

SE The Eastern Front; Blog  
HD Grass is greener for mainland firms bent on diversification  
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In the latest sign of top **Chinese** developers feeling the need to diversify, Shanghai-based Greenland Holding **Group** has set its sights on the Australian food and agriculture sector.

According to a report by The Australian, the state-backed **company** is in talks to **buy** major Australian companies involved in beef, **dairy** and **wine** businesses for export to mainland **China**, the world's most populous country and one with rapidly changing consumption habits.

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Chairman Zhang Yuliang revealed the expansion plan on the day after Australian and **Chinese** governments signed a free trade agreement, saying that the **group** would have a local presence in the industry within six months.

As of today, Greenland has spent more than US\$15 **billion** acquiring land and real **estate** projects in 14 cities and 10 countries since the end of 2012, in what is seen as the most aggressive **Chinese** developer expansion overseas. Earlier this year, Zhang told reporters at the B20 Summit in Australia that he estimated overseas revenues to be 20 **billion Chinese** yuan this year and 40 **billion** yuan in 2015.

While the **group** continues to widen its scope of investment to **commercial** and **residential** properties globally, the latest interest in agriculture indicates that real **estate** deals no longer outstrip all alternatives as a potential source of profits, CRIC analyst Zhu Yiming told SNL Financial.

"Since Greenland's past overseas investment was extravagant, we expect the investment into potential deals in the agriculture sector to be fairly large too," the Shanghai-based analyst added.

But rather than a sign of dulled ambition in further overseas real **estate** expansion, Zhu explained that the **company**'s decision shows that it is taking opportunistic advantage of the lower tariffs for Australian agricultural imports into **China** under the free trade agreement. "It doesn't seem to be the case to me that Greenland turns to the agriculture sector because they are having problems with the overseas **property business**. At least for now, their projects still sell very well."

If Greenland's bet on Australian agriculture is purely opportunistic, its mainland peers' efforts to branch into non-real **estate** segments appear to be more strategic as they look for ways to maintain revenues amid a housing market slowdown, according to Zhu.

Just days before Greenland made its move public, another top 10 **Chinese** developer, Evergrande Real **Estate Group** Ltd., planned to shovel about HK\$950 **million** into a controlling **stake** in a **Hong Kong**-based magazine publisher called New Media **Group** Holdings.

The developer, which also owns the Guangzhou Evergrande football team, has been busy diversifying into a broader base of industry sectors over the past year. In October, it was mulling an investment of about HK\$1.2 **billion** in the new **energy** sector by subscribing to shares of U.S.-based **Solar** Power and **Hong Kong**-listed Guocang **Group**. In September, the **company** ventured into baby formula through the **acquisition** of Cowala **Dairy** in New Zealand. During the same month, Evergrande also launched three new agribusiness subsidiaries in grain and **oil**, **dairy** and animal husbandry.

Evergrande rival **China** Vanke Co. Ltd., which made its name building **residential** developments, is also among the ranks of mainland developers venturing beyond its real **estate** roots. In October 2013, Vanke

moved to **purchase** an 8.28% interest in Huishang Bank, becoming the biggest shareholder in the **Hong Kong**-listed bank.

It has become a firmly established trend for **Chinese** developers to reduce their reliance on the mainland housing sector, Zhu said. "I think they have learned to diversify to hedge against the declining returns of the **residential** market."

Although it can be seen as wise to step beyond the traditional base in housing projects during a market downturn, Moody's Franco Leung, when analyzing Evergrande's **solar energy** investment, issued a word of warning against such moves from a financing perspective.

"We believe the **company**'s investment in noncore businesses will take time to generate meaningful cash flows, and that they will contribute loss and consume funding over the near term," the vice president and senior analyst said.

Evergrande's nonproperty businesses generated only around 1.2% of total revenue of 63.34 **billion** yuan in the first half, Leung noted. However, the revenue was offset as these segments contributed an operating loss of around 2 **billion** yuan, compared to 700 **million** yuan in the same year-ago period.

While its nonproperty businesses are still at an early stage of development, Leung said Evergrande has shown increased appetite to venture into businesses in which it does not have a track record.

Moody's expects the **company**'s debt leverage to worsen to above 80% over the next 12 months, since it will need to cover "increased investment in nonproperty businesses, construction spending and land premium payments."

As of Nov. 17, US\$1 was equivalent to 6.12 **Chinese** yuan.

**CO** sgregc : Greenland Holding Group Company Limited

**IN** i501 : Building Construction | i5010021 : Land Development/Subdivision | iconst : Construction | icre : Real Estate/Construction

**NS** c11 : Plans/Strategy | ccat : Corporate/Industrial News

**RE** china : China | austr : Australia | greenl : Greenland | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRICS Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | namz : North America

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