

## Far East Consortium International Limited

### Recovery has just begun, More Legs to Run, Reiterate Buy

We reiterate our Buy rating on Far East Consortium. We believe the stock has more legs to run. While the HK Gov's Designated Quarantine Hotels Programme will help to relief near term pressure to FEC's Hotel Portfolio, in our view, the COVID-19 vaccination programmes across the world will drive the longer term fundamental improvement.

#### Designated Quarantine Hotels is a Shining Beacon amid COVID-19

On 27 November 2020, we published a research report to highlight that Far East Consortium is a turnaround play if COVID-19 improves. While the share price has already run-up by 13.8% since then, we believe there are more legs to run. On 18 January 2021, the HK Government has announced the latest list of designated quarantine hotels, with Silka Far East Hotel in Tsuen Wan and Silka Seaview Hotel in Yau Ma Tei having been added to the list. FEC has a total of 6 Hotels currently on the designated list, offering 1,951 rooms, and we believe it will underpin its Hotel Occupancy Rates and ADR to offset the COVID-19 impact. The stock is still trading at a depressed 6.4x FY2021E P/E, offering a 8.1% FY2021E Dividend Yield. We reiterate our Buy Rating and our Target Price of HK\$4.18/sh offers 54% upside.

#### HK Gov: Occupancy Rates in all Designated Hotels reached ~60%

Since 22 December 2020, the HK Government has rolled out the Designated Quarantine Hotels programme. According to the HK Government, there were a total of 12,000 rooms across 36 Hotels designated for quarantine purposes. Since the launch of the programme, there were 9,600 visitors and the overall occupancy rate reached ~60%. Based on the government's announcement, we believe the ADR is at a fair market rate, with FEC's room rates ranging from HK\$480-3,800/night.

#### Stock still trading at 61% disc. to NAV, 6.4x P/E offering 8.1% div yield

Despite the recent run-up in share price, the stock is still trading at distressed valuations of 61% disc. to NAV and implying 6.4x FY2021E P/E. We believe such a deeply discounted valuations imply that market is still concerned with the impact from COVID-19, due to FEC's relatively high exposure towards the Hospitality Industry. We believe that with the COVID-19 vaccination programmes currently being rolled out across the world during 2021, we believe FEC will be a beneficiary of the recovery. We thus reiterate our Buy Rating.

Stock code: 0035.HK

Rating: Buy

Price target (HK\$)	4.18
Current price (HK\$, 18 Jan 2021)	2.72
Upside/downside %	54%
Market cap (HK\$ m)	6,658
Market cap (US\$ m)	859
Avg daily turnover (US\$ m)	0.48

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	7.6	6.4	4.4	3.4
P/BV	0.6	0.6	0.6	0.5
Div. yield	7.0%	8.1%	9.0%	10.3%
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



Source: Bloomberg

**Jacky Chan**  
Analyst

+852 3163 3323

[jacky.chan@amtdgroup.com](mailto:jacky.chan@amtdgroup.com)

**Karen Huang**  
Associate

+852 3163 3376

[karen.huang@amtdgroup.com](mailto:karen.huang@amtdgroup.com)

## FEC's Hotels under HK Designated Hotel List

Figure 1: FEC 6 hotels are in the HK List of Designated Hotels for quarantine

Name of Hotel	Room Type	No. of Rooms	Room Rate per Night for Quarantine Guests (full board price and all inclusive)
<b>Second Cycle (20 February 2021-20 April 2021)</b>			
Lan Kwai Fong Hotel @ Kau U Fong	Suite	5	HK\$3,480 (Single) HK\$3,680 (Double)
	Deluxe Room	157	HK\$1,388 (Single) HK\$1,588 (Double)
	Standard Room		HK\$888 (Single) HK\$1,088 (Double)
Dorsett Wanchai, Hong Kong	Executive Suite Room	20	HK\$3,400 (Single) HK\$3,800 (Double)
	Family Quad Room (for 4 persons stay)	434	HK\$2,100
	Deluxe Triple Room (for 3 persons stay)		HK\$1,700
	Premier Course View Room		HK\$1,500 (Single) HK\$1,900 (Double)
	Premier Causeway Bay City View Room		HK\$1,300 (Single) HK\$1,700 (Double)
	Superior Room		HK\$850 (Single) HK\$1,250 (Double)
Dorsett Mongkok, Hong Kong	Premier Suite Room	6	HK\$2,600 (Single) HK\$2,900 (Double)
	Family Quad Room (for 4 persons stay)	279	HK\$1,900
	Room Superior		HK\$1,000 (Single) HK\$1,300 (Double)
	Room Comfort		HK\$750 (Single) HK\$1,050 (Double)
Dorsett Tsuen Wan, Hong Kong	Suite	44	HK\$1,300
	Non-suite	498	HK\$700
Silka Far East Hotel Hong Kong	Non-suite	240	HK\$480 (Single) HK\$600 (Double)
Silka Seaview Hotel Hong Kong	Non-suite	268	HK\$480 (Single) HK\$600 (Double)

Source: Hong Kong Government, AMTD Research

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#### Stock Rating

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

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### AMTD Global Markets Limited

**Address:** 23/F - 25/F, Nexus Building, No. 41 Connaught Road Central, Central, Hong Kong

**Tel:** (852) 3163-3288 **Fax:** (852) 3163-3289

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