

Far East Consortium

Earnings Update

FY19: Sufficient quality new launches in FY20

Sufficient unbooked presales; HK\$15.4bn worth of new launches planned in FY20

FY19 revenue grew by 17.3% yoy with growth across the segments. Development gross margin came back to a more normalized level as expected. As a result, core cash profit grew by 9.6% yoy. Full year DPS was maintained at HK\$22 cents, same as FY18. We estimate that FY19 contracted sales slightly declined to HK\$5.0bn vs HK\$6.3bn in FY18. For FY20 FEC plans a HK\$15.4bn worth of new launches. 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, management remains optimistic in Australia and UK. Despite some weakness in global property market, we believe the company's ability to weather cycles should be valued.

Gaming sector increasingly important

In FY19 gaming sector started to contribute to revenue. Trans World Corporation contributed HK\$259mn revenue in gaming operations. Dividend from the stake in The Star was HK\$35mn for FY19. 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\$14.6bn of unbooked presale & HK\$33.5bn of saleable resource

As of Mar-19, FEC has HK\$14.6bn unbooked presale which will be booked in the next 3-4 years. On the other hand, FEC has HK\$33.5bn of saleable resource planning to launch in the next 5 years. In FY19, the company acquired new land in Melbourne and Shanghai. 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 38.1% from 45.2% in FY18. GPM of property development was 35.6% vs 49.7% in FY18 without the bulk contribution from high margin Mainland 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 stayed flat at 62% with a strong improvement in RevPAR (+9.5% yoy) for Dorsett Group.

Price target unchanged at HK\$5.86 (61% 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. Our PT is derived by using sum-of-the-parts method. Current share price implies a 73% discount to our estimated Net Asset Value (NAV).

Stock code: 35.HK

Rating: Buy

Price target (HK\$)	5.86
Previous Price target (HK\$)	5.86
Current price (HK\$, 2 Jul, 2019)	3.64
Upside/downside %	61%
Market cap (HK\$ m)	8,560
Market cap (US\$ m)	1,097
Avg daily turnover (HK\$ m)	3.40

Source: Bloomberg, AMTD estimates

Key forecasts

(HK\$ m)	FY18	FY19	FY20e	FY21e
Core cash profit	1,329	1,457	1,871	1,853
yoy %	15%	10%	28%	-1%
Revenue	5,831	6,842	8,378	11,958
yoy %	16%	17%	22%	43%
EBITDA	2,717	3,057	2,754	2,755
Net gearing	29%	49%	52%	58%
EPS (HK\$)	0.70	0.75	0.63	0.62
BPS (HK\$)	5.72	5.79	6.20	6.60
DPS (HK\$)	0.22	0.22	0.22	0.22

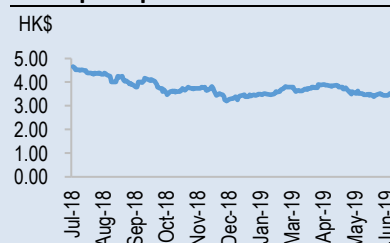
Source: Company data, AMTD estimates

Valuation

(HK\$ m)	FY18	FY19	FY20e	FY21e
P/E (x)	5.5	5.0	5.8	6.0
P/BV (x)	0.65	0.63	0.58	0.55
Div yield	6.0%	6.0%	6.1%	5.9%
ROE	13.2%	13.0%	10.6%	9.6%
ROA	5.0%	4.7%	3.4%	3.1%

Source: Bloomberg, AMTD estimates

Share price performance



Source: Bloomberg

Michelle Li
 Analyst

+852 3163 3383

Michelle.Li@amtdgroup.com

Figure 1: FY19 results

HK\$ m						
P&L, HK\$ m	FY17	FY18	FY19	FY19e	Actual vs forecast %	FY19YoY %
Revenue	5,005	5,831	6,842	6,469	6%	17%
Property development	2,937	3,431	3,811	3,447	11%	11%
Hotel	1,309	1,538	1,818	1,823	0%	18%
Car park	641	666	720	700	3%	8%
Property investment	55	66	64	69	-7%	-2%
Gaming operations				300	-100%	n.a
Others	64	130	170	130	30%	30%
Cost of sales and services	(2,709)	(2,855)	(3,836)	(2,797)	37%	34%
Depreciation and amortisation of hotel and car park assets	(307)	(342)	(397)	(356)	12%	16%
Gross profit	1,990	2,634	2,610	3,316	-21%	-1%
Property development	1,272	1,705	1,356	1,981	-32%	-20%
Hotel	518	645	782	802	-3%	21%
Car park	114	122	116	128	-10%	-5%
Gaming operations				240	-100%	n.a
Leasing and others	86	162	201	164	23%	24%
Other income	25	32	66	71	-7%	104%
Other gains and losses	368	505	979	140	599%	94%
Administrative expenses	(584)	(661)	(827)	(859)	-4%	25%
Selling and marketing expenses	(46)	(128)	(166)	(129)	28%	29%
EBIT	1,744	2,375	2,660	2,538	5%	12%
Finance costs	(173)	(229)	(368)	(241)	53%	61%
Profit before tax	1,567	2,156	2,312	2,298	1%	7%
Income tax expense	(434)	(571)	(544)	(620)	-12%	-5%
Profit for the year	1,133	1,585	1,769	1,677	5%	12%
Minority interest	15	19	55	18	200%	195%
Attributable net profit	1,118	1,567	1,714	1,659	3%	9%
Tax rate	27.7%	26.5%	23.5%	27.0%	-13%	-11%

Source: Company data, AMTD estimates

Figure 2: FEC key ratios

Ratios	FY17	FY18	FY19	FY20e	FY21e	FY22e
Gross margin	40%	45%	38%	36%	27%	37%
Gross debt	13,270	16,366	21,361	20,361	15,545	10,729
Net debt	7,654	8,280	15,373	16,942	19,414	30,530
EBIT	1,744	2,375	2,660	2,350	2,329	1,866
EBITDA	2,051	2,717	3,057	2,754	2,755	2,315
Gearing ratio ex. Hotel revaluation gains (x)	71%	64%	115%	118%	127%	190%
Gearing ratio (x)	31%	29%	49%	52%	58%	89%
Net debt/EBITDA (x)	3.7	3.0	5.0	6.2	7.0	13.2
EBITDA cover (x)	11.8	11.9	8.3	10.7	9.7	8.1
Selling and marketing expense % of revenue	0.9%	2.2%	2.0%	1.5%	2.0%	2.0%
Admin expense % of revenue	12%	11%	12%	10%	8%	21%
Avg interest cost	3.5%	2.6%	2.6%	2.6%	3.0%	3.0%
ROA	4.1%	5.0%	4.7%	3.4%	3.1%	2.9%
ROE	10.7%	13.2%	13.0%	10.6%	9.6%	6.9%

Source: Company data, AMTD estimates

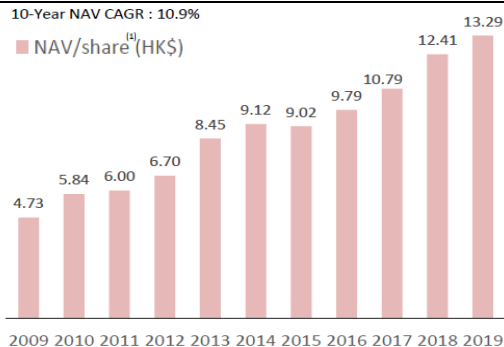
Figure 3: Profit & loss forecast

P&L	FY17	FY18	FY19	FY20e	FY21e	FY22e
Revenue	5,005	5,831	6,842	8,378	11,958	10,590
Property development	2,937	3,431	3,811	5,169	8,546	7,062
Hotel	1,309	1,538	1,818	1,970	2,104	2,263
Car park	641	666	720	756	794	834
Property investment	55	66	64	79	98	1
Gaming operations	-	-	259			
Others	64	130	170	130	130	130
Cost of sales and services	(2,709)	(2,855)	(3,836)	(4,601)	(7,884)	(5,790)
Depreciation and amortisation of hotel and car park assets	(307)	(342)	(397)	(404)	(427)	(450)
Gross profit	1,990	2,634	2,610	3,003	3,260	3,961
Property development	1,272	1,705	1,356	1,645	1,853	2,550
Hotel	518	645	782	894	913	985
Car park	114	122	116	121	128	134
Leasing and others	86	162	201	180	196	113
Other income	25	32	66	0	0	0
Other gains and losses	368	505	979	300	300	300
Administrative expenses	(584)	(661)	(827)	(827)	(993)	(2,184)
Selling and marketing expenses	(46)	(128)	(166)	(126)	(239)	(212)
EBIT	1,744	2,375	2,660	2,350	2,329	1,866
Finance costs	(173)	(229)	(368)	(258)	(284)	(284)
Profit before tax	1,567	2,156	2,312	2,092	2,044	1,581
Income tax expense	(434)	(571)	(544)	(565)	(552)	(427)
Profit for the year	1,133	1,585	1,769	1,527	1,492	1,154
Minority interest	15	19	55	61	67	73
Attributable net profit	1,118	1,567	1,714	1,467	1,426	1,081
Tax rate	27.7%	26.5%	23.5%	27.0%	27.0%	27.0%
Core cash profit	1,157	1,329	1,457	1,871	1,853	1,531
Dividend payout ratio	37%	32%	30%	35%	35%	30%
DPS	0.18	0.22	0.22	0.22	0.22	0.14
EPS	0.51	0.70	0.75	0.63	0.62	0.47

Source: Company data, AMTD estimates

Figure 4: Consistent NAV creation

10-Year NAV CAGR : 10.9%

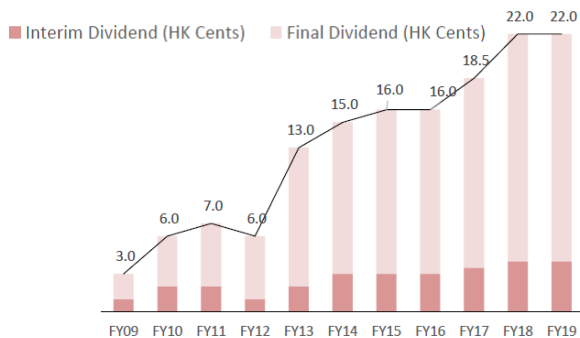
■ NAV/share^(a) (HK\$)

Source: Company data; Note: Adjusted for hotel revaluation surplus.

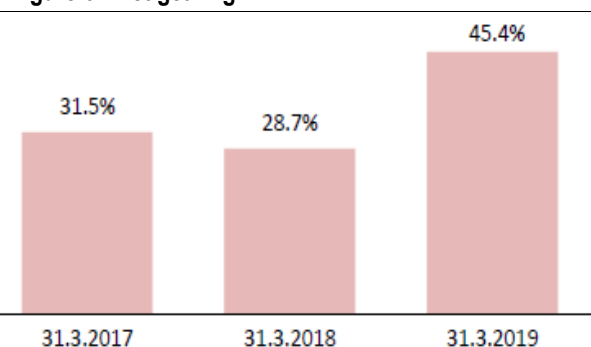
Figure 5: Consistent dividend growth

10 Year DPS CAGR: 22.0%

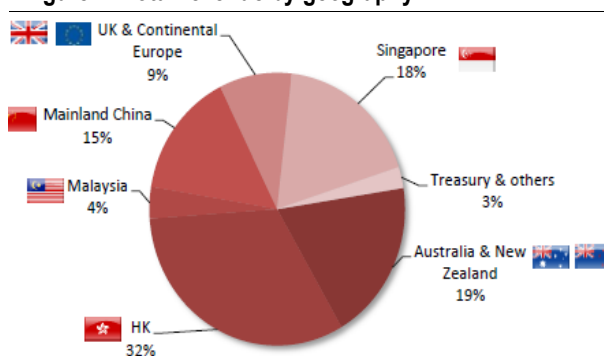
■ Interim Dividend (HK Cents) ■ Final Dividend (HK Cents)



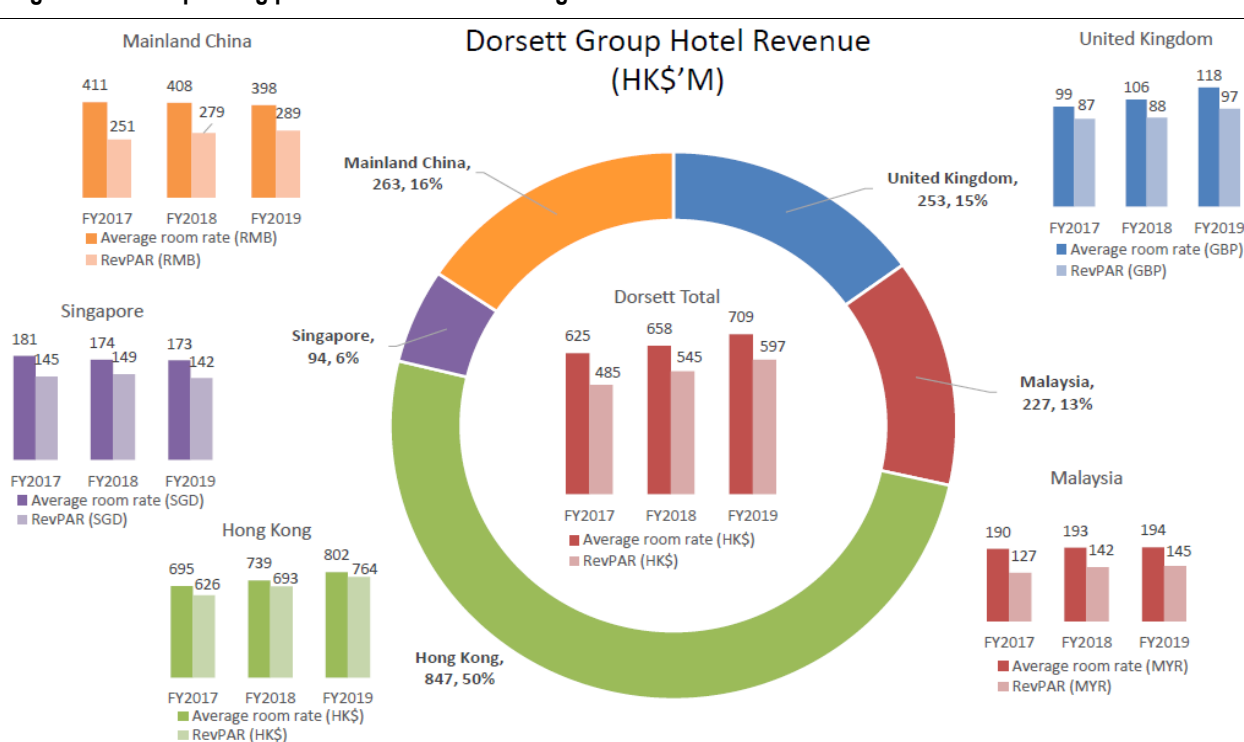
Source: Company data

Figure 6: Net gearing

Source: Company data; Note: Net gearing ratio represents total bank loans, notes and bonds less investment securities, bank and cash balances divided by carrying amount of total equity and hotel revaluation surplus.

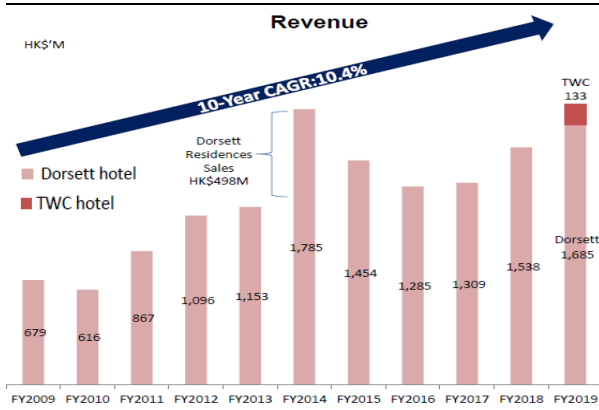
Figure 7: Total revenue by geography

Source: Company data; Note: As at 31 Mar 2019, adjusted for hotel revaluation surplus.

Figure 8: Solid operating performance with RevPAR growth

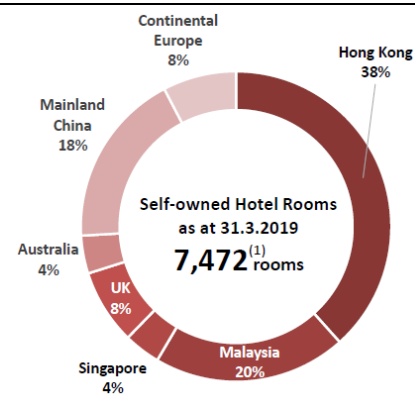
Source: Company data

Figure 9: Hotel revenue



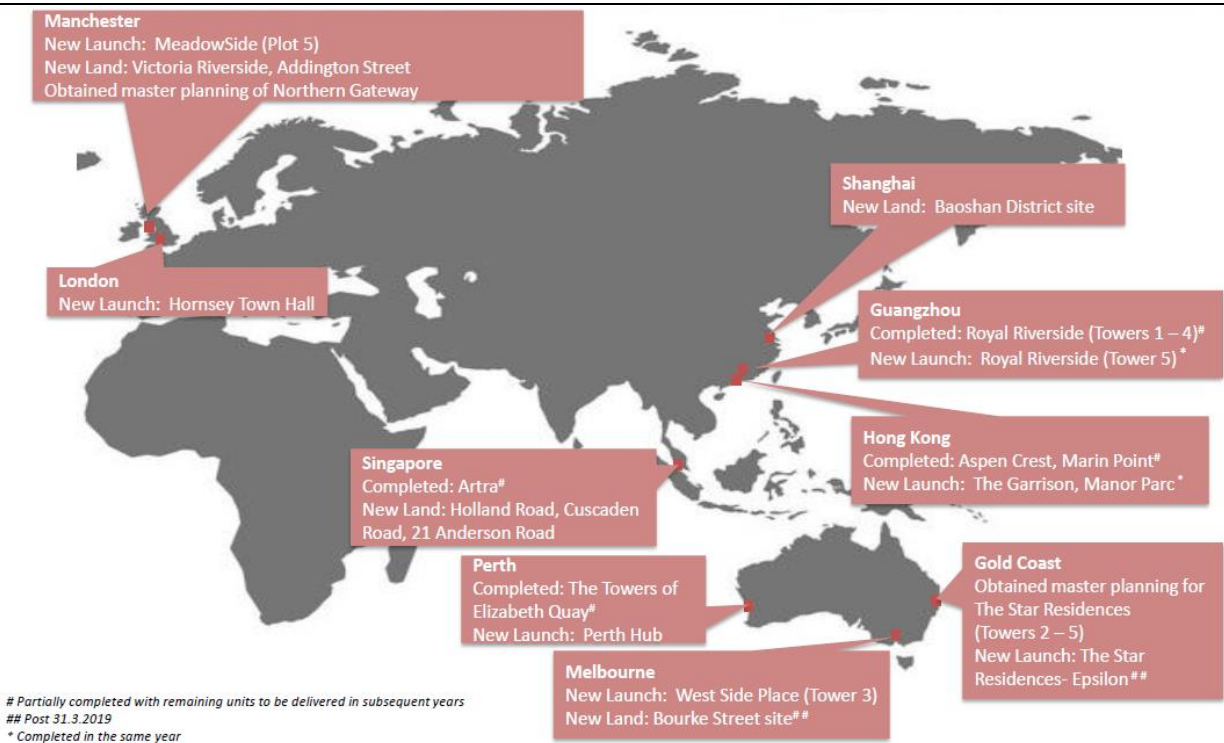
Source: Company data

Figure 10: More than 7,400 self-owned hotel rooms



Source: Company data

Figure 11: Property development – sufficient pipeline in place



Source: Company data

Figure 12: Strong pipeline for property development

Projects under presale @31.3.2019	Location	Cumulative presales (HK\$ M)	Expected attr. SFA ⁽¹⁾ (sq. ft.)	Expected attr. GDV ⁽¹⁾ (HK\$ M)	Expected Completion ⁽²⁾	Cumulative presale as % of GDV
1 The Towers at Elizabeth Quay ⁽³⁾	Perth	1,619	306,000	2,224	FY2020	73%
2 West Side Place (Towers 1 and 2)	Melbourne	4,848	1,078,000	5,299	FY2021	92%
3 West Side Place (Tower 3)	Melbourne	2,347	518,000	2,515	FY2022	93%
4 West Side Place (Tower 4)	Melbourne	2,334	621,000	2,991	FY2023	78%
5 Artra ⁽⁴⁾	Singapore	1,165	149,000	1,658	FY2021	70%
6 The Star Residences (Tower 1) ⁽⁵⁾	Gold Coast	415	98,000	501	FY2022	83%
7 MeadowSide (Plots 2 and 3)	Manchester	411	221,000	944	FY2021	43%
8 MeadowSide (Plots 5)	Manchester	16	99,000	415	FY2021	4%
9 Astoria Crest	Hong Kong	422	20,000	422	FY2020	100%
10 Hornsey Town Hall	London	152	108,000	962	FY2021	16%
11 The Garrison	Hong Kong	635	29,000	678	FY2020	94%
12 Perth Hub	Perth	250	230,000	866	FY2022	29%
Total presales value		14,614	3,477,000	19,475		75%
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⁾	
13 MeadowSide (Plot 4)	Manchester	Planning	238,000	1,132	Planning	
14 Shatin Heights	Hong Kong	FY2020	84,000	1,671	Planning	
15-17 Queen's Wharf ⁽⁴⁾	Tower 4 Tower 5 Tower 6	FY2020 Planning Planning	284,000 280,000 223,000	1,634 1,609 1,282	FY2022 Planning Planning	
18 The Star Residences - Epsilon (Tower 2) ⁽⁵⁾	Gold Coast	FY2020	109,000	664	FY2023	
19 The Star Residences (Towers 3 to 5) ⁽⁵⁾	Gold Coast	Planning	337,000	1,665	Planning	
20 Consort Place	London	FY2020	390,000	4,512	FY2023	
21 Northern Gateway-Addington Street	Manchester	FY2020	47,000	184	Planning	
22 Northern Gateway-Victoria Riverside	Manchester	FY2021	396,000	1,515	Planning	
23 Northern Gateway-Others ⁽⁷⁾	Manchester	Planning	1,202,000	4,477	Planning	
24 Holland Road ⁽⁸⁾	Singapore	FY2020	192,000	3,176	FY2023	
25 Cuscaden Road ⁽⁸⁾	Singapore	FY2020	19,000	395	FY2023	
Subtotal (pipeline)			3,801,000	23,916		
Total (presales + pipeline)			7,278,000	43,391		
Completed development available for sale						
1 King's Manor	Shanghai		50,000	309		
2 Royal Crest II	Shanghai		57,000	366		
3 Dorsett Bukit Bintang	Kuala Lumpur		31,000	124		
4 Royal Riverside (Towers 1 to 5)	Guangzhou		292,000	1,138		
5 21 Anderson Road	Singapore		86,000	1,238		
6 Manor Parc	Hong Kong		50,000	641		
7 Marin Point	Hong Kong		80,000	843		
8 Others	Hong Kong		1,000	36		
Subtotal (completed development)			647,000	4,695		
Total (presales + pipeline + inventory) as at 31.3.2019			7,925,000	48,086		
Additional pipeline post 31.3.2019						
1 Bourke Street	Melbourne	FY2020	552,000	3,179	FY2024	
Subtotal (additional pipeline post 31.3.2019)			552,000	3,179		
Total (presales + pipeline + inventory)			8,477,000	51,265		

Source: Company data

Figure 13: Hotel portfolio

	City / Country	Description	Rooms	Capital Value @ 31.3.2019	Book Value @ 31.3.2019	Revaluation Surplus
4 Silka Seaview	Hong Kong	Close to Yau Ma Tei station next to Jade market	268	1,140	360	780
5 Silka Far East	Hong Kong	Easy access to commercial hubs of Central & TST	240	833	126	707
6 Dorsett Mongkok	Hong Kong	Shopping neighbourhood of Mong Kok	285	1,370	221	1,149
7 Dorsett Kwun Tong	Hong Kong	Located in the heart of Kowloon East	361	1,535	285	1,250
8 Dorsett Tsuen Wan	Hong Kong	Easy access to airport	548	2,359	811	1,548
9 Silka Tsuen Wan	Hong Kong	Densely populated Kwai Chung district	409	1,368	510	858
Malaysia						
10 Dorsett Kuala Lumpur	Kuala Lumpur	Heart of Kuala Lumpur's Golden Triangle	322	499	106	393
11 Dorsett Grand Subang	Subang Jaya	Commercial hub of Subang Jaya	478	778	210	568
12 Dorsett Grand Labuan	Labuan	Revitalised business district of Labuan	178	321	82	239
13 Silka Maytower Hotel & Serviced Residences	Kuala Lumpur	Central Kuala Lumpur	179	161	168	(7)
14 Silka Johor Bahru	Johor	Gateway between Singapore and Malaysia	248	144	111	33
15 Dorsett Residences Bukit Bintang	Kuala Lumpur	At tower of Dorsett Residences	98	359	149	210
Mainland China						
16 Dorsett Wuhan	Wuhan	Heart of downtown	317	1,287	878	409
17 Dorsett Shanghai	Shanghai	Heart of Pudong	264	934	262	652
18 Dorsett Grand Chengdu	Chengdu	Famous historical Luoma Market	556	1,170	400	770
19 Lushan Resort	Lushan	Well known tourist destination	229	269	169	100
Singapore						
20 Dorsett Singapore	Singapore	Singapore's CBD	285	1,527	558	969
United Kingdom						
21 Dorsett Shepherds Bush	London	Close to Westfield Shopping Centre and Earl's Court	317	921	445	476
22 Dorsett City, London	London	Situated above the Aldgate tube station	267	1,381	573	808
Australia						
23 Sheraton Grand 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	51	52	(1)
25 Hotel Freizeit Auefeld ⁽¹⁾	Germany	4-star rated in Hann Münden	93	45	44	1
26 Hotel Kranichhöhe ⁽¹⁾	Germany	4-star rated in Much	107	69	62	7
27 Hotel Donauwelle ⁽¹⁾	Austria	4-star rated in Linz	178	65	47	18
28 Hotel Savannah ⁽¹⁾	Czech Republic	4-star rated at Czech-Austrian Border, adjacent to Route 59	79	119	107	12
Subtotal of hotels in operation			7,472	25,185	7,347	17,838
Owned hotels under development						
29 Hornsey Town Hall	London	Boutique hotel at Hornsey Townhall, North London	68	n/a	n/a	n/a
30 Dorsett Shepherd's Bush II	London	Serviced apartment extension to Dorsett Shepherds Bush	74	131	131	-
31 Consort Place	London	Mixed-used development including residential and retail units at Canary Wharf	231	n/a	n/a	n/a
32 J Hotel	Kuala Lumpur	An artsy boutique hotel within the heart of Kuala Lumpur	154	n/a	n/a	n/a
33 Ritz Carlton Hotel	Melbourne	Occupies the top 18 floors of West Side Place (Tower 1)	257	n/a	n/a	n/a
34 Dorsett Melbourne	Melbourne	At Tower 3 of West Side Place	316	n/a	n/a	n/a
35 Ritz Carlton Hotel	Perth	5-star hotel in Australia's best location adjacent to the Perth CBD	205	975	975	-
36 Dorsett at Perth City Link	Perth	4 star stand-alone hotel in the Perth entertainment precinct adjacent to the Perth Arena entertainment center	263	n/a	n/a	n/a
37 Dorsett Gold Coast (33% stake)	Gold Coast	JV with the Star and CTF	318	n/a	n/a	n/a
38 The Star Residences - Epsilon (33% stake)	Gold Coast	5-star rated luxury hotel being built in Tower 2 on Broadbeach Island on the Gold Coast	210	n/a	n/a	n/a
39 Dorsett Sydney (50% stake)	Sydney	Adjacent to both the Sydney CBD and Star Casino complex	278	n/a	n/a	n/a
40-43 Destination Brisbane Consortium (25% stake)	Brisbane	3 world class hotels including Dorsett, The Grand and Rosewood incorporated into the newly constructed Brisbane casino and entertainment complex.	865	n/a	n/a	n/a
Total as at 31.3.2019 (including pipeline hotels)			10,707	26,291	8,453	17,838

Source: Company data

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

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AMTD Global Markets Limited

Address: 23/F - 25/F, Nexxus Building, 41 Connaught Road Central, Hong Kong

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

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