

Far East Consortium

Bloomberg: 35 HK EQUITY | Reuters: 0035.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Jun 2022

BUY

Last Traded Price (28 Jun 2022): HK\$2.35 (HSI : 22,419)
Price Target 12-mth: HK\$3.86 (64% upside)

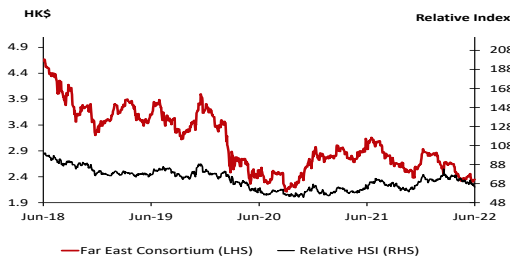
Analyst

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What's New

- FY22 net profit surged to HK\$1.3bn boosted by profit on disposal of Dorsett City London and revaluation gains from office portion of Kai Tak development
- Final DPS rose 7% to HK\$0.16, a positive surprise, and 1-for-10 bonus issue was proposed
- Hotel, car park and gaming operations staged strong rebound
- Recurrent earnings well on recovery path, BUY with HK\$3.86 TP

Price Relative



Forecasts and Valuation

FY Mar (HK\$ m)	2021A	2022A	2023F	2024F
Turnover	5,944	5,896	6,997	7,564
EBITDA	1,674	1,491	1,516	1,515
Pre-tax Profit	1,266	1,854	1,368	1,322
Net Profit	543	1,300	873	945
Net Profit Gth (%)	48.5	139.4	(32.9)	8.2
EPS (HK\$)	0.23	0.54	0.36	0.39
EPS Gth (%)	47.8	135.8	(33.1)	8.2
PE (X)	10.2	4.3	6.5	6.0
P/Cash Flow (X)	2.2	9.6	2.7	2.6
EV/EBITDA (X)	18.1	20.3	19.9	19.9
DPS (HK\$)	0.19	0.20	0.20	0.20
Div Yield (%)	8.1	8.5	8.5	8.5
Net Gearing (%)	55	58	56	53
ROE (%)	4.4	9.1	5.9	6.2
Est. NAV (HK\$):			11.9	12.9
Disc. to NAV (%)			(80)	(82)

Earnings Rev (%): 1 New

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Recurring profit on solid recovery path.

Investment Thesis

BUY with HK\$3.86 TP. The stock is trading at 80% discount to our assessed current NAV with an estimated dividend yield of 8.5%. Valuation is compelling in view of recovering recurring earnings from hotel, car park and gaming operations. Asset monetization should help to narrow its discount to NAV.

Recent residential launches in Hong Kong and Brisbane attracted encouraging response. Since its initial launch in Apr-22, Far East Consortium has sold 33 units at Mount Arcadia in Shatin for c.HK\$17,300psf on average. This represented 50% of the total. A complete sale should yield development profit of HK\$700m to the company. The recent launch of Tower 5 of Queen's Wharf Residences also drew an enthusiastic response.

Core businesses staging solid recovery. Far East Consortium's hotel earnings in Hong Kong surged in FY22 on increased room rates after repositioning its hotels to cater to quarantine guests. Car park and gaming earnings are also on a recovery path.

Valuation:

Our TP is premised on a 70% discount to our Jun-23 NAV estimate.

Where we differ:

We are more positive on the company's execution capability in its overseas property development business which has become its key earnings platform.

Key Risks to Our View:

Any adverse foreign currency movements and execution issues in foreign countries could affect FEC's earnings and NAV, given its high exposure to overseas markets. Any softening in residential demand in Hong Kong/China/Australia/Singapore/the UK could impact its development earnings as well as valuation. A prolonged COVID-19 outbreak could weigh on its hotel earnings.

At A Glance

Issued Capital (m shrs)	2,420
Mkt Cap (HKm/US\$m)	5,686 / 725
Major Shareholders (%)	
Chiu (Tat Cheong David)	51.6
Chiu (Te Ken Deacon)	6.4
Free Float (%)	42.0
3m Avg. Daily Val. (US\$m)	0.27
GICS Industry: Real Estate / Real Estate Management & Development	



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Far East Consortium

WHAT'S NEW

Higher recurrent earnings from hotels, car parks and gaming operations

Far East Consortium's FY22 net profit came in at HK\$1.3bn, up 139%, aided by substantial disposal gains from divestment of Dorsett City London and revaluation gains from office portion of Kai Tak development. The results were ahead our forecast due to stronger-than-expected development earnings.

Final DPS rose 7% to HK\$0.16, which was a positive surprise. This brought the full year DPS to HK\$0.20. (FY21: HK\$0.19). To celebrate its 50th anniversary since its listing on the Hong Kong Stock Exchange, the company has proposed a 1-for-10 bonus issue.

Gross profit increased 8% to HK\$1.98bn due to sharp earnings rebound for hotel and gaming operations and as car park operations returned to profitability. The growth, however, was partially offset by lower development earnings.

Hotel operations staged a strong rebound, as gross profit more than quadrupled to HK\$500m. This was supported by robust recovery amongst Hong Kong hotels which had adjusted their business model to cater to quarantine guests. Backed by significantly higher room rates, the Hong Kong hotel RevPAR jumped 71% to HK\$687. Overall, RevPAR of Dorsett Group Hotels jumped 68.2% in FY22, while RevPAR for TWC Hotels also rebounded 70.8% on a low base.

Gross profit from gaming business surged to HK\$114m from FY21's HK\$10m thanks to re-opening of TWC's casinos and better cost control. On the other hand, no dividend income was received from Australia-listed Star Entertainment. Carpark operations swung to black with gross profit of HK\$82m (FY21: loss of HK\$4m) due to loosened restrictions in the company's major operating areas, in particular in Victoria, Australia and strong recovery from Manchester, UK.

On the other hand, property development delivered gross profits of HK\$1.1bn, down 28% y-o-y. This came from selling West Side Place (Towers 1 & 2) in Melbourne, MeadowSide Plots 2, 3 & 5 in Manchester with the balance from inventory sales in Shanghai/Guangzhou, and progressive booking of Hyll on Holland in Singapore.

Dorsett Gold Coast opened for business in Dec-21. This was followed by the opening of Dao by Dorsett West London (the extension of Dorsett Shepherds Bush) in Jun-22. This newly built hotel together with soon-to-be-

rebranded Dao Dorsett ATMD Singapore, will target the long-stay market.

As of Mar-22, Far East Consortium had attributable contracted pre-sales of HK\$16.7bn which will be recognized in FY23-25. This points to good visibility of development profits in the years ahead.

Far East Consortium offered to sell the newly completed Mount Arcadia in Shatin through tender in early April after the pandemic situation showed signs of stabilization. Initial market response has been enthusiastic with 33 units sold for HK\$668m. ASP exceeded HK\$17,300psf. Mount Arcadia contains 62 apartments and 4 houses with total saleable area of 84,000sf. Located on Tai Po Road, the project is just a 5-minute and 8-minute drive from Tai Wai and Kowloon Tong respectively. The company acquired the site for HK\$245m in Mar-16. A complete sale of Mount Arcadia should yield pre-tax earnings of c.HK\$700m. The recent sale of Tower 5 of Queen's Wharf Residences in Brisbane also attracted strong interest.

Net debt rose to HK\$21.3bn in Mar-22 from Sep-21's HK\$19.3bn reflecting land banking activities and construction expenses incurred. This put its gearing at 58%.

The stock is trading at 80% discount to our assessed current NAV and offers dividend yield of 8.5%. The valuation is unjustifiably low in view of improving recurring earnings from its hotel, car park and gaming business. Far East Consortium is also unlocking its hidden value through disposals. The sale of office tower in Kai Tak to CLP Holdings and disposal of car park and retail units in Australia/New Zealand are cases in point. This not only helps to improve its financial strength but also boosts its bottom-line earnings. We maintain our BUY call with HK\$3.86 TP. This is based on target discount of 70% to our Jun-2023 NAV estimate.

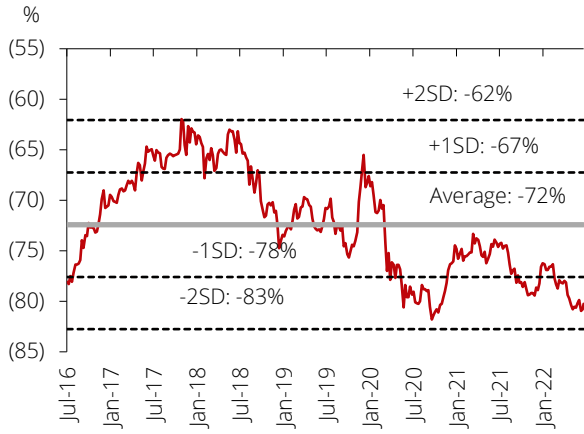
Company Background

Far East Consortium's (FEC) core businesses comprise property development & investment, hotel investment & operations, car park & facility management, and gaming. FEC has been geographically diversifying its business operations which span across Hong Kong, China, Australia, Singapore, Malaysia and the UK.

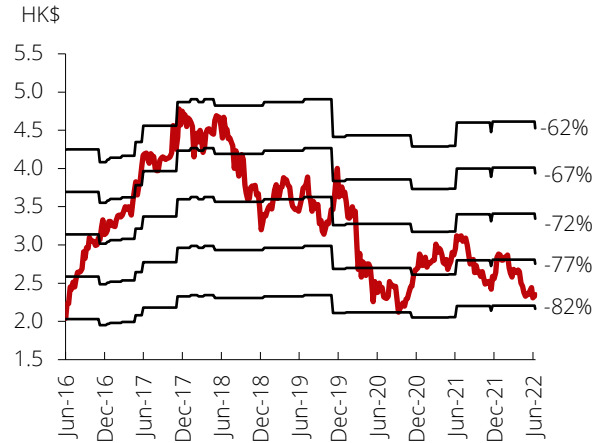
Far East Consortium

Discount to NAV

Discount to NAV



Discount to NAV band



Source: Bloomberg Finance L.P., DBS HK

Far East Consortium

Result Summary

FY Mar (HK\$m)	FY21	FY22	% Chg	Comments
Revenue	5,943.7	5,895.6	(1)	FY22: lower contributions from property development, largely offset by increased revenue from hotel, car park and gaming operations
Cost of sales and services	(3,629.0)	(3,432.5)	(5)	
Depreciation and amortisation of hotel and car park assets	(473.2)	(479.1)	1	
Gross Profit	1,841.5	1,984.0	8	FY22: due to sharp earnings rebound for hotel, gaming operations and car park, partly offset by lower development earnings
Other income	259.7	213.6	(18)	
Other gains and losses	425.8	1,189.8	179	FY22: mainly profit from the disposal of Dorsett City London and revaluation gains for office portion of Kai Tak development; FY21: mainly from revaluation gains on Dorsett Wuhan mall (HK\$341m)
Administrative expense				
- Hotel operations and management	(319.6)	(355.1)	11	
- Others	(342.4)	(496.5)	45	
Pre-operating expenses				
- Hotel operations and management	0.0	(12.7)	N.A.	
Selling and marketing expenses	(245.3)	(279.5)	14	
Share of results of associates	(13.1)	(21.9)	67	
Share of results of joint ventures	(31.1)	(26.9)	(13)	
Finance costs	(309.8)	(341.1)	10	
Profit before tax	1,265.8	1,853.7	46	
Income tax expense	(460.1)	(343.2)	(25)	
Perpetual securities	(199.7)	(206.9)	4	
Non-controlling interests	(62.8)	(3.3)	(95)	
Net profit	543.2	1,300.4	139	
Interim DPS (HK\$)	0.040	0.040	0	
Final DPS (HK\$)	0.150	0.160	7	
Total DPS (HK\$)	0.190	0.200	5	

Source: Far East Consortium

Far East Consortium

Key Assumptions (%)

	2022F	2023F
Residential price - HK	0	0
Office rental - HK	0	0
Retail rental (Shopping centre) - HK	0	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenues (HK\$ m)					
Property Development	4,835	4,226	3,378	4,136	4,499
Property Investment	66	90	93	94	96
Hotel Operations	1,345	889	1,405	1,545	1,670
Car Park Operations	760	502	664	791	833
Others	173	148	123	108	116
Gaming	271	88	231	322	349
Total	7,450	5,944	5,896	6,997	7,564

Source: DBS HK

Income Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Turnover	7,450	5,944	5,896	6,997	7,564
EBITDA	1,782	1,674	1,491	1,516	1,515
Depr / Amort	(462)	(488)	(462)	(481)	(500)
EBIT	1,319	1,186	1,029	1,035	1,015
Associates Inc	(9)	(44)	(49)	137	601
Interest (Exp)/Inc	(458)	(302)	(316)	(374)	(394)
Exceptionals	(16)	426	1,190	570	100
Pre-tax Profit	837	1,266	1,854	1,368	1,322
Tax	(286)	(460)	(343)	(283)	(166)
Minority Interest	(87)	(63)	(3)	0	0
Holders of Perpetual Securities	(99)	(200)	(207)	(212)	(212)
Net Profit	366	543	1,300	873	945
Sales Gth (%)	9	(20)	(1)	19	8
Net Profit Gth (%)	(79)	48	139	(33)	8
EBITDA Margins (%)	24	28	25	22	20
EBIT Margin (%)	18	20	17	15	13
Tax Rate (%)	34	36	19	21	13

Source: DBS HK

Far East Consortium

Balance Sheet (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Fixed Assets	18,404	20,754	20,395	20,015	19,535
Long-term Investments	493	1,136	1,246	1,246	1,246
Other LT Assets	488	436	420	420	420
Intangibles Assets	68	68	68	68	68
Deferred Tax Asset	131	249	180	180	180
Associates/JVs	2,151	2,985	4,982	5,159	5,800
Bank Balance/Cash & Liquid	3,091	4,803	7,792	7,374	8,274
ST Investments	2,535	3,007	1,787	1,787	1,787
Inventory	11,961	13,958	15,783	16,285	16,193
Debtors	527	1,480	1,274	1,154	1,034
Other Non Cash Current	1,932	1,025	875	875	875
Total Assets	41,780	49,901	54,804	54,564	55,414
ST Debt	6,506	12,274	11,450	10,643	8,000
Creditors	1,265	1,695	2,185	2,165	2,165
Other Current Liab	1,162	1,747	1,580	1,968	2,356
LT Debt	16,954	15,303	19,744	19,552	22,195
Deferred Tax Liabilities	1,032	1,175	1,400	1,400	1,400
Other LT Liabilities	547	653	535	535	535
Perpetual Securities	2,905	2,884	2,902	2,902	2,902
Minority Interests	291	373	377	377	377
Shareholder's Equity	11,119	13,797	14,632	15,023	15,485
Total Cap. & Liab.	41,780	49,901	54,804	54,564	55,414
Share Capital (m)	2,358	2,368	2,404	2,413	2,413
Net Cash/(Debt)	(17,393)	(19,008)	(21,262)	(20,680)	(19,780)
Working Capital	11,112	8,557	12,297	12,699	15,643
Net Gearing (%)	54	55	58	56	53

Source: DBS HK

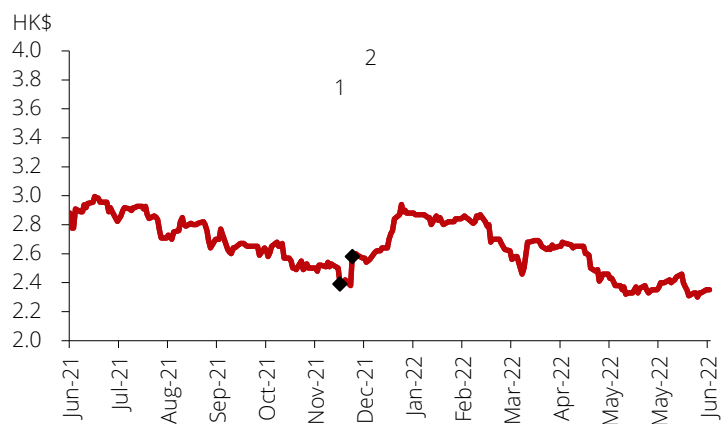
Cash Flow Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
EBIT	1,319	1,186	1,029	1,035	1,015
Tax Paid	(252)	(117)	(343)	(283)	(166)
Depr/Amort	462	488	462	481	500
Profit or loss on disposal of FAs/subsidiaries/investment	0	(2)	(1,190)	0	0
Chg in Wkg.Cap	(1,842)	938	(924)	(13)	600
Other Non-Cash	58	(67)	1,209	571	102
Operating CF	(254)	2,426	243	1,790	2,051
Net Capex	(3,479)	(1,096)	(20)	(20)	(20)
Investments	506	(262)	0	0	0
Associates & JVs	(750)	(760)	(988)	(40)	(40)
Associates' Dividends	6	6	0	0	0
Others	36	(200)	1,286	(75)	4
Investing CF	(3,682)	(2,312)	278	(135)	(56)
Net Chg in Debt	3,006	2,939	3,000	(1,000)	0
New Capital	(142)	(49)	0	0	0
Dividend	(312)	(345)	(451)	(481)	(483)
Other Financing CF	2,015	(1,189)	(548)	(592)	(612)
Financing CF	4,567	1,356	2,001	(2,073)	(1,095)
Chg in Cash	631	1,471	2,522	(418)	900

Source: DBS HK

Far East Consortium

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	30-Nov-21	HK\$2.50	HK\$3.74	Buy
2:	7-Dec-21	HK\$2.38	HK\$3.86	Buy

Source: DBS HK

Analyst: Jeff Yau

Far East Consortium

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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