

Far East Consortium

Earnings Update

1HFY19: Gaming segment becomes visible

Strong contracted sales; management FY19 outlook remains upbeat

1HFY19 revenue grew by 7% yoy despite a temporary drop in property development revenue due to completion timing. Core cash profit dropped by 6% yoy. Interim DPS was maintained at HK\$ 4 cents, same as 1HFY18. 1HFY19 contracted sales was very strong at HK\$4.3bn vs HK\$6.3 in FY18. The company has a diversified property development portfolio and hotel portfolio in Australia, Singapore, UK&Europe, China, HK and Malaysia and has demonstrated its ability to time different cycles in different markets. In FY19, the company maintains bullish in Singapore and UK and increased land purchases in these two markets. Despite the risks associated with a rising rates environment, we believe the company's ability to weather cycles should be valued.

Gaming sector increasingly important

For the first time, gaming sector started to contribute to revenue. Trans World Corporation contributed HK\$177 million revenue in gaming and hotel operations. Dividend from the stake in The star was HK\$ 35 million. In FY18, FEC has significantly increased resources in gaming sector. This is part of the company's strategy to capture the booming tourism in Australia. Apart from the 25% stake in Queen's Wharf Brisbane (open in FY22), FEC acquired 4.99% stake in its long-time partner in Australia The Star in Mar-18 which may give it more opportunities to participate in The Star's other projects in Australia.

HK\$ 15.5bn of unbooked presale & HK\$ 32.8bn of saleable resource

1HFY19 contracted sales was very strong at HK\$ 4.3bn. As of Sep-18, FEC has HK\$15.5bn unbooked presale. Within this, HK\$ 4.3bn will be delivered in FY19/20 compared to a HK\$ 3.4bn development segment revenue in FY18. On the other hand, FEC has HK\$ 32.8bn of saleable resource planning to launch in the next 5 years. Most importantly, FEC has increased exposures in UK and Singapore to take advantage of a relatively low land price there. These land resources could provide a buffer in light of potential market slowdown in other major markets. Strategic partnership with The Star could potentially add more quality land bank in Australia.

Development margin will come back to a more normalized level

Overall GPM came down to 48% from 56% in 1HFY18. GPM of property development was 41% vs 59% in 1HFY18 without the bulk contribution from high margin Shanghai project. It could be difficult to maintain such a high development margin as contribution from China projects will gradually decrease. But the strong pipeline could potentially offset this impact and maintain growth momentum in gross profit. GPM of hotel operations improved stayed flat at 61% with a strong improvement in RevPAR (+15.8% yoy) for Dorsett Group.

Price target updated to HK\$5.86 (60% upside); hidden gem with deep NAV discount

Sufficient saleable resource in diversified markets and potential to cash out from the hotels are reasons that we maintain 'Buy' for FEC. We updated our PT to HK\$5.86 from HK\$5.69 to reflect newly added land bank and add the stake in The Star and TWC. Our PT is derived by using sum-of-the-parts method. Current share price implies a 71% discount to our estimated Mar-19 Net Asset Value (NAV).

Stock code: 35.HK

Rating: Buy

Price target (HK\$)	5.86
Previous Price target (HK\$)	5.69
Current price (HK\$, 28 Nov 2018)	3.67
Upside/downside %	60%
Market cap (HK\$ m)	8,578
Market cap (US\$ m)	1,096
Avg daily turnover (HK\$ m)	4.23

Source: Bloomberg, AMTD estimates

Key forecasts

(HK\$ m)	FY18	FY19e	FY20e	FY21e
Net profit	1,569	1,659	1,722	2,473
yoy %	40%	6%	4%	44%
Revenue	5,831	6,469	8,950	14,315
yoy %	16%	11%	38%	60%
EBITDA	2,717	2,894	3,002	4,060
Net gearing	29%	35%	34%	31%
EPS	0.70	0.73	0.76	1.09
BPS	5.72	6.22	6.74	7.55
DPS	0.22	0.23	0.24	0.27

Source: Company data, AMTD estimates

Valuation

(HK\$ m)	FY17	FY18	FY19e	FY20e
P/E (x)		6.8	5.2	5.0
P/BV (x)		0.81	0.60	0.55
Div yield		4.8%	6.4%	6.6%
ROE	10.7%	13.2%	12.3%	11.7%
ROA	4.1%	5.0%	4.5%	4.1%

Source: Bloomberg, AMTD estimates

Share price performance



Source: Bloomberg

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Figure 1: 1HFY19 results

HK\$ m	1HFY18	1HFY19	YoY %
P&L, HK\$ m			
Revenue	2,776	2,965	7%
Property development	1,655	1,466	-11%
Hotel	695	879	-95%
Car park	333	358	7%
Property investment	31	34	14%
Gaming operations		149	
Others	62	80	28%
Cost of sales and services	(1,210)	(1,533)	27%
Depreciation and amortisation of hotel and car park assets	(161)	(192)	19%
Gross profit	1,405	1,240	-12%
Property development	983	595	-39%
Hotel	277	364	32%
Car park	68	68	-1%
Gaming operations		121	
Leasing and others	77	93	20%
Other income	12	71	468%
Other gains and losses	486	143	-71%
Administrative expenses	(310)	(411)	33%
Pre-operating expenses	(6)	(1)	-87%
Selling and marketing expenses	(86)	(71)	-17%
EBIT	1,502	970	-35%
Share of results of associates	(1)	22	-1870%
Share of results of joint ventures	(1)	2	-388%
Finance costs	(147)	(124)	-16%
Profit before tax	1,353	871	-36%
Income tax expense	(306)	(236)	-23%
Profit for the year	1,046	636	-39%
Minority interest	14	19	42%
Attributable net profit	1,033	616	-40%
Adjusted cash profit	747	699	-6%

Source: Company data

Figure 2: FEC key ratios

Ratios	FY17	FY18	1HFY18	1HFY19
Gross margin ex. Depreciation	46%	51%	56%	48%
Gross margin	40%	45%	51%	42%
Gross debt	13,270	16,366	13,632	18,810
Net debt	7,654	8,280	7,732	12,864
EBIT	1,744	2,375	1,502	970
EBITDA	2,051	2,717	1,663	1,163
Gearing ratio ex. Hotel revaluation gains (x)	71%	64%	65%	104%
Gearing ratio (x)	31%	29%	34%	50%
Net debt/EBITDA (x)	3.7	3.0	4.7	11.1
EBITDA cover (x)	11.8	11.9	11.3	9.4
Selling and marketing expense % of revenue	0.9%	2.2%	2.6%	2.6%
Admin expense % of revenue	12%	11%	11%	14%

Source: Company data

Figure 3: Profit & loss forecast

HK\$ m	FY16	FY17	FY18	FY19e	FY20e
P&L, HK\$ m					
Revenue	3,995	5,005	5,831	6,469	8,950
Property development	1,971	2,937	3,431	3,447	5,721
Hotel	1,285	1,309	1,538	1,823	1,970
Car park	623	641	666	700	735
Property investment	59	55	66	69	79
Gaming operations				300	315
Others	58	64	130	130	130
Cost of sales and services	(1,990)	(2,709)	(2,855)	(2,797)	(5,113)
Depreciation and amortisation of hotel and car park assets	(299)	(307)	(342)	(356)	(357)
Gross profit	1,706	1,990	2,634	3,316	3,138
Property development	1,002	1,272	1,705	1,981	1,649
Hotel	541	518	645	802	930
Car park	117	114	122	128	135
Gaming operations				240	252
Leasing and others	46	86	162	164	172
EBIT	1,206	1,744	2,375	2,538	2,645
Finance costs	(228)	(173)	(229)	(241)	(258)
Profit before tax	979	1,567	2,156	2,298	2,387
Income tax expense	(221)	(434)	(571)	(620)	(644)
Profit for the year	758	1,133	1,585	1,677	1,743
Minority interest	24	15	17	18	20
Attributable net profit	734	1,118	1,569	1,659	1,722
Tax rate	22.6%	27.7%	26.5%	27%	27%
Adjusted cash profit	853	1,157	1,643	2,015	2,079
DPS	0.16	0.18	0.22	0.23	0.24
EPS	0.37	0.51	0.70	0.73	0.76
Gross margin	43%	40%	45%	51%	35%

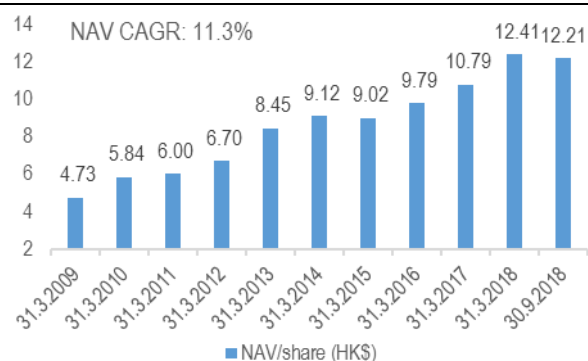
Source: Company data, AMTD estimates

Figure 4: FEC price target derivation

HK\$ m	2019 NAV	NAV per share (HK\$)	Multiple applied	Target valuation	Valuation per share (HK\$)
Property development	25,840	11.54	55% discount	11,628	5.19
Hotel	9,435	4.22	15% discount	8,492	3.79
Car parks	742	0.33	9.3x PE	742	0.33
Property investment	1,599	0.71	20% discount	1,279	0.57
The Star	1,152	0.51	Market value	1,152	0.51
TWC	400	0.18	10x EV/EBITDA	400	0.18
Total valuation	39,168	17.50		23,693	10.58
Net debt	(10,572)	(4.72)		(10,572)	(4.72)
Net valuation (Mar-19)	28,596	12.78		13,120	5.86
Price target (Mar-19)					5.86
Current share price (HK\$, 28 Nov 2018)					3.67
Implied upside					60%
Share price discount to NAV					-71%

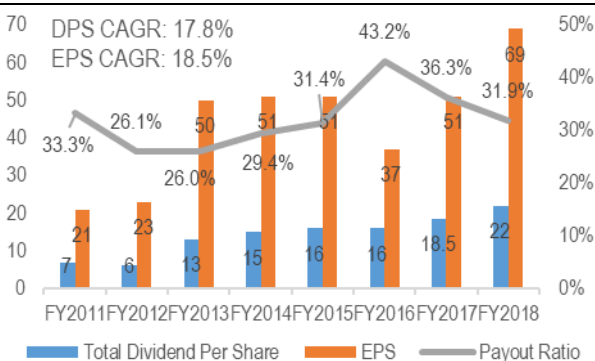
Source: AMTD Equity Research estimates

Figure 5: Consistent NAV creation



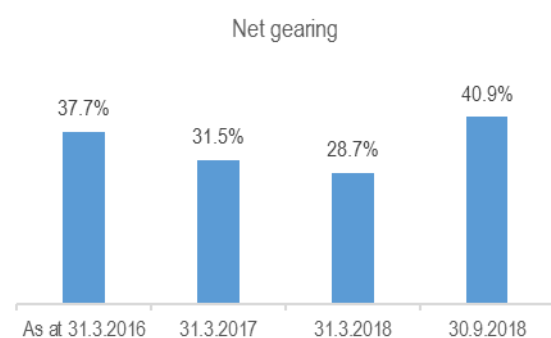
Source: Company data

Figure 6: Consistent dividend growth



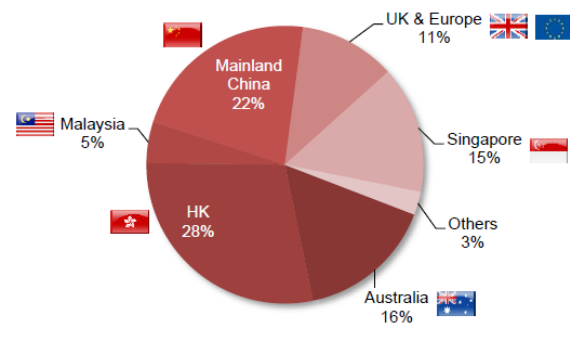
Source: Company data

Figure 7: Net gearing

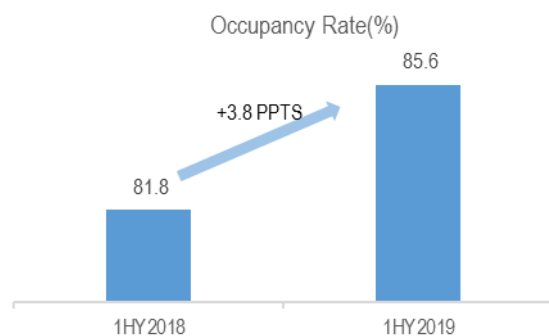


Source: Company data; Note: Net gearing ratio is calculated by dividing total bank loans, notes and bonds less bank and cash balances, and investment securities by the carrying amount of total equity and the unrecognized revaluation surplus on hotel assets.

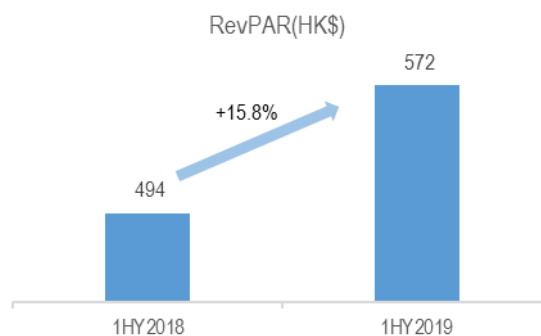
Figure 8: Total revenue by geography



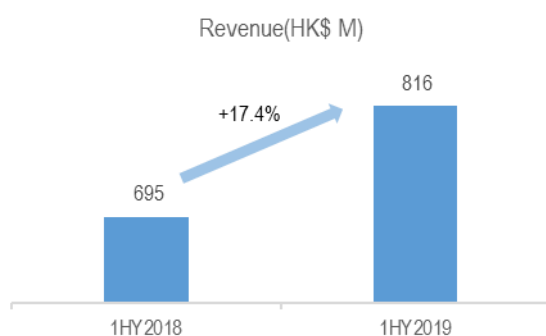
Source: Company data; Note: As at 30 Sep 2018, adjusted for hotel revaluation surplus.

Figure 9: Hotel occupancy rate

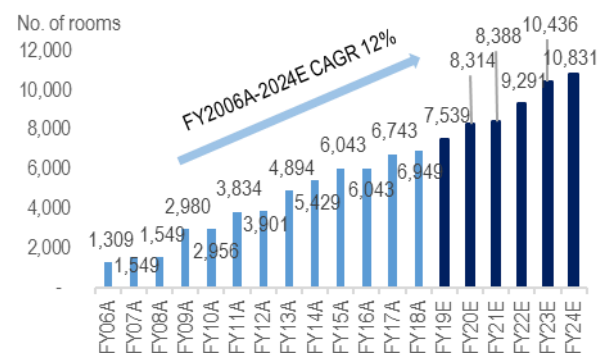
Source: Company data

Figure 10: Solid RevPAR growth

Source: Company data

Figure 11: Hotel revenue

Source: Company data

Figure 12: Number of hotel rooms

Source: Company data

Figure 13: Property development – sufficient pipeline in place

Projects completed	New Launches	Land Replenishment
<ul style="list-style-type: none"> Royal Riverside, Guangzhou (Towers 1 to 4)[#] Aspen Crest, Hong Kong[#] <p>[#] Partially completed with remaining units to be delivered in FY2019</p>	<ul style="list-style-type: none"> The Garrison, Hong Kong West Side Place (Tower 3), Melbourne Hornsey Town Hall, London Royal Riverside (Tower 5), Guangzhou Perth Hub, Perth[#] Manor Parc, Hong Kong[#] <p>[#] Launched post 30.9.2018</p>	<ul style="list-style-type: none"> Holland Road, Singapore Cuscaden Road, Singapore 21 Anderson Road, Singapore Dantzie Street site of Northern Gateway, Manchester

Source: Company data

Figure 14: Strong pipeline for property development

Projects under presale @30.9.2018		Location	Cumulative attr. presales (HK\$ M)	Expected attr. SFA ⁽¹⁾ (sq. ft.)	Expected attr. GDV ⁽¹⁾ (HK\$ M)	Expected Completion ⁽²⁾	Cumulative presale as % of GDV
1	Aspen Crest ⁽³⁾	Hong Kong	645	39,000	645	FY2019	100%
2	The Towers at Elizabeth Quay	Perth	2,052	371,000	2,708	FY2019/20	76%
3	West Side Place (Towers 1 and 2)	Melbourne	4,796	1,078,000	5,349	FY2021	90%
4	West Side Place (Tower 3)	Melbourne	2,028	589,000	2,795	FY2023	73%
5	West Side Place (Tower 4)	Melbourne	2,069	572,000	2,757	FY2023	75%
6	Artra ⁽⁴⁾	Singapore	1,547	230,000	2,147	FY2021	78%
7	Marin Point	Hong Kong	219	103,000	1,078	FY2019	20%
8	The Star Residences ⁽⁵⁾	Gold Coast	405	100,000	508	FY2022	80%
9	MeadowSide (Plots 2 and 3)	Manchester	342	221,000	942	FY2021	36%
10	Astoria Crest	Hong Kong	422	20,000	422	FY2019	100%
11a	Royal Riverside (Towers 1, 2, 3 & 4) ⁽⁶⁾	Guangzhou	227	118,000	386	FY2019	59%
11b	Royal Riverside (Tower 5)	Guangzhou	65	207,000	789	FY2019/20	8%
12	Hornsey Town Hall	London	79	107,000	959	FY2021/22	8%
13	The Garrison	Hong Kong	635	29,000	678	FY2020	94%
Total presales value			15,531	3,784,000	22,163		70%
Other active development pipeline		Location	Expected presale launch time ⁽²⁾	Expected attr. SFA ⁽¹⁾ (sq. ft.)	Expected attr. GDV ⁽¹⁾ (HK\$ M)	Expected completion ⁽²⁾	
14	MeadowSide (Plot 4)	Manchester	Planning	238,000	1,130	Planning	
15	MeadowSide (Plot 5)	Manchester	FY2019	99,000	414	FY2021	
16	Manor Parc	Hong Kong	FY2019	50,000	601	FY2019	
17	Shatin Heights	Hong Kong	FY2020	84,000	1,671	FY2021	
18-20	Queen's Wharf ⁽⁷⁾	Brisbane	FY2019	259,000	1,050	FY2023	
	Tower 4		Planning	224,000	1,065	Planning	
	Tower 5		Planning	224,000	1,065	Planning	
21	Perth Hub	Perth	FY2019	221,000	899	FY2022	
22	Alpha Square	London	FY2020	390,000	4,349	FY2024/25	
23	Northern Gateway ⁽⁸⁾	Manchester	Planning	2,165,000	8,341	Planning	
24	Holland Road ⁽⁹⁾	Singapore	FY2020	192,000	3,138	FY2024	
25	Cuscaden Road ⁽¹⁰⁾	Singapore	FY2020	19,000	391	FY2023	
Subtotal (pipeline)				4,165,000	24,114		
Total (presales + pipeline)				7,949,000	46,277		
Completed development available for sale							
1	King's Manor	Shanghai		51,000	313		
2	The Royal Crest II	Shanghai		64,000	353		
3	Dorsett Bukit Bintang	Kuala Lumpur		31,000	125		
4	The FIFTH ⁽¹¹⁾	Melbourne		1,000	3		
5	Hong Kong project	Hong Kong		1,000	36		
6	21 Anderson Road	Singapore		86,000	1,223		
Subtotal (completed development)				234,000	2,053		
Total (presales + pipeline + inventory) as at 30.9.2018				8,183,000	48,330		

Source: Company data

Figure 15: Hotel portfolio

	City	Description	Rooms	Capital Value @ 31.3.2018 (HK\$ M)	Book Value @ 31.3.2018 (HK\$ M)	Revaluation Surplus (HK\$ M)
Hotels in operation						
Hong Kong						
1 Dorsett Wanchai	Hong Kong	Near Wanchai and Causeway Bay	454	3,595	327	3,268
2 Cosmo Hotel	Hong Kong	Hong Kong's prime business area	142	850	116	734
3 Lan Kwai Fong Hotel @ Kau U Fong	Hong Kong	CBD & premiere dining and entertainment zone	162	1,330	167	1,163
4 Silka Seaview	Hong Kong	Close to Yau Ma Tei station next to Jade market	268	1,060	372	688
5 Silka Far East	Hong Kong	Easy access to commercial hubs of Central & TST	240	744	130	614
6 Dorsett Mongkok	Hong Kong	Shopping neighbourhood of Mong Kok	285	1,280	226	1,054
7 Dorsett Kwun Tong	Hong Kong	Located in the heart of Hong Kong East	361	1,334	295	1,039
8 Dorsett Tsuen Wan	Hong Kong	Easy access to airport	547	2,000	840	1,160
9 Silka Tsuen Wan	Hong Kong	Densely populated Kwai Chung district	409	1,220	528	692
Malaysia						
10 Dorsett Kuala Lumpur	Kuala Lumpur	Heart of Kuala Lumpur's Golden Triangle	322	473	115	358
11 Dorsett Grand Subang	Subang Jaya	Commercial hub of Subang Jaya	478	775	231	544
12 Dorsett Grand Labuan	Labuan	Revitalised business district of Labuan	178	339	90	249
13 Silka Maytower Hotel & Serviced Residences	Kuala Lumpur	Central Kuala Lumpur	179	166	172	(6)
14 Silka Johor Bahru	Johor	Gateway between Singapore and Malaysia	252	162	113	49
15 Dorsett Residences Bukit Bintang	Kuala Lumpur	At tower of Dorsett Residences	98	n/a	n/a	n/a
Mainland China						
16 Dorsett Wuhan	Wuhan	Heart of downtown	317	1,050	660	390
17 Dorsett Shanghai	Shanghai	Heart of Pudong	264	919	316	603
18 Dorsett Grand Chengdu	Chengdu	Famous historical Luoma Market	550	1,100	442	658
19 Lushan Resort	Lushan	Well known tourist destination	297	238	192	46
Singapore						
20 Dorsett Singapore	Singapore	Singapore's CBD	285	1,535	583	952
United Kingdom						
21 Dorsett Shepherds Bush	London	Close to Westfield Shopping Centre	317	995	495	500
22 Dorsett City, London	London	Situated above the Aldgate tube station	267	1,287	623	664
Australia						
23 Sheraton Mirage (25% stake)	Gold Coast	Beach front property complementing Queen's Wharf Brisbane	295	n/a	n/a	n/a
Europe						
24 Hotel Columbus ⁽¹⁾	Germany	4-star rated in Seligenstadt	117	n/a	n/a	n/a
25 Hotel Freizeit Auefeld ⁽¹⁾	Germany	4-star rated in Hann Münden	93	n/a	n/a	n/a
26 Hotel Kranichhöhe ⁽¹⁾	Germany	4-star rated in Much	107	n/a	n/a	n/a
27 Hotel Donauwelle ⁽¹⁾	Austria	4-star rated in Linz	176	n/a	n/a	n/a
28 Hotel Savannah ⁽¹⁾	Czech Republic	4-star rated at Czech-Austrian Border, adjacent to Route 59	79	n/a	n/a	n/a
Subtotal of hotels in operation			7,539	22,452	7,033	15,419
Owned hotels under development						
29 Dorsett Zhongshan ⁽²⁾	Zhongshan	Heart of business district	418	275	101	174
30 Dorsett Shepherd's Bush II	London	Close to Westfield Shopping Centre and Earls Court	74	120	120	-
31-34 Destination Brisbane Consortium (25% stake)	Brisbane	4 world class hotels including Dorsett and Rosewood	993	n/a	n/a	n/a
35 Alpha Square	London	Mixed-used development including residential units and retail unit	231	n/a	n/a	n/a
36 Ritz Carlton Hotel	Melbourne	Occupies the top 18 floors of the West Side Place (Tower 1)	257	n/a	n/a	n/a
37 Dorsett Melbourne	Melbourne	At Tower 3 of West Side Place	316	n/a	n/a	n/a
38 Ritz Carlton Hotel	Perth	Part of the iconic luxury chain of Ritz-Carlton hotels and resorts	205	n/a	n/a	n/a
39 Dorsett at Perth City Link	Perth	n/a	263	n/a	n/a	n/a
40 Dorsett Gold Coast (33% stake)	Gold Coast	JV with the Star ad CTF	316	n/a	n/a	n/a
41 Sri Jati Services Apartment	Kuala Lumpur	n/a	154	n/a	n/a	n/a
42 Hornsey Town Hall	London	Boutique hotel at Hornsey Townhall, North London	67	n/a	n/a	n/a
Total as at 31.3.2018 (including pipeline hotels)			10,831	22,847	7,254	15,593

Source: Company data

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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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