

Far East Consortium International Limited

Hospitality Trust spin-off to drive Share Price Re-rating, Reiterate Buy

We believe the Disc. To NAV of Far East should narrow, as the Hotel portfolio's NAV is realized through the proposed REIT spin-off. Balance sheet will improve and growth would be accelerated through deploying the funds raised into new property development projects. We reiterate our Buy rating, and we believe there is further upside risk to our target price as the REIT spin-off plans progresses in 2020.

Proposed REIT Spin-Off will unlock value and drive share price re-rating

Far East Consortium (FEC) announced that they plan to spin-off part of their Hotel portfolio into a Stapled Trust (REIT + Business Trust). The spin-off portfolio will comprise of hotel assets in Australia, Singapore, Malaysia and UK, according to the announcement. We believe that the developer's Hotel Portfolio has long been undervalued by investors and a successful spin-off will trigger a re-rating of the stock. We estimate the GAV of FEC's whole Hotel Portfolio to be worth HK\$16.3bn (52% of our SOTP Valuation). Australia, Singapore, Malaysia & UK Hotels contributes to ~51% of our estimated Total Hotel Portfolio GAV (~HK\$8.3bn).

Solid 1HFY20 results with Property Dev business the key driver

FEC announced a solid set of results with revenues growing 75% YoY to HK\$5,121m and adjusted cash net profit growing 60.4% YoY to HK\$959m. This implies that ~60% of our FY20E net profit have already been achieved. Net Debt to Equity (with Hotels Revalued) has slightly improved to 43.4% (FY19: 45.4%), aided by the Perpetual Capital Notes issued.

UK and Australia property dev business to remain key earnings driver

1HFY20 Property Development revenues came in at HK\$3,686m (~72% of total) with a GPM of 30.1%. We expect UK and Australia property development projects to remain as key earnings driver, with new launches in Goldcoast (The Star Residence), Melbourne (Bourke Street), London (Consort Place) and Manchester (Northern Gateway) in the pipeline. Ritz Carlton Perth has successfully opened for operations in Nov 2019 and it will raise the profile of the Elizabeth Quay project and stimulate property sales.

Balance Sheet strain to be relaxed through the Stapled Trust platform

Far East Consortium have been actively developing Hotels and Investment Properties in the past few years, expanding its balance sheet with 14 Hotels under construction. This has resulted in a rise in balance sheet leverage to 43.9% from 28.7% of FY18. A Stapled Trust platform will open up a new funding channel for the developer effectively recycle its capital into new property development projects and support future growth. This will also relax the strain on FEC's balance sheet and lower their financing costs.

20% upside to our TP with further upside risk amid Spin-Off

Our price target of HK\$4.21/sh (20% upside to current share price) is based on a 40% disc. to our Sum-of-the-Parts (SOTP) NAV. We believe there is further upside risk to our TP when more details of the Spin-off is announced in due course, both on the narrowing of Disc. to NAV, as well as our NAV itself depending on market's valuation of the Stapled Trust. Reiterate Buy.

Stock code: 0035.HK

Rating: Buy

Price target (HK\$)	4.21
Previous price target (HK\$)	4.21
Current price (HK\$, 28 Nov 2019)	3.50
Upside/downside %	20%
Market cap (HK\$ m)	8,328
Market cap (US\$ m)	1,064
Avg daily turnover (US\$ m)	0.34

Source: Bloomberg, AMTD Equity Research

Key forecasts

(HK\$ m)	FY19	FY20e	FY21e	FY22e
Revenue	6,842	8,076	11,702	12,360
yoy %	17.3%	18.0%	44.9%	5.6%
Net profit	1,769	1,230	1,368	1,500
yoy %	11.6%	-30.5%	11.2%	9.7%
Core Attr NP	1,457	1,573	1,728	1,891
yoy %	9.6%	8.0%	9.9%	9.4%
Gross margin	38.1%	33.2%	26.9%	40.7%
Net gearing*	45.4%	61.1%	58.7%	61.3%
EPS	0.64	0.68	0.75	0.82
DPS	0.22	0.24	0.26	0.29
BPS	5.85	6.05	6.36	6.69

Source: Company data, AMTD Equity Research

*Hotel Portfolio Revalued to Market Value

Valuation

	FY19	FY20e	FY21e	FY22e
P/E	5.5	5.2	4.7	4.3
P/BV	0.6	0.6	0.6	0.5
Div. yield	6.3%	6.8%	7.5%	8.2%
ROE	10.9%	11.2%	11.7%	12.2%
ROA	4.5%	2.9%	3.2%	3.4%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

Jacky Chan
Analyst

+852 3163 3323

jacky.chan@amtdgroup.com
Michelle Li
Analyst

+852 3163 3383

michelle.li@amtdgroup.com

Figure 1: Far East Financial Forecasts and key ratios

PnL, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e	Balance Sheet, RMB mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e
Revenue	5,831	6,842	8,076	11,702	12,360	Investment Properties	3,229	5,426	7,060	8,693	11,008
COGS	(3,197)	(4,233)	(5,392)	(8,550)	(7,331)	Interest in JV/Asso	-	-	-	-	-
Gross Profit	2,634	2,610	2,683	3,151	5,028	PP&E and Others	10,578	13,693	13,590	13,464	13,262
Selling and marketing exp	(128)	(166)	(121)	(234)	(247)	Non-current assets	13,807	19,119	20,650	22,157	24,270
General and admin exp	(661)	(827)	(827)	(993)	(2,184)	PUD & Held for Sale	11,243	12,451	13,689	12,914	12,894
Share of results of JV & Asso	10	18	-	-	-	Deposits and prepayments	523	468	468	468	468
Reval Gains from Inv Prop	-	-	-	-	-	Cash & Cash Equivalents	3,032	2,471	2,706	2,737	1,482
Others	530	1,045	300	300	300	Others	5,884	4,570	4,570	4,570	4,570
Net Finance costs	(229)	(368)	(350)	(350)	(350)	Current assets	20,682	19,959	21,432	20,688	19,413
Profit before tax	2,156	2,312	1,685	1,874	2,547	Total Assets	34,489	39,078	42,082	42,845	43,684
Income tax expense	(571)	(544)	(455)	(506)	(1,046)	Contract Liabilities	-	974	974	974	974
Net profit	1,585	1,769	1,230	1,368	1,500	Bank and Other Borrowings	5,286	4,236	4,236	4,236	4,236
Shareholders' Profit	1,567	1,714	1,169	1,302	1,427	Trade and Other Payables	1,725	1,532	1,532	1,532	1,532
Minority Interest	19	55	61	67	73	Others	3,272	357	357	357	357
Shareholders' Core Net Profit	1,329	1,457	1,573	1,728	1,891	Current liabilities	10,283	7,099	7,099	7,099	7,099
Dividends	506	506	551	605	662	Bank and Other Borrowings	10,161	17,112	17,112	17,112	17,112
Special Dividends	-	-	-	-	-	Others	902	1,235	1,235	1,235	1,235
Core EPS - Basic (HKD)	0.59	0.64	0.68	0.75	0.82	Non-current liabilities	11,062	18,347	18,347	18,347	18,347
DPS - basic (HKD)	0.22	0.22	0.24	0.26	0.29	Capital and reserves	12,971	13,413	14,032	14,728	15,493
						Shareholders' equity	12,971	13,413	14,032	14,728	15,493
						Non-controlling interests & Perp	173	219	2,605	2,671	2,745
						Total equity	13,144	13,632	16,636	17,400	18,238
						Total Liabilities and Equity	34,489	39,078	42,082	42,845	43,684
Cash Flow Statement, HKD mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e	Key Ratios, RMB mn	FY2018	FY2019	FY2020e	FY2021e	FY2022e
Profit before income tax	2,156	2,312	1,685	1,874	2,547	GP Margins	45%	38%	33%	27%	41%
Operating CF before Working Cap	2,178	2,113	1,685	1,874	2,547	Net Margins	27%	26%	15%	12%	12%
PUD	(1,321)	(2,897)	(1,238)	775	19	Core Attri Net Margins	23%	21%	19%	15%	15%
Deposits & Prepayments	(400)	435	-	-	-	ROE	10%	11%	11%	12%	12%
Trade & Other Payables	852	(231)	-	-	-	ROA	5%	5%	3%	3%	3%
Increase in contract liabilities	-	(546)	-	-	-	Net Debt / Total Equity	54%	106%	86%	82%	85%
Others	(2,574)	(504)	(455)	(506)	(1,046)	Net Debt to Equity (Perp as Debt)	54%	106%	116%	110%	112%
Net Operating Cashflows	(1,266)	(1,630)	(8)	2,143	1,520	Net Debt / Total Equity (Hotel Revalued)	29%	45%	61%	59%	61%
Net Investing Cashflows	(1,617)	(2,567)	(1,530)	(1,508)	(2,113)	Total Assets / Total Equity	262%	287%	253%	246%	240%
Bank & Other Borrowings	6,587	11,931	-	-	-	Total Assets / Shareholders' Equity	266%	291%	300%	291%	282%
Others	(4,624)	(8,267)	1,774	(605)	(662)						
Net Financing Cashflows	1,963	3,664	1,774	(605)	(662)						
Net Cash Flows	(920)	(532)	235	31	(1,255)						

Source: Company data, AMTD Equity Research Estimates

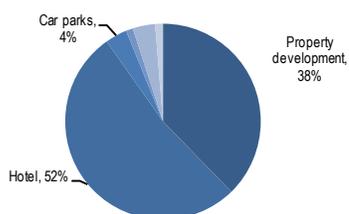
Unlocking Value through Spin-Off

Figure 2: SG Hospitality REITs trade at 3% Prem to NAV, vs FEC's currently at 50% Disc. To NAV

Hospitality REITs	Share Price (LC)	Market Cap (SGD 'M)	Div Yield	Prem/(Disc.) to NAV	NAV/Unit	Gearing
Ascott	1.37	2,985	5.5%	11.4%	1.23	33%
CDLHT	1.61	1,952	5.8%	10.2%	1.46	36%
FHT	0.71	1,415	6.3%	-2.8%	0.73	35%
FEHT	0.74	1,356	5.6%	-14.8%	0.86	40%
AHTRUST	1.12	1,275	5.3%	10.9%	1.01	34%
Total/Average		8,983	5.7%	3.0%		36%

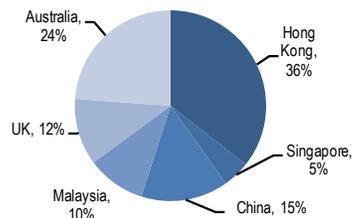
Source: Bloomberg; AMTD Equity Research (As of 28 Nov 2019)

Figure 3: GAV Breakdown (Hotels Contribute to 52% of Far East's Total GAV)



Source: AMTD Equity Research Estimates

Figure 4: FEC Hotels Portfolio Only - GAV Breakdown by Countries



Source: AMTD Equity Research Estimates

Figure 5: 1HFY20 Financial Results Summary

Income Statement	1HFY20	1HFY19	YoY
Revenue	5,121.1	2,926.5	75%
Cost of Sales and Services	(3,285.4)	(1,533.1)	114%
Depreciation and Amortisation of Hotel & car park assets	(188.4)	(192.2)	-2%
Gross Profit	1,647.4	1,201.2	37%
Other income	9.9	70.5	-86%
Other gains and losses	76.9	142.9	-46%
Admin Expenses			
- Hotel Operations & Management	(224.9)	(214.5)	5%
- Others	(172.0)	(196.4)	-12%
Pre-opening expenses			
- Hotel Operations & Management	(6.5)	(0.8)	689%
Selling and Marketing Expenses	(122.9)	(71.3)	72%
Share of Results of Associates	4.0	22.3	-82%
Share of results of JV	(6.4)	2.3	-381%
Finance costs	(222.2)	(123.8)	79%
Profit before Tax	983.1	832.3	18%
Income Tax Expense	(197.1)	(196.8)	0%
Net Profit	786.1	635.5	24%
Attrib. Net Profit	714.8	616.1	16%
<i>Minority Interests</i>			
- Perp Capital Noteholders	7.7	-	NA
- Share of net assets of subsidiaries	63.6	19.4	228%
Adjusted Cash Profit	959.0	598.0	60%
Basic EPS (HKD)	0.30	0.27	13%
Diluted EPS (HKD)	0.30	0.27	13%
Balance Sheet	1HFY20	2HFY19	
Net Debt to Equity (Perp as Equity, Hotels Revalued)	44%	45%	
Net Debt to Equity (Perp as Equity)	94%	105%	
Net Debt to Equity (Perp as Debt)	128%	105%	

Source: Company Data; AMTD Equity Research

Figure 6: Revenue and Segment Profit Breakdown

	Revenue		YoY	Segment Profit		YoY
	1HFY20	1HFY19		1HFY20	1HFY19	
Property Development						
Australia	1,180.3	102.2	1055%	206.7	12.5	1551%
Hong Kong	1,106.7	441.9	150%	397.9	128.5	210%
Malaysia	16.2	19.5	-17%	6.5	9.6	-32%
PRC	132.6	512.3	-74%	100.8	327.3	-69%
Singapore	1,250.1	391.5	219%	269.2	52.8	410%
UK	0.5	0.6	-17%	1.7	-4.1	-142%
Sub-total	3,686.3	1,468.0	151%	983.0	526.6	87%
Property Investment						
Australia	4.3	4.2	2%	2.3	2.2	3%
HK	18.7	21.3	-12%	12.7	88.1	-86%
PRC	8.6	8.3	3%	-13.2	-12.2	9%
Sub-total	31.6	33.8	-7%	1.8	78.2	-98%
Hotels Operations and Management						
Australia	-	-	-	-6.5	-	-
HK	310.2	382.1	-19%	6.7	77.7	-91%
Malaysia	104.6	119.1	-12%	11.5	13.9	-18%
PRC	118.8	134.5	-12%	-2.3	11.2	-120%
Singapore	47.4	47.2	0%	8.4	14.9	-44%
UK	132.5	133.5	-1%	41.8	29.6	41%
Europe	63.2	49.3	28%	1.9	4.4	-58%
Sub-total	776.6	865.7	-10%	61.4	151.8	-60%
Car Park and Operations and Facilities Management						
Australia and New Zealand	366.4	332.3	10%	17.4	27.0	-35%
Europe	28.7	22.9	25%	2.7	2.3	17%
Malaysia	1.9	2.6	-25%	0.1	0.2	-50%
Sub-total	397.0	357.8	11%	20.3	29.5	-31%
Gaming Operations						
Australia	24.9	34.6	-28%	24.8	34.6	-28%
Czech Republic	118.7	88.5	34%	7.3	2.4	203%
Sub-total	143.6	123.1	17%	32.2	37.1	-13%
Securities and Financial Product Investments	70.3	65.3	8%	97.9	-58.9	-266%
Provision of Mortgage Services						
Australia	11.0	12.0	-8%	10.8	43.9	-75%
Hong Kong	4.8	0.8	521%	4.9	0.8	542%
Sub-total	15.8	12.8	23%	15.7	44.6	-65%
Total	5,121	2,926	75%	1,212	809	50%

Source: Company Data; AMTD Equity Research

Valuation & Risks

For Far East Consortium (0035.HK), we adopt a Sum-of-the-parts approach considering its diversified business model including Property Development, Hotels and Car Parks. Our Sum-of-The-Parts NAV is at HK\$7.02/sh, and our Target Price of HK\$4.21 implies a 40% Disc. To NAV, and a Target P/E of 6.2x.

Far East is trading at a deeper discount than its HK Property Developer peers from a P/E perspective, 5.2x vs industry average of 8.4x P/E.

We believe P/B is not a fair comparison, as Far East's investment properties are mainly Hotels, which are carried at cost on balance sheet, while other HK Developer's balance sheet are office and retail malls which are revalued to market value.

We believe that this gap should narrow as the developer recycles its capital more effectively through the proposed Stapled Trust to fund future growth.

Figure 7: Far East: Target Price Based on 40% Discount to NAV

HK\$ m	FY20 NAV	NAV per share (HK\$)
Property development	11,720	5.24
Hotel	16,316	7.29
Car parks	1,128	0.50
Property investment	367	0.16
The Star	1,152	0.51
TWC	400	0.18
SOTP Valuation (FY20)	31,083	13.89
Net debt	(15,373)	(6.87)
Net Asset Value (FY20)	15,710	7.02
Discount		40%
Price target (FY20)		4.21
Current share price (HK\$, 8 Oct 2019)		3.20
Implied upside		32%

Source: Company Data; AMTD Equity Research

Figure 8: Peers Valuation comparison

Date	28/11/2019	Mkt cap (USD mn)	FY18 P/E	FY19E P/E	FY20E P/E	FY18 P/B	FY19E P/B	FY20E P/B	Div. yield
Equity									
HK Property Developers									
16 HK	SHK Properties	42,465	10.3x	9.6x	9.0x	0.6x	0.6x	0.5x	4.32%
1113 HK	CK Asset	25,104	8.1x	6.6x	8.0x	0.6x	0.6x	0.5x	3.57%
12 HK	Henderson Land	23,536	9.3x	11.3x	10.8x	0.6x	0.6x	0.6x	4.30%
17 HK	NWD	13,617	13.0x	12.1x	11.2x	0.5x	0.5x	0.5x	4.89%
83 HK	Sino Land	10,330	11.5x	16.0x	8.0x	0.6x	0.5x	0.5x	4.64%
683 HK	Kerry Properties	4,820	11.3x	6.9x	6.9x	0.4x	0.4x	0.4x	5.21%
35 HK	Far East	1,064	5.9x	5.5x	5.2x	0.6x	0.6x	0.6x	6.29%
Total		120,936	9.9x	9.7x	8.4x	0.5x	0.5x	0.5x	4.75%

Source: Bloomberg Estimates, *AMTD Equity Research Estimates

Note: As of 28th Nov, 2019; *Div Yield is Trailing Dividend Yield

Key Risks

Key downside risks for the stock includes (1) a slowdown in property sales; (2) Foreign Exchange currency movements; (3) Global Macroeconomic slowdown dragging the performance of its Hotel Portfolio.

IMPORTANT DISCLOSURES

AMTD Investment Ratings

Stock Rating

Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

Analyst Certification

We, Jacky Chan and Michelle Li, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

Firm Disclosure

AMTD Global Markets Limited has an investment banking relationship with Far East Consortium International Limited and/or their affiliate(s) within the past 12 months.

AMTD Global Markets Limited

Address: 23/F - 25/F, Nexus Building, No. 41 Connaught Road Central, Central, Hong Kong

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

GENERAL DISCLOSURES

The research report is prepared by AMTD Global Markets Limited ("AMTD") and is distributed to its selected clients.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal. It does not (i) constitute a personal advice or recommendation, including but not limited to accounting, legal or tax advice, or investment recommendations; or (ii) take into account any specific clients' particular needs, investment objectives and financial situation. AMTD does not act as an adviser and it accepts no fiduciary responsibility or liability for any financial or other consequences. This research report should not be taken in substitution for judgment to be exercised by clients. Clients should consider if any information, advice or recommendation in this research report is suitable for their particular circumstances and seek legal or professional advice, if appropriate.

This research report is based on information from sources that we considered reliable. We do not warrant its completeness or accuracy except with respect to any disclosures relative to AMTD and/or its affiliates. The value or price of investments referred to in this research report and the return from them may fluctuate. Past performance is not reliable indicator to future performance. Future returns are not guaranteed and a loss of original capital may occur.

The facts, estimates, opinions, forecasts and any other information contained in the research report are as of the date hereof and are subject to change without prior notification. AMTD, its group companies, or any of its or their directors or employees ("AMTD Group") do not represent or warrant, expressly or impliedly, that the information contained in the research report is correct, accurate or complete and it should not be relied upon. AMTD Group will accept no responsibilities or liabilities whatsoever for any use of or reliance upon the research report and its contents.

This research report may contain information from third parties, such as credit ratings from credit ratings agencies. The reproduction and redistribution of the third party content in any form by any means is forbidden except with prior written consent from the relevant third party. Third party content providers do not guarantee the timeliness, completeness, accuracy or availability of any information. They are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability of fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities for investment purposes, and should not be relied on as investment advice.

To the extent allowed by relevant and applicable law and/or regulation: (i) AMTD, and/or its directors and employees may deal as principal or agent, or buy or sell, or have long or short positions in, the securities or other instruments based thereon, of issuers or securities mentioned herein; (ii) AMTD may take part or make investment in financing transactions with, or provide other services to or solicit business from issuer(s) of the securities mentioned in the research report; (iii) AMTD may make a market in the securities in respect of the issuer mentioned in the research report; (iv) AMTD may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this research report or may be providing, or have provided within the previous 12 months, other investment banking services, or investment services in relation to the investment concerned or a related investment.

AMTD controls information flow and manages conflicts of interest through its compliance policies and procedures (such as, Chinese Wall maintenance and staff dealing monitoring).

The research report is strictly confidential to the recipient. No part of this research report may be reproduced or redistributed in any form by any means to any other person without the prior written consent of AMTD Global Markets Limited.