

# Far East Horizon (3360 HK)

## NIM expansion HoH in 2H22; sound asset quality

FEH continued to deliver double-digit profit growth in FY22, with net profits up 11% YoY, translating into 12% YoY growth in 2H21. Pre-provision operating profit (PPOP) increased by 6% YoY in FY22, and was up 7% YoY in 2H22. The decent earnings growth was primarily driven by 1) continual NIM expansion against macro headwinds (+53bps YoY to 4.67% in FY22, and +37bps HoH to 4.86% in 2H22) on the back of both lower funding costs and higher asset yields, and 2) robust revenue growth from industrial operations (+16% YoY). Asset quality remained stable in 2H22, with NPL ratio and 30+ days overdue ratio further trending down HoH. Looking into 2023, we expect the growth of interest-earning assets will resume post-pandemic restrictions, and the NIM will remain high given the increasing shares of interest-earning assets from innovative business. We reiterate BUY rating.

- **Financial business:** Continual NIM expansion with stable asset quality. Both asset yield and funding cost improved YoY in FY22 and HoH in 2H22, thanks to 1) higher pricing for new customers, 2) increasing contribution from innovative business, i.e. inclusive finance business and factoring, and 3) lower interest rate of domestic funding. On asset quality front, FEH recorded 1bps HoH sequential improvement in both NPL ratio and 30+ days overdue ratio in 2H22, while the provision coverage ratio edged up to 240%. The Company shortened the duration for new assets in 2H22 following its prudent risk management policies, while the asset liability duration gap remained minimal at 10+ days.
- **Industrial operations:** Expect HCD IPO in 2023. The revenue contribution from industrial operation expanded to 36% in FY22 (vs 34% in FY21) and 37% in 2H22 (vs 36% in 2H21). The management targets IPO of Horizon Construction Development (HCD) in 2023. We believe the progress in capitalizing its industrial operation segments could potentially unlock FEH's hidden value.
- **Valuation:** FEH is trading at 0.5x P/BV FY23E and 3.1x P/E FY23E with over 7% dividend yield and a ROE of 14%+. We believe the long-term growth outlook of the Company remains stable and the improving margins and sound asset quality will support share price performance. Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	33,644	36,586	42,689	49,377	57,032
YoY growth (%)	15.8	8.7	16.7	15.7	15.5
Operating profit (RMB mn)	11,232	11,958	13,415	15,490	17,866
YoY growth (%)	11.1	6.5	12.2	15.5	15.3
Net profit (RMB mn)	5,512	6,238	6,882	8,083	9,465
YoY growth (%)	23.7	7.7	9.9	16.6	16.4
EPS (Reported) (RMB)	1.36	1.46	1.59	1.87	2.19
YoY growth (%)	13.4	7.7	8.9	17.5	17.1
Consensus EPS (RMB)	na	na	1.64	1.84	2.02
P/E (x)	4.3	4.0	3.7	3.1	2.7
P/B (x)	0.6	0.6	0.5	0.5	0.4
Yield (%)	6.0	7.4	8.1	9.5	11.1
ROE (%)	14.6	14.1	14.5	15.4	16.1
Net gearing (%)	81.0	82.5	82.6	82.4	82.0

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** HK\$12.50

(Previous TP) HK\$12.50)

**Up/Downside** 86.6%

**Current Price** HK\$6.70

### China Financials

**Gigi CHEN, CFA**

(852) 3916 3739

gigichen@cmbi.com.hk

**Nika MA**

(852) 3900 0805

nikama@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	28,903.8
Avg 3 mths t/o (HK\$ mn)	6.8
52w High/Low (HK\$)	7.68/5.21
Total Issued Shares (mn)	4314.0

Source: FactSet

### Shareholding Structure

Sinochem Group	21.3%
Kong Fanxing	21.9%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-4.3%	4.6%
3-mth	10.9%	12.4%
6-mth	15.3%	12.7%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Recent reports:

1. Far East Horizon Limited (3360 HK) – Resume coverage; 3Q21 NIM expansion and improving asset quality ([link](#))
2. Far East Horizon Limited (3360 HK) – FY21 review: Sequential improvement in NIM and asset quality in 2H21 ([link](#))
3. Far East Horizon Limited (3360 HK) – 1Q22 review: Stable and sound development under the “finance + industry” strategy ([link](#))
4. Far East Horizon Limited (3360 HK) – Continual NIM expansion in 1H22 ([link](#))
5. Far East Horizon Limited (3360 HK) – NIM expansion continued in 3Q22 ([link](#))

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	29,042	33,644	36,586	42,689	49,377	57,032
Cost of goods sold	(14,076)	(16,431)	(18,128)	(21,161)	(24,417)	(28,151)
Gross profit	14,966	17,213	18,458	21,528	24,960	28,881
Operating expenses	(4,859)	(5,981)	(6,500)	(8,114)	(9,470)	(11,015)
SG&A expense	(6,212)	(7,878)	(7,269)	(8,482)	(9,811)	(11,332)
Others	1,353	1,898	769	368	341	317
Operating profit	10,106	11,232	11,958	13,415	15,490	17,866
Other gains/(losses)	(2,599)	(1,219)	(1,533)	(1,955)	(2,125)	(2,313)
Pre-tax profit	7,508	10,013	10,425	11,460	13,364	15,553
Income tax	(2,475)	(3,785)	(3,716)	(4,085)	(4,764)	(5,544)
Minority interest	(2)	(332)	(221)	(243)	(268)	(294)
Others	(455)	(384)	(250)	(250)	(250)	(250)
Net profit	5,033	6,228	6,709	7,375	8,601	10,009
Net dividends	1,164	1,442	1,832	2,057	2,416	2,829

  

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	145,068	162,802	174,917	181,599	200,782	220,581
Cash & equivalents	11,877	15,659	15,904	16,381	16,872	17,379
Account receivables	122,921	133,600	148,967	163,952	180,373	198,389
Inventories	397	559	466	466	466	466
Prepayment	2,904	4,775	3,458	4,130	4,883	5,727
ST bank deposits	3,475	4,240	3,227	(6,382)	(5,040)	(4,800)
Financial assets at FVTPL	3,166	3,270	1,433	1,591	1,766	1,960
Other current assets	328	699	1,461	1,461	1,461	1,461
Non-current assets	154,859	173,078	172,077	197,183	216,992	237,666
PP&E	16,872	24,531	25,082	36,287	40,873	44,861
Investment in JVs & assos	7,291	7,820	8,577	9,006	9,456	9,929
Intangibles	49	72	86	86	86	86
Goodwill	2,032	374	271	271	271	271
Financial assets at FVTPL	6,177	9,490	7,925	8,796	9,764	10,838
Other non-current assets	122,438	130,791	130,137	142,738	156,542	171,682
Total assets	299,927	335,880	346,994	378,782	417,774	458,247
Current liabilities	129,335	156,793	152,452	167,144	184,645	202,536
Short-term borrowings	103,931	122,694	123,455	134,566	148,023	161,345
Account payables	23,104	30,686	26,967	30,362	34,202	38,546
Tax payable	1,765	2,172	1,858	2,044	2,249	2,473
Other current liabilities	535	1,241	172	172	172	172
Non-current liabilities	125,324	126,033	142,102	154,638	169,670	184,716
Long-term borrowings	98,361	104,185	124,155	135,329	148,861	162,259
Bond payables	2,924	3,321	3,718	3,718	3,718	3,718
Obligations under finance leases	583	443	362	362	362	362
Deferred income	1,064	1,465	605	665	732	805
Other non-current liabilities	22,393	16,618	13,262	14,564	15,996	17,571
Total liabilities	254,660	282,826	294,554	321,783	354,315	387,252
Share capital	10,397	13,043	13,052	13,052	13,052	13,052
Retained earnings	21,923	26,102	30,673	35,681	41,658	48,650
Other reserves	1,800	2,378	1,522	662	693	739
Total shareholders equity	34,119	41,523	45,247	49,395	55,403	62,442
Minority interest	2,670	4,017	4,112	4,523	4,976	5,473
Total equity and liabilities	299,927	335,880	346,994	378,782	417,774	458,247

<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	8.1%	15.8%	8.7%	16.7%	15.7%	15.5%
Gross profit	4.4%	15.0%	7.2%	16.6%	15.9%	15.7%
Operating profit	10.7%	11.1%	6.5%	12.2%	15.5%	15.3%
Net profit	4.2%	23.7%	7.7%	9.9%	16.6%	16.4%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	51.5%	51.2%	50.5%	50.4%	50.5%	50.6%
Operating margin	34.8%	33.4%	32.7%	31.4%	31.4%	31.3%
Return on equity (ROE)	15.7%	16.5%	15.5%	15.6%	16.4%	17.0%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	7.1	6.4	6.2	6.2	6.1	5.9
Current ratio (x)	1.1	1.0	1.1	1.1	1.1	1.1
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	4.9	4.3	4.0	3.7	3.1	2.7
P/B	0.7	0.6	0.6	0.5	0.5	0.4
Div yield (%)	5.2	6.0	7.4	8.1	9.5	11.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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