

# Far East Horizon (3360 HK)

## 1H23 in-line: Solid asset quality; HCD spin-off untapped industrial potential to empower growth

FEH announced 1H23 results with total revenue up 3.6% YoY and net profit attributable to shareholders up by 8.0% YoY to RMB3.07bn, in line with our forecast. The Group's core financial business rose 5.4% YoY, driving ~60% of total revenue growth over years. It was empowered by industrial contributions that primarily incl. 1) operating lease from Horizon CD (+18.0% YoY) and 2) hospital operations under Horizon Healthcare (+16.2% YoY). The completed spin-off of HCD in 1H23 as a new engine (77.2% in shareholding) untapped growth potential of the Group in industrial operations, and empowered subsequent business expansions acting as a cornerstone. On the financial services side, we see the mgt. engage in proactive shifts from development to segments of better asset quality, i.e. cultural & tourism, engineering construction and transportation & logistics with NPA ratios -1.61pct/-0.66pct/+0.06pct respectively compared to end FY22.

■ **Financial and advisory services (63% of revenue):** The segment contributed revenue of RMB11.6bn in 1H23, largely in line with 1H22 (-0.3% YoY). Yet the composition diverged, as interest income +5.4% YoY and advisory services -56.2% YoY, further down from -47.0% YoY in 2H22. The outstanding decrease in advisory fees was primarily due to lack of purchase willingness from corporate clients in demands for prudent cost control. The Group in accordance seized to expand more innovative business, i.e. inclusive finance, commercial factoring, and infrastructure investment, which in total accounted for RMB1.29bn in 1H23 (+9.1% YoY) netting off the advisory decline. Besides, the avg. balance of interest-bearing assets (IEA) increased by 1.3% YoY to RMB274.7bn, with avg. yields improved by 0.31pct YoY to 8.07% in 1H23, driving the growth of total interest income and net interest spread (NIS) by 6bps. Asset quality remained solid, the Group's NPA ratio stayed flat at 1.05%, albeit in a fluctuated capital market.

■ **Industrial operations (37% of revenue):** Including both operating lease from Horizon CD and hospital operations under Horizon Healthcare, the segment realized in total RMB6.89bn, up 11.2% YoY compared to 1H22. The operating lease and engineering & tech services income from HCD increased by 8.7%/8.1% to RMB2.51bn/ RMB1.14bn respectively in 1H23, showing more industrial growth to be tapped by the Group for business mix. Horizon Healthcare recorded RMB2.29bn in 1H23, up 16.2% YoY given demands recovery in the post-pandemic era and strategic layouts in low-tier cities. The Group managed to improve gross margin by 3.05pct to 18.7%.

■ **Risks:** 1) continued slow recovery and ease in market sentiment; 2) more stringent regulatory restrictions on financing lease; 3) wide fluctuations in interest rates; 4) lower-than-expected performance in industrial growth.

■ **Valuation:** FEH is now trading at 0.5x P/B FY23E and 3.5x P/E FY23E, with ROE remained stable at ~14% and dividend payout at above 30%. Maintain BUY with TP unchanged at HK\$12.50.

### 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	12,650	14,633	16,907
YoY growth (%)	11.1	6.5	5.8	15.7	15.5
Net profit (RMB mn)	5,512	6,238	6,390	7,532	8,848
YoY growth (%)	20.5	13.2	2.4	17.9	17.5
EPS (Reported) (RMB)	1.4	1.5	1.5	1.7	2.1
Consensus EPS (RMB)	na	na	1.6	1.9	2.0
P/E (x)	3.8	3.5	3.5	2.9	2.5
P/B (x)	0.5	0.5	0.5	0.4	0.4
Yield (%)	7.0	8.6	8.7	10.2	12.0
ROE (%)	14.6	14.1	13.6	14.6	15.3
Net gearing (%)	81.0	82.5	82.7	82.6	82.3

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$12.50**  
(Previous TP HK\$12.50)  
**Up/Downside** **125.2%**  
**Current Price** **HK\$5.55**

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### Stock Data

Mkt Cap (HK\$ mn)	23,943
Avg 3 mths t/o (HK\$ mn)	34.00
52w High/Low (HK\$)	7.40/5.17
Total Issued Shares (mn)	4318.0

Source: FactSet

### Shareholding Structure

Sinochem Group	21.3%
Kong Fanxing	21.9%

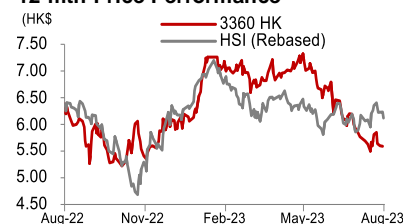
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.3%	-10.5%
3-mth	-22.9%	-20.4%
6-mth	-20.7%	-10.9%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Recent reports:

1. Far East Horizon Limited (3360 HK) – 1Q22 review: Stable and sound development under the “finance + industry” strategy ([link](#))
2. Far East Horizon Limited (3360 HK) – Continual NIM expansion in 1H22 ([link](#))
3. Far East Horizon Limited (3360 HK) – NIM expansion continued in 3Q22 ([link](#))
4. Far East Horizon Limited (3360 HK) – NIM expansion HoH in 2H22; sound asset quality ([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)	(8,879)	(10,327)	(11,974)
SG&A expense	(6,212)	(7,878)	(7,269)	(8,482)	(9,811)	(11,332)
Others	1,353	1,898	769	(397)	(516)	(643)
Operating profit	10,106	11,232	11,958	12,650	14,633	16,907
Other gains/(losses)	(2,599)	(1,219)	(1,533)	(1,955)	(2,125)	(2,313)
Pre-tax profit	7,508	10,013	10,425	10,695	12,508	14,594
Income tax	(2,475)	(3,785)	(3,716)	(3,812)	(4,458)	(5,202)
Minority interest	(2)	(332)	(221)	(243)	(268)	(294)
Others	(455)	(384)	(250)	(250)	(250)	(250)
Net profit	5,033	6,228	6,709	6,883	8,049	9,392
Net dividends	1,164	1,442	1,832	1,910	2,251	2,644
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	145,068	162,802	174,917	181,433	200,579	220,335
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	3,591	3,740	3,907
ST bank deposits	3,475	4,240	3,227	(6,009)	(4,100)	(3,227)
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	196,856	216,299	236,563
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	142,411	155,849	170,579
Total assets	299,927	335,880	346,994	378,289	416,878	456,898
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	35,191	40,768	47,311
Other reserves	1,800	2,378	1,522	659	686	729
Total shareholders equity	34,119	41,523	45,247	48,903	54,507	61,092
Minority interest	2,670	4,017	4,112	4,523	4,976	5,473
Total equity and liabilities	299,927	335,880	346,994	378,289	416,878	456,898

<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%	5.8%	15.7%	15.5%
Net profit	5.5%	20.5%	13.2%	2.4%	17.9%	17.5%
<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%	29.6%	29.6%	29.6%
Return on equity (ROE)	14.2%	14.6%	14.1%	13.6%	14.6%	15.3%
<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	6.2	6.1
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	4.3	3.8	3.5	3.5	2.9	2.5
P/B	0.6	0.5	0.5	0.5	0.4	0.4
Div yield (%)	6.0	7.0	8.6	8.7	10.2	12.0

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

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