

Far East Consortium

Earnings Update

Many years of steady growth to come

FY17 net profit at HK\$1.1bn (+52% yoy); DPS raised to 18.5 HK cents

Total revenue growing by 25% yoy to HK\$ 5.0bn. We estimate that presales in FY17 reached HK\$6.8bn vs HK\$3.6bn in FY16 and HK\$2.6bn in FY15. Property development revenue booking is on track with development revenue at HK\$2.9bn, +49% yoy. Unbooked property sales reached HK\$10.7bn, up from HK\$7.5bn at Mar-16. FEC has a strong and well diversified presales pipeline in Hong Kong, Australia, UK, Singapore and China with gross sales value of around HK\$33bn for the next five years. Hong Kong's hotel segment is bottoming out with RevPar in 2HFY17 growing by 3.1%. Overall gross margin slightly dropped to 40% in FY17 but we expect gross margin to recover in FY18/19 as higher margin projects in China contribute more. We estimate a revenue CAGR of 26% and earnings CAGR of 22% in next 3 years. The stock is trading at 60% discount to NAV. We maintain Buy.

High visibility for FY18; unbooked property sales reached HK\$10.7bn

FY17 property presales were contributed by West Side Place in Melbourne, The Royal Crest II in Shanghai and Royal Riverside in Guangzhou; completion include three projects namely UWS Stage 4 in Melbourne, King's Manor in Shanghai and Eivissa Crest in Hong Kong (booked in other gains). FEC has achieved HK\$3.3bn presales for projects scheduled for completion in FY18 (FY17 development revenue HK\$2.9bn), which represents 86% of our development revenue forecast for FY18. Other presold projects will be completed through 2019-2021.

Hotel performance on recovery track

FEC saw solid recovery in hotel segment in FY17 (Figure 5). Overall HK\$ RevPAR was +0.2% yoy. The recovery was particularly strong in 2HFY17. In Hong Kong, the occupancy rate rose by 4.1pp while average room rate declined 4.9% yoy due to new hotel opening. We expect RevPAR to further recover in FY18 as the company improves average room rate while keeping high occupancy rate. FEC disposed Silka West Kowloon in May 2017 for a consideration of HK\$450m and a gain of HK\$316m. FEC will continue seek opportunities to dispose of its non-core hotel portfolio such as the Ritz-Carltons in Perth and Melbourne.

Active land acquisition with financial discipline

As of Mar-17, net gearing ratio dropped to 31% from 38% at Mar-16 with strong cash collection from property sales. In FY17, FEC further replenished its land bank in major cities, including Northern Gateway in Manchester (a very large scale projects involving 10,000 new homes, to be developed in phases over next 10 years), Angel Meadow in Manchester (750 apartments) and Perth City Link in Perth (270 hotel rooms and 350 apartments).

Price target upgrade to HK\$4.89 (16% upside); deep NAV discount

We upgrade our PT to HK\$4.89 from HK\$4.11 as we roll over to Mar-18 and to reflect newly added land bank. Our PT is derived by using sum-of-the-parts method, Current share price implies a 62% discount to our estimated Mar-18 Net Asset Value (NAV).

Stock code: 35.HK
Rating: Buy

Price target (HK\$)	4.89
Previous Price target (HK\$)	4.11
Current price (HK\$, 14 Jun 2017)	4.23
Upside/downside %	16%
Market cap (HK\$ m)	9,477
Market cap (US\$ m)	1,215
Avg daily turnover (HK\$ m)	4.92

Source: Bloomberg, AMTD estimates

Key forecasts

(HK\$ m)	FY17	FY18e	FY19e	FY20e
Net profit	1,118	1,373	1,844	2,005
yoy %	52%	23%	34%	9%
Revenue	5,005	6,187	7,717	10,044
yoy %	25%	24%	25%	30%
EBITDA	2,051	2,577	3,277	3,465
Net gearing	31%	35%	39%	40%
EPS	0.51	0.61	0.82	0.90
BPS	4.82	5.23	5.78	6.37
DPS	0.18	0.20	0.27	0.31

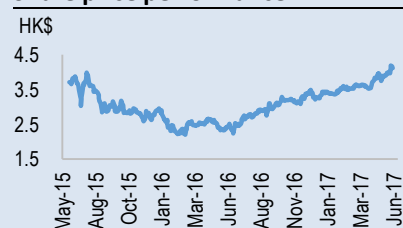
Source: Company data, AMTD estimates

Valuation

(HK\$ m)	FY17	FY18e	FY19e	FY20e
P/E (x)	8.5	6.9	5.2	4.7
P/BV (x)	0.87	0.80	0.72	0.66
Div yield	4.4%	4.8%	6.4%	7.4%
ROE	10.7%	16.5%	15.0%	14.7%
ROA	4.1%	6.3%	5.6%	5.0%

Source: Bloomberg, AMTD estimates

Share price performance



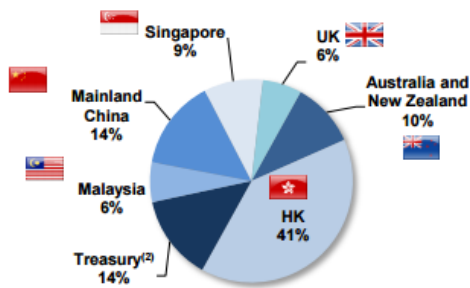
Source: Bloomberg

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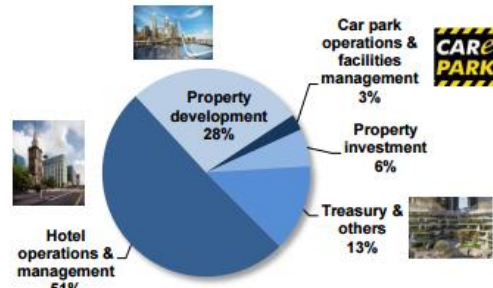
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Figure 1: Total assets by geography (Mar-2017)



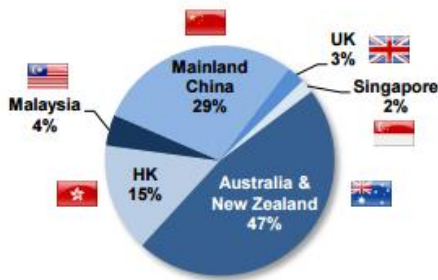
Source: Company data

Figure 2: Total assets by business segment (Mar-2017)



Source: Company data

Figure 3: Total revenue by geography (FY17)



Source: Company data

Figure 4: Total revenue by business segment (FY17)



Source: Company data

Figure 5: Hotel performance on recovery track in FY17

Group Total	FY2017	FY2016	YoY
Occupancy rate	77.6%	72.7%	+4.9%
Average room rate (HK\$)	625	666	-6.2%
RevPAR (HK\$)	485	484	+0.2%
Revenue (HK\$'000)	1,308,954	1,284,605	+1.9%

	2H	1H	Overall	2H	1H	Overall
Hong Kong						
Occupancy rate	92.8%	87.2%	90.1%	86.3%	85.7%	86.0%
Average room rate (HK\$)	751	632	695	783	679	731
RevPAR (HK\$)	697	551	626	676	582	629
Malaysia						
Occupancy rate	65.4%	68.3%	66.8%	65.4%	66.2%	65.8%
Average room rate (MYR)	194	187	190	188	190	189
RevPAR (MYR)	126	128	127	123	126	124
Mainland China						
Occupancy rate	62.7%	59.7%	61.2%	50.8%	51.1%	50.9%
Average room rate (RMB)	408	414	411	408	429	414
RevPAR (RMB)	256	247	251	207	219	211
Singapore						
Occupancy rate	80.8%	79.5%	80.2%	83.1%	80.9%	82.0%
Average room rate (SGD)	176	187	181	192	191	192
RevPAR (SGD)	142	149	145	160	155	157
United Kingdom						
Occupancy rate	86.4%	89.4%	88.0%	68.7%	90.0%	79.3%
Average room rate (GBP)	97	102	99	99	97	98
RevPAR (GBP)	84	91	87	68	88	78

Source: Company data

Figure 6: Strong pipeline for sustainable growth

Projects under presale @31.3.2017	Location	Cumulative presales (HK\$ M)	Expected attr. SFA ⁽¹⁾ (sq. ft.)	Expected attr. GDV ⁽¹⁾ (HK\$ M)	Expected completion ⁽²⁾	Cumulative presale as % of GDV %
1 Aspen Crest	Hong Kong	1,044	64,000	1,065	FY2019	98%
2 The FIFTH	Melbourne	1,225	284,000	1,225	FY2018	100%
3 West Side Place (Towers 1 and 2)	Melbourne	4,571	1,072,000	5,601	FY2021	82%
4 The Towers at Elizabeth Quay	Perth	1,765	320,000	2,733	FY2020	65%
5 King's Manor (Townhouse)	Shanghai	114	77,000	463	FY2018	25%
6 The Royal Crest II	Shanghai	820	259,000	1,316	FY2018	62%
7 Dorsett Bukit Bintang	Kuala Lumpur	297	215,000	755	FY2018	39%
8a Royal Riverside (Towers 1, 2 and 4)	Guangzhou	887	390,000	1,138	FY2018	78%
Total presales value		10,723	2,681,000	14,296		75%
Other active development pipeline						
Active Projects	Location	Expected presale launch time ⁽²⁾	Expected attr. SFA ⁽¹⁾ (sq. ft.)	Expected attr. GDV ⁽¹⁾ (HK\$ M)	Expected completion ⁽²⁾	
8b Royal Riverside (Towers 3 and 5)	Guangzhou	FY2018	293,000	873	FY2019	
9 Tan Kwai Tsuen	Hong Kong	FY2018/19	51,000	714	FY2019	
10 Marin Point	Hong Kong	FY2018 (launched)	103,000	1,075	FY2019	
11 Tai Wai	Hong Kong	FY2019	33,000	627	FY2019/20	
12 Sham Shui Po	Hong Kong	FY2018	28,000	560	FY2019/20	
13 Shatin Heights	Hong Kong	Planning	70,000	1,200	Planning	
14 West Side Place	Melbourne	Planning	667,000	3,239	Planning	
15 Queen's Wharf ⁽³⁾		Brisbane	FY2018 (launched)	834,000	4,263	FY2022/23
	FY2019		259,000	1,104	Planning	
	Planning		224,000	1,119	Planning	
16 Perth City Link - Lot 2	Perth	Planning	439,000	2,198	Planning	
17 Alpha Square		London	Planning	190,000	916	Planning
18 Hornsey Townhall	London	FY2018/19	377,000	4,014	Planning	
19 Angel Meadow at NOMA	Manchester	FY2018	102,000	839	Planning	
20 Artra ⁽⁴⁾	Singapore	FY2018 (launched)	551,000	2,142	FY2020/21	
21			290,000	2,624	FY2021	
Sub total (pipeline)			4,511,000	27,507		
Total (presales+ pipeline)			7,192,000	41,803		
Additional pipeline post 31.3.2017						
22 Northern Gateway ⁽⁵⁾	Manchester	Planning	1,500,000	5,400	Planning	
Total (presales+ pipeline) - as at 31 May 2017			8,692,000	47,203		

(1) Approximate saleable residential floor areas and expected gross development value may vary subject to finalization of development plans

(2) Expected completion and launch time may vary subject to construction program and relevant authority permits obtained

(3) The Group has 50% interest in the development

(4) The Group has 70% interest in the development

(5) The saleable floor area and GDV figure is estimated based on land already acquired and expected number of units to be built. Further land acquisitions are expected and will increase both saleable floor area and GDV for the Northern Gateway development.

Source: Company data

Figure 7: FEC 1H17 earnings review – YoY comparisons and key ratios

P&L, HK\$ m	FY16	FY17	FY17e	Actual vs forecast %	FY17 YoY %
Revenue	3,995	5,005	5,067	-1%	25%
Property development	1,971	2,937	2,934	0%	49%
Hotel	1,285	1,309	1,340	-2%	2%
Car park	623	641	641	0%	3%
Property investment	59	55	52	6%	-8%
Others	58	64	100	-36%	10%
Cost of sales and services	(1,990)	(2,709)	(2,667)	2%	36%
Depreciation and amortisation of hotel and car park assets	(299)	(307)	(307)	0%	3%
Gross profit	1,706	1,990	2,094	-5%	17%
Property development	1,002	1,272	1,397	-9%	27%
Hotel	541	518	518	0%	-4%
Car park	117	114	123	-8%	-3%
Leasing and others	46	86	56	54%	88%
Other income	23	25	0		8%
Other gains and losses	181	368	235	57%	103%
Administrative expenses	(598)	(584)	(616)	-5%	3%
Selling and marketing expenses	(105)	(46)	(91)	-49%	-56%
EBIT	1,206	1,744	1,621	8%	45%
Finance costs	(228)	(173)	(260)	-33%	-24%
Profit before tax	979	1,567	1,361	15%	60%
Income tax expense	(221)	(434)	(313)	39%	96%
Profit for the year	758	1,133	1,048	8%	49%
Minority interest	24	15	26	-41%	-36%
Attributable net profit	734	1,118	1,022	9%	52%
Tax rate	22.6%	27.7%	23.0%	20%	0%
Ratios	FY16	FY17			
Gross margin	43%	40%			
Gross debt	11,669	13,270			
Net debt	7,931	7,654			
EBIT	1,206	1,744			
EBITDA	1,505	2,051			
Gearing ratio ex. Hotel revaluation gains (x)	78%	71%			
Gearing ratio (x)	38%	31%			
Net debt/EBITDA (x)	5.3	3.7			
EBITDA cover (x)	6.6	11.8			
Selling and marketing expense % of revenue	2.6%	1.8%			
Admin expense % of revenue	15%	12%			
Avg interest cost	3.5%	2.6%			
ROA	3.0%	4.1%			
ROE	7.6%	10.7%			

Source: Company data, AMTD Equity Research estimates

Figure 8: FEC price target derivation

HK\$ m	2018 NAV	NAV per share (HK\$)	Multiple applied	Target valuation	Valuation per share (HK\$)
Property development	21,267	9.98	55% discount	9,570	4.49
Hotel	8,409	3.94	15% discount	7,147	3.35
Car parks	725	0.34	9.3x PE	725	0.34
Property investment	1,596	0.75	20% discount	1,277	0.60
Total valuation	31,996	15.01	0	18,719	8.78
Net debt	(8,302)	(3.89)	0	(8,302)	(3.89)
Net valuation (Mar-18)	23,694	11.11		10,417	4.89
Price target (Mar-18)					4.89
Current share price (HK\$, 14 June 2017)					4.23
Implied upside					16%
Share price discount to NAV					-62%

Source: AMTD Equity Research estimates

Figure 9: FEC P&L forecast

P&L	HK\$ m						YoY growth %				
	FY15	FY16	FY17	FY18e	FY19e	FY20e	FY16	FY17	FY18e	FY19e	FY20e
Revenue	5,110	3,995	5,005	6,187	7,717	10,044	-22%	25%	24%	25%	30%
Property development	2,962	1,971	2,937	3,876	5,204	7,418	-33%	49%	32%	34%	43%
Hotel	1,454	1,285	1,309	1,510	1,674	1,741	-12%	2%	15%	11%	4%
Car park	616	623	641	674	707	743	1%	3%	5%	5%	5%
Property investment	56	59	55	64	69	79	5%	-8%	16%	8%	15%
Others	78	58	64	64	64	64	-25%	10%	0%	0%	0%
Cost of sales and services	(2,884)	(1,990)	(2,709)	(3,191)	(3,911)	(5,650)	-31%	36%	18%	23%	44%
Depreciation & amortisation of hotel & car park assets	(279)	(299)	(307)	(329)	(329)	(329)	7%	3%	7%	0%	0%
Gross profit	1,946	1,706	1,990	2,667	3,477	3,745	-12%	17%	34%	30%	8%
Property development	1,086	1,002	1,272	1,826	2,526	2,739	-8%	27%	44%	38%	8%
Hotel	691	541	518	628	729	771	-22%	-4%	21%	16%	6%
Car park	124	117	114	119	125	132	-6%	-3%	5%	5%	5%
Leasing and others	45	46	86	93	97	104	2%	88%	8%	4%	8%
Other income	39	23	25	0	0	0	-40%	8%	n.a.	n.a.	n.a.
Other gains and losses	299	181	368	319	300	300	-39%	103%	-13%	-6%	0%
Administrative expenses	(642)	(598)	(584)	(614)	(675)	(709)	-7%	3%	5%	10%	5%
Selling and marketing expenses	(93)	(105)	(46)	(124)	(154)	(201)	14%	-56%	166%	25%	30%
EBIT	1,536	1,206	1,744	2,248	2,948	3,136	-21%	45%	29%	31%	6%
Finance costs	(224)	(228)	(173)	(345)	(396)	(362)	2%	-24%	99%	15%	-9%
Profit before tax	1,328	979	1,567	1,904	2,552	2,774	-26%	60%	22%	34%	9%
Income tax expense	(330)	(221)	(434)	(514)	(689)	(749)	-33%	96%	18%	34%	9%
Profit for the year	998	758	1,133	1,390	1,863	2,025	-24%	49%	23%	34%	9%
Minority interest	41	24	15	17	18	20	-43%	-36%	10%	10%	10%
Attributable net profit	957	734	1,118	1,373	1,844	2,005	-23%	52%	23%	34%	9%
Tax rate	24.9%	22.6%	27.7%	27.0%	27.0%	27.0%	0%	0%	0%	0%	0%
Adjusted cash profit	836	853	1,424	1,702	2,174	2,334	2%	67%	19%	28%	7%
Dividend payout ratio	34%	47%	37%	33%	33%	35%					
DPS	0.16	0.16	0.18	0.20	0.27	0.31	0%	15%	10%	34%	15%
EPS	0.48	0.37	0.51	0.61	0.82	0.90	-23%	41%	19%	34%	9%

Source: Company data, AMTD Equity Research estimates

Figure 10: FEC balance sheet forecast

Balance sheet, HK\$ m	FY15	FY16	FY17	FY18e	FY19e	FY20e
Non-current Assets	12,031	12,460	12,509	12,524	12,762	13,060
Investment properties	3,154	3,304	3,002	3,161	3,404	3,731
Property, plant and equipment	7,492	7,720	7,482	7,337	7,332	7,304
Prepaid lease payments	541	522	486	486	486	486
Goodwill	68	68	68	68	68	68
Others	775	845	1,470	1,470	1,470	1,470
Current Assets	10,185	13,701	15,891	17,636	23,058	30,549
Properties for sale	5,452	8,640	9,170	11,064	16,631	23,580
Completed properties	201	584	280	280	280	280
Properties for/under development	5,252	8,056	8,890	10,783	16,350	23,299
Debtors, deposits and prepayments	393	527	375	375	375	375
Deposits receivable from stakeholders	417	587	252	252	252	252
Investment securities	1,150	1,218	1,466	1,466	1,466	1,466
Pledged deposits	273	25	25	25	25	25
Restricted bank deposits	51	162	268	268	268	268
Bank balances and cash	2,274	2,358	3,882	3,733	3,588	4,131
Others	174	183	452	452	452	452
Total assets	22,216	26,161	28,400	30,160	35,820	43,610
Current Liabilities	6,103	6,471	6,181	6,505	11,287	18,754
Creditors and accruals	737	829	889	889	889	889
Customers' deposits received	575	2,460	2,110	2,433	7,216	14,683
Obligations under finance leases	4	3	4	4	4	4
Tax payable	333	183	359	359	359	359
Bank borrowings	3,087	2,933	2,755	2,755	2,755	2,755
Bonds	1,250	-	-	-	-	-
Others	116	63	64	64	64	64
Non-current Liabilities	5,852	9,422	11,275	11,775	11,398	10,398
Bank borrowings	4,468	7,863	7,376	7,876	8,376	6,876
Obligations under finance leases	5	5	8	8	8	8
Amounts due to shareholders of non-wholly owned subsidiaries	-	247	247	247	247	247
Bonds	1,005	868	3,131	3,131	2,254	2,754
Derivative financial instruments	59	77	119	119	119	119
Deferred tax liabilities	315	362	395	395	395	395
Total liabilities	11,955	15,893	17,456	18,280	22,685	29,152
Equity						
Share capital	191	213	224	224	224	224
Share premium	2,982	3,731	4,034	4,034	4,034	4,034
Reserves	5,970	6,196	6,534	7,454	8,690	9,993
Shareholder's equity	9,144	10,140	10,792	11,712	12,947	14,250
Minority interest	1,117	127	152	169	187	207
Total equity	10,261	10,267	10,944	11,880	13,134	14,458
Hotel revaluation surplus	10,976	10,732	13,354	13,354	13,354	13,354
Adjusted shareholder's equity	21,237	20,999	24,298	25,234	26,488	27,812

Source: Company data, AMTD Equity Research estimates

Figure 11: FEC cash flow forecast

Cash flow forecasts, HK\$ m	FY15	FY16	FY17	FY18e	FY19e
Property sales	3,053	3,784	4,271	4,225	5,288
EBIT from hotel operation	166	221	198	198	253
EBIT from investment properties	95	164	86	93	97
Tax paid	-140	-372	-434	-514	-689
Depreciation	279	299	286	309	309
Cash flow from operation (CFFO)	3,454	4,096	4,407	4,310	5,258
Capex	-2,527	-5,270	-3,977	-4,162	-8,363
Acquisition of assets	-	-403	-	-	-
Others	-51	88	-	-	-
Free operating cash flow (FOCF)	875	-1,489	430	148	-3,105
Interest paid	-393	-380	-324	-455	-543
Dividend	-107	-79	-100	-100	-100
Dividends paid to shareholders of non-wholly owned subsidiaries	-37	-19	-20	-20	-20
FCF	338	-1,966	-14	-427	-3,768
Equity issuance	14	6	-	-	-
Share buyback	-	-82	-	-	-
New debt	2,776	6,193	3,316	3,000	7,000
Repayment of debt	-2,660	-4,251	-3,000	-1,500	-3,377
Shareholder loan	-	246	-	-	-
Others	-2	-28	-	-	-
Change in FX	-55	-33	-	-	-
Change in cash position	377	85	302	1,073	-145
Cash balance - period beginning	1,829	2,274	2,358	2,660	3,733
Cash balance - period end	2,274	2,358	2,660	3,733	3,588

Source: Company data, AMTD Equity Research estimates

Figure 12: FEC key ratios

Ratios	FY15	FY16	FY17	FY18e	FY19e	FY20e
Gross margin	38%	43%	40%	43%	45%	37%
Gross debt	9,815	11,669	13,270	13,770	13,393	12,393
Net debt	6,340	7,931	7,654	8,302	8,070	6,528
EBIT	1,536	1,206	1,744	2,248	2,948	3,136
EBITDA	1,815	1,505	2,051	2,577	3,277	3,465
Gearing ratio ex. Hotel revaluation gains (x)	69%	78%	71%	71%	62%	46%
Gearing ratio (x)	30%	38%	31%	33%	30%	23%
Net debt/EBITDA (x)	3.5	5.3	3.7	3.2	2.5	1.9
EBITDA cover (x)	8.1	6.6	11.8	7.5	8.3	9.6
Selling and marketing expense % of revenue	1.8%	2.6%	1.8%	2.0%	2.0%	2.0%
Admin expense % of revenue	13%	15%	12%	10%	9%	7%
Avg interest cost	4.0%	3.5%	2.6%	3.5%	4.0%	4.0%
ROA	4.3%	3.0%	4.1%	6.3%	5.6%	5.0%
ROE	10.7%	7.6%	10.7%	16.5%	15.0%	14.7%

Source: Company data, AMTD Equity Research estimates

IMPORTANT DISCLOSURES

AMTD Investment Ratings

Stock Rating

Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

Analyst Certification

I, Michelle Li, hereby certify that (i) all of the views expressed in this research report reflect accurately my personal views about the subject company or companies and its or their securities; and (ii) no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Asset Management Limited.

Firm Disclosure

AMTD Asset Management Limited has an investment banking relationship with FEC and/or its affiliate(s) within the past 12 months.

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