

Far East Consortium International Limited

Emerging from the Eye of the Storm, Maintain Buy

We believe FEC is emerging from the eye of the COVID-19 storm, and potential earnings upside surprise could come from its Hotel Operations if COVID-19 improves. Stock is on track to offer a 9.2% FY2021E div yield and is trading at an attractive 66% disc. to NAV, 5.6x FY2021E P/E. Maintain Buy.

Potential Earnings Upside Surprise if COVID-19 improves

We believe that FEC is emerging from the Eye of the COVID-19 Storm and we believe FEC is on track to deliver a 17.2% YoY Net Profit Growth in FY2021E. If the COVID-19 situation improves, we believe there would be potential upside to our earnings estimate as Hotels RevPAR could drive an upward swing. Hotel Occupancy Rates across its global hotel portfolio have already improved back to 65% in Sep 2020 (from 41% in April 2020), while Hong Kong Hotel Occupancy rates have even reached 82.4% in Sep 2020.

Over 50% of our FY2021E Estimated Net Profit netted in the bag

FEC's 1HFY2021 core net profit came in at HK\$517m, which implies ~52% of our full year FY2021E Net Profit achieved. While revenues were down 39% YoY to HK\$3,111m, which is attributable to the uneven 1H/2H distribution in property development schedule. 1HFY2021 Net Gearing (Incl. Hotel Revaluation Surplus) remained stable at ~57% (FY20: ~57%). DPS was maintained flat YoY at HK\$0.4/sh.

West Side Place, Artra and Meadowside - Key FY2021 revenue drivers

West Side Place Melbourne, Artra in Singapore and Meadowside Manchester are the key property development projects to drive FEC's FY2021E property developer revenues, in our view. In addition to the HK\$2.3bn of property development revenues achieved in 1HFY2021, we expect another ~HK\$3.8bn of revenues mostly from these projects in 2HFY2021E. Moreover, considering the cash flow arrangement of Australian projects, we expect a stable cash flow and balance sheet leverage in FY2021E underpinned by the sales proceeds (approximately ~AUD500m) from the West Side Place project upon delivery to buyers.

Hotel Portfolio to offer the key potential upside surprise

We believe the key potential swing to FY2021E earnings will lie with FEC's Hotel portfolio. Occupancy rates across FEC's global hotel portfolio have improved back to 65% in Sep 2020 (April 2020: 41%), while HK Hotels have achieved 82.4% occupancy rates in Sep 2020. Despite the challenges in 1HFY2021, FEC achieved a positive Gross Profit (Before Depreciation) of HK\$172m in its Hotel Operations and Management business segment. We believe that if the COVID-19 situation improves, there will be room to increase the Hotel ADR and thus drive RevPAR higher and Hotel Profit contributions.

The stock is trading at attractive 66% disc. to NAV, 5.6x FY21E P/E

We believe FEC's current valuations of 66% disc. to NAV and 5.6x FY21E P/E is attractive as we believe the worst is behind us and the stock is on track to deliver a 17.2% YoY net profit growth, offering a 9.2% FY2021E div yield. We maintain our Buy rating.

Stock code: 0035.HK

Rating: Buy

| Price target (HK\$) | 4.18 |
|-----------------------------------|-------|
| Current price (HK\$, 26 Nov 2020) | 2.39 |
| Upside/downside % | 75% |
| Market cap (HK\$ m) | 5,705 |
| Market cap (US\$ m) | 736 |
| Avg daily turnover (US\$ m) | 0.43 |

Source: Bloomberg, AMTD Research

Key forecasts

| (HKm) | FY20 | FY21e | FY22e | FY23e |
|-----------------|--------|-------|--------|--------|
| Revenue | 7,451 | 8,900 | 13,525 | 16,157 |
| yoy % | 8.9% | 19.5% | 52.0% | 19.5% |
| Gross Profit | 2,259 | 2,648 | 4,532 | 5,778 |
| yoy % | -13.4% | 17.2% | 71.1% | 27.5% |
| Core Net Profit | 842 | 1,003 | 1,451 | 1,894 |
| yoy % | -42.2% | 19.1% | 44.7% | 30.6% |
| Gross margin | 30.3% | 29.8% | 33.5% | 35.8% |
| Net gearing* | 56.7% | 60.1% | 62.5% | 55.0% |
| EPS | 0.36 | 0.42 | 0.61 | 0.80 |
| DPS | 0.19 | 0.22 | 0.24 | 0.28 |
| BPS | 4.71 | 4.72 | 4.89 | 5.19 |

Source: Company data, AMTD Research

*Hotel Portfolio Revalued to Market Value

Valuation

| | FY20 | FY21e | FY22e | FY23e |
|------------|------|-------|-------|-------|
| P/E | 6.7 | 5.6 | 3.9 | 3.0 |
| P/BV | 0.5 | 0.5 | 0.5 | 0.5 |
| Div. yield | 7.9% | 9.2% | 10.2% | 11.7% |
| ROE | 7.6% | 9.0% | 12.5% | 15.4% |
| ROA | 1.3% | 2.0% | 2.8% | 3.6% |

Source: Bloomberg, AMTD Research

Share price performance


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1HFY21 Results

Figure 1: Far East Consortium 1HFY21 Results

| 1HFY21 Results (HK\$ million) | 1HFY21A | 1HFY20A | YoY | FY21E | % |
|--|----------------|--------------|-------------|--------------|------------|
| Property development | 2,324 | 3,686 | -37% | 6,277 | 37% |
| Hotel | 363 | 777 | -53% | 1,326 | 27% |
| Car park | 222 | 397 | -44% | 798 | 28% |
| Property investment | 49 | 32 | 57% | 98 | 51% |
| Gaming operations | 80 | 144 | -45% | 271 | 29% |
| Others | 72 | 86 | -16% | 130 | 56% |
| Total Revenue | 3,111 | 5,121 | -39% | 8,900 | 35% |
| Cost of sales and services | (1,883) | (3,285) | -43% | (5,428) | 35% |
| Depreciation and amortisation of hotel and car park assets | (241) | (188) | 28% | (427) | 56% |
| Gross profit | 988 | 1,647 | -40% | 2,648 | 37% |
| Other income | 113 | 10 | 1050% | - | N/A |
| Other gains and losses | 367 | 77 | 377% | 300 | 122% |
| Administrative expenses | (298) | (397) | -25% | (1,021) | 29% |
| – Hotel operations and management | (146) | (225) | -35% | | N/A |
| – Others | (152) | (172) | -11% | | N/A |
| Pre-operating expenses | - | (7) | -100% | | N/A |
| – Hotel operations and management | - | (7) | -100% | | N/A |
| Selling and marketing expenses | (117) | (123) | -5% | (178) | 66% |
| Share of results of associates | (5) | 4 | -229% | - | N/A |
| Share of results of joint ventures | (23) | (6) | 255% | - | N/A |
| Finance costs | (194) | (222) | -13% | (562) | 35% |
| Profit before tax | 831 | 983 | -16% | 1,186 | 70% |
| Income tax expense | (309) | (197) | 57% | (320) | 97% |
| Profit for the year | 521 | 786 | -34% | 866 | 60% |
| Minority interest | 172 | 71 | 141% | 290 | 59% |
| Distribution to Perpetual Securities | 103 | 8 | 1234% | 206 | 50% |
| Share of net assets of subsidiaries | 69 | 64 | 8% | 85 | 81% |
| Attrib. Net Profit | 350 | 715 | -51% | 576 | 61% |
| *Core net profit | 517 | 1,034 | -50% | 1,003 | 52% |
| Key Ratios | | | | | |
| Gross margin ex. Depreciation | 39.5% | 35.8% | | 34.6% | |
| Gross margin | 31.7% | 32.2% | | 29.8% | |
| Core Net Margins | 16.6% | 20.2% | | 11.3% | |
| | 1HFY21A | FY20 | | FY21E | |
| Gearing ratio ex. Hotel revaluation gains (x) | 116% | 122% | | 135% | |
| Gearing ratio (x) | 57% | 57% | | 58% | |
| Total Assets to Total Equity | 2.93 | 2.69 | | 2.55 | |

Source: Company Data, AMTD Research

*1HFY20A core net profit has been restated as per company announcement

Valuation & Risks

Figure 2: Peers Valuation comparison (As of 26th Nov, 2020)

| Date | 26/11/2020 | Share Price | Mkt cap | P/E | | | P/B | | | Div. yield |
|-----------------------------------|------------------|-------------|----------------|---------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Ticker | Name(EN) | (HK\$) | (USD mn) | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 |
| HK SAR Property Developers | | | | | | | | | | |
| 16 HK | SHK Properties | 104.80 | 39,181 | 10.35x | 9.69x | 9.38x | 0.53x | 0.51x | 0.50x | 4.8% |
| 1113 HK | CK Asset | 43.30 | 20,633 | 8.19x | 7.36x | 6.97x | 0.44x | 0.42x | 0.41x | 3.7% |
| 12 HK | Henderson Land | 32.25 | 20,144 | 10.52x | 11.31x | 10.19x | 0.47x | 0.46x | 0.45x | 5.6% |
| 17 HK | NWD* | 40.80 | 13,418 | 12.77x | 12.39x | 10.34x | 0.46x | 0.45x | 0.44x | 5.1% |
| 83 HK | Sino Land | 10.32 | 9,380 | 15.88x | 7.53x | 9.02x | 0.50x | 0.46x | 0.45x | 5.8% |
| 683 HK | Kerry Properties | 20.05 | 3,768 | 7.54x | 6.80x | 6.14x | 0.28x | 0.28x | 0.27x | 6.7% |
| 35 HK | Far East* | 2.39 | 736 | 6.69x | 5.10x | 3.90x | 0.51x | 0.50x | 0.48x | 7.9% |
| Total/Average | | | 107,260 | 10.28x | 8.60x | 7.99x | 0.46x | 0.44x | 0.43x | 5.7% |

Source: Bloomberg Estimates, *AMTD Research Estimates

Note: Apart from SHK/Sino/FEC, all other comparable companies' FY20E P/E, P/B and dividend yield are estimates

Key Risks

Key risks for the stock include (1) pro-longed economic impact by COVID-19, including travel restriction and lock-down measures; (2) unexpected tightening in monetary policy; (3) Slower than expected property sales in UK and Australia.

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

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