to the total closure of almost all business and economic activities during the Movement Control Order (MCO) period, which was imposed since 18 March 2020. Meanwhile, we note that the Malaysian House Price Index (MHPI) continued to grow at a moderating trend. In Q2 2020, the MHPI rose by 0.4% on an annual basis to 198.3 points, though this was the lowest annual growth recorded since year 2010. On a quarterly comparison, the MHPI decreased by 0.7% from 199.7 points in Q1 2020.

On the outlook, we note from MOF Malaysia that despite cautious optimism towards the nation's projected gradual economic recovery with the resumption of market activity under the Recovery Movement Control Order (RMCO) and the proposed measures under the RM35 billion Short-term Economic Recovery Plan, the property market is likely to remain soft for the remaining half of 2020.

Vietnam

We note from CBRE that new launches of condominiums in Ho Chi Minh City (HCMC) declined by 60% y-o-y to 1,644 units in Q2 2020 due to nationwide social isolation in April. At the same time, the number of sold units in the period fell by 66% y-o-y to 1,581. In 1H2020, a total launched units decreased by 39% y-o-y to 5,250 units, while the number of sold units fell by 49% y-o-y to 5,338 units.

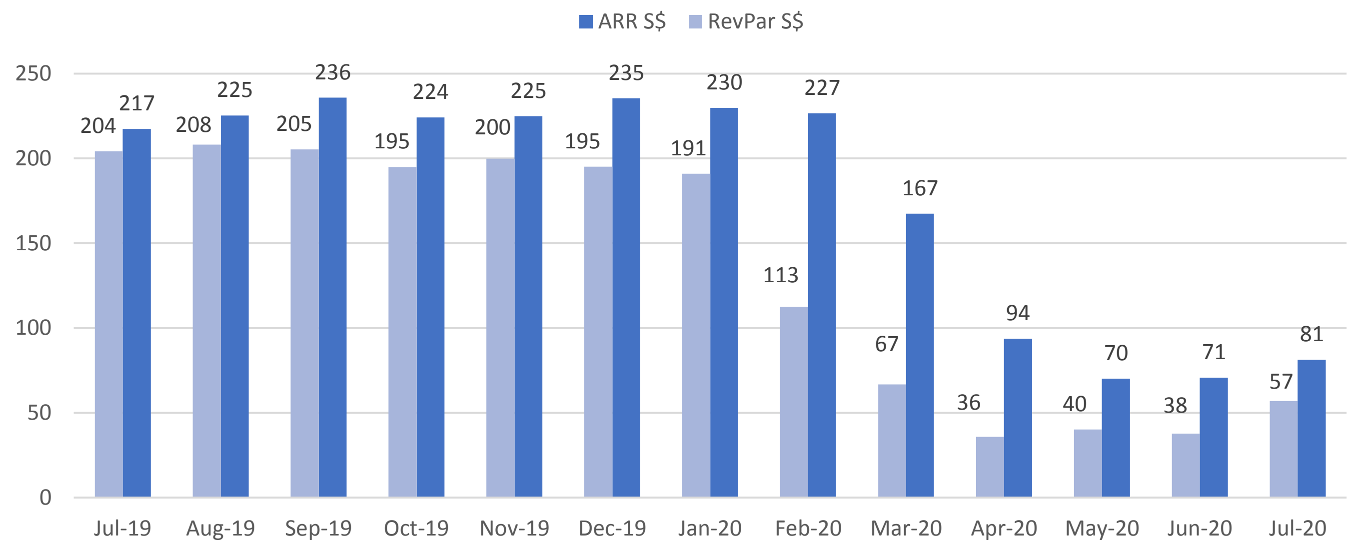
Meanwhile, the average selling price across all market segments experienced y-o-y increases in Q2 2020. Selling prices in the primary and mid-end market segments rose by 4% and 10% respectively. Prices in the other segments' rose by 4%-6% y-o-y.

Hotel market overview

Singapore

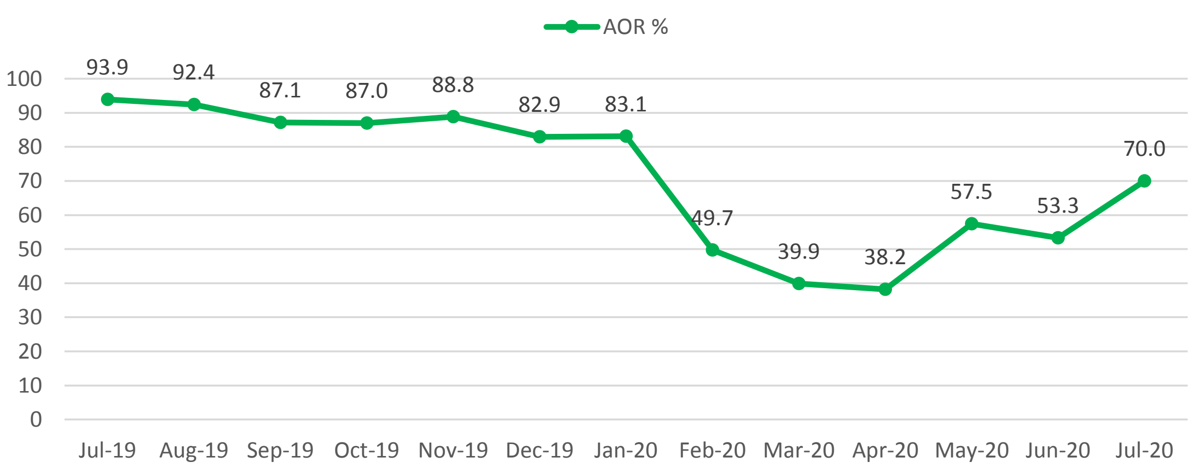
According to latest gazette hotel statistics by the Singapore Tourism Board (STB), RevPAR for Singapore's hotel market fell by 72.1% y-o-y in July 2020 to S$57, contributed by a 62.6% y-o-y decrease in average room rate (ARR) to S$81 and 23.9 percentage point decrease in average occupancy rate (AOR) to 70.0% from 93.9%, as shown in **Exhibit 7** and **Exhibit 8**.

Exhibit 7: Monthly trend of ARR and RevPAR



Source: STB

Exhibit 8: Monthly trend of AOR



Source: STB

Based on the data above, we note that the AOR, ARR and RevPAR have broadly showed signs of improvement since April when the Circuit Breaker measures were first implemented. With the easing of the Circuit Breaker measures from early June, hotels have gradually reopened and we note from the Straits Times that there has been a staycation boom in Singapore which has supported demand for hotel accommodation. Straits Times has also reported that several hotels in Singapore have introduced “Work from Hotel” initiatives to offer an alternative work environment for those who prefer not to work from home premises. We note that GuocoLand’s Sofitel Singapore City Centre hotel at Tanjong Pajar is one of such hotels that have implemented such an initiative. At the same time, the Singapore government’s effort to revive the tourism sector through the launch of the SingapoRediscovers initiative and issuance of S$320 million in tourism vouchers would also help to support demand for hotel stays going forward. The main concern is that international demand is likely to remain stifled, given that travel restrictions are expected to remain for the rest of 2020. According to latest STB data, Singapore’s international visitor arrivals (IVA) rose in July 2020 to 6,842 from 2,171 in June 2020. Still, arrivals in July 2020 were down by 99.6% from 1.8 million a year ago. While the launch of Reciprocal Green Lanes (RGL) would facilitate for some essential business and official travel, leisure travel is unlikely to recover for some time until a successful COVID-19 vaccine is developed.

Malaysia

According to the Malaysian Association of Hotels (MAH), average hotel occupancy in Malaysia registered 21.5% as at mid-July. We note from MAH that some states had experienced higher average occupancy due to seasonal factors. These states include Terengganu and Kelantan, which experienced average occupancy of 70% and 75% respectively. However, it was reported that main cities and states such as Kuala Lumpur, Selangor, Johor, Sabah as well as Kedah and Perlis were still low, with average occupancy between 12% to 20%.

PROPERTY DEVELOPMENT AND SALES UPDATES

In this section, we provide an update on the projects in the Group's development pipeline. At the same time, we will also discuss the sales performance of the Group's current residential launches.

Update on the Group's development projects

Guoco Midtown

We previously noted on Guoco Midtown, GuocoLand's new integrated mixed-use development situated at Beach Road in Singapore, which is expected for completion in 1H2022. We further noted that GuocoLand would be expanding its footprint in the Beach Road area after being awarded the tender for the land parcel at Tan Quee Lan Street. Back then, we noted that the Tan Quee Lan Street site would house a new 30-storey residential cum commercial development which will feature two residential towers with more than 500 units of luxury apartments and a retail podium with food and beverage establishments.

On 20 August 2020, GuocoLand announced the expanded Guoco Midtown project with the inclusion of Guoco Midtown II at Tan Quee Lan Street which will also feature a new residential project named Midtown Modern. The new combined master development spans over 3.2 hectares of prime land with 139,353 sqm (1.5 million sq ft) of gross floor area (GFA). The mixed-use master development will comprise a 30-storey office tower with 71,535 sqm (770,000 sq ft) of premium Grade A office space, three concept retail clusters, two condominiums – Midtown Bay and the newly-featured Midtown Modern – with more than 700 luxury apartments, and a 5-storey Network Hub building.

Currently, we note that Guoco Midtown is expected for completion in December 2022. At the same time, construction works for Midtown Modern have yet to commence and the project has yet to be launched.

18T

We previously noted on the 18T development, a large scale mixed use development in the Yuzhong District of Chongqing comprising residential and commercial components with a total GFA of approximately 341,000 sqm. Currently, we note that 18T Mansion, the first phase of development featuring over 1,000 luxurious modern apartments, is expected to be completed in June 2023.

Guoco Changfeng City

Situated in the Putuo District in Shanghai, Guoco Changfeng City is a mixed-use development that will comprise two 18-storey international Grade A office towers, two low-rise office buildings, as well as a cultural and entertainment centre. Currently, we note that the approximately 195,400 sqm GFA development is ongoing and scheduled to be completed in April 2022.

Meanwhile, we note that the Group recently on 23 September announced the sale a cultural building, formerly known as Guoson Mall, that was initially part of this project. The cultural building was transacted at a price of RMB610 million (S$120.8 million), which would be satisfied wholly in cash by 3 instalments. The Group is expected to recognize a net loss of approximately S$13.5 million due to taxes arising from the property sale. As at 31 August 2020, the net book value of the property was reported to be RMB576 million (S$114.1 million).

Chongqing Central Park

In December 2019, the Group was awarded four residential land parcels situated in Liangjiang New Area of Chongqing Yubei District for residential development with a total GFA of 197,600 sqm. We note that the Group has plans to develop the area into Chongqing's key regional centre, with the district's administrative functions based in this precinct. Currently, we note that the project is still in the planning stages and construction has yet to commence.

Emerald 9

Emerald 9 is an integrated development that comprises residential towers, office spaces, urban street shops and green community spaces. The project has a total GFA of 287,235 sqm and is situated on 10 acres of freehold land at a prime location in Cheras 9th Mile. It is linked to the Taman Suntex MRT station and is only eight stops away from the Kuala Lumpur City Centre. Currently, we note that 27% of the 339 serviced apartment units in Tower A and 76% of the 477 serviced apartment units in Tower B at the residential component have been sold as at 30 June 2020. Emerald 9 is targeted to be completed in May 2023.

Emerald Hills

Located in Alam Damai in Cheras, Emerald Hills is a residential project with a total GFA of 245,980 sqm. Currently, we note that 91% of the first phase of 592 condominium units and 96% of the 181 garden terrace houses at the project have been sold as at 30 June 2020. The first phase of development is scheduled for completion in 2022.

Emerald Rawang

Emerald Rawang is a 1,000 acres master-planned township located within the fast-growing Rawang, Selangor. Made up of two precincts – Emerald East and Emerald West, the township comprises linked terraces, cluster, semi-detached houses, townhouses and bungalows. Currently, we note that Garland Residence, the newest development in Emerald Rawang featuring 299 freehold double-storey terrace houses, is 96% sold as at 30 June 2020. Garland Residence is expected to be completed in 2021.

The Canary

Located at Thuan An District, Binh Duong Province in Vietnam, The Canary is a 113,000 sqm (in GFA) integrated development comprising a retail mall, an office tower, educational facilities and 1,051 residential apartments to be developed over 4 phases. Currently, we note that the first two phases have been completed and the remaining two stages are in the planning stage.

Sales performance of the Group's current residential launches

The Group's current residential launches in Singapore include Martin Modern, Meyer Mansion, Midtown Bay and Wallich Residence. We note from URA data that as at the end of September 2020, the approximate sales percentage of these projects are 88%, 21%, 23% and 58% respectively. From July to September 2020, a total of 29 new sale transactions with a total sales price of S$89.2 million were recorded across these projects. **Exhibit 9** below summarises the breakdown of the sales transactions for the individual projects in Q3 2020. Currently, we note that the development of Wallich Residence is completed, while Martin Modern, Meyer Mansion and Midtown Bay are scheduled for completion in 2021, 2024 and 2022 respectively.

Exhibit 9: New sales transactions for the Group's current launches in Singapore – Q3 2020

	New sale transactions in Q3 2020		
Project name	**No. of units**	**Total sales price (S$)**	**Average price psf (S$)**
Martin Modern	10	28,660,350	2,634
Meyer Mansion	6	20,389,100	2,714
Midtown Bay	5	7,324,400	2,882
Wallich Residence	8	32,870,000	3,327
Total	29	89,243,850	-

Source: URA, FPA Financial

Further, we also note the Group's joint venture development, The Avenir, has recorded relatively strong sales performance in Q3 2020. During the period, a total of 22 units were sold at the project as reflected by URA data. The total sales price of the new sale transactions amounted to approximately S$108.1 million, with the average price per square foot (psf) across the 22 units at S$3,066. According to URA data, 41 out of 376 units, equivalent to approximately 11%, at The Avenir have been sold as at the end of September 2020. The Group is expected to benefit from The Avenir project through the share of profits of its joint venture Carmel, which is responsible for the development of the project.

For the current residential launches in Malaysia, 91% of the first phase of 592 condominium units and 96% of the 181 garden terrace houses at Emerald Hills have been sold as at 30 June 2020. At the same time, 27% of the 339 serviced apartment units in Tower A and 76% of the 477 serviced apartment units in Tower B at Emerald 9 have been sold. Lastly, 96% of the 299 freehold double-storey terrace houses of Garland Residence at Emerald Rawang have been sold.

Meanwhile, we currently note that in Vietnam, residential units for Phase 1 at The Canary are fully sold, while Phase 2 is close to being fully sold. In addition, we note that there are no new residential launches in China.

SHARE PRICE PERFORMANCE REVIEW

Since our initiation report issued on 26 May 2020, GuocoLand's share price rebounded and reached a high of S$1.58 on 8 June 2020. The increase in share price likely reflected a positive outlook on the sale of property units at the Group's development projects in Singapore after the Circuit Breaker measures were lifted at the start of June. While the share price did fall below S$1.40 in early August, we note that it has since recovered to a range of S$1.43 to S$1.53 recently.

Meanwhile, we note that the major controlling shareholder of GuocoLand, Mr. Quek Leng Chan, has recently increased his stake in the company. We previously noted that Mr. Quek had in October 2019 increased his stake in the company to 71.93% by acquiring a total of 18,475,308 shares through GuocoLand Assets Pte Ltd (GAPL), a wholly owned subsidiary of Guoco Group Limited. 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, with an acquisition price of S$2.05 per share on both dates.

Recently, Mr. Quek has been increasing his interest in the company. This was achieved by acquiring a total of 168,600 shares through GAPL across 10 separate acquisitions, as shown in **Exhibit 10**. The total acquisition price of the 168,600 shares amounted to approximately S$253,469. Following the share purchases, Mr. Quek holds a total of 851,350,771 shares which is equivalent to a 71.94% interest in the company.

Exhibit 10: Details of the share acquisitions

Date of acquisition	No. of shares acquired	Price per share (S$)	Total acquisition price (S$)	Total shares held after acquisition	Total interest after acquisition
24-Sep-20	10,000	1.47	14,700	851,192,171	71.93%
25-Sep-20	7,000	1.47	10,290	851,199,171	71.93%
28-Sep-20	13,000	1.47562	19,183	851,212,171	71.93%
29-Sep-20	24,200	1.48546	35,948	851,236,371	71.93%
30-Sep-20	17,000	1.48882	25,310	851,253,371	71.93%
1-Oct-20	5,000	1.49	7,450	851,258,371	71.93%
2-Oct-20	23,000	1.51	34,730	851,281,371	71.94%
5-Oct-20	24,400	1.52	37,088	851,305,771	71.94%
6-Oct-20	15,000	1.53	22,950	851,320,771	71.94%
7-Oct-20	30,000	1.52733	45,820	851,350,771	71.94%
Total	168,600	-	253,469	-	-

Source: GuocoLand, FPA Financial

FINANCIAL PROJECTION

In this section, we provide our projections for the Group's revenue, earnings and dividends for the full-year ending 30 June 2021 (FY2021).

Revenue projection for FY2021

In our revenue projection for FY2021, we will estimate the revenue generated by the Group's individual business segments to derive a total projected revenue for the year.

Revenue from sale of development properties

We note that revenue from the sale of development properties grew by 5.2% y-o-y to S$771.4 million in FY2020 amid the challenging COVID-19 environment. Overall revenue growth was largely supported by a strong performance in 1H FY2020, which had been underpinned by higher progressive recognition of sales from Martin Modern in Singapore. As noted on page 7, revenue from the sale of development properties in Singapore and Malaysia had increased in FY2020, while a decline was seen for Vietnam.

Looking into FY2021, we noted on page 17 that sales at the Group's current residential launches in Singapore have picked up since the start of the financial year in July. We also note that the current low interest rate environment will help to support home buying. Further, we expect Singapore's position as a safe investment haven to continue attracting residential investments from both locals and foreigners. Against this backdrop, we anticipate stronger development sales momentum for the Group's property development business in Singapore in FY2021. In terms of revenue recognition, we note that the Group adopts the percentage of completion method of revenue recognition for residential projects under the progressive payment scheme in Singapore. While we do note that only partial recognition of sales may be progressively realized for uncompleted projects including Midtown Bay and Meyer Mansion, we would expect full sales recognition for Wallich Residence which is completed. Further, higher progressive sales recognition for Martin Modern is expected given that the project is close to completion.

Meanwhile, we note a challenging sales outlook for Malaysia. As noted on page 12, MOF Malaysia is expecting the property market in Malaysia to remain weak for the rest of 2020. Further, we currently note a virus resurgence in Malaysia which could affect project sales and delay the completion of the residential projects that are currently launched. Thus, this could potentially have a negative impact on revenue recognition for FY2021.

Given the above consideration, we anticipate a modest increase in total revenue from the Group's sale of development properties in FY2021 compared to FY2020. While the revenue outlook for Malaysia and Vietnam could be weaker, we believe that revenue from Singapore would underpin overall revenue generated by business segment going forward. Based on our outlook, we assume a 5% y-o-y increase in revenue generated from the sale of development properties for FY2021, which would imply a projected revenue of S$810.0 million = [105% x S$771.4 million].

Revenue from rental & related income

As noted on page 7, the Group's property investment business recorded a relatively resilient performance in FY2020 amid the challenging COVID-19 environment in the second half. Overall revenue performance was largely supported by the Singapore segment which experienced modest revenue growth of 2.6%. As at 30 June 2020, committed occupancy at the Group's investment properties in Singapore, Guoco Tower and 20 Collyer Quay, were healthy at 99% and 95% respectively. We also note that both properties experienced positive rental reversions for new and renewed leases in FY2020. Meanwhile, we note that China's office market is predicted to recover in 2H2020 as office leasing demand gains momentum and office rents stabilize. In contrast, the office market in Malaysia is expected to experience weaker leasing activity for the rest of 2020. Thus, we envisage a rise in vacancy which may result in lower rental income despite rents remaining stable.

Given the above consideration, we assume a 10% decrease in total revenue from rental & related income in FY2021, based on C&W's 2020 forecast for Singapore (as mentioned on page 9) as a proxy. While we do expect resilient performance for the investment properties in Singapore to underpin overall revenue generation, we do not expect revenue in FY2021 to match up with FY2020, given that performance in 1H FY2020 had not been impacted by the COVID-19 pandemic. Thus, the projected revenue from rental income from investment properties in FY2021 would be S$104.8 million = [90.0% x S$116.4 million].

Revenue from hotel operations

As noted on page 7, the Group's hotel revenue decreased by close to 30% y-o-y to S$51.5 million in FY2020. The overall decline was largely contributed by a 65% decline in revenue in 2H FY2020 due to the impact of COVID-19. Hotel revenue across Singapore, Malaysia and China experienced significant declines in the period.

Looking into FY2021, we note that hotel performance in Singapore has broadly improved since the easing of the Circuit Breaker measures in early June. With the Singapore government's efforts to revive the domestic tourism sector, we envisage stronger demand for hotel accommodation going forward. At the same time, Malaysia's hotel market could be expected to recover faster due to its larger domestic market base. However, the main concern is that international demand is likely to remain stifled, given that travel restrictions are expected to be in place for the rest of 2020. While we note a potential resumption of international travel once a successful vaccine is developed, this is most likely to take place in the second half of 2021. We thus expect that the Group's hotel business in Singapore and Malaysia would be still be negatively impacted by the COVID-19 pandemic in FY2021. This is largely because domestic demand is unlikely to compensate for the lack of international demand for hotel stays. Despite an expected recovery, hotel revenue in 1H FY2021 is still likely to be significant lower than 1H FY2020 which was unaffected by the COVID-19 pandemic. In addition, while performance for 2H FY2021 could be stronger, the extent of recovery would still be limited due to subdued international travel. Thus, overall hotel performance is unlikely to rebound to pre-COVID-19 levels, at least until a successful vaccine is developed.

Given the above consideration, we would assume a 30% decline in revenue generated by the Group's hotel business for FY2021. Given the sale of the Guoman Hotel Shanghai in China in April 2020, there would only be hotel revenue from Singapore and Malaysia in FY2021. Thus, the projected revenue from hotel operations in FY2021 would be S$30.2 million = [70% x S$43.1 million in combined hotel revenue for Singapore (S$22.0 million) and Malaysia (S$21.1 million) in FY2020].

Revenue from management fee income

We would assume revenue from management fee income to remain unchanged in FY2020 and FY2021 at S$2.6 million.

Given the above revenue projection for the individual business segments, we project a total revenue of S$947.6 for FY2021, as shown in **Exhibit 11**. This would imply a 0.6% y-o-y growth in revenue for the period.

Exhibit 11: Total projected revenue for FY2021

Business segment	FY2020 actual S$ million	FY2021 forecast S$ million	y-o-y change
Sale of development properties	771.4	810.0	5.0%
Rental and related income from investment properties	116.4	104.8	-10.0%
Hotel operations	51.5	30.2	-41.4%
Management fee income	2.6	2.6	0.0%
Total revenue	941.8	947.6	0.6%

Source: GuocoLand, FPA Financial

Earnings projection for FY2021

Given our projected revenue figure for FY2021, we now estimate the Group's earnings to derive projected EPS for the period. To do so, we will estimate the Group's cost of sales, expenses, share of profits of associates and joint ventures, and other components such as other income.

Cost of sales

We would estimate cost of sales based on the expected gross margin for the period. With reference to **Exhibit 12**, we note that the Group's gross margin rose in FY2019 to 31.9% from 30.8% in FY2019, and has remained stable in FY2020.

Exhibit 12: Gross margin over the years

	FY2018 actual	FY2019 actual	FY2020 actual	FY2021 forecast
	S$ million	S$ million	S$ million	S$ million
Revenue	1,141.7	927.0	941.8	947.6
Gross profit	351.6	295.9	300.1	302.3
Gross margin	30.8%	31.9%	31.9%	31.9%

Source: GuocoLand, FPA Financial

Given a stable gross margin for the last 2 years, we would assume the same gross margin of 31.9% for FY2021. This would imply an estimated gross profit of S$302.3 million, and in turn cost of sales of S$645.3 million = [S$947.6 million – S$302.3 million] for the period.

Other income

With reference to **Exhibit 13** on the next page, we note that the Group reported lower other income of S$162.6 million mainly due to an absence of fair value gain on the Group's investment properties, which had been partially offset by a one-off S$126.2 million gain on sale of the Guoman Hotel in Shanghai. For FY2021, we would assume zero fair value gains on investment properties and also no gain on disposal of property, plant & equipment. At the same time, we note a likely one-off gain on disposal of interest in subsidiary of S$2.8 million, which we would assume to be absent for FY2021. Further, we note lower net foreign exchange gain of S$4.9 million in FY2020 which is likely due to a strengthening of the Singapore Dollar (SGD) against the Malaysian Ringgit and Chinese Yuan over the course of FY2020. We anticipate a stronger SGD going forward which may result in further currency exchange losses. Thus, we would assume zero net foreign exchange gain in FY2021.

We would assume the value of all other components of other income (apart from those mentioned above) in FY2021 to be unchanged from FY2020. Consequently, the projected amount other income for FY2021 would be S$28.7 million, as shown in **Exhibit 13**.

Exhibit 13: Breakdown of other income

	Actual			Forecast
	FY2018	FY2019	FY2020	FY2021
	S$'000	S$'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	1,380
Interest income from fixed deposits with banks	10,902	16,827	12,883	12,883
Interest income from a joint venture	-	3,050	5,236	5,236
Net foreign exchange gain	-	12,759	4,935	-
Rental income	3,222	3,202	3,371	3,371
Others	6,919	3,053	5,858	5,858
Total	164,004	238,798	162,618	28,728

Source: GuocoLand, FPA Financial

Administrative expenses

We note that administrative expenses have been relatively stable in the last few years – S$90.6 million in FY2018, S$93.3 million in FY2019 and S$88.2 million in FY2020. Thus, we would assume the same amount of administrative expenses of S$88.2 million for FY2021 as in FY2020.

Finance costs

As noted on page 3, the Group reported relatively stable finance costs in FY2020, with only a marginal 0.5% increase from a year ago. In FY2021, we anticipate that interest expense could increase as the Group finances the construction costs of its development projects by drawing down debt. Nonetheless, we expect that cash revenue received from property development sales would be used to pare down debt. In our projection, we would assume that any increase in debt would be paid off using development sales proceeds. Thus, this would imply no additional interest expense on debt and consequently the same finance costs of S$108.3 million for FY2021 as in FY2020.

Other expenses

With reference to **Exhibit 14**, we note that the Group incurred higher other expenses of S$128.4 million in FY2020 mainly due to a one-off S$47.0 million in impairment loss provided for the Group's joint venture investment and higher fair value loss on derivative financial instruments of S$65.5 million. For FY2021, we would assume no impairment losses as it is likely to be a one-off provision. Meanwhile, on derivative financial instruments, we note that the fair value loss was attributed to interest rate swaps to hedge floating interest rates amid the softer interest rate environment. Looking ahead in FY2021, we would assume no fair value loss on derivative financial instruments for FY2021. Further, we would also account for the net loss of S$13.5 million (accounted for tax) on the sale of the cultural building in Shanghai (as discussed on page 15). Lastly, we would assume the 'others' component to remain the same in FY2021 from FY2020.

Given the above, the projected amount of other expenses for FY2021 would be S$21.2 million, as shown in **Exhibit 14**.

Exhibit 14: Breakdown of other expenses

	Actual			Forecast
	FY2018	FY2019	FY2020	FY2021
	S$'000	S$'000	S$'000	S$'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	-	-	-
Impairment loss on investment in a joint venture	-	-	47,000	-
Loss on disposal of property, plant and equipment	-	1	-	13,500
Loss on disposal of interests in a subsidiary	11,931	-	-	-
Loss on liquidation of subsidiaries	890	-	-	-
Net foreign exchange loss	2,634	-	-	-
Others	6,556	11,452	7,679	7,679
Total	25,507	37,441	128,429	21,179

Source: GuocoLand, FPA Financial

Share of profits of associates and joint ventures

As noted in **Exhibit 1** on page 4, the Group's share of profits of associates and joint ventures increased by about 64% to S$20.9 million in FY2020 from S$12.8 million in FY2019. This was contributed by a share of profit of S$22.7 million from the Group's joint ventures, which was partially offset by a loss of S$1.8 million from associates.

As noted on page 17, the Group's joint venture development, The Avenir, has recorded relatively strong sales in Q3 2020 and we envisage stronger sales going forward. At the same time, however, we note that revenue from the unit sales since the project launched for sale in January 2020 were not recognised during FY2020. Thus, the Group had not received any share of profits from Carmel during the period. Currently, we note from GuocoLand's latest annual report that Avenir is expected for completion in 2025, and thus little to no revenue is expected to be progressively recognised over FY2021. As such, we would assume zero share of profits from Carmel in FY2021.

Meanwhile, on the EWI, we note that the Group had recognised a share of profit of S$18.9 million from the joint venture in FY2020. For FY2021, we anticipate higher share of profits from EWI on the back of a stronger financial performance for EWI in Q4 (Aug to Oct 2020) of its current financial year ending 31 October 2020. During the period, EWI is expected to recognise profits from the handover of units at its residential development, Wardian London. Further, we note that EWI expects a continuation of sales momentum in Q4 after reporting a 40% y-o-y growth in total sales as at 31 August 2020. Thus, we anticipate that a stronger performance for EWI could underpin the Group's overall share of profits from its joint ventures in FY2021. At the same time, however, losses from the Group's associates could partially offset the share of profits from its joint ventures.

Given the above considerations, we would assume the share of profits of associates and joint ventures in FY2021 to be the same as FY2020 at S$20.9 million.

Based on the above projections for the Group, we derive a profit attributable to equity holders of S$136.8 million for FY2021. After accounting for S$18.9 million in profit attributable to perpetual securities holders, which we assume to be the same as FY2020, we estimate a profit attributable to ordinary equity holders of S$117.9 million for FY2021. Based on a weighted average number of issued units of 1,109.8 million, which we would assume to remain unchanged in FY2021 from FY2020, the project earnings per share (EPS) for FY2021 would be 10.62 cents. We have summarised our earnings projection in **Exhibit 15** below.

Exhibit 15: Earnings projection for FY2021

	FY2020 actual	FY2021 forecast
	S$ million	S$ million
Revenue	941.8	947.6
Cost of sales	(641.8)	(645.3)
Gross profit	300.1	302.3
Other income	162.6	28.7
Administrative expenses	(88.2)	(88.2)
Other expenses	(128.4)	(21.2)
Finance costs	(108.3)	(108.3)
Share of profit/(loss) of associates and joint ventures	20.9	20.9
Profit before tax	158.7	134.2
Tax expense*	(68.7)	(21.4)
Profit after tax	90.0	112.8
Profit attributable to:		
Equity holders of the company	114.1	136.8
Non-controlling interest**	(24.0)	(24.0)
	90.0	112.8
Profit attributable to equity holders of the company	114.1	136.8
Less: profit attributable to perpetual securities holders	(18.9)	(18.9)
Profit attributable to ordinary equity holders of the company	95.2	117.9
Weighted average no. of units in issue (million)	1,109.8	1,109.8
EPS (cents)	8.57	10.62

**Assumed to be the same as FY2019, given absence of impact from sale of Guoman Hotel in Shanghai*

***Assumed to be the same as FY2020*

Source: GuocoLand, FPA Financial

Dividends projection for FY2021

We note the Group has paid out dividends of 7.0 cents per share in FY2018 and FY2019. However, we note that lower dividends of 6.0 per share has been recommended for FY2020 potentially owing to the impact of COVID-19 on the Group’s earnings. We would expect similar dividends of 6.0 cents per share to be distributed for FY2021.

VALUATION

In this section, we perform an updated peer comparison analysis to account for the changes in the financial position of the selected peers of GuocoLand. At the same time, we will also adopt a relative valuation based on the results of our peer comparison analysis to derive an estimated target price for GuocoLand. **Exhibit 16** below summarises the data for the updated peer comparison analysis.

Exhibit 16: Updated peer comparison

Company	SGX code	Current price (S$) as at 09/10/20	Market capitalisation (S$ million)	EPS (1) (cents)	P/E (x)	DPS (2) (cents)	Dividend yield (%)	NAV per share (3) (S$)	P/B (x)
GuocoLand Ltd	F17	1.520	1,686.85	8.57	17.74	6.00	3.95	3.47	0.44
Peer companies:									
CapitaLand Ltd	C31	2.780	14,436.48	25.80	10.78	12.00	4.32	4.73	0.59
City Developments Ltd	C09	7.750	7,028.48	20.90	37.08	20.00	2.58	11.66	0.66
Ho Bee Land	H13	2.240	1,490.12	57.25	3.91	8.00	3.57	5.32	0.42
UOL Group Ltd	U14	6.760	5,702.60	15.27	44.27	17.50	2.59	11.34	0.60
Peer average	-	-	-	-	**24.01**	-	**3.26**	-	**0.57**

Figures have been rounded
n/m: not meaningful
(1) Based on trailing diluted EPS over the last 4 quarters of released results
(2) Based on trailing dividends over the last 12 months
(3) As at 30 Jun 20, unless otherwise specified
Source: Respective company data, FPA Financial

Based on the above results, we note that GuocoLand's P/B of 0.44x is lower than the peer average P/B of 0.57x. Adopting a relative valuation approach, we would estimate a target price of S$1.98 if GuocoLand's P/B were to adjust to the peer average of 0.57x. This is estimated as follows: Estimated target price = [peer average P/B] x [NAV per share as at 30 June 2020] = 0.57 x S$3.47 = S$1.98

Our current estimated target price of S$1.98 implies a 30.3% upside to the current share price of S$1.52. This estimated target price reflects our view on the potential upside for GuocoLand's share price. At the same time, we also note that GuocoLand is relatively attractive in terms of yield, with a dividend yield of 3.95% that is higher than the peer average dividend yield of 3.26%.

INVESTMENT RECOMMENDATION

Since our initiation report issued on 26 May 2020, GuocoLand's share price rebounded and reached a high of S$1.58 on 8 June 2020. The increase in share price likely reflected a positive outlook on the sale of property units at the Group's development projects in Singapore after the Circuit Breaker measures were lifted at the start of June. While the share price did fall below S$1.40 in early August, we note that it has since recovered to a range of S$1.43 to S$1.52.

In terms of valuation, we note from our peer comparison analysis that GuocoLand's P/B of 0.44x is lower than the peer average P/B of 0.57x. Adopting a relative valuation approach, we estimate a target price of S$1.98 if GuocoLand's P/B were to adjust to the peer average of 0.57x. Our current target price of S$1.98 implies a 30.3% upside to the current share price of S$1.52. We also note that GuocoLand is relatively attractive in terms of dividend yield. Further, we expect the recent share purchases by the company's major controlling shareholder to reflect positively on the company's valuation. We believe this will help to underpin the company's share price. Meanwhile, with a broad-based recovery in Singapore's real estate sector and hotel market, we expect the Group's major operating segment in Singapore to underpin overall revenue going forward.

Given the above considerations, we have maintained a buy recommendation on GuocoLand. Our current recommendation reflects our view on the potential upside for GuocoLand's share price. However, there are risks to our current target price which we will highlight in the next section.

RISKS TO THE UPSIDE IN TARGET PRICE

As we earlier noted on page 27, our current target price of S$1.98 implies a 30.3% upside to the current share price of S$1.52. However, there are risk factors that could limit the upside in the target price which we will highlight below.

Risk of currency fluctuations

As noted on page 3, the Group had recorded lower net foreign exchange gain of S$4.9 million in FY2020 compared to S$12.8 million a year ago. We note that this could be due to the fact that the Singapore Dollar (SGD) has strengthened against the Malaysian Ringgit and Chinese Yuan over the course of FY2020. 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 (in Singapore) and construction works for the Group's development projects (in both markets). Meanwhile, we currently note an escalated virus situation in Malaysia as the number of new daily cases have spiked over the last few days. There is a risk of reinstatement of lockdown measures which could affect development sales and delay construction progress. At the same time, we note that the unstable virus situation in Europe could have a negative impact on the Group's EWI joint venture.

Risk of fair value loss on interest rate swaps

The Group has incurred a S$65.5 million fair value loss on interest rate swaps in FY2020 compared to S$26.0 million in FY2019. Looking ahead in FY2021, there could be potential rate fluctuations going forward due to the influence of global developments. If interest rates were to decline further, there may be additional fair value loss incurred on the Group's interest rate swaps. Thus, there could be a negative impact on the Group's financial position, which may in turn limit the upside in the target price.

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