

## Far East Consortium International Limited

### Another Major Milestone On the Road to COVID-19 Recovery

We believe the recent sale of the Dorsett City London Hotel proves that the asset values of FEC's portfolio remains intact and thus the stock is undervalued. The GBP50m gain to be recognized in FY22E beats our expectations and could lift our FY22E EBIT by ~18%. As a result, we expect the stock will re-rate to a narrower Disc. to NAV. Reiterate Buy.

#### Latest sale proves Asset Values intact, stock is undervalued

We believe the successful sale of Dorsett City London Hotel dispels market's concerns on FEC's Hotel Asset Values amid COVID-19. Sold at GBP115m, we believe that the valuation of the transaction is on par with valuations before COVID-19. Based on our calculations, it implies a net yield of 5.3% based on a normalized, pre-COVID19, FY19-FY20 operating profit. This sale will generate a GBP50m gain to be recognized in FY22E, marking a profit margin of ~43%. Once the transaction is completed, we estimate that this would lift our FY22E EBIT by ~18% and thus it should also drive the stock to re-rate to a narrower Disc. to our NAV. Our Target Price of HK\$4.09, offering 39% upside to latest share price, is based on a 40% Disc. to NAV.

#### Sale of Dorsett City London Hotel for GBP115m

FEC announced on 15 June 2021 that it will sell the operating and property ownership companies of Dorsett City London Hotel, a hotel developed by the company in 2017, for a total consideration of GBP115m less bank loans, shareholder loans and other adjustments to a partnership between Cerberus Capital Management, L.P. and Highgate Hotels, L.P. In addition to the sale, FEC will enter into a hotel management agreement with the buyer to manage and operate the hotel for two years upon completion of the transaction. The agreement includes a guaranteed return of ~GBP6.07m per annum to the new owner.

#### We estimate the property sale could lift FY22E EBIT by ~18%

As a Global Property Developer, we believe the sale is part of FEC's normal course of business. The company has announced that it expects a gain of GBP50m, or roughly HK\$546.5m, from the sale, implying a profit margin of ~43%. The gain from this sale alone exceeds our expectations set for FY22E as we initially only factored in an annual asset disposal gain of HK\$300m. We therefore estimate that the sale of the hotel will boost FEC's FY22E EBIT by ~18.0%, once completed.

#### Attractive valuations at 63% Disc. to NAV, 7.5% FY21E div yield

The stock is currently trading at attractive valuations of 63% Disc. to NAV and implying a 7.6x FY21E P/E or 5.2x FY22E P/E. The stock is offering a 7.5% FY21E dividend yield. We maintain our target price of HK\$4.09, which offers a 39% upside to the current share price.

Stock code: 0035.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>4.09</b>
Current price (HK\$, 16 June 2021)	2.95
Upside/downside %	39%
Market cap (HK\$ m)	7,065
Market cap (US\$ m)	910
Avg daily turnover (US\$ m)	0.30

Source: Bloomberg, AMTD Research

#### Key forecasts

(HK\$m)	FY20	FY21e	FY22e	FY23e
Revenue	7,451	8,200	13,011	16,320
yoy %	8.9%	10.1%	58.7%	25.4%
Gross Profit	2,259	2,513	4,386	5,835
yoy %	-13.4%	11.2%	74.6%	33.0%
Core Net Profit	842	914	1,352	1,933
yoy %	-42.2%	8.5%	47.9%	43.0%
Gross margin	30.3%	30.6%	33.7%	35.8%
Net gearing*	56.7%	60.6%	65.1%	58.5%
EPS	0.36	0.39	0.57	0.82
DPS	0.19	0.22	0.23	0.29
BPS	4.71	4.68	4.82	5.14

Source: Company data, AMTD Research

\*Hotel Portfolio Revalued to Market Value

#### Valuation

	FY20	FY21e	FY22e	FY23e
P/E	8.3	7.6	5.2	3.6
P/BV	0.6	0.6	0.6	0.6
Div. yield	6.4%	7.5%	7.7%	9.7%
ROE	7.6%	8.2%	11.8%	15.9%
ROA	1.3%	1.8%	2.6%	3.7%

Source: Bloomberg, AMTD Research

#### Share price performance



Source: Bloomberg

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**Figure 1: Summary of Transaction**

Sale of Dorsett City London Hotel	
SPA Date	15 June 2021
Expected Completion Date	30 June 2021
Assets Being Sold	Dorsett City London Limited (current hotel operator) ("DCLL")
	Elite Region Limited (current hotel owner) ("Elite")
Consideration	GBP115,000,000 (~HKD1,257m) less remaining bank loan amount and shareholder loan amount
Gain from Sale	GBP50,000,000 (~HKD546.5m)
Yield	5.27%

Source: Company Data, AMTD Research

**Figure 2: Summary of Hotel Management Agreement**

Hotel Management Agreement	
Term	2 years beginning on the completion of the sale
Owner's Guaranteed Return	GBP6,065,000 (~HKD66.3m)
Management Fee	Actual gross operating profits less Owner's Guaranteed Return

Source: Company Data, AMTD Research

**Figure 3: Financial Information of DCLL**

DCLL	FY2020	FY2021
	GBP '000	GBP '000
Net profit/(loss) before tax	2,736	(2,165)
Net profit/(loss) after tax	2,217	(2,165)
Net assets	3,728	1,563
Total assets	25,313	20,100

Source: Company Data, AMTD Research

**Figure 4: Financial Information of Elite**

Elite	FY2020	FY2021
	GBP '000	GBP '000
Net profit/(loss) before tax	(1,021)	(1,232)
Net profit/(loss) after tax	(945)	(1,232)
Net assets	3,011	4,244
Total assets	56,274	53,340

Source: Company Data, 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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