



## **Trading alert:** **Greenland LLP**

Price: \$1.1tn (unch)  
Rating: BUY  
Upside/downside: Peace/War

**We revisit the investment case for Greenland LLC and initiate a 30-day catalyst watch in light of renewed speculative interest. Since our upgrade to “buy” (August 16, 2019), Greenland has outperformed a peer group of Arctic island properties and remains our preferred sector pick.**

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### **Lie of the land**

While risks associated with Greenland are evenly balanced, our special situations desk believes renewed speculation of M&A activity may offer near-term valuation upside. Volatility may be heightened around January 20, when America Corp founder Donald J Trump resumes presidency of the firm, given recent commentary that a US acquisition of Greenland is essential to “protect the free world”. We also note that since we last published on the name, Greenland's controlling shareholder, Dan Mark, has moderated its opposition to any potential disposal while continuing to reiterate that the territory is not for sale.

### **It's not easy being Green**

Greenland is often presented as resource-rich, yet the territory is in long-term decline. It has shrunk for 28 consecutive years, decreasing in size over the period by c. 11,000 square miles. Earnings growth since 2015 has been reliant on fishing, which in our view is equally unsustainable if current EU regulations are applied or ignored. Monetary and credit conditions challenge the outlook for elevated levels of infrastructure spending. Moreover, while the Government of Greenland has significant LBO potential, carrying virtually no gross debt, the elevated leverage at subsidiaries has combined with labour shortages to deliver maintenance expenditure that trends well below replacement rates. Given the scale of these challenges and the illiquidity of citizenship, M&A offers value realisation for Greenland's c. 56,000 independent stakeholders, who can effect a change of control via a simple majority vote.

### **Valuation: ice staking**

Our reiterated \$1.1tn sum-of-the-parts value for Greenland is a significant premium to its government's end-2023 net asset value of DKr1bn (\$138bn). America Corp's last formal offer for the territory (\$100mn in gold bullion, 1946, rejected) equates to c. \$6.9bn at current spot prices, suggesting headroom between buyer and seller for an improved proposal. Of the potential counterbidders, Canada in a transition period and China is indisposed.

Greenland is uniquely positioned in our coverage universe to benefit from the acceleration of cyclical climate change. Near-term deregulation of fossil fuel extraction presents a virtuous circle: put simply, more drilling means more to drill. Longer term, providing the US with secure supplies of neodymium, graphite, lithium and rare-earth elements would help spur Tesla-led innovation into clean energy and renewables technologies that will bring global temperatures back down. Diplomatic efforts under previous managements to establish an industrial base in the North Atlantic have so far failed, which creates an opportunity for tactlessness. We believe the alignment of interests between Greenland's stakeholders and a newly invigorated America Corp make a deal incrementally more likely.