October 25, 2016

AMTD 尚乘

Equity Research

Far East Consortium

Initiation of Coverage

Deep NAV discount; strong earnings growth locked in

Initiate with Buy rating; high earnings growth visibility in FY17-19

Far East Consortium International Limited (FEC) is a medium-sized property conglomerate. It has a geographically diversified portfolio with a balanced revenue mix. In FY16, income from property development, hotel and car parking management accounted for 49%/33%/16% of revenue while China, Australia, Hong Kong and Malaysia accounted for 36%/33%/19%/6% of revenue. We forecast net profit growth of 51% in FY17 and a CAGR of 26% during FY16-FY19e. The earnings growth will be driven by increasing delivery of development projects in China, Australia and Hong Kong. We estimate that around 90% of development revenue in FY17 are locked in from presales achieved. As of Jul-16, FEC has unbooked presales of HK$9.8 billion, all of which are scheduled to be completed during FY17-19. This represents 67% of our forecast development revenue during the same period. Hotels and car parks contributes HK$2.0bn recurring revenue annually.

Price target HK$4.00 (25% upside); share price at 67% discount to NAV

Our price target of HK$4.00 is derived by using sum-of-the-part method, applying 60% discount to the Gross Asset Value (GAV) of development projects and 16% discount to hotel GAV, and a 9.3x PE for car park business. Current share price implies a 67% discount to our estimated Mar-17 Net Asset Value (NAV) (Figure 2). We believe the deep discount to NAV reflects FEC's relatively small market capitalization. Should its market cap cross the US$1bn hurdle, the NAV discount could significant narrow.

HK$39bn development pipeline; discipline in land acquisition

FEC's expertise in mixed-use property development help it acquire lands at relatively low cost. It currently has HK$39bn residential development pipeline which will support strong growth in next 6 years. Most importantly, 72% of its land bank NAV are located in Shanghai, Guangzhou and major cities in Australia where land costs are low and property sales are supported by strong demand. In the past a few years, it has been actively accumulating land bank in different countries while maintaining financial discipline. As of Mar-16, its net gearing ratio was 38%, slightly increased from 30% in MAR-15 as the company took advantage of the low interest rate and slightly increased the gearing. We expect net gearing to remain stable at 37-39% in the next 2-3 years.

Potential hotel asset sale to unlock liquidity

Current book value of HK$ 10bn has not factored in the HK$10bn revaluation surplus of its hotel assets. FEC has a proven track record in monetizing its hotel assets. Should hotel RevPAR stabilise, potential sale of hotels in Hong Kong is possible in next 12 months. FEC may also consider the sale of other non-core hotel portfolio such as the Ritz-Carlton in Perth.

Catalysts: 1H17 earnings; HK-SZ connect; potential sale of hotels

We expect strong growth of 1H17 net profit of HK$441 m (+74% yoy), which is to be reported in Nov-16. We also expect FEC to be eligible for the upcoming HK-SZ connect in Nov-16. Potential sale of hotels in next 12mths can improve the company's liquidity.

Stock code: 35.HK

Rating: Buy

Price target (HK$)	4.00
Current price (HK$)	3.21
Upside/downside %	25%
Market cap (HK$ m)	7,089
Market cap (US$ m)	914
Avg daily turnover (HK$ m)	3.23

Source: Bloomberg, AMTD estimates

Key forecasts

(HK$ m)	FY16	FY17e	FY18e	FY19e
Net profit	734	1,108	1,282	1,485
yoy %	-23%	51%	16%	16%
Revenue	3,995	5,757	6,915	9,115
yoy %	-22%	44%	20%	32%
EBITDA	1,505	2,065	2,382	2,700
Net gearing	38%	39%	39%	37%
EPS	0.37	0.52	0.60	0.70
BPS	4.76	5.09	5.52	6.00
DPS	0.16	0.18	0.18	0.21

Source: Company data, AMTD estimates

Valuation

(HK$ m)	FY16	FY17e	FY18e	FY19e
P/E	8.8	6.2	5.3	4.6
P/BV	0.67	0.63	0.58	0.53
Div yield	5.0%	5.7%	5.6%	6.5%
ROE	7.6%	10.5%	11.3%	12.1%
ROA	3.0%	4.0%	4.4%	4.7%

Source: Bloomberg, AMTD estimates

Share price performance

Source: Bloomberg

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Executive summary

A diversified regional property conglomerate

Far East Consortium is a medium-sized regional property conglomerate. Unlike other medium-size developers/landlords in Hong Kong, it has a diversified portfolio in Hong Kong, China, Australia, Singapore, Malaysia and the UK. It has a balanced revenue mix with income from property development, hotel, car parking management and property investment accounting for 49%/33%/16%/1% of revenue while income from China, Australia, Hong Kong, Malaysia, and UK accounting for 36%/33%/19%/6%/3% of revenue in FY16. While property development business enjoys higher ROEs, its hotels and car park management businesses provide stable recurring income streams.

Initiate with Buy rating; High earnings growth visibility in FY17-19

We forecast net profit growth of 51% in FY17 and a CAGR of 26% during FY16-FY19e. The earnings growth will be driven by increasing delivery of development projects in China, Australia and Hong Kong. We estimate that c90% of development revenue in FY17 are locked in from presale achieved. As of Jul-16, FEC has unbooked presales (cumulative presales) of HK$9.8 billion and these projects are scheduled to be completed during FY17-19. This represents 67% of our forecast development revenue during the same period. The projects in Shanghai, Guangzhou and Australia receive strong market responses and will contribute significantly to the revenue growth in next 5 years. We expect ROA to gradually improve to 4.7% in FY19 from 3.0% in FY16. ROE to improve to 12.1% in FY19 from 7.6% in FY16.

Price target HK$4.00 (25% upside); share price at 67% discount to NAV

Our price target of HK$4.00 is derived by using the sum-of-the-part method, applying 60% discount to the Gross Asset Value (GAV) of development projects and 20% discount to hotel GAV, and a 9.3x PE for car park management business. Current share price implies a 67% discount to Net Asset Value (NAV) (Figure 2). We believe the deep discount to NAV reflects FEC's relatively small market capitalization. Should its market cap cross the US$1bn hurdle, the NAV discount could significant narrow.

Recurring income from hotel and car park management business

Income from hotel and car park management accounted for c50% of revenue in FY16. They provide stable income stream to FEC. The car park management is an asset-light business with very stable income. Most of FEC's car parks under management are owned by independent third parties. They generate HK$ 120-130 million EBIT annually. For the hotel segment, we observe some early sign of stabilization in occupancy rate as well room rate for the hotels in Hong Kong. Going forward, we expect revenue growth from hotel segment to be driven by an increase in number of rooms in London and Australia. FEC's hotels in London, Singapore and Malaysia recorded strong performance as Chinese tourists' outbound tourism demand increases. In addition, FEC hotels in China has passed the ramp-up period and RevPAR recorded growth in FY16.

Potential hotel asset sale to unlock liquidity

After the privatization of Dorsett, FEC enjoys full access to the cash flows from Dorsett – the hotel arm, which owns and manages 3-4 star hotels in Hong Kong, China, Singapore, London and Malaysia. FEC has a proved track record in monetizing its hotel assets. The company is evaluating options in selling its non-core hotel assets include Ritz-Carlton in Perth. Should hotel RevPAR stabilizing in Hong Kong, potential sale of hotels in Hong Kong is also possible. Asset sale could help FEC unlock liquidity and enhance shareholder's return.

HK$39bn development pipeline; discipline in land acquisition

FEC currently has HK$39bn development pipeline which will support strong growth in next 6 years. In the past a few years, it has been actively accumulating land bank in different countries while maintaining financial discipline. 72% of FEC's property development GAV are in China (Shanghai and Guangzhou) and Australia which enjoy high safety margin as land costs are fairly low. In 2016, FEC launched presale of Royal Crest II in Shanghai and West Side Place in Melbourne which received strong market responses. As of Mar-16, its net gearing ratio was 38% (on adjusted equity basis), slightly increased from 30% in MAR-15 as the company took advantage of low interest rates and slightly increased the gearing. The company's expertise in mixed-use property development help it acquire lands at relatively low cost. It intends to maintain a geographically diversified land bank.

Catalysts: 1H17 earnings; HK-SZ connect; potential sale of hotels

We expect strong growth of 1H17 net profit of HK$441m (+74% yoy), which is to be reported in Nov-16. We also expect FEC to be eligible for the upcoming HK-SZ connect in Nov-16. Potential sale of hotels in next 12 months can improve the company's liquidity.

Figure 1: FEC valuation comparison

		Market cap	P/E		P/BV		ROE %		Dividend yield	Net gearing %
	Stock Code	(US$ bn)	FY17e	FY18e	FY17e	FY18e	FY17e	FY18e	FY17e	FY17e
FEC	**0035.HK**	**0.9**	**6.2**	**5.3**	**0.63**	**0.58**	**10.5**	**11.3**	**6.2**	**39**
Hong Kong developer										
Henderson Land	0012.HK	21.3	14.9	15.0	0.62	0.61	4.3	4.2	3.2	15
SHK Ppt	0016.HK	42.6	13.3	12.2	0.68	0.67	5.4	5.6	3.4	10
New World Dev	0017.HK	11.6	12.7	12.0	0.50	0.44	3.9	4.0	4.6	39
Sino Land	0083.HK	10.3	15.6	15.5	0.64	0.62	4.2	4.2	3.9	(18)
Hang Lung Ppt	0101.HK	9.9	14.9	15.4	0.60	0.59	3.9	3.8	4.4	1
CK Property	1113.HK	27.3	11.8	11.6	0.77	0.74	6.7	6.6	3.0	6
HK developer avg			**13.9**	**13.6**	**0.63**	**0.61**	**4.7**	**4.7**	**3.8**	**9**
Mainland developer										
China Overseas	0688.HK	34.4	7.5	6.6	1.09	0.99	15.6	15.9	3.2	7
Vanke	2202.HK	40.8	9.4	7.9	1.72	1.52	19.4	20.6	4.7	20
CR Land	1109.HK	17.7	8.1	6.9	1.05	0.93	13.9	14.4	3.3	24
GZ R&F	2777.HK	4.6	4.8	4.2	0.68	0.62	14.7	15.4	8.3	138
KWG	1813.HK	1.8	3.9	3.5	0.49	0.45	13.1	13.6	7.8	76
Mainland developer avg			**6.7**	**5.8**	**1.01**	**0.90**	**15.3**	**16.0**	**5.5**	**53**

Priced as of 20th October; Source: Bloomberg, AMTD Equity Research estimates

Valuation

Valuation: Price target HK$4.00 (25% upside); share price at 67% discount to NAV

Our price target of HK$ 3.97 is based on the sum-of-the-part method (SOTP), using 60% discount to the Gross Asset Value (GAV) of development projects and 16% discount to hotel GAV, and a 9.3x PE for car park business. Current share price implies 67% discount to Net Asset Value (NAV) (Figure). 72% of FEC's development project GAV are located in China (Shanghai and Guangzhou) and Australia where market demand are strong. We believe current deep discount to NAV reflects FEC's relatively small market capitalization and thin trading volume.

Figure 2: FEC price target derivation

HK$ m	2017 NAV	NAV per share	Multiple applied	Target valuation	Valuation per share (HK$)
Property development	18,651	8.75	60% discount	7,460	3.50
Hotel	8,022	3.76	16% discount	6,739	3.16
Car parks	746	0.35	9.3x PE	746	0.35
Property investment	1,875	0.88	20% discount	1,500	0.70
Total valuation	**29,294**	**13.74**	**0**	**16,445**	**7.71**
Net debt	(8,393)	(3.94)	0	(8,393)	(3.94)
Net valuation (Mar-17)	**20,901**	**9.80**		**8,052**	**3.78**
Price target (Sep-17)					4.00
Current share price (HK$)					**3.21**
Implied upside					**25%**
Share price discount to NAV					**-67%**

Source: AMTD Equity Research estimates

Valuation methodology for residential property development business

We use a discounted cash flow (DCF) method for the GAV of the property development business. We forecast explicitly each projects' future cash flows including sales proceeds, construction cost, future land cost to be paid, interest expenses and tax. We then discount them back using the company's weighted average cost of capital (WACC). We then apply a 60% discount to this GAV to reflect potential market risk involved in FEC's development projects. Historically FEC has demonstrated its superior strategy in land acquisition and has maintained reasonable gross margin in its property development business.

Valuation methodology for hotels

The company has 20 hotels in operation, or 6,043 hotel rooms. It has another 12 hotels under development which will add 3,022 rooms to its portfolio in the next 6 years. We use the yield capitalization method to fairly value the company's hotel portfolio, including the hotels in operation, as well as hotels under development. We use a 7% capitalization rate for the hotel portfolio and assume an average long-term occupancy rate of 60-86%, an EBITDA margin of 20-40%. We have captured food and beverage income in our revenue assumption. We also deduct the present value of future construction costs for hotels under development from our GAV. We then apply 20% discount to our GAV forecast to derive our price target. Our GAV implies 14.3x EV/EBITDA for the hotel portfolio.

Valuation for car park management

We use target PE multiple to drive the valuation of the car park business. Our target PE multiple of 9.3x is derived by using 1/(wacc-g) where we use 9.22% wacc and 1% long-term organic growth rate.

Valuation methodology for investment properties

For FEC’s investment properties, we also use the yield capitalization method by assuming 5% cap rate for the office portfolio and 6% cap rate for the retail portfolio. This include both the asset in operation as well as the projects under development. Currently majority of the portfolio are in Shanghai and Wuhan by GFA. Going forward, as most of the new projects will be in CBD of major cities in Australia. We have assumed a natural pickup in average rental of the portfolio going forward. We also deduct the present value of future construction costs for projects under development from our GAV.

WACC assumptions

The WACC is used to discount future cash flow. WACC accounts for the current risk-free rate, projected beta, target debt levels and long-term market expected risk premium of individual companies. Our WACC estimate is 9.22%, which is based on a beta of 1.5x, a long-term risk-free rate of 4.2%, an equity risk premium of 5%, a pre-tax cost of debt of 5% and a future projected target gearing of 50% (debt to total assets).

Price target sensitivity analysis

Figure 3: Price target sensitivity to WACC and property selling price assumption

		WACC						
	HK$	**9.8%**	**9.6%**	**9.4%**	**9.2%**	**9.0%**	**8.8%**	**8.6%**
Property price change	**80%**	3.14	3.16	3.18	3.20	3.22	3.24	3.26
	85%	3.32	3.34	3.36	3.38	3.40	3.42	3.44
	90%	3.50	3.52	3.54	3.56	3.59	3.61	3.63
	95%	3.68	3.70	3.72	3.96	3.77	3.79	3.82
	100%	3.86	3.88	3.91	3.93	3.95	3.98	4.00
	105%	4.04	4.06	4.09	4.11	4.14	4.16	4.19
	110%	4.22	4.24	4.27	4.29	4.32	4.35	4.38
	115%	4.40	4.42	4.45	4.48	4.51	4.53	4.56
	120%	4.58	4.61	4.63	4.66	4.69	4.72	4.75

Source: AMTD Equity Research estimates

Risks analysis

Market risk of residential development projects

Potential correction of individual markets could result in lower selling price of residential properties and/or slower sales progress, which could result in lower NAV. Especially in China, where property prices have experience strong growth in Tier 1 and Tier 2 cities in a short period of time this year. This has triggered tightening policies in these cities which could impact FEC's sales progress and selling prices. We estimate that every 10% drop in property selling price could lower our NAV by 9%.

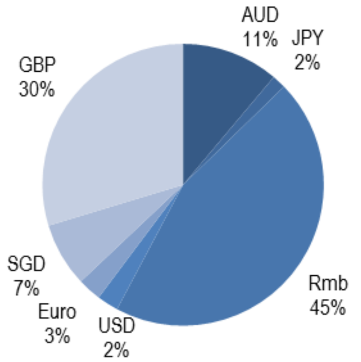
Risks from potential further weakness in Hong Kong hospitality market

Currently, Hong Kong market account for 50% of FEC's hotel revenue and 60% of hotel valuation (according to FEC's assessment). Further weakness in Hong Kong tourism market could result in lower RevPAR thus lower NAV of the hotel business. In addition, the change in profile of tourists in Hong Kong with more tourists from tier-3/4 cities in China could result in more demand for more affordable hotels. We estimate than every 10% drop in Hong Kong hotel RevPAR could lower our total NAV by 2%.

Risks from volatilities in FX

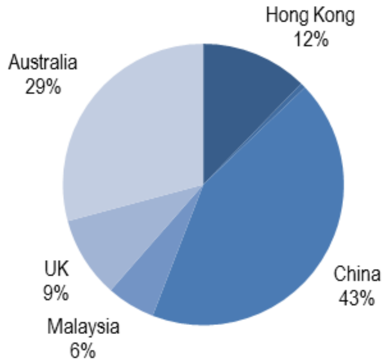
As more than 80% of FEC's NAV are generated outside of Hong Kong, FEC are exposed to FX risks, especially given its significant exposures in China and Australia. We estimate every 10% weakness of Rmb against HKD would lower FEC's NAV by 4%; every 10% weakness of AUD against HKD would lower FEC's NAV by 3%.

Figure 4: FY16 asset breakdown by currency



Source: Company data

Figure 5: FY17e NAV breakdown by country



Source: AMTD Equity Research estimates

Strategy

FEC management intend to maintain a balanced income stream from property development, hospitality, car park management and property investment segment. They also intends to maintain a geographically diversified portfolio across the business segments, following the "Chinese Wallet" strategy which targets China's growing middle class travels and investment in major world cities. This strategy can also smooth the impact from volatilities in individual markets.

Property development

FEC has proven track record in acquiring lands at competitive costs, thanks to the good vision of management, the company's good reputation in building and managing mixed-use properties alongside residential projects, and its healthy financial position. FEC will continue focusing on mass market residential projects in the region with a diversified geographical exposure and seize opportunities in acquiring land at lower cost in the economic downturn (such as in Hong Kong and Singapore).

Hotels

FEC owns 20 hotels in operation, or 6,043 hotel rooms. It has another 12 hotels under development which will add 3,022 rooms to its portfolio in the next 6 years. Despite and soft performance of Hong Kong hotels, we expect revenue from hotel operations to grow due to new addition in number of rooms. The 3-4-star hotels are owned and operated by its now wholly owned subsidiary Dorsett. The Ritz-Carlton hotels in Perth, Brisbane and Melbourne will be owned by the parent. Currently the hotel portfolio has a book value of HK$6bn but according FEC's calculation, the market value of the hotels exceed HK$ 16 bn. The HK$10bn revaluation surplus can only be realized when the hotel asset is sold. FEC has proven track record in monetizing its non-core hotel portfolio to improve its liquidity position. It will continue evaluate the options to sell certain non-core hotels such as the Ritz Carltons which are not the 3-4-star segment FEC targets.

Car park and facilities management

This segment has maintained steady performance and provide resilient recurring income. FEC will actively look to growing its portfolio. Currently more than 90% of the car parks are owned by third parties. FEC's long term relationship with these owners can give it some advantage to acquire car parks when the owners are looking to sell.

Property investment

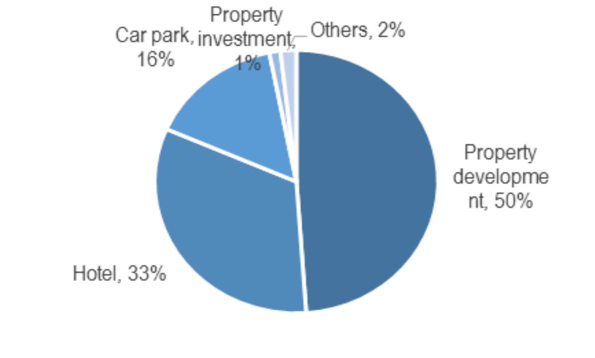
FEC usually acquired the investment portfolio alongside its residential development projects. Its current portfolio includes retail and office buildings in Hong Kong, China, Singapore and Australia. The integrated resort Queen's Wharf Brisbane, as well as newly announced integrated resort projects in Sydney and Gold Coast will further strengthen its international business and will add to its recurring income stream.

Business by segment

In FY16, income from property development, hotel, car parking management and property investment accounted for 49%/33%/16%/1% of revenue while income from China, Australia, Hong Kong, Malaysia, and UK accounted for 36%/33%/19%/6%/3% of revenue.

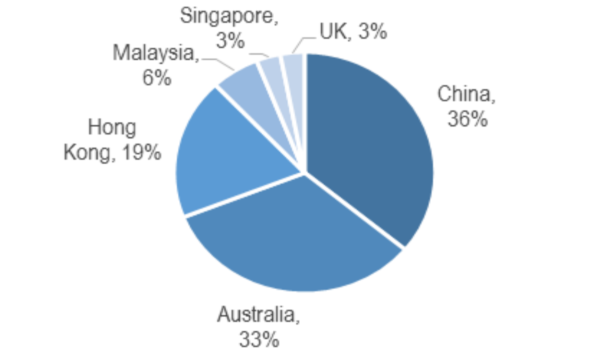
Due to strong pipeline in property development segment, we expect development segment to drive revenue growth and its contribution to revenue to increase to above 60% during FY17-19. With significant contribution from high-margin development projects in China, we expect FEC's overall gross margin to remain at 42%-48% during FY17-19 from 43% in FY16.

Figure 6: FY16 revenue breakdown by segment



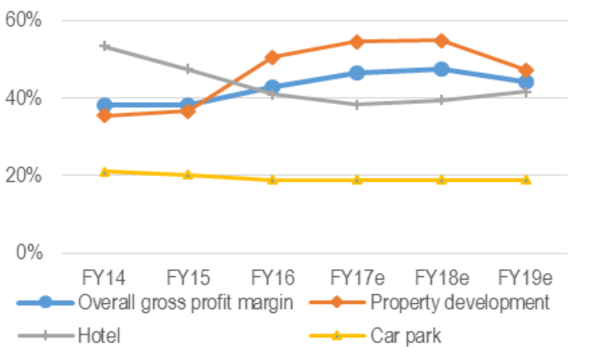
Source: Company data

Figure 7: FY16 revenue breakdown by geography



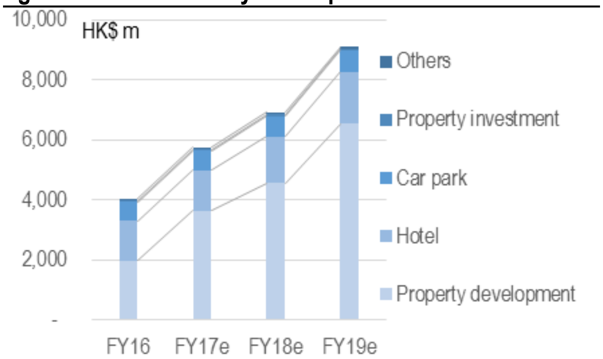
Source: Company data

Figure 8: Gross margin by segment - property development will have the highest margin



Source: Company data, AMTD Equity Research estimates

Figure 9: Revenue forecast by segment – revenue growth to be driven by development business



Source: Company data, AMTD Equity Research estimates

Property development – FY17 strong earnings growth locked in

FEC focuses on developing mass market residential projects along with some mixed-use properties. Different from other medium/small-sized developers in Hong Kong, FEC has a strong residential property development pipeline with diversified geographical exposures (Figure 12). As of Jul-16, FEC has unbooked presales (cumulative presales) of HK$9.8 billion and these projects are scheduled to be completed during FY17-19. This represents 67% of our forecast development revenue during the same period. FEC's active development pipeline contains a sales value of HK$39bn and attributable SFA of 6.4 million square feet, which will be developed over the next 5-6 years. China accounts for half of the land bank while Australia accounts 1/3 of the land bank (Figure 11). The delivery of these projects will drive revenue growth and bring in strong cash flows.

We forecast property development revenue of HK$3.7bn, HK$4.6bn, HK7.2bn in FY17, FY18, FY19, respectively, a strong growth from HK$2.0bn in FY16 (Figure 10). The drop of revenue in FY16 was due to less completion while presales was strong. Project delivery in China and Australia will be the key revenue driver in the next 5 years. We estimate that 92% of our forecast development revenue in FY17 are already locked in from presales of UWS Stage 4 in Melbourne and remaining portion of King's Manor in Shanghai. We expect gross profit margin of this segment to remain high at 45%-56% during FY17-19, due to contribution from high-margin projects in China.

Hong Kong – Opportunities to acquire lands at lower cost during market correction

Hong Kong is still the home to FEC. In recent two years, FEC has taken advantage of the market correction and acquired land bank at lower cost. Relatively limited land supply may continue support the market performance despite pressure from softer income growth, potentially tighter bank credit on mortgage and potentially higher interest cost on mortgage loans. Currently FEC holds land bank of approximately 773,000 square feet of SFA in Hong Kong. Its pipeline includes the Tan Kwai Tsuen project, Sha Tau Kok project and Tai Wai project etc. In 2016, FEC won the bidding for a piece of land in Shatin at a cost of HK$2,800 per sq. ft., below market expectation. In 2014, FEC won the bidding for the land in Tai Wai at a cost of HK$4,500, also below the market expectation.

In recent years, smaller developers such as FEC has been taken up market shares in land acquisition in Hong Kong. This was partly due to reduced size of new lands and increasing number of new players such as mainland developers - the competition is increasing despite increasing land supply.

China – Low cost land bank in Tier 1 cities guarantee high margin

China accounts for more than half of FEC's total land bank. FEC's land bank in China are located only in Shanghai and Guangzhou where the property market have healthy inventory levels due to limited supply of lands and relatively strong demand for properties in Tier 1 cities. Property price and property sales volume are experiencing strong growth YTD. FEC acquired these lands more than 20 years ago at a very low cost (Rmb 100-150 per sq.ft.). These projects should achieve very high gross margin (>70%) and we see low market risk in its pipeline in China.

Australia – Increasing presence

Land bank in Australia ranked the second largest in FEC's land bank. FEC has been actively accumulating land bank in Australia. Most importantly, by leveraging on its experience in developing mixed-use properties, FEC has been able to acquire land at low cost in core districts in major cities in Australia. Its flagship residential projects include the Upper West Side in Melbourne, The Towers at Elizabeth Quay in Perth and the new Queen's Wharf Brisbane. So far FEC's residential projects have received strong market response due to their prime location and good quality. Recently, FEC launched the presale of its new project West Side Place Tower 1&2 which have made good progress so far. Shorter construction period and faster cash recycle of these projects have helped improve FEC's IRR. Currently FEC has residential SFA of 3.8 million square feet which will be developed in next 5-6 years. In 2016, FEC has signed MOU with The Star and CTF to develop two JV project, one in Gold Coast and one in Sydney. FEC's land bank in Australia are spread out in Perth, Melbourne and Brisbane. Its previous projects in Melbourne and Perth received strong market responses. Most of FEC's Australia projects are located in the CBD area. The depreciation of AUD should also increase the attractiveness of properties in Australia to overseas investors. Please refer to Appendix section for information on individual projects.

UK – A new market

Alpha Square, a mixed-use development consists of residential units with approximately 388,000 sq. ft. in saleable floor area, a hotel of approximately 230 rooms, retail component marked FEC's entrance into London's residential development market. Despite the recent development of Brexit and volatility in the exchange rate, London properties remain attractive to overseas investors and Chinese investors. FEC will continue expand its portfolio in UK. In August 2016, FEC was appointed as the developer for a prime residential site located near Victoria Station at Manchester, UK.

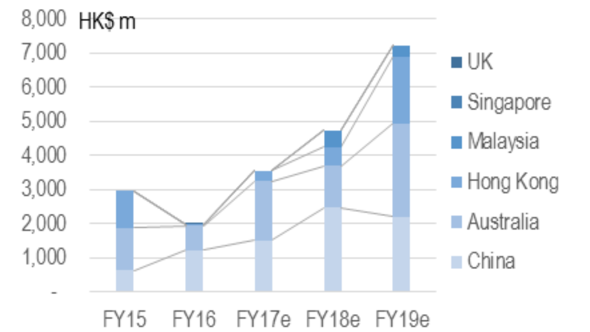
Singapore

Singapore is one of the strategic locations in FEC's residential development portfolio. Historically, FEC has successfully delivered several residential projects in Singapore such as Dorsett Residence. Since 2014, Singapore's property market softened on the back of tightening regulations, and price levels have fallen back to a healthier level. Currently FEC has a residential project Alexandra View with attributable SFA of 287,000 square feet and estimated sales value of HK$2.8bn.

Malaysia

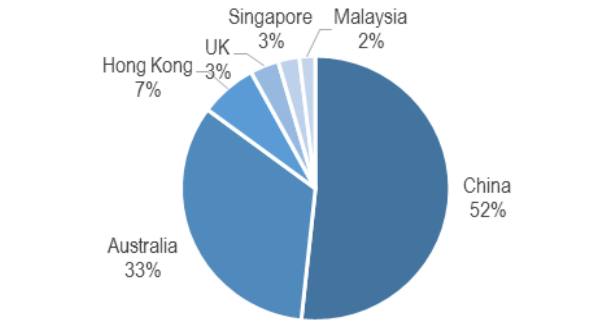
Dorsett Bukit Bintang is a residential development adjacent to Dorsett Regency Kuala Lumpur. This development consists of 252 high-rise apartments of approximately 215,000 sq. ft. in saleable floor area. As at 31 March 2016, presales value reached approximately HK$316 million, representing 38% of the total expected GDV. Completion is expected to take place in the financial years ending 31 March 2017 and 2018.

Figure 10: Property development revenue to grow strongly – China and Australia driving the growth



Source: Company data, AMTD Equity Research estimates

Figure 11: Development pipeline by country (SFA), Mar-16



Source: Company data; Note: Include projects under development and undeveloped land bank

Figure 12: Presale and development pipeline as of Mar-2016

Unbooked presales		Location	Presales (HK$ m)	Attributable project GDV (HK$ m)	Presale % of project GDV	Attributable GFA (sq ft)	Year of completion	Launc h year	Selling price assumption (HK$ per sq ft)
Eivissa Crest		Hong Kong	629	767	82%	36,000	FY17	FY15	21,306
Aspen Crest		Hong Kong	882	1,069	83%	64,000	FY19	FY16	16,703
Manhattan at Upper West Side (Stage 4)		Melbourne	1,741	1,741	100%	388,000	FY17	FY14	4,487
The FIFTH		Melbourne	1,225	1,225	100%	284,000	FY18	FY15	4,313
The Towers at Elizabeth Quay		Perth	1,411	2,733	52%	320,000	FY19	FY16	8,541
King's Manor (remaining)		Shanghai	1,260	1,681	75%	215,000	FY17	FY16	7,819
Royal Riverside		Guangzhou	53	255	21%	386,000	FY17/18	FY16	661
Dorsett Bukit Bintang		Kuala Lumper	316	825	38%	86,000	FY17/18	FY15	9,593
Cumulative presales value			**7,517**	**10,296**		**1,779,000**			
Other development pipeline		**Location**	**Expect presale launch time**	**Attributable project GDV (HK$ m)**		**Attributable GFA (sq ft)**	**Year of completion**		
Royal Riverside (Tower 1, 3-5)		Guangzhou	FY17	1,881		642,000	FY18		2,930
Royal Crest II		Shanghai	FY17	1,380		259,000	FY17/18		5,328
Tan Kwai Tsuen		Hong Kong	FY17	581		51,000	FY17/18		11,392
Sha Tau Kok		Hong Kong	FY17	771		99,000	FY19		7,788
Tai Wai		Hong Kong	FY18	399		33,000	Planning		12,091
Sham Shui Po		Hong Kong	FY18	366		28,000	Planning		13,071
Shatin Heights		Hong Kong	FY18	1,200		70,000	Planning		17,143
West Side Place	Tower 1		FY17	3,076		585,000	FY20/21		5,258
	Tower 2		FY17	2,561		487,000	FY20/21		5,259
	Tower 3		Planning	2,103		400,000	Planning		5,258
	Tower 4	Melbourne	Planning	3,028		576,000	Planning		5,257
Alpa Square		London	Planning	4,314		388,000	Planning		11,119
Queen's Wharf	Tower 4		FY18	1,428		259,000	Planning		5,514
	Tower 5		Planning	1,417		236,000	Planning		6,004
	Tower 6	Brisbane	Planning	1,270		211,000	Planning		6,019
Alexandra View		Singapore	FY18	2,840		290,000	Planning		9,793
Pipeline subtotal				**28,615**		**4,614,000**			
Total (presales+pipeline)				**38,911**		**6,393,000**			

Source: Company data

Hotels – Recurring income with asset sale potential

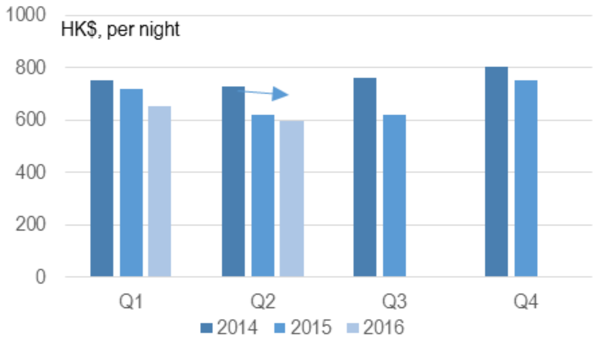
FEC has 20 hotels in operation, or 6,043 hotel rooms. It has another 12 hotels under development which will add 3,022 rooms to its portfolio in the next 6 years (Figure 17). FEC through its now wholly owned subsidiary Dorsett owns and manages 3-4-star hotels. The new hotels are mainly in Australia and London which receive strong interest from Chinese tourists in recent years. Hong Kong remains as FEC's largest operation. Revenue from Hong Kong accounted for 52% of revenue in FY16 and 59% of total hotel fair value (reported by FEC)(Figure 15, Figure 16). In FY16, revenue in this segment contracted by 9% due to a weak performance in Hong Kong and some FX translation losses in overseas markets.

In FY17, two new hotels with 679 rooms will start operation. We are forecasting a flat revenue in FY17 followed by 16% growth in FY18 and 11% growth in FY19. The revenue growth will be driven by the increase in number of rooms in operation.

Hong Kong market shows early sign of stabilisation

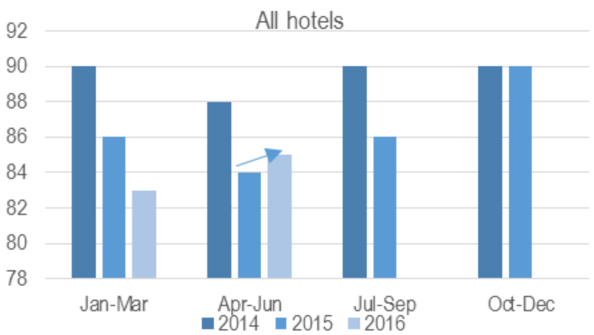
Hong Kong hospitality market has suffered from a drop in number of visitors especially from mainland China in recent 2-3 years. Therefore room rate and occupancy rates experienced some pressure. There is some early sign of stabilization in recent months in both occupancy rate and room rate. However, it is too early to confirm a recovery trend in RevPAR in Hong Kong. In addition, the change of tourist profile with more tourists from tier 3 or tier 4 cities in China could mean that the market is more sensitive to room rate. FEC's hotels in other markets have relatively good performance in local currency terms. In China, the hotels have passed the ramp-up period and recorded an improvement in occupancy rate and RevPAR in FY16.

Figure 13: Hong Kong hotel industry average room rate – some early sign of stabilisation



Source: Company data

Figure 14: Hong Kong hotel industry average occupancy rate

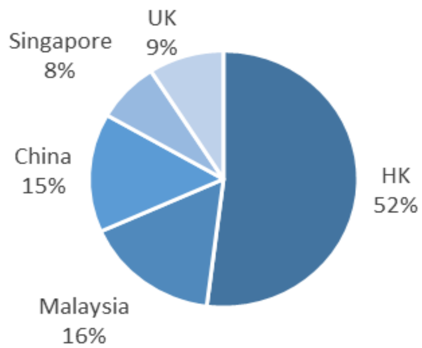


Source: Company data

Potential asset sale to boost liquidity and ROE

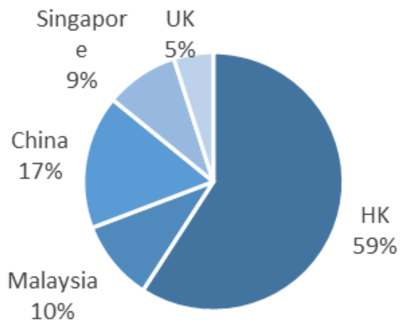
The hotel assets are booked at cost without recognizing the fair value gains. As a result, FEC is sitting on a HK$10bn of revaluation surplus – the difference between fair value estimated by FEC and the book value. The company has proven track record in monetizing its hotel assets. The privatization of hotel subsidiary Dorsett in FY16 has further improved its flexibility in doing this. For example it sold The Mercer in Hong Kong in Mar-11 for a consideration of HK$290m and realized profit of HK$81m; it sold Central Park Hotel in Hong Kong in Nov-11 for a consideration of HK$515m and realized a profit of HK$380m; most recent case it sold Dorsett Regency Hotel in Mar-13 for a consideration of HK$802m and realized a profit of HK$458m. Potential sale of non-core hotel assets could improve FEC's liquidity condition and ROE. FEC has been quiet in recent three years since the start of weakness in Hong Kong market. Confirmation in recovery of Hong Kong market could provide a better selling point for its hotel assets.

Figure 15: FEC hotel revenue breakdown by country, Mar-16



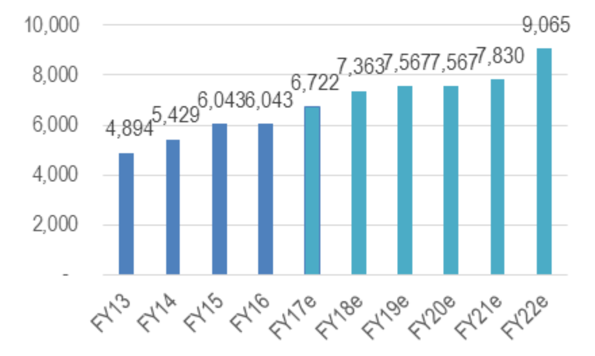
Source: Company data

Figure 16: FEC hotel asset fair value breakdown by country, Mar-16



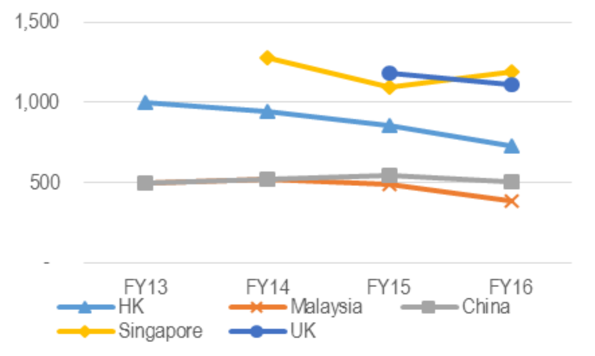
Source: Company data

Figure 17: FEC number of hotel rooms



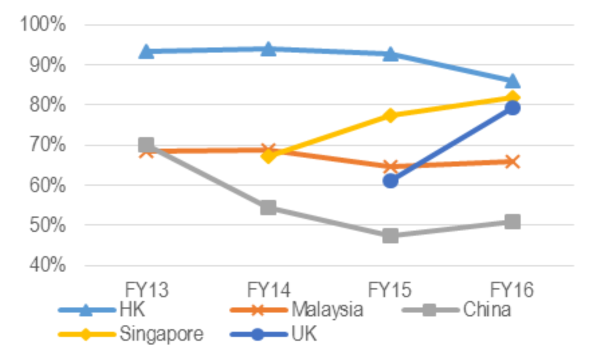
Source: Company data

Figure 18: FEC room rate performance (HK$ per night)



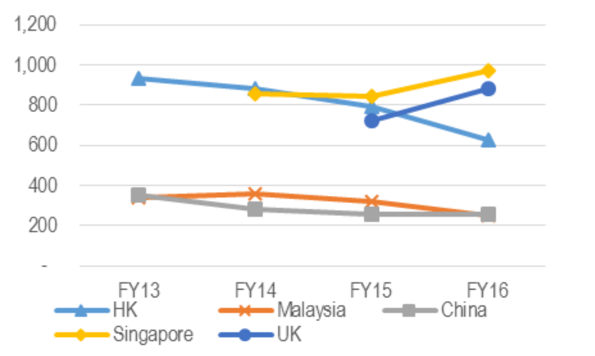
Source: Company data

Figure 19: FEC hotel occupancy rate performance (HK$)



Source: Company data

Figure 20: FEC hotel RevPAR (HK$ per night)



Source: Company data

Figure 21: List of FEC hotels

HK$ m		Rooms	Capital value (Mar-16)	Book value (Mar-16)	Revaluation Surplus
	Hote in operation				
	Hong Kong	**2,600**	**9,642**	**2,746**	**6,896**
1	Cosmopolitan Hotel	454	2,543	348	2,195
2	Silka West Kowloon	141	394	109	285
3	Cosmo Hotel	142	664	124	540
4	Lan Kwai Fong Hotel @ Kau U Fong	162	1,000	177	823
5	Silka Seaview	268	880	398	482
6	Silka Far East	240	634	139	495
7	Dorsett Mongkok	285	1,063	237	826
8	Dorsett Kwun Tong	361	1,063	316	747
9	Dorsett Tsuen Wan	547	1,401	898	503
	Malaysia	**1,407**	**1,643**	**715**	**939**
10	Dorsett Kuala Lumpur	320	303	101	202
11	Dorsett Grand Subang	478	691	236	455
12	Dorsett Grand Labuan	178	329	92	237
13	Silka Maytower Hotel & Serviced Residences	179	162	173	(-11)
14	Silka Johor BahruJohor	252	158	113	45
	Mainland China	**1,434**	**2,730**	**1,618**	**1,112**
15	Dorsett Wuhan	317	952	619	333
16	Dorsett Shanghai	264	578	335	243
17	Dorsett Grand Chengdu	556	972	455	517
18	Lushan Resort	297	228	209	19
	Singapore	**285**	**1,492**	**622**	**870**
19	Dorsett Singapore	285	1492	622	870
	UK	**317**	**805**	**527**	**278**
20	Dorsett Shepherds Bush	317	805	527	278
	Hotel in operation Subtotal	**6,043**	**16,312**	**6,228**	**10,095**
	Hotels under development				
21	Silka Tsuen Wan	409	638	430	208
22	Dorsett Zhongshan	416	264	125	139
23	Dorsett City	270	591	320	271
24	Dorsett Shepherd's Bush II	75	129	99	30
25-28	Destination Brisbane Consortium	1,004	-	-	-
29	Alpha Square	231	-	-	-
30	Ritz Carlton Hotel Melbourne	263	-	-	-
31	Ritz Cartlon Hotel Perth	204	-	-	-
32	Sri Jato Service Apartment	150	-	-	-
	Hotel under development Subtotal	**3,022**	**1,622**	**974**	**648**
	Total	**9,065**	**17,934**	**7,202**	**10,743**

Source: Company data

Car park and facilities management – Stable recurring income

FEC manages in total around 71,000 parking bays, within which 64,000 are owned by third parties. Majority of the car parks are in Australia and Malaysia. This segment generates stable income annually. Despite the FX impact, this segment in HK$ terms managed to grow by 1% in FY15 and FY16. If excluding the FX impact, income would have grown by 11% yoy in FY16, driven by a 7% growth in number of car parks under management and organic growth of management fees.

Property investment – Strong pipeline in Australia

FEC's current property investment portfolio consists of office buildings in Hong Kong and retail properties in Hong Kong and overseas markets with attributable GFA of 875,900 square feet. FEC usually obtains the properties along with its residential development projects. It has another 242,800 square feet of retail space under construction. In addition, the integrated resort Queen's Wharf in Brisbane (FEC holds 25% stake) will add a new type of income from its Casino business. The new Casino has a favorable license condition compared to existing casinos in Australia. Currently, the Star's existing Casinos – Treasury in Brisbane and Jupiters in Gold Coast combined generate AUD 692m in revenue and AUD 165m in EBITDA.

Financial forecast

We forecast earnings CAGR of 26% in FY16-FY19e.

Our earnings forecast is based on the following drivers:

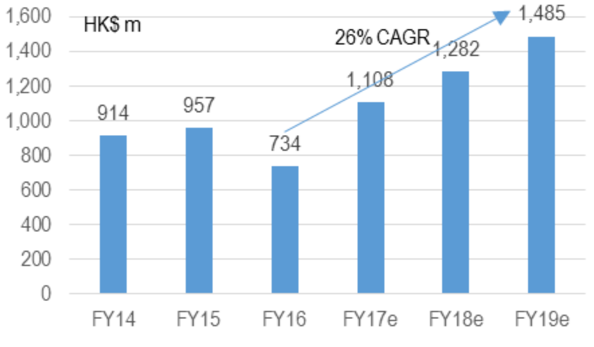
1) **Revenue to grow at a CAGR of 32%** in FY16-FY19e: Property development revenue to grow at a CAGR of 49%, driven by increasing project delivery in China, Australia, and Hong Kong; hotel revenue to grow at a CAGR of 9% driven by increasing number of rooms in operation; car park management revenue to grow at a CAGR of 5% and property investment revenue to grow at a CAGR of 5%.

2) **Gross margin to remain high in FY17/18** due to continued delivery of high-margin development projects in China. We forecast overall gross margin to remain high at 42-43% in FY17/18 and later fall back to 37% in FY19. This compares to a 43% gross margin in FY16.

3) An improvement in efficiency as administration expense to grow slower than revenue growth. We forecast operating expenses including administrative expenses and selling expenses' share in revenue to drop to 14%, 12%, 11% in FY17, FY18 and FY19 respectively, from 17.6% in FY16.

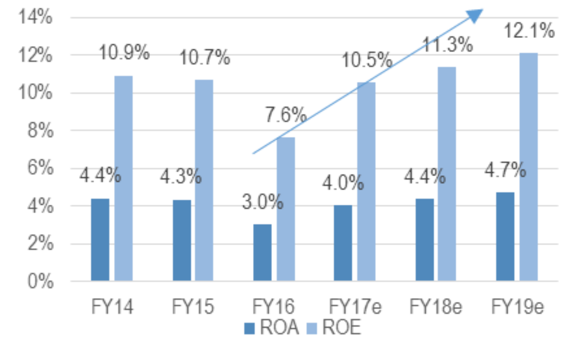
4) Compared to other HK developers, we expect FEC will have a more notable improvement in ROA and ROE due to increasing profit contribution from development business. We expect ROA to gradually improve to 4.7% in FY19 from 3.0% in FY16. ROE to improve to 12.1% in FY19 from 7.6% in FY16. The improvement in ROA will be driven by higher profit contribution from property development projects, an improvement in IRR of development projects in China and Australia due to their shorter construction period and higher profit margin of development projects in China.

Figure 22: FEC net profit to grow at a CAGR of 26% in FY16-FY19e



Source: Company data, AMTD Equity Research estimates

Figure 23: FEC ROA, ROE to expand

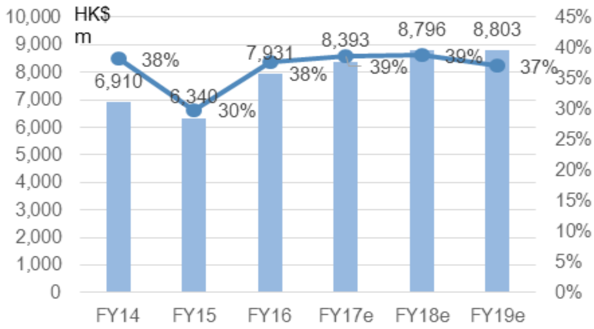


Source: Company data, AMTD Equity Research estimates

Leverage to stay stable

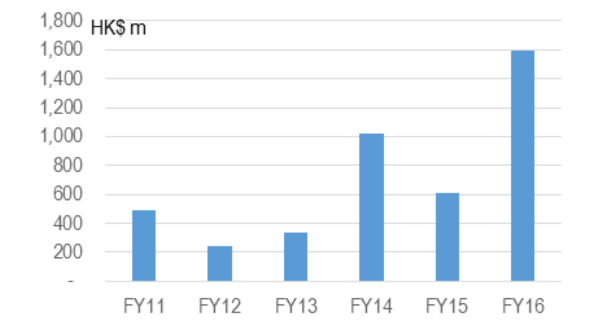
We estimate an average net gearing of 38% during FY17-FY19e, similar to the 38% at Mar-16. Despite a strong cash inflow from sales of properties, the increasing construction capex is likely to keep FEC's net gearing stay around the same level. However, we have not taken into consideration the potential sale of hotel assets which could result in lower gearing ratio. The eventual financial leverage could differ from our forecast depending on the pace of land acquisitions and potential asset disposals. Given FEC's history of prudent management of gearings, we believe its gearing ratio will not exceed 50%.

Figure 24: FEC net gearing to stay stable



Source: Company data, AMTD Equity Research estimates; Note: Net gearing ratio is calculated as net debt/(equity+hotel revaluation surplus)

Figure 25: FEC land acquisition

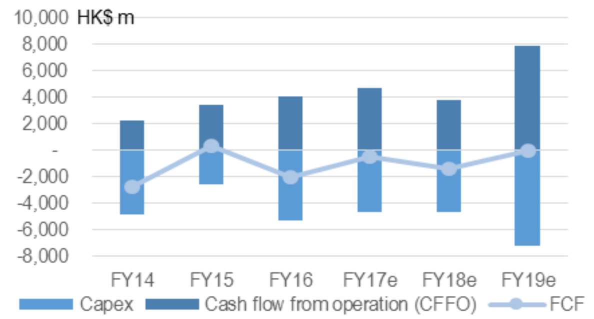


Source: AMTD Equity Research estimates

Free cash flow to turn positive in FY19

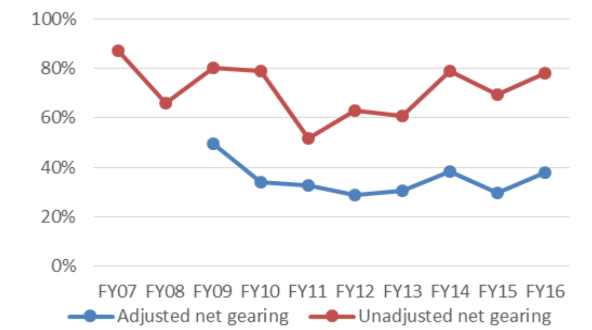
Despite that we forecast a strong cash inflows from delivery of properties, the capital expenditure on projects under development and land acquisitions are likely to offset such benefit. However, with the strong cash proceeds from sale of development projects in FY19, we expect the free cash flow to turn positive. As a result, the net gearing ratio is likely to drop in FY19.

Figure 26: FEC FCF to turn positive in FY19



Source: Company data, AMTD Equity Research estimates; Note: Net gearing ratio is calculated as net debt/(equity+hotel revaluation surplus)

Figure 27: Historical adjusted net gearing below 50%



Source: AMTD Equity Research estimates

Debt profile and refinancing needs

As of Mar-16, FEC had total debt of HK$11.7bn against HK$2.3bn of cash and HK$1.2bn of investment securities. Within this, there were HK$10.8bn bank loans and HK$868m bonds. FEC has taken advantage of the low rate environment to lengthen its debt maturity. In Sep-16, FEC issued a new USD denominated bond of US$ 300 million due in 2021 with net proceed equivalent to HK$ 2,316. About 2/3 of FEC's debt are maturing in 2-5 years. In terms of currency, more than half of its debt are denominated in HKD or USD. The rest of it are denominated in SGD, AUD, RMB, GBP and MYR.

Figure 28: Debt profit by maturity

16-Mar	HK$ m
Bank borrowing	**10,838**
<1 year	1,870
1-2 years	1,694
2-5 years	6,354
>5 years	920
Bonds	
Due in 2018	868

Source: Company data, AMTD Equity Research estimates; Note: Net gearing ratio is calculated as net debt/(equity+hotel revaluation surplus)

Figure 29: Debt profile by currency

	HK$ m	% of total
HKD	5,719	49%
USD	868	7%
AUD	1,236	11%
RMB	1,111	9%
GBP	374	3%
SGD	2,121	18%
MYR	277	2%
Total	**11,706**	**100%**

Source: AMTD Equity Research estimates

Figure 30: Adequate liquidity position

16-Mar	HK$ m
Cash and bank deposits	2,520
Investment securities	1,218
Undrawn banking facilities - Corporate use	1,900
Undrawn banking facilities - Construction Development	3,500
Subtotal	**9,138**
Less: current liability portion of debt	2,933
Less: trade and other payables payable in one year	829
Balance	**5,377**

Source: Company data

Figure 31: FEC income statement

							Yoy growth%				
HK$ m	**FY14**	**FY15**	**FY16**	**FY17e**	**FY18e**	**FY19e**	**FY15**	**FY16**	**FY17e**	**FY18e**	**FY19e**
P&L, HK$ m											
Revenue	**4,066**	**5,110**	**3,995**	5,757	6,915	9,115	**26%**	**-22%**	**44%**	**20%**	**32%**
Property development	**2,060**	2,962	1,979	3,639	4,550	6,547	44%	-33%	84%	25%	44%
Hotel	**1,222**	1,454	1,321	1,340	1,551	1,715	19%	-9%	1%	16%	11%
Car park	**613**	616	623	654	686	721	1%	1%	5%	5%	5%
Property investment	**122**	56	51	52	55	60	-54%	-9%	1%	7%	8%
Others	**50**	78	73	73	73	73	54%	-6%	0%	0%	0%
Cost of sales and services	(2,298)	(2,884)	(1,990)	(2,984)	(3,691)	(5,436)	25%	-31%	50%	24%	47%
Depreciation and amortisation of hotel and car park assets	(215)	(279)	(299)	(307)	(335)	(335)	30%	7%	3%	9%	0%
Gross profit	**1,553**	**1,946**	**1,706**	2,466	2,889	3,344	**25%**	**-12%**	**44%**	**17%**	**16%**
Property development	729	1,086	1,002	1,752	2,066	2,410	49%	-8%	75%	18%	17%
Hotel	652	691	541	544	647	749	6%	-22%	1%	19%	16%
Car park	129	124	117	123	129	135	-4%	-6%	5%	5%	5%
Leasing and others	43	45	46	46	47	49	5%	2%	0%	3%	3%
EBIT	**1,457**	**1,536**	**1,206**	1,758	2,047	2,365	5%	-21%	46%	16%	16%
Finance costs	(281)	(224)	(228)	(286)	(345)	(396)	-20%	2%	25%	21%	15%
Profit before tax	**1,246**	**1,328**	**979**	1,472	1,703	1,969	7%	-26%	50%	16%	16%
Income tax expense	(220)	(330)	(221)	(339)	(392)	(453)	50%	-33%	53%	16%	16%
Profit for the year	**1,026**	**998**	**758**	1,133	1,311	1,516	-3%	-24%	50%	16%	16%
Minority interest	112	41	24	26	28	31	-63%	-43%	10%	10%	10%
Attributable net profit	**914**	**957**	**734**	**1,108**	**1,282**	**1,485**	**5%**	**-23%**	**51%**	**16%**	**16%**
Tax rate	17.6%	24.9%	22.6%	23%	23%	23%					
Adjusted cash profit	na	836	853	1,414	1,618	1,820	na	2%	66%	14%	13%
Interim dividend	55	57	64	64	64	64	3%	13%	-1%	0%	0%
Final dividend	223	269	277	324	321	382	21%	3%	17%	-1%	19%
Dividend	278	326	342	388	385	445	17%	5%	13%	-1%	16%
Dividend payout ratio	30%	34%	47%	35%	30%	30%					
DPS	0.13	0.15	0.16	0.16	0.18	0.18	7%	0%	14%	-1%	16%
EPS	0.50	0.51	0.48	0.37	0.52	0.60	-6%	-23%	42%	16%	16%

Source: Company data, AMTD Equity Research estimates

Figure 32: FEC balance sheet

Balance sheet, HK$ m	FY14	FY15	FY16	FY17e	FY18e	FY19e
Non-current Assets	**11,785**	**12,031**	**12,460**	**12,859**	**12,876**	**13,174**
Investment properties	2,678	3,154	3,304	3,613	3,781	4,139
Property, plant and equipment	7,407	7,492	7,720	7,811	7,660	7,600
Prepaid lease payments	579	541	522	522	522	522
Goodwill	68	68	68	68	68	68
Others	1,053	775	845	845	845	845
Current Assets	**10,200**	**10,185**	**13,701**	**15,874**	**17,138**	**19,922**
Properties for sale	5,655	5,452	8,640	10,959	12,127	15,295
Completed properties	57	201	584	584	584	584
Properties for/under development	5,598	5,252	8,056	10,376	11,543	14,711
Debtors, deposits and prepayments	654	393	527	527	527	527
Deposits receivable from stakeholders	686	417	587	587	587	587
Investment securities	1,012	1,150	1,218	1,218	1,218	1,218
Pledged deposits	174	273	25	25	25	25
Restricted bank deposits	63	51	162	162	162	162
Bank balances and cash	1,829	2,274	2,358	2,212	2,309	1,926
Others	128	174	183	183	183	183
Total assets	**21,985**	**22,216**	**26,161**	**28,732**	**30,014**	**33,097**
Current Liabilities	**6,238**	**6,103**	**6,471**	**7,981**	**7,837**	**10,225**
Creditors and accruals	1,138	737	829	829	829	829
Customers' deposits received	515	575	2,460	3,970	3,826	6,214
Obligations under finance leases	3	4	3	3	3	3
Tax payable	209	333	183	183	183	183
Bank borrowings	4,252	3,087	2,933	2,933	2,933	2,933
Bonds	33	1,250	0	0	0	0
Others	88	116	63	63	63	63
Non-current Liabilities	**5,796**	**5,852**	**9,422**	**9,738**	**10,238**	**9,861**
Bank borrowings	3,271	4,468	7,863	5,863	6,363	6,863
Obligations under finance leases	4	5	5	5	5	5
Amounts due to shareholders of non-wholly owned subsidiaries Bonds	0	0	247	247	247	247
Bonds	2,253	1,005	868	3,184	3,184	2,307
Derivative financial instruments	0	59	77	77	77	77
Deferred tax liabilities	268	315	362	362	362	362
Total liabilities	**12,034**	**11,955**	**15,893**	**17,719**	**18,075**	**20,086**
Equity						
Share capital	185	191	213	213	213	213
Share premium	2,802	2,982	3,731	3,731	3,731	3,731
Reserves	5,763	5,970	6,196	6,916	7,814	8,853
Shareholder's equity	**8,750**	**9,144**	**10,140**	**10,860**	**11,758**	**12,797**
Minority interest	1,201	1,117	127	153	181	213
Total equity	**9,951**	**10,261**	**10,267**	**11,013**	**11,939**	**13,010**
Hotel revaluation surplus	8,114	10,976	10,732	10,732	10,732	10,732
Adjusted shareholder's equity	18,065	21,237	20,999	21,745	22,671	23,742

Source: Company data, AMTD Equity Research estimates

Figure 33: Cash flow

Cash flow forecasts, HK$ m	FY14	FY15	FY16	FY17e	FY18e	FY19e
Property sales	1,397	3,053	3,784	4,649	3,652	7,700
EBIT from hotel operation	415	166	223	99	211	266
EBIT from investment properties	361	95	155	46	47	49
Tax paid	-110	-140	-372	-339	-392	-453
Depreciation	215	279	299	286	314	314
Cash flow from operation (CFFO)	**2,279**	**3,454**	**4,088**	**4,742**	**3,833**	**7,877**
Capex	-4,825	-2,527	-5,263	-4,670	-4,626	-7,211
Acquisition of assets	-	-	-403	-	-	-
Disposal of assets	174	-	-	-	-	-
Others	183	-51	88	0	-	-
Free operating cash flow (FOCF)	**-2,191**	**875**	**-1,489**	**72**	**-793**	**667**
Interest paid	-419	-393	-380	-414	-489	-553
Dividend	-74	-107	-79	-100	-100	-100
Dividends paid to shareholders of non-wholly owned subsidiaries	-41	-37	-19	-20	-20	-20
FCF	**-2,724**	**338**	**-1,966**	**-462**	**-1,403**	**-7**
Equity issuance	16	14	6	-	-	-
Share buyback		-	-82	-	-	-
New debt	5,690	2,776	6,193	3,316	3,000	3,000
Repayment of debt	-3,725	-2,660	-4,251	-3,000	-1,500	-3,377
Shareholder loan			246			
Others	-18	-2	-28			
Change in FX	-51	-55	-33			
Change in cash position	**-813**	**377**	**85**	**-146**	**97**	**-384**
Cash balance - period beginning	2,621	1,829	2,274	2,358	2,212	2,309
Cash balance - period end	1,829	2,274	2,358	2,212	2,309	1,926

Source: Company data, AMTD Equity Research estimates

Figure 34: Key ratios

Ratios	FY14	FY15	FY16	FY17e	FY18e	FY19e
Gross margin	38%	38%	43%	43%	42%	37%
Gross debt	9,813	9,815	11,669	11,985	12,485	12,108
Net debt	6,910	6,340	7,931	8,393	8,796	8,803
EBIT	1,457	1,536	1,206	1,758	2,047	2,365
EBITDA	1,672	1,815	1,505	2,065	2,382	2,700
Gearing ratio ex. Hotel revaluation gains (x)	79%	69%	78%	77%	75%	69%
Gearing ratio (x)	38%	30%	38%	39%	39%	37%
Net debt/EBITDA (x)	4.1	3.5	5.3	4.1	3.7	3.3
EBITDA cover (x)	5.9	8.1	6.6	7.2	6.9	6.8
Selling and marketing expense % of revenue	1.7%	1.8%	2.6%	2.6%	2.0%	2.0%
Admin expense % of revenue	13%	13%	15%	11%	10%	9%
Avg interest cost	4.7%	4.0%	3.5%	3.5%	4.0%	4.5%
ROA	4.4%	4.3%	3.0%	4.0%	4.4%	4.7%
ROE	10.9%	10.7%	7.6%	10.5%	11.3%	12.1%

Source: Company data, AMTD Equity Research estimates

1H17 earnings preview

We are forecasting 1H17 attributable net profit of HK$441 million (+74% yoy), accounting for 40% of our full year forecast for 2017. The profit from property development segment will be mainly driven by the partial delivery of UWS Stage 4 in Melbourne and King's Manor in Shanghai. We are forecasting a stable performance of hotel, car park and investment property segment. For FY17, we expect gross profit margin to be similar to 43% in FY16. Given limited land acquisition capex in 1H17, we expect the net gearing to slightly drop in 1H17.

Figure 35: 1H17 earnings preview

							Yoy growth %	
HK$ m	**1H15**	**2H15**	**1H16**	**2H16**	***1H17e***	***2H17e***	***1H17e***	***2H17e***
P&L, HK$ m								
Revenue	**2,895**	**2,215**	**1,857**	**2,138**	**2,631**	**3,126**	42%	46%
Property development	1,817	1,145	889	1,089	1,593	2,045	79%	88%
Hotel	715	739	634	687	647	693	2%	1%
Car park	321	295	299	324	327	327	9%	1%
Property investment	30	26	26	26	26	26	0%	1%
Others	43	35	35	38	38	35	9%	-8%
Cost of sales and services	(1,897)	(987)	(1,078)	(912)	(1,457)	(1,527)	35%	67%
Depreciation and amortisation of hotel and car park assets	(132)	(147)	(150)	(148)	(153)	(153)	2%	3%
Gross profit	**865**	**1,081**	**629**	**1,078**	**1,020**	**1,446**	62%	34%
Property development	433	653	299	703	665	1,087	122%	55%
Hotel	342	349	252	289	271	274	7%	-5%
Car park	64	60	57	60	61	61	8%	2%
Leasing and others	26	19	21	25	23	23	10%	-8%
EBIT	**636**	**899**	**427**	**779**	**716**	**1,042**	68%	34%
Finance costs	(102)	(122)	(115)	(114)	(143)	(143)	25%	26%
Profit before tax	**538**	**790**	**323**	**657**	**573**	**899**	78%	37%
Income tax expense	(117)	(214)	(48)	(173)	(132)	(207)	173%	19%
Profit for the year	**421**	**577**	**274**	**484**	**441**	**692**	61%	43%
Minority interest	(21)	62	(11)	35	0	26	-100%	-25%
Attributable net profit	**401**	**556**	**253**	**481**	**441**	**666**	74%	38%

Source: Company data, AMTD Equity Research estimates

Appendix

Key development projects

Australia

West Side Place, Melbourne

Source: Company disclosure

The West Side Place is located within the Melbourne CBD Grid, near Spencer Street Train Station and Spencer Street Shopping Town. The Property features four high-rise towers with 2,500 apartments and a Ritz-Carlton hotel with 263 hotels rooms. It has a sellable floor area (SFA) of 2,048,000 sq. ft. and is expected (according to FEC) to deliver an HK$ 10.7bn of sales. The presales of tower 1 and tower 2 were launched in June 2016 and received good market response. The project is expected to be completed after FY20.

Queen's Wharf Brisbane

Source: Company disclosure

Destination Brisbane Consortium, a joint venture between FEC, The Star Entertainment Group (The Star) and Chow Tai Fook Enterprises Limited (CTF) was selected to develop Queen's Wharf Project which entails the development of an integrated resort as well as residential development at Queen's Wharf Brisbane. FEC has a 50% interest in the residential development component and 25% stake in the casino, hotels and retail component. The residential portion has an attributable SFA of 706,000 sq. ft. and is expected to bring FEC HK$ 4.1bn worth of sales while FEC committed HK$ 1.3bn capital expenditure for the whole project. The hotel portion contains four hotels with 1,004 rooms. The integrated resort is scheduled for completion in FY22 while residential buildings will be completed in the following 2 years.

JV projects in Sydney and Gold Coast

Source: Company disclosure

In March 2016, FEC signed two Memoranda of Understanding (MOU) with CTF and The Star for the development of (i) a 200-metre tower located on the ocean side of The Star's existing Jupiters Integrated Resort in Gold Coast which would house 700 hotel rooms and apartments and (ii) a 200-metre hotel/apartment tower at The Star in Sydney featuring a Ritz Carlton hotel and an extension with connectivity to the existing property that would include further food and beverage outlets.

Australia (cont.)

The Towers at Elizabeth Quay, Perth

Source: Company disclosure

This high-end residential project with an Ritz-Carlton Hotel is located on the water's edge of the Swan River, and nestled between the Perth CBD, and Kings Park, and Stirling Gardens. Elizabeth Quay reconnects the CBD with the Swan River, across 10 hectares of riverfront land between Barrack and William Streets. The Ritz-Carlton Hotel will have 204 rooms. The two residential buildings will contain 379 apartments with SFA of 320,000 sq. ft. and an estimated (by FEC) sales of HK$ 2.7 bn. The presale was launched in FY16 and expected completion is in FY19.

China

California Garden, Shanghai

Source: Company disclosure

California Garden was acquired by FEC in 1999 with land cost at Rmb 1,000-1,500 per sqm. It is developed in phases and has been a key profit contributor due to its low land cost. The project contains a mixed portfolio of high-rise, low-rise apartments and townhouses. The current two phases under development were named as King's Manor and The Royal Crest II. With the strong performance of Shanghai's property market in 2015/16, King's Manor has been largely sold out and some portion been delivered in FY16. With the remaining portion of King's Manor to be completed in FY17, we expect it to contribute HK$ 1.7bn of revenue. The presale of Royal Crest II was launched in May 2016 with HK$ 1.4bn expected presale value. Completion is scheduled in FY17/18. Apart from these two projects, FEC still holds 3,800,000 sq.ft. of GFA on this piece of land which we expect to be gradually developed in the next a few years.

Royal Riverside, Guangzhou

Source: Company disclosure

FEC holds three projects in Guangzhou with attributable SFA of 1,343,000 sq.ft.. Currently Tower 2 of Royal Riverside has launched presale with Tower 1, 3-5 to be launched in 4Q16. Tower 2 is scheduled to be completed in 2H17 while the other towers will be completed in FY18. In total Royal Riverside is expected to deliver HK$2.1bn of sales.

Hong Kong

Aspen Crest

Source: Company disclosure

Aspen Crest is a redevelopment project and consists of 234 apartments with approximately 64,000 sq. ft. in saleable floor area and approximately 16,000 sq. ft. of commercial component. As at Mar-16, 83% of the total expected sales value had been achieved. Its completion is scheduled in FY19.

Eivissa Crest

Source: Company disclosure

Eivissa Crest consists of 106 residential apartments with approximately 36,000 sq. ft. in saleable floor area. The presale value reached approximately HK$629 million as at 31 March 2016, representing 82% of the total expected GDV. This project has been completed in 2016.

Tan Kwai Tsuen project

Source: Company disclosure

This project at Tan Kwai Tsuen consists of 24 town houses with approximately 51,000 sq.ft. in saleable floor area is expected to be launched in early 2017. Completion is scheduled in FY17/18.

UK

Alpha Square, London

Source: Company disclosure

Alpha Square is a residential development site located in Marsh Wall, Canary Wharf, London. This mixed-use development consists of residential units totalling approximately 388,000 sq. ft. in saleable floor area, a hotel of approximately 230 rooms, retail component and other facilities. Planning approval was obtained in May 2016. The presale will be launched in FY18.

Singapore

Alexandra View, Singapore

Source: Company disclosure

In November 2015, FEC won a tender for a residential development site at Alexandra View, located next to Redhill MRT station in Singapore, at a tender price of SGD377 million. This project comprises a 99-year leasehold land parcel. The saleable floor area is estimated at approximately 410,000 sq. ft., comprising residential development together with commercial component. This development is a joint venture in which the Group has a 70% shareholding. The presale will be launched in FY18 and completion is scheduled in FY21.

Malaysia

Dorsett Bukit Bintang, Kuala Lumpur

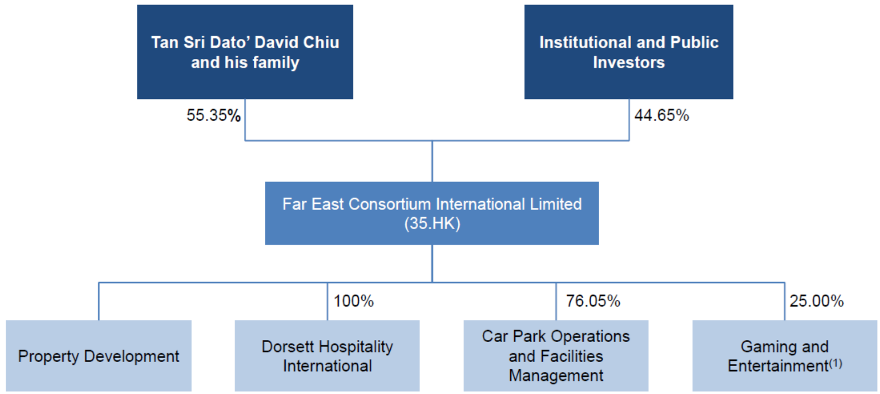
Source: Company disclosure

Dorsett Bukit Bintang is a residential development adjacent to Dorsett Regency Kuala Lumpur. This development consists of 252 high-rise apartments of approximately 215,000 sq. ft. in saleable floor area. As at 31 March 2016, presales value reached approximately HK$316 million, representing 38% of the total expected GDV. Completion is scheduled in FY17/18.

Company background

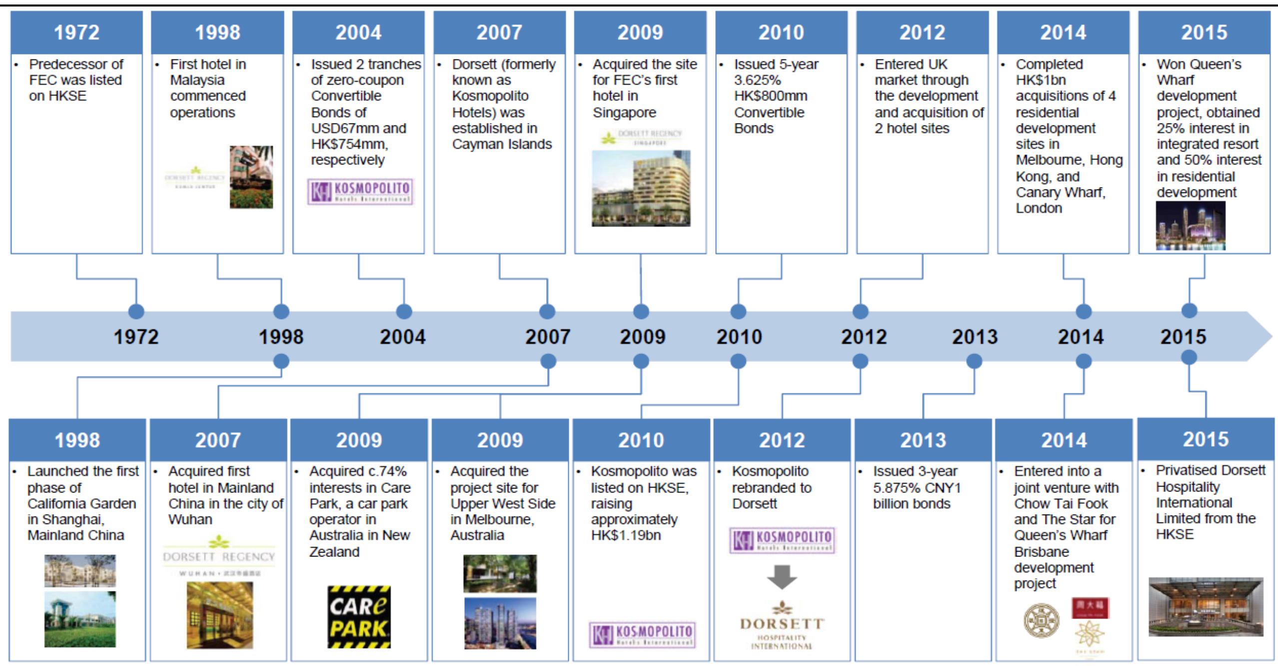
FEC was listed on the Hong Kong Stock Exchange in 1972. It is founded by Deacon Chiu, the former chairman of the Asia Television Limited. Since then, the Group has built a strong foundation in the region enhanced by the local knowledge of its local teams. This approach has enabled FEC to expand rapidly in the past decade, transforming itself from a Hong Kong developer into a regional property conglomerate engaged in property and hospitality, car park management and facilities management.

Figure 36: FEC shareholding structure



Source: Company data; Note: FEC's stakes in property development varies in individual projects

Figure 37: FEC corporate milestones



Source: Company data

Board of directors and management team profile

Figure 38: Board of directors and management team profile

Name	Position	Age	Experience
TAN SRI DATO' DAVID CHIU	Chairman & CEO	62	Mr. Chiu has over 30 years' experience in the property development and extensive experience in the hotel development. In his business career, he established a number of highly successful business operation through organic growth and acquisitions, covering Mainland China, Hong Kong, Japan, Malaysia, Singapore and Australia. He has been the Managing Director of the company since 1978.
MR. CHRIS CHEONG THARD HOONG	Executive Director & Managing Director	47	Mr. Hoong joined the Group in September 2008 as the Managing Director. He is responsible for the formulation and implementation of FEC overall strategies for development. He has a wealth of knowledge in corporate development and extensive experience in mergers and acquisitions as well as international capital markets.
MR. DENNIS CHIU	Executive Director	57	Mr. CHIU, aged 57, was appointed as an Executive Director of the company in 1978. He has been actively involved in the business development in the Mainland China, Singapore and Malaysia.
MR. CRAIG GRENFELL WILLIAMS	Executive Director	64	Mr. Williams was appointed as an Executive Director of the company in 2000. He is responsible for all property development in Australia. Before joining the Australian operations of the company, he was a director of all development companies of the Lend Lease Group, Australia's largest property developer.
MR. DENNY CHI HING CHAN	Non-executive Director	52	Mr. Chan was appointed as an Executive Director of the company in 2012 and re-designated as a Non-executive Director in 2016. He has been the Group's Chief Operating Officer from March 2004 to December 2015. He was responsible for the Hong Kong and the Mainland China based activities with emphasis on the commercial management, property and hotel development and investment, and project development.
MR. KWOK WAI CHAN	Independent Non-executive Director	57	Mr. Chan was appointed as an Independent Non-executive Director of the Company in 2005. He is a member of The Hong Kong Securities and Investment Institute and a member of CPA Australia. Mr. Chan is a director of High Progress Consultants Limited and also an independent non-executive director of several other listed companies in Hong Kong.
MR. PETER MAN KONG WONG	Independent Non-executive Director	67	Mr. Wong was appointed as an Independent Non-executive Director of the company in 2007. He has over 40 years of experience in industrial, commercial and public service. Mr. Wong is the chairman of M.K. Corporation Limited, North West Development Limited, Cultural Resources Development Co. Ltd, Silk Road Hotel Management Co. Ltd. and Silk Road Travel Management Ltd.
MR. KWONG SIU LAM	Independent Non-executive Director	82	Mr. LAM, aged 82, was appointed as an Independent Non-executive Director of the Company in September 2011. He was the delegate of the 10th National People's Congress. Mr. LAM currently serves as the vice chairman of BOC International Holdings Limited, the life honorary chairman of the Chinese General Chamber of Commerce, adviser of the Hong Kong Chinese Enterprises Association and the honorary president of the Chinese Bankers Club of Hong Kong.
MR. BOSWELL WAI HUNG CHEUNG	Chief Financial Officer	45	Mr. Cheung, joined the Company as Chief Financial Officer in September 2010. He is responsible for financial functions and investor relations of the Company. Currently, he is a director of certain subsidiaries of the Company, an audit committee member of AGORA Hospitality Group Co., a company listed on the Tokyo Stock Exchange and an independent non-executive director of Capinfo Company Limited, a company listed on the Hong Kong Stock Exchange. Prior to joining the Company, Mr. Cheung was chief operating officer and company secretary of Fook Woo Group Holdings Limited (now named as Integrated Waste Solutions Group Holdings Limited, stock code: 923), senior financial strategy advisor of China Pacific Insurance (Group) Co., Ltd. (stock code: 2601), an executive director and a non-executive director of Bright International Group Limited (now named as Dejin Resources Group Company Limited, stock code: 1163), and also held audit posts in Deloitte Touche Tohmatsu and Ernst & Young.

Source: Company data

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Overweight	Industry sector expected to outperform the market over the next 12 months
Neutral	Industry sector expected to perform in-line with the market over the next 12 months
Underweight	Industry sector expected to underperform the market over the next 12 months

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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