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AMTD 尚乘
Equity Research

Far East Consortium

Strengthening alliance with The Star

FEC and CTF each will acquire 4.99% of The Star

FEC entered share subscription agreement with The Star Entertainment Group (ASX stock code SGR) in which FEC and Chow Tai Fook Group (CTF) each will subscribe for 4.99% of The Star's new shares for a consideration of for A$245.2m for each. FEC and CTF intend to apply to regulators to increase aggregate stake to over 10%. The consideration would account for around 5.9% of FEC's NAV and 5.2% of total assets as of Sep-17 and can be easily funded by cash. The transaction is priced at A$5.35 per share which is at 1% premium to The Star's last closing and 9.6x FY18e (consensus) EV/EBITDA. The Star is to increase the dividend payout ratio to at least 70% of normalized NPAT. We estimate that using FY17 NPAT this would imply a 3.8% dividend yield.

Capturing the booming tourism in Australia

Australia has been an increasingly popular travel destination for Asian tourists. This transaction demonstrates FEC's strategy in capturing such opportunities. FEC has established its track record in Australia as a residential property developer. The Star and CTF have been long-term partners with FEC through several integrated projects. We view this share subscription as a good opportunity to leverage on The Star's expertise in operating and marketing casinos and obtain access to The Star's future development projects. The Star in return, eyes on FEC and CTF's Asian customer base as potential tourists to its resorts in Australia. Immediate partnership opportunities include The Spit Precinct adjacent to existing Sheraton Mirage Resort at Gold Coast, and Pyrmont Station project in Sydney.

FEC has notably increased resources on the casino segment

Although FEC currently do not have gaming income, FEC has a 25% stake in in Queen's Wharf Brisbane project (casino, hotel, residential), partnering with The Star and CTF. We noted that FEC recently has significantly increased its resources in the casino business. Recently it acquired Trans World Corporation, which is engaged in hospitality and gaming business in Germany, Austria and Czech. In the next 5 years, we expect to see increasing contribution from gaming revenue. We have not factored in such income in our forecast.

The Star is a leading gaming and entertainment group in Australia

The Star is listed on the ASX with a market cap of A$4.4bn. Its major gaming resorts include 1) The Star Sydney casino since 1994; 2) The Star Gold Coast casino since 1985; 3) The Treasury Brisbane casino since 1995; 4) Queen's Wharf Brisbane (scheduled for completion in 2022).

Reiterate "BUY" and Price target of HK$5.34 (27% upside); long term player with consistent strategy and deep NAV discount

FEC has established its long-term track record as a residential developer in several overseas markets. We view The Star as a quality partner in helping FEC further expand presence in Australia. We reiterate 'Buy' for FEC. We maintain our PT to HK$5.34, which is derived by using sum-of-the-parts method. Current share price implies a 63% discount to our estimated Sep-18 Net Asset Value (NAV).

Stock code: 35.HK

Rating: Buy

Price target (HK$)	5.34
Previous Price target (HK$)	5.34
Current price (HK$)	4.20
Upside/downside %	27%
Market cap (HK$ m)	9,596
Market cap (US$ m)	1,230
Avg daily turnover (HK$ m)	6.51

Source: Bloomberg, AMTD estimates

Key forecasts

(HK$ m)	FY17	FY18e	FY19e	FY20e
Net profit	1,118	1,473	2,060	2,211
yoy %	52%	32%	40%	7%
Revenue	5,005	5,908	7,549	9,877
yoy %	25%	18%	28%	31%
EBITDA	2,051	2,654	3,496	3,694
Net gearing	31%	31%	31%	26%
EPS	0.51	0.66	0.92	0.99
BPS	4.82	5.26	5.88	6.52
DPS	0.18	0.22	0.30	0.35

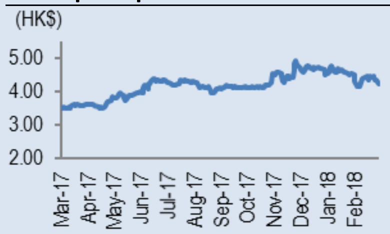
Source: Company data, AMTD estimates

Valuation

(HK$ m)	FY17	FY18e	FY19e	FY20e
P/E (x)	8.6	6.5	4.7	4.3
P/BV (x)	0.88	0.80	0.72	0.65
Div yield	4.4%	5.2%	7.2%	8.2%
ROE	10.7%	17.7%	16.5%	15.9%
ROA	4.1%	6.7%	6.2%	5.6%

Source: Bloomberg, AMTD estimates

Share price performance



Source: Bloomberg

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Figure 1: FEC P&L forecast

HK$ m							YoY growth %				
P&L	**FY15**	**FY16**	**FY17**	**FY18e**	**FY19e**	**FY20e**	**FY16**	**FY17**	**FY18e**	**FY19e**	**FY20e**
Revenue	**5,110**	**3,995**	**5,005**	**5,908**	**7,549**	**9,877**	**-22%**	**25%**	**18%**	**28%**	**31%**
Property development	2,962	1,971	2,937	3,416	4,920	7,153	-33%	49%	16%	44%	45%
Hotel	1,454	1,285	1,309	1,655	1,753	1,802	-12%	2%	26%	6%	3%
Car park	616	623	641	674	707	743	1%	3%	5%	5%	5%
Property investment	56	59	55	64	69	79	5%	-8%	16%	8%	15%
Others	78	58	64	100	100	100	-25%	10%	57%	0%	0%
Cost of sales and services	(2,884)	(1,990)	(2,709)	(3,020)	(3,540)	(5,261)	-31%	36%	11%	17%	49%
Depreciation & amortization of hotel & car park assets	(279)	(299)	(307)	(329)	(329)	(329)	7%	3%	7%	0%	0%
Gross profit	**1,946**	**1,706**	**1,990**	**2,558**	**3,680**	**3,957**	**-12%**	**17%**	**29%**	**44%**	**8%**
Property development	1,086	1,002	1,272	1,602	2,653	2,886	-8%	27%	26%	66%	9%
Hotel	691	541	518	717	778	809	-22%	-4%	39%	8%	4%
Car park	124	117	114	119	125	132	-6%	-3%	5%	5%	5%
Leasing and others	45	46	86	119	123	131	2%	88%	38%	3%	6%
Other income	39	23	25	0	0	0	-40%	8%	n.a.	n.a.	n.a.
Other gains and losses	299	181	368	486	300	300	-39%	103%	32%	-38%	0%
Administrative expenses	(642)	(598)	(584)	(602)	(662)	(695)	-7%	3%	5%	10%	5%
Selling and marketing expenses	(93)	(105)	(46)	(118)	(151)	(198)	14%	-56%	154%	28%	31%
EBIT	**1,536**	**1,206**	**1,744**	**2,325**	**3,167**	**3,364**	**-21%**	**45%**	33%	36%	6%
Finance costs	(224)	(228)	(173)	(284)	(319)	(308)	2%	-24%	64%	13%	-4%
Profit before tax	**1,328**	**979**	**1,567**	**2,041**	**2,847**	**3,057**	**-26%**	**60%**	30%	40%	7%
Income tax expense	(330)	(221)	(434)	(551)	(769)	(825)	-33%	96%	27%	40%	7%
Profit for the year	**998**	**758**	**1,133**	**1,490**	**2,079**	**2,231**	**-24%**	**49%**	32%	40%	7%
Minority interest	41	24	15	17	18	20	-43%	-36%	10%	10%	10%
Attributable net profit	**957**	**734**	**1,118**	**1,473**	**2,060**	**2,211**	**-23%**	**52%**	32%	40%	7%
Tax rate	24.9%	22.6%	27.7%	27%	27%	27%	0%	0%	0%	0%	0%
Adjusted cash profit	836	853	1,424	1,802	2,390	2,541	2%	67%	27%	33%	6%
Dividend payout ratio	34%	47%	37%	33%	33%	35%					
DPS	0.16	0.16	0.18	0.22	0.30	0.35	0%	15%	18%	40%	14%
EPS	0.48	0.37	0.51	0.66	0.92	0.99	-23%	41%	28%	40%	7%

Source: Company data, AMTD Equity Research estimates

Figure 2: FEC balance sheet forecast

Balance sheet, HK$ m	FY15	FY16	FY17	FY18e	FY19e	FY20e
Non-current Assets	**12,031**	**12,460**	**12,509**	**12,524**	**12,762**	**13,060**
Investment properties	3,154	3,304	3,002	3,161	3,404	3,731
Property, plant and equipment	7,492	7,720	7,482	7,337	7,332	7,304
Prepaid lease payments	541	522	486	486	486	486
Goodwill	68	68	68	68	68	68
Others	775	845	1,470	1,470	1,470	1,470
Current Assets	**10,185**	**13,701**	**15,891**	**18,149**	**22,955**	**29,863**
Properties for sale	5,452	8,640	9,170	11,064	16,631	23,580
Completed properties	201	584	280	280	280	280
Properties for/under development	5,252	8,056	8,890	10,783	16,350	23,299
Debtors, deposits and prepayments	393	527	375	375	375	375
Deposits receivable from stakeholders	417	587	252	252	252	252
Investment securities	1,150	1,218	1,466	1,466	1,466	1,466
Pledged deposits	273	25	25	25	25	25
Restricted bank deposits	51	162	268	268	268	268
Bank balances and cash	2,274	2,358	3,882	4,246	3,485	3,444
Others	174	183	452	452	452	452
Total assets	**22,216**	**26,161**	**28,400**	**30,673**	**35,716**	**42,923**
Current Liabilities	**6,103**	**6,471**	**6,181**	**6,950**	**10,972**	**17,721**
Creditors and accruals	737	829	889	889	889	889
Customers' deposits received	575	2,460	2,110	2,879	6,901	13,650
Obligations under finance leases	4	3	4	4	4	4
Tax payable	333	183	359	359	359	359
Bank borrowings	3,087	2,933	2,755	2,755	2,755	2,755
Bonds	1,250	-	-	-	-	-
Others	116	63	64	64	64	64
Non-current Liabilities	**5,852**	**9,422**	**11,275**	**11,775**	**11,398**	**10,398**
Bank borrowings	4,468	7,863	7,376	7,876	8,376	6,876
Obligations under finance leases	5	5	8	8	8	8
Amounts due to shareholders of non-wholly owned subsidiaries	-	247	247	247	247	247
Bonds	1,005	868	3,131	3,131	2,254	2,754
Derivative financial instruments	59	77	119	119	119	119
Deferred tax liabilities	315	362	395	395	395	395
Total liabilities	**11,955**	**15,893**	**17,456**	**18,725**	**22,370**	**28,119**
Equity						
Share capital	191	213	224	224	224	224
Share premium	2,982	3,731	4,034	4,034	4,034	4,034
Reserves	5,970	6,196	6,534	7,521	8,902	10,339
Shareholder's equity	**9,144**	**10,140**	**10,792**	**11,779**	**13,159**	**14,596**
Minority interest	1,117	127	152	169	187	207
Total equity	**10,261**	**10,267**	**10,944**	**11,947**	**13,346**	**14,804**
Hotel revaluation surplus	10,976	10,732	13,354	13,354	13,354	13,354
Adjusted shareholder's equity	21,237	20,999	24,298	25,301	26,700	28,158

Source: Company data, AMTD Equity Research estimates

Figure 3: FEC cash flow forecast

Cash flow forecasts, HK$ m	FY15	FY16	FY17	FY18e	FY19e
Property sales	3,053	3,784	4,377	4,646	7,203
EBIT from hotel operation	166	221	342	333	382
EBIT from investment properties	95	164	119	123	131
Tax paid	-140	-372	-551	-769	-825
Depreciation	279	299	309	309	309
Cash flow from operation (CFFO)	**3,454**	**4,096**	**4,596**	**4,642**	**7,199**
Capex	-2,527	-5,270	-4,162	-8,363	-12,104
Acquisition of assets	-	-403	-	-	-
Others	-51	88		-	-
Free operating cash flow (FOCF)	**875**	**-1,489**	**434**	**-3,721**	**-4,905**
Interest paid	-393	-380	-455	-543	-516
Dividend	-107	-79	-100	-100	-100
Dividends paid to shareholders of non-wholly owned subsidiaries	-37	-19	-20	-20	-20
FCF	**338**	**-1,966**	**-141**	**-4,384**	**-5,541**
Equity issuance	14	6	-	-	-
Share buyback	-	-82	-	-	-
New debt	2,776	6,193	3,000	7,000	8,000
Repayment of debt	-2,660	-4,251	-1,500	-3,377	-2,500
Shareholder loan	-	246	-	-	-
Others	-2	-28	-	-	-
Change in FX	-55	-33	-	-	-
Change in cash position	**377**	**85**	**1,359**	**-761**	**-41**
Cash balance - period beginning	1,829	2,274	2,887	4,246	3,485
Cash balance - period end	2,274	2,358	4,246	3,485	3,444

Source: Company data, AMTD Equity Research estimates

Figure 4: FEC key ratios

Ratios	FY15	FY16	FY17	FY18e	FY19e	FY20e
Gross margin	38%	43%	40%	43%	49%	40%
Gross debt	9,815	11,669	13,270	13,770	13,393	12,393
Net debt	6,340	7,931	7,654	7,789	8,174	7,215
EBIT	1,536	1,206	1,744	2,325	3,167	3,364
EBITDA	1,815	1,505	2,051	2,654	3,496	3,694
Gearing ratio ex. Hotel revaluation gains (x)	69%	78%	71%	66%	62%	49%
Gearing ratio (x)	30%	38%	31%	31%	31%	26%
Net debt/EBITDA (x)	3.5	5.3	3.7	2.9	2.3	2.0
EBITDA cover (x)	8.1	6.6	11.8	9.4	10.9	12.0
Selling and marketing expense % of revenue	1.8%	2.6%	1.8%	2.0%	2.0%	2.0%
Admin expense % of revenue	13%	15%	12%	10%	9%	7%
Avg interest cost	4.0%	3.5%	2.6%	3.5%	4.0%	4.0%
ROA	4.3%	3.0%	4.1%	6.7%	6.2%	5.6%
ROE	10.7%	7.6%	10.7%	17.7%	16.5%	15.9%

Source: Company data, AMTD Equity Research estimates

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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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