

BUY

Last Traded Price (19 Feb 2024): HK\$6.00 (HSI : 16,156)
Price Target 12-mth: HK\$9.50 (58% upside) (Prev HK\$11.00)

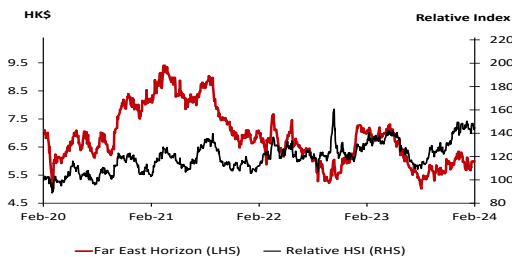
Analyst

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What's New

- Expect FEH to sacrifice near-term loan growth for more benign asset quality amid challenging times
- To boost shareholder returns via lifting dividends, share repurchases or further in-specie distribution of HCD
- Revised down FY23E-25F earnings by 4-11% to reflect slower loan growth
- Maintain BUY with lower TP of HK\$9.5; attractive >8% dividend yield on offer

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Pre-prov. Profit	12,194	11,618	12,130	13,124
Pre-prov. Profit Gth (%)	(2)	(5)	4	8
Pretax Profit	10,319	10,078	10,374	11,142
Net Profit	6,131	6,161	6,343	6,825
EPS (RMB)	1.46	1.47	1.52	1.63
EPS (HK\$)	1.63	1.63	1.73	1.87
EPS Gth (%)	8	0	3	8
PE (X)	3.7	3.7	3.5	3.2
DPS (HK\$)	0.49	0.50	0.54	0.58
Div Yield (%)	8.1	8.4	9.0	9.6
BV Per Share (HK\$)	11.65	12.69	14.28	15.55
P/Book Value (x)	0.5	0.5	0.4	0.4
ROAE (%)	14.1	13.0	12.3	12.1
ROAE (ex-exceptional) (%)	14.1	13.0	12.3	12.1
ROA (%)	1.80	1.73	1.71	1.79
Earnings Rev (%)		(4)	(8)	(11)
Consensus EPS (RMB)		1.52	1.64	1.88
Other Broker Recs:		B:15	S:0	H:0

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

Focus on asset quality over growth

Investment Thesis

"Finance + industry" strategy to lead second growth curve. As the largest financial lessor in China, the company also engages in equipment and hospital operations via its subsidiaries, which have contributed to strong growth momentum to the Group. Revenue contribution from industrial operations has grown from 9% in 1H15 to 37% to 1H23. The increasingly balanced business mix should enable the Group to achieve more stable and sustainable growth.

Prioritising asset quality over growth. We revised down FY23E/24F/25F earnings by 4%/8%/11% to reflect the slower loan growth, due to the company's tendency to remain prudent during challenging times and the ongoing shift away from public utilities. We think the company is taking steps to avoid over-concentrated credit exposure to local government and other risky parties.

Focusing on shareholder returns. We believe the company will continue to enhance shareholder value via different avenues. Apart from keeping the dividend payout ratio above 30% and performing share buybacks, further in-specie distributions of its equipment leasing subsidiary, Horizon Construction Development (HCD; 9930 HK, BUY), remains in the toolbox. For instance, if we include the special dividend in HCD's shares, total yield is estimated at around 10%.

Maintain BUY with lower TP of HK\$9.5. Our SOTP-based TP is premised on 0.7x FY24F P/BV (prev 0.8x) for the financial leasing business, 12x FY24F P/E for hospital operations, and DBS's TP of HK\$4.8 for HCD (5.5x FY24F EV/EBITDA, prev: 6x), and factors in a 20% conglomerate discount. We have applied slightly lower multiples for financial leasing and HCD to reflect slower growth amid macro headwinds. We think the current valuation of 0.4x FY24F P/BV is attractive, and the step-ups in shareholder return would be key catalysts ahead.

Key Risks

Substantial growth slowdown in China economy, deterioration in asset quality, implementation of restrictive policies, increase in market competition.

Issued Capital (m shrs)	4,316
Mkt Cap (HKm/US\$m)	25,896 / 3,311
Major Shareholders (%)	
Sinochem Group Co., Ltd.	21.3
Kong (Fan Xing)	20.3
DCP Capital	8.5
UBS Asset Management (Hong Kong) Limited	8.2
Cathay Life Insurance Company Ltd	5.0
Free Float (%)	36.7
3m Avg. Daily Val. (US\$m)	3.8
GICS Industry: Financials / Diversified Financials	

Far East Horizon

WHAT'S NEW

FY23 earnings preview: Prioritising asset quality over growth

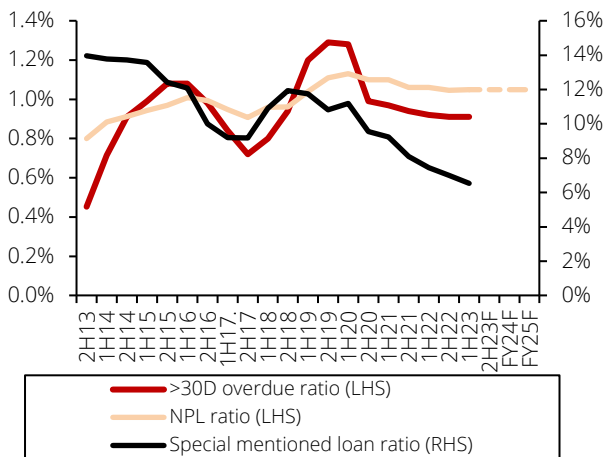
Amid the near-term macro headwinds, we expect FEH to see slower loan growth, as the company tends to be prudent in managing credit risks. The company continues to reshuffle its portfolio, reducing its exposure to the urban public utility industry which accounted for 45% of its total financial lease portfolio as of 1H23, which would also drag its loan growth. Yet, we think such a move can avoid excessive credit exposure to local government debt and achieve a more diversified portfolio.

To reflect the above, we lowered FY23F/24F/25F y-o-y loan growth forecasts to 0.3%/2.3%/5.2% from our previous assumption of 7.8%/8.3%/8.2%. We expect asset quality to remain stable with NPL ratio staying flattish at around 1.05% throughout FY23F-25F. We have lowered HCD's revenue forecasts amid weaker construction demand. All-in, we have revised down FEH's FY23F/24F/25F earnings by 4%/8%/11%.

We also believe the company would continue to focus on enhancing shareholder value. Apart from committing no less than 30% dividend payout ratio (translating to 8% cash dividend yield), share buybacks (approved by board in Oct 2023) and further in-specie distribution of HCD remain in the toolbox. For instance, the special dividend (5% of HCD's outstanding shares) distributed in Jan2024 would represent 2% yield, bringing total yield to around 10%. We think further in-specie distributions are on the cards given that HCD's trading liquidity is still relatively low.

Maintain BUY with lower TP of HK\$9.5. Our SOTP-based TP is premised on 0.7x FY24F P/BV (prev 0.8x) for the financial leasing business, 12x FY24F P/E for hospital operations, and DBS's TP of HK\$4.8 for HCD (5.5x FY24F EV/EBITDA, prev: 6x), and factors in a 20% conglomerate discount. We applied slightly lower multiples for financial leasing and HCD to reflect the slower growth profile amidst macro headwinds.

Expect FEH's asset quality to remain stable



We think the current valuation of 0.4x FY24F P/BV is attractive, and the potential step-up in shareholder return would be key catalysts ahead. The stable asset quality and a more balanced portfolio upon further reshuffling should also be welcomed by investors.

Source: Company report, DBS HK

Far East Horizon

Sum-of-the-parts valuation

Business entity	Fair value			Valuation method
	(HK\$m)	% of total	Multiple	
Financial leasing business	37,902	74%	0.7	0.7x fwd-12M adj. PB (prev: 0.8x); Justified by 12%-14% ROE
Hospital operation (Horizon Health)	4,207	8%	12.0	12x fwd-12M PE; Lower end of listed hospital peers
Operating lease (Horizon Cont.)	9,151	18%	5.5	DBS TP of HK\$4.8/sh, based on 5.5x fwd-12M EV/EBITDA (prev: 6x)
Sub-total	51,260			
Conglomerate discount	20%			
Total fair value (HK\$m)	41,008			
No. of shares (m)	4,316			
Fair value per share (HK\$)	9.50			

Source: DBS HK

Company Background

Far East Horizon (FEH) is one of the largest independent lessors in China. FEH has more than 20 years of experience in the leasing industry and focuses on eight industries including healthcare, education, and infrastructure construction. In 1H23, the group's total asset and equity reached Rmb361bn and Rmb56bn, respectively.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
NIM (%)	4.06	4.67	4.47	4.51	4.53
Loan growth (%)	7	5	0	2	5
Net fee growth (%)	(17)	(43)	(40)	(10)	(10)
Cost-to-income (%)	36.4	40.4	42.0	41.6	40.7
Credit cost (%)	0.05	0.06	0.13	0.13	0.13
Customer Deposits Growth (%)	N/A	N/A	N/A	N/A	N/A
Yld. On Earnings Assets (%)	7.62	8.00	8.01	8.04	7.93
Avg Cost Of Funds (%)	4.41	4.06	4.20	4.10	3.90

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Interest Income	10,231	12,670	12,106	12,397	12,895
Non-Interest Income	9,405	7,776	7,913	8,364	9,238
Operating Income	19,636	20,446	20,019	20,761	22,133
Operating Expenses	(7,155)	(8,252)	(8,401)	(8,631)	(9,009)
Pre-provision Profit	12,482	12,194	11,618	12,130	13,124
Provisions	(3,130)	(2,119)	(1,789)	(2,010)	(2,241)
Associates	662	244	249	254	259
Exceptionals	0	0	0	0	0
Pre-tax Profit	10,013	10,319	10,078	10,374	11,142
Taxation	(3,785)	(3,716)	(3,427)	(3,527)	(3,788)
Minority Interests	(332)	(221)	(360)	(374)	(398)
Preference Dividend	(384)	(250)	(130)	(130)	(130)
Net Profit	5,512	6,131	6,161	6,343	6,825
Net Profit bef Except	5,512	6,131	6,161	6,343	6,825

Growth (%)

Net Interest Income Gth	21.05	23.83	(4.45)	2.40	4.02
Net Profit Gth	20.47	11.23	0.48	2.95	7.60

Margins, Costs & Efficiency (%)

Spread	3.21	3.94	3.80	3.94	4.02
Net Interest Margin	4.06	4.67	4.47	4.51	4.53
Cost-to-Income Ratio	36.4	40.4	42.0	41.6	40.7

Business Mix (%)

Net Int. Inc / Opg Inc.	52.1	62.0	60.5	59.7	58.3
Non-Int. Inc / Opg inc.	47.9	38.0	39.5	40.3	41.7
Fee Inc / Opg Income	16.2	8.9	5.5	4.7	4.0
Oth Non-Int Inc/Opg Inc	31.7	29.1	34.1	35.5	37.7

Profitability (%)

ROAE Pre Ex.	14.6	14.1	13.0	12.3	12.1
ROAE	14.6	14.1	13.0	12.3	12.1
ROA Pre Ex.	2.0	1.9	1.9	1.8	1.9
ROA	1.7	1.8	1.7	1.7	1.8

Source: Company, DBS HK

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Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Cash/Bank Balance	15,659	15,904	17,112	17,255	17,866
Government Securities	0	0	0	0	0
Inter Bank Assets	0	0	0	0	0
Total Net Loans & Adv.	252,218	267,138	272,878	279,757	294,738
Investment	0	0	0	0	0
Associates	7,820	8,577	8,577	8,577	8,577
Fixed Assets	24,531	24,966	25,174	25,306	25,373
Goodwill	0	0	0	0	0
Other Assets	35,652	30,409	43,430	43,364	42,441
Total Assets	335,880	346,994	367,170	374,260	388,994
Customer Deposits	0	0	0	0	0
Inter Bank Deposits	0	0	0	0	0
Debts/Borrowings	226,880	251,327	263,262	265,461	274,855
Others	55,947	43,227	43,227	43,227	43,227
Minorities	4,017	4,112	4,624	5,149	5,699
Shareholders' Funds	49,037	48,327	56,058	60,423	65,214
Total Liab& S/H's Funds	335,880	346,994	367,170	374,260	388,994

Source: Company, DBS HK

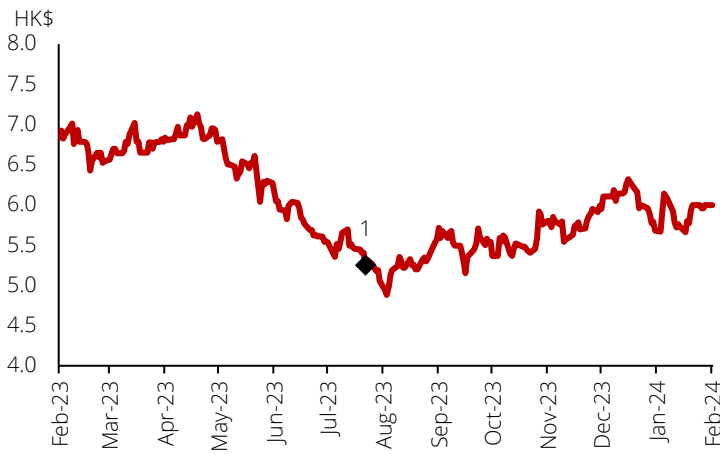
Financial Stability Measures (%)

FY Dec	2021A	2022A	2023F	2024F	2025F
Balance Sheet Structure					
Loan-to-Deposit Ratio	0.0	0.0	0.0	0.0	0.0
Net Loans / Total Assets	75.1	77.0	74.3	74.7	75.8
Investment / Total Assets	12.7	9.9	10.7	12.0	13.5
Cust. Dep./Int. Bear. Liab.	0.0	0.0	0.0	0.0	0.0
Interbank Dep / Int. Bear.	0.0	0.0	0.0	0.0	0.0
Asset Quality					
NPL / Total Gross Loans	1.1	1.0	1.0	1.0	1.0
NPL / Total Assets	0.8	0.8	0.8	0.8	0.8
Loan Loss Reserve Coverage	278.2	278.8	274.5	271.9	277.0
Provision Charge-Off Rate	1.2	0.8	0.6	0.7	0.7
Capital Strength					
Total CAR	0.0	0.0	0.0	0.0	0.0
Tier-1 CAR	0.0	0.0	0.0	0.0	0.0

Source: Company, DBS HK

Far East Horizon

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	10-Aug-23	HK\$5.55	HK\$11.00	BUY

Source: DBS HK

Analyst: Ken Shih

Edmond Fok

Far East Horizon

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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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