

FIRST SPONSOR GROUP LIMITED

China outlook turns cloudy

SINGAPORE | REAL ESTATE | 2H21 UPDATE

- 2H21 profit of \$61.8mn was above our estimates, at 53.6%. The beat came from property development (PD) and property financing (PF).
- Revenue from hotel operations showed nascent recovery as improvements in its European hotel operations lifted earnings pared back by weakness from its China operations due to the resurgence of COVID-19 in China.
- China outlook turns cloudy as PF and PD business impacted by the slowing property market and recent loosening of monetary policy. Dongguan inventory turnover rose to 12.5 months from 3.2 months previously.
- Downgrade to NEUTRAL due to slower economic growth in China with reduced SOTP target price of S\$1.39. Catalysts for upgrade are a recovery in the Chinese property market and its China hotel portfolio.

Results at a glance

S\$'mn	2H21	2H20	YoY	Comments
Revenue				Results above, driven mainly by Property Development.
- Property Development	432.4	99.8	333.3%	Above, due mainly to the first handover of the six out of eight fully sold residential apartment blocks of The Pinnacle project.
- Property Holding	33.9	25.0	35.6%	In-line.
- Property Financing	64.4	40.3	59.8%	In-line.
PRC PF loan book as at	535.8	424.1	26.3%	
Profit after tax	61.8	44.1	40.1%	Above, same as revenue.
Diluted EPS (SG cents)	3.96	3.40	16.5%	
Gearing ratio (x)	0.38	0.49	-22.4%	Lowered due to repayment of bank borrowings.

Source: PSR, Company data

The Positives

+ 2H21 profit of \$61.8mn above our estimates, at 53.6%. The beat came from property development and property financing. The Group made good progress with its various PRC property development projects with the handover of six out of eight fully sold residential apartment blocks of The Pinnacle project in Dongguan in December 2021. The average PRC PF loan book also hit a high of RMB2.7bn in 2021.

+ Revenue from hotel operations showed nascent recovery. Strong leisure demand led to better performance of its European hotel portfolio with revenue from hotel operations increasing 33% YoY in 2H21. Its European hotel portfolio also saw improvements in occupancy, average daily rate (ADR) and revenue per available room (RevPAR) following the easing of COVID-19 measures. According to management, January 2022 continues to be positive and is trending better than 2021.

The resurgence of COVID-19 cases in PRC, however, pared back gains. The implementation of restriction measures in Chengdu led to a weaker performance of its PRC hotels in 2H21 after it had to close the Holiday Inn Express Chengdu Wenjiang Hotspring Hotel for almost a month each in early August 2021 and early November 2021.

+ Revenue from property financing ahead of our expectations as PRC loan book exceeds. The PRC property financing business achieved a record full-year average loan book of RMB2.7bn for FY21.

25 February 2022

NEUTRAL (Downgraded)

LAST CLOSE PRICE	SGD 1.350
FORECAST DIV	SGD 0.035
TARGET PRICE	SGD 1.390
TOTAL RETURN	5.5%

COMPANY DATA

BLOOMBERG CODE:	FSG SP
O/S SHARES (MN) :	913
MARKET CAP (USD mn / SGD mn) :	964 / 1279
52 - WK HI/LO (SGD) :	1.44 / 1.08
3M Average Daily T/O (mn) :	0.03

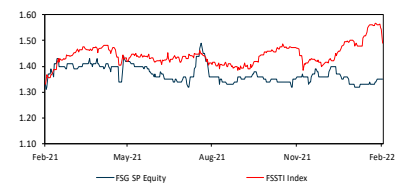
MAJOR SHAREHOLDERS (%)

REPUBLIC HOT & RES LTD	31.7%
FIRST SPONSOR CAPITAL LTD	31.4%
TAI TAK ASIA PROPERTIES LTD	12.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.7)	11.0	8.5
STI RETURN	1.7	9.4	13.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$'000)	FY20	FY21	FY22e	FY23e
Gross Rev	203,936	589,170	416,458	281,574
Gross Profit	171,906	241,316	162,205	118,607
EBITDA	143,423	217,064	172,076	104,669
PATMI	103,174	121,469	112,701	64,166
P/NAV (x)	0.74	0.62	0.60	0.59
P/E (x)	11.28	10.18	10.97	19.27
ROE (%)	5.90	6.14	5.46	3.04

Source: Company, PSR

VALUATION METHOD

SOTP (20% discount)

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The Negatives

- **Outlook for property financing disappoints.** We believe the recent policy change in China will see clients repaying the loans in favour of bank loans. This, after the People's Bank of China (PBOC) reduced the reserve requirement ratio for banks by 0.5% in December last year, in a bid to boost economic growth. This resulted in the release of an additional RMB1.2 tn (~\$255bn) into the economy. To further ease the lack of liquidity in the property sector, PRC authorities are in the midst of drafting rules to allow developers to access funds from sales that are held in escrow accounts to meet obligations as well as payments.

- **Dongguan's property market slows, inventory rose to 12.5 months from 3.2 months.** Curbs on debt and strict COVID-19 measures has negatively impacted property demand in China. According to Reuters' calculations, property investment declined 13.9% in December 2021 from a year ago, dropping at the fastest rate since early 2020. Unsold housing stock in the PRC's 100 biggest cities reached a five-year high in November last year. With the slowdown in the property sector, residential inventory in Dongguan rose to 12.5 months from 3.2 months as home buyers remain on the sidelines.

Outlook

Weak economic outlook in China clouds Group's outlook. Falling property prices in China have resulted in a slowdown in demand. Unsold housing stock in the PRC's 100 biggest cities reached a 5-year high in November last year. Some developers have also resorted to lowering prices to clear inventory, adding to the downward pressure in the property sector.

In January 2022, the PBOC cut the interest rate for the one-year medium-term lending facility from 2.95% to 2.85%. In the same month, the central bank reduced the one-year loan prime rate by another 10 basis points from 3.8% to 3.7% and the five-year loan prime rate by five basis points from 4.65% to 4.6%. To boost liquidity, the PBOC is also offering RMB700bn (S\$148.7bn) of one-year medium-term lending facility loans in addition to RMB100bn (S\$21.2bn) with seven-day reverse repurchase agreements. All these have culminated in a reduction in the Group's PRC loan book, and is expected to add further pressure to its PRC loan book in the next two years.

In view of this, we have tweaked our model to account for the lower PRC loan book in the next two years. We lowered our expectations for the Group's PRC loan book for FY22e-23e by 50% and 16% respectively as we expect customers to start repaying off its loans to refinance with the banks. Consequently, our earnings estimates for its PF business is reduced by 47% and 13% respectively for FY22e and 23e.

Strong balance sheet to capitalise on new opportunities. FSG is backed by a strong balance sheet, substantial unutilised committed credit facilities and potential equity infusion from the exercise of outstanding warrants. The Group is also expected to realise a substantial infusion of cash from the repayment of loans from its customers in the next two years. All of this will further strengthen the cash resources of the Group and to enable it to capitalise on any new business opportunities when they arise.

Downgrade to NEUTRAL from ACCUMULATE with reduced SOTP-TP of S\$1.39. As the economic and property outlook in China turns more uncertain, we lowered our earnings expectations for its PD and PF business by 21% and 47% respectively for FY22e. Catalysts for an upgrade are a recovery in the Chinese property market and its China hotel portfolio.

Dongguan projects

- a) Star of East River *
- b) Emerald of the Orient *
- c) The Pinnacle *
- d) Skyline Garden *
- e) Humen TOD **
- f) Fenggang **
- g) New Humen (NEW)

Chengdu project

Millennium Waterfront

- a) Plot E **
- b) Plot F *

Guangzhou project

- a) Panyu **

*Launched and largely sold

** Not launched/ sold

Figure 1: New Humen project



Source: FSG

Financials

Income statement

Y/E Dec, (\$S'000)	FY19	FY20	FY21	FY22e	FY23e
Revenue	319,164	203,936	589,170	416,458	281,574
Cost of sales	(130,129)	(32,030)	(347,854)	(254,253)	(162,967)
Gross Profit	189,035	171,906	241,316	162,205	118,607
Net finance income	870	(3,588)	(9,804)	(9,687)	(9,546)
Administrative expenses	(38,206)	(28,726)	(36,138)	(44,686)	(30,213)
Share of profits from JVs and associates	71,222	(12,373)	11,075	59,973	11,822
Other items	(28,722)	(1,607)	(3,854)	(10,547)	(7,131)
Profit Before Tax	194,199	125,612	202,595	157,257	83,539
Taxation	(28,623)	(24,501)	(72,350)	(39,314)	(20,885)
Profit After Tax	165,576	101,111	130,245	117,943	62,654
PATMI	167,088	103,174	121,469	112,701	64,166
EBIT	194,841	131,263	203,623	161,703	94,597
EBITDA	205,197	143,423	217,064	172,076	104,669

Per share data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAVPS (\$S)	1.97	1.83	2.16	2.25	2.30
NAVPS (\$S, diluted)	1.65	1.70	1.78	1.85	2.85
EPS (\$S cents)	21.64	11.97	13.26	12.31	7.01
EPS (\$S cents, diluted)	17.12	8.87	10.21	9.44	10.44
DPS (\$S cents)	2.70	3.10	3.45	3.45	1.96
DPS (\$S cents, diluted)	2.14	2.30	2.55	2.64	2.92

Cash Flow

Y/E Dec, (\$S'000)	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit for the year	165,576	101,111	130,245	117,943	62,654
Adjustments	(55,097)	120,193	33,896	(597)	(1,751)
WC changes	27,838	(18,512)	(277,398)	(149,216)	233,858
Cash generated from ops	138,317	202,792	(113,257)	(31,871)	294,761
Others	20,005	(32,947)	(39,654)	(17,743)	-
Cashflow from ops	158,322	169,845	(152,911)	(49,614)	294,761
CFI					
Acquisition of subsidiaries	(156,770)	(5,037)	(241,867)	-	-
Advances to associates (net)	(86,867)	(216,620)	(4,155)	-	-
Payment - other investments	(357)	(16,097)	-	-	-
Payment - additions to PPE	(37,482)	(16,496)	(7,867)	-	-
Payment - associates and JVs	(81,242)	(18,027)	(13,353)	-	-
Others	154,632	32,176	77,863	21,854	22,695
Cashflow from investments	(208,086)	(240,101)	(189,379)	21,854	22,695
CFF					
Advances from associates (net)	120,261	73,329	120,807	-	-
Dividends to the owners of FSG	(19,078)	(22,855)	(28,386)	(31,556)	(17,967)
Proceeds from issuance of MTN	-	100,000	-	-	-
Repayment of bank borrowings	(632,633)	(1,222,658)	(941,492)	(130)	(20)
Proceeds from bank borrowings	611,205	1,274,264	1,007,381	-	-
Others	164,773	16,952	(29,819)	(22,996)	8,262
Cashflow from financing	244,528	219,032	128,491	(54,683)	(9,725)
Net change in cash	194,764	148,776	(213,799)	(82,442)	307,732
Cash at the start of the period	125,711	313,389	476,304	343,967	261,525
Currency translation	(7,086)	14,139	-	(11,506)	-
Ending cash	313,389	476,304	262,505	250,019	569,257

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$S'000)	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE and IP	440,674	469,324	481,262	470,888	460,817
Interest in assoc and JVs	298,062	549,943	1,027,535	1,087,224	1,099,001
Others	971,690	862,040	777,395	777,395	777,395
Total non-current assets	1,710,426	1,881,307	2,286,192	2,335,508	2,337,214
Development properties	390,046	530,542	704,679	754,007	806,787
Trade receivables	315,255	482,401	946,133	1,036,949	790,408
CCE	313,389	476,304	343,932	261,525	569,258
Inventories	550	394	376	406	439
Others	30,830	53,633	22,203	22,203	22,203
Total current assets	1,050,070	1,543,274	2,017,323	2,075,090	2,189,094
Total Assets	2,760,496	3,424,581	4,303,515	4,410,597	4,526,307

LIABILITIES

Trade payables	307,085	348,603	840,864	831,439	861,124
ST borrowings	251,220	124,560	151,158	151,028	151,008
Contract liabilities	39,288	372,236	173,904	174,416	184,881
Others	65,663	49,432	101,315	101,315	101,315
Total current liabilities	663,256	894,831	1,267,241	1,258,198	1,298,328
LT borrowings	369,943	615,012	937,749	937,749	937,749
Others	128,708	167,419	116,448	116,448	116,448
Total non-current liabilities	498,651	782,431	1,054,197	1,054,197	1,054,197
Total liabilities	1,161,907	1,677,262	2,321,438	2,312,395	2,352,525
Net assets	1,598,589	1,747,319	1,982,077	2,098,202	2,173,782
Represented by:					
Share Capital	101,251	117,329	118,357	118,357	118,357
Reserves	1,320,670	1,553,818	1,744,725	1,831,112	1,875,799
Others	176,668	76,172	115,772	115,772	115,772
Total equity	1,598,589	1,747,319	1,978,854	2,065,241	2,109,928

Valuation Ratios

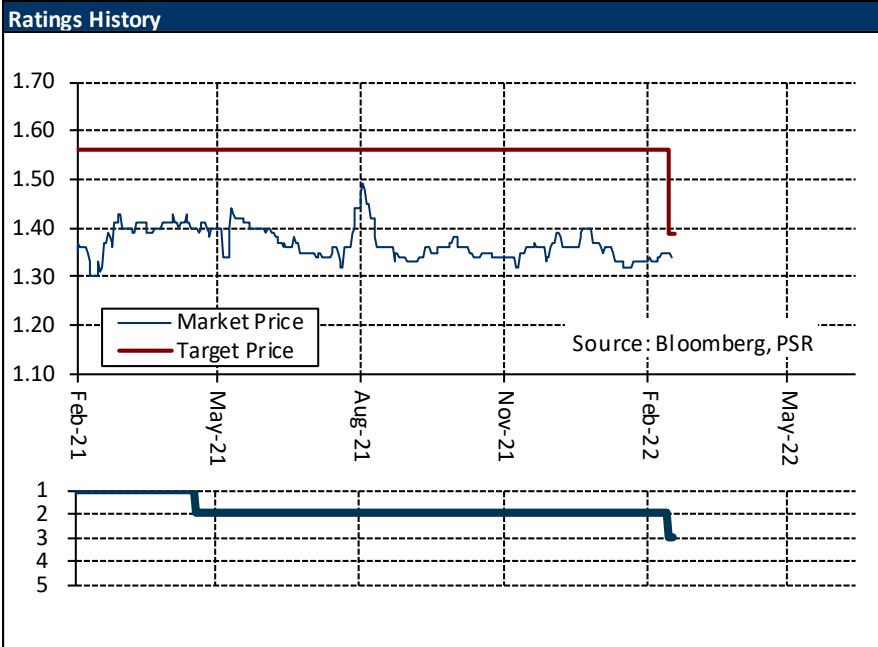
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	0.7	0.7	0.6	0.6	0.6
P/E (x)	6.2	11.3	10.2	11.0	19.3
Dividend yield (%)	2.0	2.3	2.6	2.6	1.5

Growth & Margins (%)

Growth					
Revenue	15.1%	-36.1%	188.9%	-29.3%	-32.4%
Gross profit	17.0%	-9.1%	40.4%	-32.8%	-26.9%
EBITDA	48.4%	-30.1%	51.3%	-20.7%	-39.2%
EBIT	47.5%	-32.6%	55.1%	-20.6%	-41.5%
Margins					
Gross profit margin	59.2%	84.3%	41.0%	38.9%	42.1%
EBITDA margin	64.3%	70.3%	36.8%	41.3%	37.2%
EBIT margin	61.0%	64.4%	34.6%	38.8%	33.6%

Key Ratios

ROE	10.5%	5.9%	6.1%	5.5%	3.0%
ROA	6.1%	3.0%	2.8%	2.6%	1.4%
Net Gearing	19.3%	15.1%	37.6%	40.1%	24.6%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks
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