

Far East Consortium International Limited

Riding on the Tide of COVID-19 Macro Recovery

FEC reported a 14.3% YoY decline in FY2021 adjusted cash profit, but we believe the worst is behind us and global macro recovery from COVID-19 will drive FEC's share price higher. Maintain Buy.

The worst is behind us, continuing on the road to COVID-19 recovery

We believe that FEC's FY2021 results reflects the full year impact of COVID-19 on the company's operations and thus FY2022E will start to see a recovery in growth, in our view. The recent sale of Dorsett City London Hotel for GBP115m proves that the company's asset values are intact and the deep 54% disc. to NAV that the stock is currently trading at is unwarranted. We believe the stock will be the recovery play on the global economic recovery from COVID-19 during FY2022E. Maintain Buy.

FY21 revenue and earnings decline amid delay in project recognition

FEC announced that their FY2021 core net profit came in at HK\$722m, down 14.3% YoY. This is mainly due to a 20.2% YoY decline in FY2021 revenues to HK\$5.9bn, in our view. FY2021 revenues came in lower than our estimate of HK\$8.2bn mainly due to slower than expected revenue recognition of the pre-sold West Side Place (Towers 1 & 2), in our view. The project still has HK\$2,878m of pre-sold properties unrecognized, which has now been delayed to FY2022E for revenue recognition. A Final DPS of HK\$0.15/sh was declared, unchanged from FY2020.

Solid Balance Sheet just received a further boost from asset sale

As of end-March 2021, FEC's net debt to equity came in at 55% marking a slight improvement from 57% of FY2020. The developer's balance sheet will receive a further boost of GBP115m upon completion of the recent sale of Dorsett City London Hotel (see "[Another Major Milestone On the Road to COVID-19 Recovery](#)", dated 18 Jun 2021). This will add to the developers' war chest for land acquisitions to underpin its future growth, in our view. As the developer only has HK\$1.8bn of CAPEX scheduled for the next 12-18 months, we believe this will be comfortably funded by the sales proceeds expected from the delivery of West Side Place (Towers 1 & 2).

BC Group emerging as the shining beacon within the Group

Originally acquired to support the company's property development business, BC Group has now emerged as one of the fastest growing business units within FEC. BC Group is a mortgage financing platform for homebuyers of UK and Australia properties. Loan and Advances of the unit has grown at a 157.9% CAGR during the past 3 years to reach AUD1.2bn by end-FY2021. They have now expanded into the UK market during FY2021. Net Interest Margin has expanded to 2.32% in FY2021 (FY2020: 2.07%). FEC owns 51% of BC Group, while PAG and Metrics Credit Partners are among its investors. Funding of the business is primarily provided by leading financial institutions and investors.

Stock trading at a significant discount to its UK and AU peers

We believe that FEC is significantly undervalued with the stock trading at 54% disc. to NAV, 5.5x FY22E P/E and offering a 6.1% div yield. Compared to its peers of Australia and UK Property Developers, which are trading at 16.2x-19.5x FY2021E P/E, 1.3x FY2020 P/B and 2.1% div yield on average, we believe the stock is significantly undervalued.

Stock code: 0035.HK

Rating: Buy

Price target (HK\$)	4.09
Current price (HK\$, 24 June 2021)	3.14
Upside/downside %	39%
Market cap (HK\$ m)	7,521
Market cap (US\$ m)	969
Avg daily turnover (US\$ m)	0.27

Source: Bloomberg, AMTD Research

Key forecasts

(HK\$m)	FY20	FY21	FY22e	FY23e
Revenue	7,451	5,944	13,011	16,320
yoy %	8.9%	-20.2%	58.7%	25.4%
Gross Profit	2,259	1,841	4,386	5,835
yoy %	-13.4%	-18.5%	74.6%	33.0%
Core Net Profit	842	722	1,352	1,933
yoy %	-42.2%	-14.3%	47.9%	43.0%
Gross margin	30.3%	31.0%	33.7%	35.8%
Net gearing*	56.7%	54.9%	65.1%	58.5%
EPS	0.36	0.30	0.57	0.82
DPS	0.19	0.19	0.23	0.29
BPS	4.71	5.83	4.82	5.14

Source: Company data, AMTD Research

*Hotel Portfolio Revalued to Market Value

Valuation

	FY20	FY21	FY22e	FY23e
P/E	8.8	10.3	5.5	3.8
P/BV	0.7	0.5	0.7	0.6
Div. yield	6.1%	6.1%	7.3%	9.2%
ROE	7.6%	5.2%	11.8%	15.9%
ROA	1.3%	1.6%	2.6%	3.7%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

Jacky Chan
Analyst

+852 3163 3323

jacky.chan@amtdgroup.com

Eugene Chin
Associate

+852 3163 3374

eugene.chin@amtdgroup.com

FY21 Results

Figure 1: Far East Consortium FY21 Results

FY21 Results (HK\$ million)	FY21A	FY21E	% Diff	FY20A	YoY
Property development	4,226	5,577	-24%	4,835	-13%
Hotel	889	1,326	-33%	1,346	-34%
Car park	502	798	-37%	760	-34%
Property investment	90	98	-7%	66	37%
Gaming operations	88	271	-68%	271	-68%
Others	148	130	14%	173	-14%
Total Revenue	5,944	8,200	-28%	7,451	-20%
Cost of sales and services	(3,629)	(4,863)	-25%	(4,742)	-23%
Depreciation and amortisation of hotel and car park assets	(473)	(427)	11%	(449)	5%
Gross profit	1,841	2,513	-27%	2,259	-18%
Other income	260	-	NA	143	81%
Other gains and losses	426	300	42%	(16)	NA
Administrative expenses	(662)	(1,021)	-35%	(851)	-22%
– Hotel operations and management	(320)		NA	(442)	-28%
– Others	(342)		NA	(409)	-16%
Pre-operating expenses	-		NA	(28)	-100%
– Hotel operations and management	-		NA	(28)	-100%
Selling and marketing expenses	(245)	(164)	50%	(194)	27%
EBIT	1,620	1,627	0%	1,314	23%
Share of results of associates	(13)	-	NA	(11)	14%
Share of results of joint ventures	(31)	-	NA	3	NA
Finance costs	(310)	(562)	-45%	(468)	-34%
Profit before tax	1,266	1,065	19%	837	51%
Income tax expense	(460)	(287)	60%	(286)	61%
Profit for the year	806	777	4%	551	46%
Minority interest	63	85	-26%	87	-27%
Distribution to Perpetual Securities	200	206	-3%	99	103%
Attrib. Net Profit	543	487	12%	366	48%
Core net profit	722	914	-21%	842	-14%
Key Ratios					
Gross margin ex. Depreciation	38.9%	35.8%		36.4%	
Gross margin	31.0%	30.6%		30.3%	
Core Net Margins	12.1%	11.1%		11.3%	
	FY21A	FY21E		FY20A	
Gearing ratio ex. Hotel revaluation gains (x)	146%	168%		161%	
Gearing ratio (x)	55%	61%		57%	
Total Assets to Total Equity	2.93	3.00		2.92	

Source: Company Data, AMTD Research

Valuation & Risks

Figure 2: Peers Valuation Comparison (As of 24 June 2021)

Date	6/24/2021	Share Price	Mkt cap	P/E			EPS CAGR	P/B			Div. yield
Ticker	Name(EN)		(USD mn)	FY20	FY21E	FY22E	FY20-22E	FY20	FY21E	FY22E	FY20
Global Property Developer		HK\$									
35 HK	Far East [#]	3.14	969	8.8x	10.3x	5.5x	26%	0.7x	0.5x	0.7x	6.1%
HKSAR Property Developers		HK\$									
16 HK	SHK Properties	118.00	44,038	11.6x	10.8x	10.2x	7%	0.6x	0.6x	0.6x	4.2%
1113 HK	CK Asset	53.20	24,986	10.2x	9.1x	8.2x	11%	0.6x	0.5x	0.5x	3.4%
12 HK	Henderson Land	37.40	23,320	12.1x	12.8x	12.5x	-2%	0.6x	0.5x	0.5x	4.8%
17 HK	NWD*	40.95	13,407	15.9x	13.8x	13.2x	10%	0.5x	0.5x	0.5x	5.0%
83 HK	Sino Land	12.80	12,192	19.4x	10.5x	11.7x	29%	0.6x	0.6x	0.6x	4.3%
683 HK	Kerry Properties	25.55	4,793	8.8x	8.0x	7.7x	7%	0.3x	0.3x	0.3x	5.3%
Total/Average			122,736	13.0x	10.8x	10.6x	10%	0.5x	0.5x	0.5x	4.5%
UK Property Developers		GBP									
PSN LN	Persimmon	2,988.00	13,318	13.6x	12.2x	11.5x	9%	2.7x	2.7x	2.7x	7.9%
BDEV LN	Barratt Developments	706.60	10,051	18.2x	10.7x	9.4x	39%	1.5x	1.3x	1.2x	0.0%
TW/ LN	Taylor Wimpey	162.35	8,269	25.0x	9.9x	8.6x	71%	1.5x	1.4x	1.3x	2.6%
BKG LN	Berkeley Group	4,741.00	8,054	15.1x	13.9x	13.2x	7%	2.1x	1.8x	1.7x	2.5%
LAND LN	Landsec	693.80	7,215	12.4x	18.0x	14.5x	-8%	0.6x	0.7x	0.7x	3.3%
BLND LN	British Land	508.20	6,578	15.5x	23.7x	20.7x	-13%	0.7x	0.8x	0.8x	3.1%
BWY LN	Bellway	3,374.00	5,815	16.6x	9.8x	8.9x	36%	1.4x	1.2x	1.1x	1.5%
DLN LN	Derwent London	3,475.00	5,444	35.1x	33.5x	31.0x	7%	0.9x	0.9x	0.9x	2.1%
VTY LN	Vistry	1,226.00	3,806	23.3x	10.2x	8.8x	63%	1.2x	1.2x	1.1x	0.0%
CSP LN	Countryside Properties	504.50	3,697	69.1x	20.1x	13.0x	130%	2.4x	2.3x	2.0x	0.0%
RDW LN	Redrow	638.20	3,140	19.5x	10.7x	10.2x	38%	1.4x	1.2x	1.1x	0.0%
GPOR LN	Great Portland Estates	730.50	2,590	33.2x	45.5x	38.4x	-7%	0.8x	0.9x	0.9x	1.7%
HMSO LN	Hammerson	39.11	2,296	24.4x	39.4x	21.1x	8%	0.5x	0.6x	0.7x	1.0%
SMP LN	St. Modwen Properties	554.00	1,722	56.0x	32.2x	25.1x	49%	1.3x	NA	NA	0.9%
SPR LN	Springfield Properties	163.50	233	20.9x	10.8x	9.4x	49%	1.7x	1.4x	1.3x	2.0%
INL LN	Inland Homes	58.50	186	NA	11.5x	8.1x	-11%	0.8x	NA	NA	0.0%
Total/Average			82,416	26.5x	19.5x	15.7x	29%	1.3x	1.3x	1.3x	1.8%
AU Property Developers		AUD									
SGP AU	Stockland	4.76	8,610	13.7x	15.7x	13.3x	1%	1.2x	1.1x	1.1x	5.1%
LLC AU	Lendlease	12.02	6,271	NA	12.8x	10.6x	NA	1.2x	1.2x	1.2x	2.8%
PPC AU	Peet Ltd	1.20	438	29.5x	21.0x	14.3x	44%	1.2x	1.1x	1.0x	1.3%
CWP AU	Cedar Woods Properties	6.72	414	25.8x	15.7x	13.1x	40%	1.4x	NA	NA	2.8%
SDG AU	Sunland	2.35	244	19.6x	15.7x	7.1x	66%	0.9x	NA	NA	1.7%
AVJ AU	AVJennings	0.62	189	25.7x	NA	NA	NA	0.6x	NA	NA	4.4%
Total/Average			16,166	22.9x	16.2x	11.7x	38%	1.1x	1.2x	1.1x	3.0%

Source: Bloomberg Estimates, *AMTD Research Estimates, #FY21 P/E and P/B are actual

Key Risks

Key risks for the stock include (1) longer than expected economic recovery from COVID-19; (2) slower than expected property sales in the UK and Australia; and (3) unexpected tightening in monetary policy.

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

We, Jacky Chan and Eugene Chin, 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.

Firm Disclosure

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.

AMTD Global Markets Limited

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

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

GENERAL DISCLOSURES

The research report is prepared by AMTD Global Markets Limited ("AMTD") and is distributed to its selected clients.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal. It does not (i) constitute a personal advice or recommendation, including but not limited to accounting, legal or tax advice, or investment recommendations; or (ii) take into account any specific clients' particular needs, investment objectives and financial situation. AMTD does not act as an adviser and it accepts no fiduciary responsibility or liability for any financial or other consequences. This research report should not be taken in substitution for judgment to be exercised by clients. Clients should consider if any information, advice or recommendation in this research report is suitable for their particular circumstances and seek legal or professional advice, if appropriate.

This research report is based on information from sources that we considered reliable. We do not warrant its completeness or accuracy except with respect to any disclosures relative to AMTD and/or its affiliates. The value or price of investments referred to in this research report and the return from them may fluctuate. Past performance is not reliable indicator to future performance. Future returns are not guaranteed and a loss of original capital may occur.

The facts, estimates, opinions, forecasts and any other information contained in the research report are as of the date hereof and are subject to change without prior notification. AMTD has no obligation to update, modify or amend any part of this research report or to otherwise notify a recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. AMTD, its group companies, or any of its or their directors or employees ("AMTD Group") do not represent or warrant, expressly or impliedly, that the information contained in the research report is correct, accurate or complete and it should not be relied upon. AMTD Group will accept no responsibilities or liabilities whatsoever for any use of or reliance upon the research report and its contents.

This research report may contain information from third parties, such as credit ratings from credit ratings agencies. The reproduction and redistribution of the third party content in any form by any means is forbidden except with prior written consent from the relevant third party. Third party content providers do not guarantee the timeliness, completeness, accuracy or availability of any information. They are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability of fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities for investment purposes, and should not be relied on as investment advice.

To the extent allowed by relevant and applicable law and/or regulation: (i) AMTD, and/or its directors and employees may deal as principal or agent, or buy or sell, or have long or short positions in, the securities or other instruments based thereon, of issuers or securities mentioned herein; (ii) AMTD may take part or make investment in financing transactions with, or provide other services to or solicit business from issuer(s) of the securities mentioned in the research report; (iii) AMTD may make a market in the securities in respect of the issuer mentioned in the research report; (iv) AMTD may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this research report or may be providing, or have provided within the previous 12 months, other investment banking services, or investment services in relation to the investment concerned or a related investment.

AMTD controls information flow and manages conflicts of interest through its compliance policies and procedures (such as, Chinese Wall maintenance and staff dealing monitoring).

The research report is strictly confidential to the recipient. No part of this research report may be reproduced or redistributed in any form by any means to any other person without the prior written consent of AMTD Global Markets Limited.