

Far East Consortium International Limited

The Chase for Yield Accelerates, Positive for Overseas Property Sales

With US Fed and Reserve Bank of Australia cutting rates in the last few days, we believe global property investors will scour the globe to chase for yield in the medium term. This should stimulate the UK and Australia property sales of Far East Consortium (FEC), following its recent launches of Consort Place in London and Queen's Wharf Brisbane.

Asset inflation trend will attract global property investors

Property is often considered as a relatively safe asset class and is almost a must have for Global High Net Worth Individuals in their portfolio. As central banks around the world cut their countries' respective benchmark rates (US Fed by 50bps and RBA by 25bps) we expect the lower borrowing costs will drive rental yields lower, resulting in property asset inflation in the medium term. We believe that FEC is well poised to capture this trend with their recently launched property projects in London Canary Wharf and Brisbane in Australia, respectively. We estimate that UK and Australia contribute to ~80% of FEC FY20E property development revenues. Depending on the project, global property investors can contribute up to ~50% of such property sales.

Consort Place London: A gem at the heart of Canary Wharf

FEC recently launched Consort Place for sale in Feb 2020, a project that is at the heart of Canary Wharf, neighbouring the London headquarters of JP Morgan, HSBC, Morgan Stanley, etc. Consort Place is a 390,000 sqft mixed-used residential development project and we believe it is on track to be a key FY2020-2021 sales contributor with a GDV of ~HK\$4bn, with an ASP of ~GBP1,000-1,100/sqft.

Queen's Wharf Brisbane: A scarce Resi/Com/Hotel/Casino Development

The developer has also launched its Queen's Wharf Brisbane project for sale in Feb 2020, which was well received by the market despite the COVID-19 outbreak. The project is also mixed-used development comprising of residential, hotel and a casino, overlooking the Brisbane river. Phase 1 was recently launched with 252,000 sqft and is expecting to achieve a total GDV of ~HK\$3.3bn.

Hotel portfolio face challenges, but manageable as cap rate compresses

COVID-19 outbreak is putting pressure on the company's hotel portfolio, with occupancy rates under pressure. However, we believe the cashflow and earnings impact is manageable, as property development is the main earnings driver contributing to 56% of FY20E Total Revenues, vs ~27% from Hotels. From an asset value perspective, while Hotels contribute to ~52% of our SOTP GAV, the rate cuts will also help to mitigate the rental pressures as cap rate is expected to compress.

Stock offering 6.8% div yield, at 5.1x FY20E P/E, 0.6x FY20E P/B

We believe Far East Consortium is trading at attractive valuations of 5.1x FY20E P/E and a 0.6x FY20E P/B. The book value are mostly at cost, as hotels are not mark to market under the accounting rules. This makes the valuation all the more attractive, considering that it is trading at a same P/B with other HK property developers who have a large investment property portfolio which is marked-to-market on their books.

Stock code: 0035.HK

Rating: Buy

Price target (HK\$)	4.21
Current price (HK\$, 3 Mar 2020)	3.47
Upside/downside %	21%
Market cap (HK\$ m)	8,262
Market cap (US\$ m)	1,063
Avg daily turnover (US\$ m)	0.77

Source: Bloomberg, AMTD Equity Research

Key forecasts

(HKD m)	FY19	FY20e	FY21e	FY22e
Revenue	6,842	8,076	11,702	12,360
yoy %	17.3%	18.0%	44.9%	5.6%
Adjusted 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	5.1	4.7	4.3
P/BV	0.6	0.6	0.5	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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Analyst

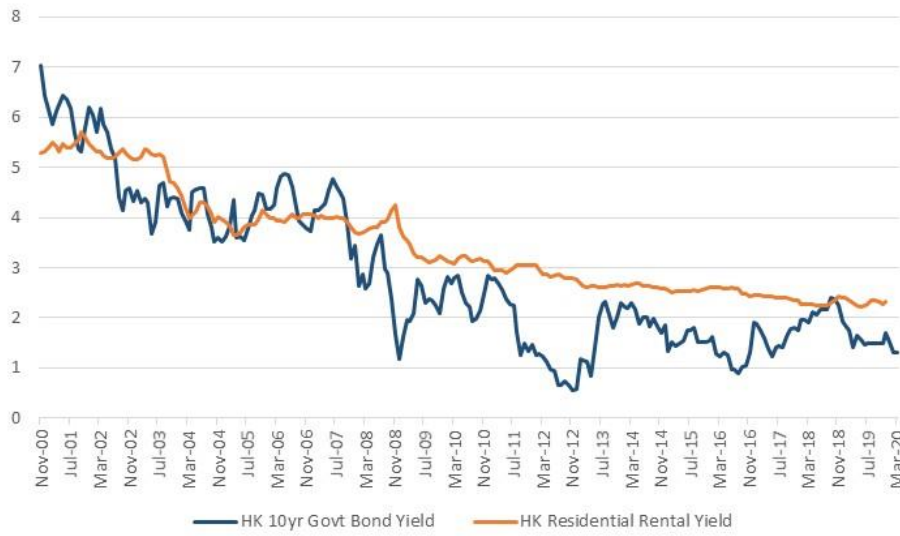
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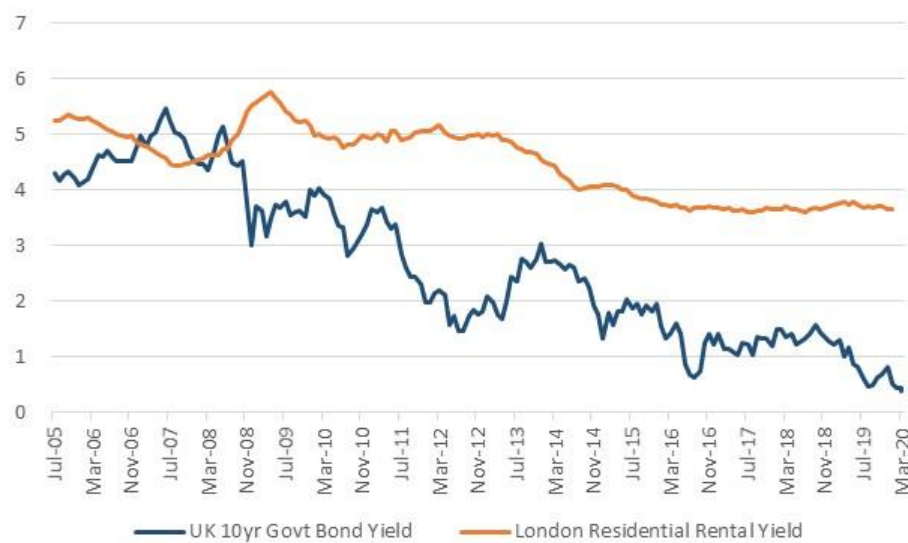
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Figure 1: Hong Kong: 10-yr government bond yield vs. residential rental yield (%)



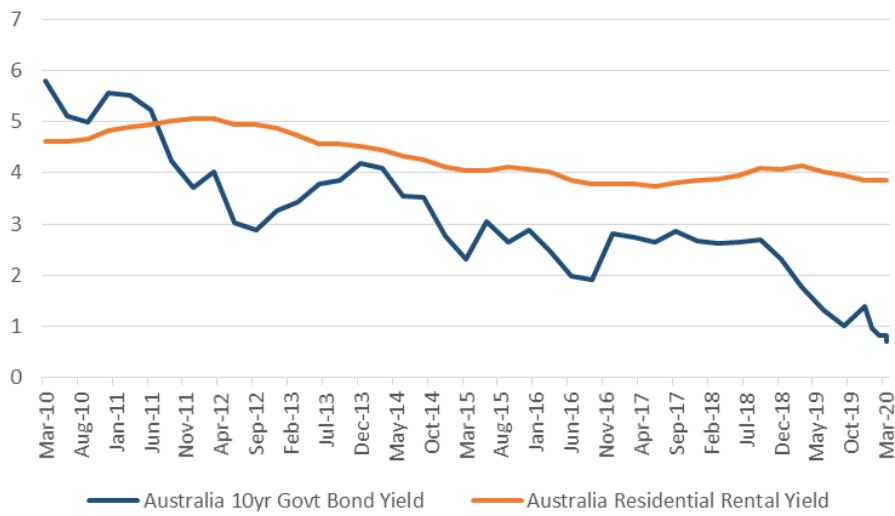
Source: Hong Kong Rating and Valuation Department; Bloomberg; AMTD Equity Research

Figure 2: London: 10-yr government bond yield vs. residential rental yield (%)



Source: Savills; UK Office for National Statistics; Bloomberg; AMTD Equity Research

Figure 3: Australia: 10-yr government bond yield vs. residential rental yield (%)



Source: CoreLogic; Australian Bureau of Statistics; Bloomberg; AMTD Equity Research

Valuation & Risks

Figure 4: Peers Valuation comparison (As of 3rd Mar, 2020)

Date	3/3/2020	Share Price (HK\$)	Mkt cap (USD mn)	FY19 P/E	FY20E P/E	FY21E P/E	FY19 P/B	FY20E P/B	FY21E P/B	Div. yield
HK Property Developers Equity										
17 HK	NEW WORLD DEV*	9.95	13,101	11.54x	11.37x	10.47x	0.45x	0.45x	0.44x	4.8%
12 HK	HENDERSON LAND D	35.85	22,334	10.83x	10.46x	10.91x	0.54x	0.53x	0.53x	4.4%
16 HK	SHK PPT	109.00	40,645	7.03x	9.50x	8.87x	0.56x	0.52x	0.50x	4.1%
1113 HK	CK ASSET HOLDING	48.20	22,908	6.05x	7.40x	7.18x	0.51x	0.49x	0.50x	4.1%
83 HK	SINO LAND	10.58	9,474	10.27x	7.36x	8.44x	0.50x	0.46x	0.44x	9.0%
20 HK	WHEELOCK & CO	62.05	16,391	7.98x	8.34x	7.49x	0.48x	0.46x	0.44x	2.5%
4 HK	WHARF HLDG	17.54	6,883	8.04x	7.80x	6.87x	0.38x	0.37x	0.35x	4.1%
683 HK	KERRY PPT	22.70	4,255	6.17x	6.73x	6.22x	0.33x	0.32x	0.31x	5.7%
35 HK	FE CONSORT INTL*	3.47	1,063	5.46x	5.11x	4.65x	0.59x	0.57x	0.55x	6.4%
Total/Average			137,054	8.15x	8.23x	7.90x	0.48x	0.46x	0.45x	5.0%

Source: Bloomberg Estimates, *AMTD Equity Research Estimates

Note: 1. Div Yield is Trailing Dividend Yield

2. FY19 PE of 12 HK, 1113 HK, 20 HK, 4 HK, 683 HK are calculated by consensus EPS

Key Risks

Key risks for the stock includes (1) a slowdown in contracted sales; (2) unexpected tightening in monetary policy; (3) government introduction of property tax which curbs property purchase sentiment.

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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

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