

Far East Consortium International Limited

Hospitality Trust spin-off to drive Share Price Re-rating, Reiterate Buy

We believe the Disc. To NAV of Far East should narrow, as the Hotel portfolio's NAV is realized through the proposed REIT spin-off. Balance sheet will improve and growth would be accelerated through deploying the funds raised into new property development projects. We reiterate our Buy rating, and we believe there is further upside risk to our target price as the REIT spin-off plans progresses in 2020.

Proposed REIT Spin-Off will unlock value and drive share price re-rating
Far East Consortium (FEC) announced that they plan to spin-off part of their Hotel portfolio into a Stapled Trust (REIT + Business Trust). The spin-off portfolio will comprise of hotel assets in Australia, Singapore, Malaysia and UK, according to the announcement. We believe that the developer's Hotel Portfolio has long been undervalued by investors and a successful spin-off will trigger a re-rating of the stock. We estimate the GAV of FEC's whole Hotel Portfolio to be worth HK\$16.3bn (52% of our SOTP Valuation). Australia, Singapore, Malaysia & UK Hotels contributes to ~51% of our estimated Total Hotel Portfolio GAV (~HK\$8.3bn).

Solid 1HFY20 results with Property Dev business the key driver

FEC announced a solid set of results with revenues growing 75% YoY to HK\$5,121m and adjusted cash net profit growing 60.4% YoY to HK\$959m. This implies that ~60% of our FY20E net profit have already been achieved. Net Debt to Equity (with Hotels Revalued) has slightly improved to 43.4% (FY19: 45.4%), aided by the Perpetual Capital Notes issued.

UK and Australia property dev business to remain key earnings driver

1HFY20 Property Development revenues came in at HK\$3,686m (~72% of total) with a GPM of 30.1%. We expect UK and Australia property development projects to remain as key earnings driver, with new launches in Goldcoast (The Star Residence), Melbourne (Bourke Street), London (Consort Place) and Manchester (Northern Gateway) in the pipeline. Ritz Carlton Perth has successfully opened for operations in Nov 2019 and it will raise the profile of the Elizabeth Quay project and stimulate property sales.

Balance Sheet strain to be relaxed through the Stapled Trust platform

Far East Consortium have been actively developing Hotels and Investment Properties in the past few years, expanding its balance sheet with 14 Hotels under construction. This has resulted in a rise in balance sheet leverage to 43.9% from 28.7% of FY18. A Stapled Trust platform will open up a new funding channel for the developer effectively recycle its capital into new property development projects and support future growth. This will also relax the strain on FEC's balance sheet and lower their financing costs.

20% upside to our TP with further upside risk amid Spin-Off

Our price target of HK\$4.21/sh (20% upside to current share price) is based on a 40% disc. to our Sum-of-the-Parts (SOTP) NAV. We believe there is further upside risk to our TP when more details of the Spin-off is announced in due course, both on the narrowing of Disc. to NAV, as well as our NAV itself depending on market's valuation of the Stapled Trust. Reiterate Buy.

Stock code: 0035.HK

Rating: Buy

Price target (HK\$)	4.21
Previous price target (HK\$)	4.21
Current price (HK\$, 28 Nov 2019)	3.50
Upside/downside %	20%
Market cap (HK\$ m)	8,328
Market cap (US\$ m)	1,064
Avg daily turnover (US\$ m)	0.34

Source: Bloomberg, AMTD Equity Research

Key forecasts

(HK\$ m)	FY19	FY20e	FY21e	FY22e
Revenue	6,842	8,076	11,702	12,360
yoy %	17.3%	18.0%	44.9%	5.6%
Net profit	1,769	1,230	1,368	1,500
yoy %	11.6%	-30.5%	11.2%	9.7%
Core Attr NP	1,457	1,573	1,728	1,891
yoy %	9.6%	8.0%	9.9%	9.4%
Gross margin	38.1%	33.2%	26.9%	40.7%
Net gearing*	45.4%	61.1%	58.7%	61.3%
EPS	0.64	0.68	0.75	0.82
DPS	0.22	0.24	0.26	0.29
BPS	5.85	6.05	6.36	6.69

Source: Company data, AMTD Equity Research

*Hotel Portfolio Revalued to Market Value

Valuation

	FY19	FY20e	FY21e	FY22e
P/E	5.5	5.2	4.7	4.3
P/BV	0.6	0.6	0.6	0.5
Div. yield	6.3%	6.8%	7.5%	8.2%
ROE	10.9%	11.2%	11.7%	12.2%
ROA	4.5%	2.9%	3.2%	3.4%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: Far East Financial Forecasts and key ratios

PnL, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e	Balance Sheet, RMB mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e
Revenue	5,831	6,842	8,076	11,702	12,360	Investment Properties	3,229	5,426	7,060	8,693	11,008
COGS	(3,197)	(4,233)	(5,392)	(8,550)	(7,331)	Interest in JV/Asso	-	-	-	-	-
Gross Profit	2,634	2,610	2,683	3,151	5,028	PP&E and Others	10,578	13,693	13,590	13,464	13,262
						Non-current assets	13,807	19,119	20,650	22,157	24,270
Selling and marketing exp	(128)	(166)	(121)	(234)	(247)	PUD & Held for Sale	11,243	12,451	13,689	12,914	12,894
General and admin exp	(661)	(827)	(827)	(993)	(2,184)	Deposits and prepayments	523	468	468	468	468
Share of results of JV & Asso	10	18	-	-	-	Cash & Cash Equivalents	3,032	2,471	2,706	2,737	1,482
Reval Gains from Inv Prop	-	-	-	-	-	Others	5,884	4,570	4,570	4,570	4,570
Others	530	1,045	300	300	300	Current assets	20,682	19,959	21,432	20,688	19,413
Net Finance costs	(229)	(368)	(350)	(350)	(350)						
Profit before tax	2,156	2,312	1,685	1,874	2,547	Total Assets	34,489	39,078	42,082	42,845	43,684
Income tax expense	(571)	(544)	(455)	(506)	(1,046)	Contract Liabilities	-	974	974	974	974
Net profit	1,585	1,769	1,230	1,368	1,500	Bank and Other Borrowings	5,286	4,236	4,236	4,236	4,236
Shareholders' Profit	1,567	1,714	1,169	1,302	1,427	Trade and Other Payables	1,725	1,532	1,532	1,532	1,532
Minority Interest	19	55	61	67	73	Others	3,272	357	357	357	357
Shareholders' Core Net Profit	1,329	1,457	1,573	1,728	1,891	Current liabilities	10,283	7,099	7,099	7,099	7,099
Dividends	506	506	551	605	662	Bank and Other Borrowings	10,161	17,112	17,112	17,112	17,112
Special Dividends	-	-	-	-	-	Others	902	1,235	1,235	1,235	1,235
Core EPS - Basic (HKD)	0.59	0.64	0.68	0.75	0.82	Non-current liabilities	11,062	18,347	18,347	18,347	18,347
DPS - basic (HKD)	0.22	0.22	0.24	0.26	0.29						
						Capital and reserves	12,971	13,413	14,032	14,728	15,493
						Shareholders' equity	12,971	13,413	14,032	14,728	15,493
						Non-controlling interests & Perp	173	219	2,605	2,671	2,745
						Total equity	13,144	13,632	16,636	17,400	18,238
Cash Flow Statement, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e	Total Liabilities and Equity	34,489	39,078	42,082	42,845	43,684
Profit before income tax	2,156	2,312	1,685	1,874	2,547						
Operating CF before Working Cap	2,178	2,113	1,685	1,874	2,547	Key Ratios, RMB mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e
						GP Margins	45%	38%	33%	27%	41%
PUD	(1,321)	(2,897)	(1,238)	775	19	Net Margins	27%	26%	15%	12%	12%
Deposits & Prepayments	(400)	435	-	-	-	Core Attri Net Margins	23%	21%	19%	15%	15%
Trade & Other Payables	852	(231)	-	-	-	ROE	10%	11%	11%	12%	12%
Increase in contract liabilities	-	(546)	-	-	-	ROA	5%	5%	3%	3%	3%
Others	(2,574)	(504)	(455)	(506)	(1,046)	Net Debt / Total Equity	54%	106%	86%	82%	85%
Net Operating Cashflows	(1,266)	(1,630)	(8)	2,143	1,520	Net Debt to Equity (Perp as Debt)	54%	106%	116%	110%	112%
						Net Debt / Total Equity (Hotel Revalued)	29%	45%	61%	59%	61%
Net Investing Cashflows	(1,617)	(2,567)	(1,530)	(1,508)	(2,113)	Total Assets / Total Equity	262%	287%	253%	246%	240%
						Total Assets / Shareholders' Equity	266%	291%	300%	291%	282%
Bank & Other Borrowings	6,587	11,931	-	-	-						
Others	(4,624)	(8,267)	1,774	(605)	(662)						
Net Financing Cashflows	1,963	3,664	1,774	(605)	(662)						
Net Cash Flows	(920)	(532)	235	31	(1,255)						

Source: Company data, AMTD Equity Research Estimates

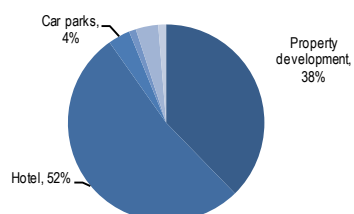
Unlocking Value through Spin-Off

Figure 2: SG Hospitality REITs trade at 3% Prem to NAV, vs FEC's currently at 50% Disc. To NAV

Hospitality REITs	Share Price (LC)	Market Cap (SGD 'M)	Div Yield	Prem/(Disc.) to NAV	NAV/Unit	Gearing
Ascott	1.37	2,985	5.5%	11.4%	1.23	33%
CDLHT	1.61	1,952	5.8%	10.2%	1.46	36%
FHT	0.71	1,415	6.3%	-2.8%	0.73	35%
FEHT	0.74	1,356	5.6%	-14.8%	0.86	40%
AHTRUST	1.12	1,275	5.3%	10.9%	1.01	34%
Total/Average		8,983	5.7%	3.0%		36%

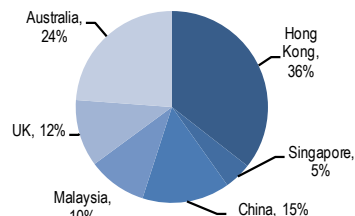
Source: Bloomberg; AMTD Equity Research (As of 28 Nov 2019)

Figure 3: GAV Breakdown (Hotels Contribute to 52% of Far East's Total GAV)



Source: AMTD Equity Research Estimates

Figure 4: FEC Hotels Portfolio Only - GAV Breakdown by Countries



Source: AMTD Equity Research Estimates

Figure 5: 1HFY20 Financial Results Summary

Income Statement	1HFY20	1HFY19	YoY
Revenue	5,121.1	2,926.5	75%
Cost of Sales and Services	(3,285.4)	(1,533.1)	114%
Depreciation and Amortisation of Hotel & car park assets	(188.4)	(192.2)	-2%
Gross Profit	1,647.4	1,201.2	37%
Other income	9.9	70.5	-86%
Other gains and losses	76.9	142.9	-46%
Admin Expenses			
- Hotel Operations & Management	(224.9)	(214.5)	5%
- Others	(172.0)	(196.4)	-12%
Pre-opening expenses			
- Hotel Operations & Management	(6.5)	(0.8)	689%
Selling and Marketing Expenses	(122.9)	(71.3)	72%
Share of Results of Associates	4.0	22.3	-82%
Share of results of JV	(6.4)	2.3	-381%
Finance costs	(222.2)	(123.8)	79%
Profit before Tax	983.1	832.3	18%
Income Tax Expense	(197.1)	(196.8)	0%
Net Profit	786.1	635.5	24%
Attrib. Net Profit	714.8	616.1	16%
<i>Minority Interests</i>			
- Perp Capital Noteholders	7.7	-	NA
- Share of net assets of subsidiaries	63.6	19.4	228%
Adjusted Cash Profit	959.0	598.0	60%
Basic EPS (HKD)	0.30	0.27	13%
Diluted EPS (HKD)	0.30	0.27	13%
Balance Sheet	1HFY20	2HFY19	
Net Debt to Equity (Perp as Equity, Hotels Revalued)	44%	45%	
Net Debt to Equity (Perp as Equity)	94%	105%	
Net Debt to Equity (Perp as Debt)	128%	105%	

Source: Company Data; AMTD Equity Research

Figure 6: Revenue and Segment Profit Breakdown

	Revenue		YoY	Segment Profit		YoY
	1H FY20	1H FY19		1H FY20	1H FY19	
Property Development						
Australia	1,180.3	102.2	1055%	206.7	12.5	1551%
Hong Kong	1,106.7	441.9	150%	397.9	128.5	210%
Malaysia	16.2	19.5	-17%	6.5	9.6	-32%
PRC	132.6	512.3	-74%	100.8	327.3	-69%
Singapore	1,250.1	391.5	219%	269.2	52.8	410%
UK	0.5	0.6	-17%	1.7	-4.1	-142%
Sub-total	3,686.3	1,468.0	151%	983.0	526.6	87%
Property Investment						
Australia	4.3	4.2	2%	2.3	2.2	3%
HK	18.7	21.3	-12%	12.7	88.1	-86%
PRC	8.6	8.3	3%	-13.2	-12.2	9%
Sub-total	31.6	33.8	-7%	1.8	78.2	-98%
Hotels Operations and Management						
Australia	-	-		-6.5	-	
HK	310.2	382.1	-19%	6.7	77.7	-91%
Malaysia	104.6	119.1	-12%	11.5	13.9	-18%
PRC	118.8	134.5	-12%	-2.3	11.2	-120%
Singapore	47.4	47.2	0%	8.4	14.9	-44%
UK	132.5	133.5	-1%	41.8	29.6	41%
Europe	63.2	49.3	28%	1.9	4.4	-58%
Sub-total	776.6	865.7	-10%	61.4	151.8	-60%
Car Park and Operations and Facilities Management						
Australia and New Zealand	366.4	332.3	10%	17.4	27.0	-35%
Europe	28.7	22.9	25%	2.7	2.3	17%
Malaysia	1.9	2.6	-25%	0.1	0.2	-50%
Sub-total	397.0	357.8	11%	20.3	29.5	-31%
Gaming Operations						
Australia	24.9	34.6	-28%	24.8	34.6	-28%
Czech Republic	118.7	88.5	34%	7.3	2.4	203%
Sub-total	143.6	123.1	17%	32.2	37.1	-13%
Securities and Financial Product Investments	70.3	65.3	8%	97.9	-58.9	-266%
Provision of Mortgage Services						
Australia	11.0	12.0	-8%	10.8	43.9	-75%
Hong Kong	4.8	0.8	521%	4.9	0.8	542%
Sub-total	15.8	12.8	23%	15.7	44.6	-65%
Total	5,121	2,926	75%	1,212	809	50%

Source: Company Data; AMTD Equity Research

Valuation & Risks

For Far East Consortium (0035.HK), we adopt a Sum-of-the-parts approach considering its diversified business model including Property Development, Hotels and Car Parks. Our Sum-of-The-Parts NAV is at HK\$7.02/sh, and our Target Price of HK\$4.21 implies a 40% Disc. To NAV, and a Target P/E of 6.2x.

Far East is trading at a deeper discount than its HK Property Developer peers from a P/E perspective, 5.2x vs industry average of 8.4x P/E.

We believe P/B is not a fair comparison, as Far East's investment properties are mainly Hotels, which are carried at cost on balance sheet, while other HK Developer's balance sheet are office and retail malls which are revalued to market value.

We believe that this gap should narrow as the developer recycles its capital more effectively through the proposed Stapled Trust to fund future growth.

Figure 7: Far East: Target Price Based on 40% Discount to NAV

HK\$ m	FY20 NAV	NAV per share (HK\$)
Property development	11,720	5.24
Hotel	16,316	7.29
Car parks	1,128	0.50
Property investment	367	0.16
The Star	1,152	0.51
TWC	400	0.18
SOTP Valuation (FY20)	31,083	13.89
Net debt	(15,373)	(6.87)
Net Asset Value (FY20)	15,710	7.02
Discount		40%
Price target (FY20)		4.21
Current share price (HK\$, 8 Oct 2019)		3.20
Implied upside		32%

Source: Company Data; AMTD Equity Research

Figure 8: Peers Valuation comparison

Date	28/11/2019	Mkt cap (USD mn)	FY18 P/E	FY19E P/E	FY20E P/E	FY18 P/B	FY19E P/B	FY20E P/B	Div. yield
Equity									
HK Property Developers									
16 HK	SHK Properties	42,465	10.3x	9.6x	9.0x	0.6x	0.6x	0.5x	4.32%
1113 HK	CK Asset	25,104	8.1x	6.6x	8.0x	0.6x	0.6x	0.5x	3.57%
12 HK	Henderson Land	23,536	9.3x	11.3x	10.8x	0.6x	0.6x	0.6x	4.30%
17 HK	NWD	13,617	13.0x	12.1x	11.2x	0.5x	0.5x	0.5x	4.89%
83 HK	Sino Land	10,330	11.5x	16.0x	8.0x	0.6x	0.5x	0.5x	4.64%
683 HK	Kerry Properties	4,820	11.3x	6.9x	6.9x	0.4x	0.4x	0.4x	5.21%
35 HK	Far East	1,064	5.9x	5.5x	5.2x	0.6x	0.6x	0.6x	6.29%
Total		120,936	9.9x	9.7x	8.4x	0.5x	0.5x	0.5x	4.75%

Source: Bloomberg Estimates, *AMTD Equity Research Estimates

Note: As of 28th Nov, 2019; *Div Yield is Trailing Dividend Yield

Key Risks

Key downside risks for the stock includes (1) a slowdown in property sales; (2) Foreign Exchange currency movements; (3) Global Macroeconomic slowdown dragging the performance of its Hotel Portfolio.

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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

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

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AMTD Global Markets Limited has an investment banking relationship with Far East Consortium International Limited and/or their affiliate(s) within the past 12 months.

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