

# Far East Horizon Limited (3360 HK)

## 1Q22 review: Stable and sound development under the “finance + industry” strategy

FEH reported stable and sound first-quarter results, buoyed by its steadily improving financial business and rapidly developing industrial operations under the “finance + industry” strategy. During the first quarter, FEH’s operating revenue increased over 15% year-on-year, and net profits recorded a growth of approximately 20% YoY. With continued structural optimization, the income contribution from non-traditional business operations nearly reached 40%. Given strong growth momentum driven by FEH’s industrial operating income over the year, we reiterate BUY rating.

- Financial business: Total IEAs expansion with stable asset quality.** The total interest-earning assets (IEA) continued to expand in 1Q22 compared to the level at the start of this year, driving an increase in interest margins alongside the rapid growth in new business deliveries, which continue to generate lower funding costs and more diverse funding sources. The asset quality remained intact given an expanding scale of total IEAs, underpinned by stable non-performing assets (NPA) ratio and provision coverage ratio, owing to the prudent risk management strategy guided by the management.
- Industrial operations: Strong growth prospects sustained over year.** FEH’s main operational business under Horizon Construction Development (HCD) achieved rapid year-on-year growth in both revenue and profits in 1Q22, further consolidating the company’s industrial leading position. Looking ahead to FY22, we expect the strong growth momentum in both industrial operating income and profits, addressed by improving asset scale and operational efficiency, to sustain throughout the year, further strengthening the Group’s operational foundation. The Horizon Healthcare amidst the uncertain Covid-19 external environment as well earned steady increase in the first quarter. Progressively capitalizing through the spin-off IPO of HCD, we believe FEH’s hidden value remains untapped to arise further interests of the market.
- Increase in shareholding by director:** FEH’s CEO and executive director Mr. Kong Fanxing increased his stake in FEH of a total of 800,000 ordinary shares, accounting for 0.02% of total publicly issued shares, on March 17, 2022. By expending personal-owned funds, Mr. Kong showed full confidence toward the FEH’s development under the “finance + industry” strategy in the long run.
- Valuation:** Trading at 0.5x FY22E P/B and 4.0x FY22E P/E, FEH is now positioned at the lower end of historical trading range. We maintain the view of recent weak share price performance amid macro uncertainties as a good entry point, given the stable and sound growth outlook throughout the year.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	29,042	33,644	38,210	43,649	48,301
YoY growth (%)	8.1	15.8	13.6	14.2	10.7
Net profit (RMB)	4,576	5,512	6,159	6,962	7,868
EPS (RMB)	1.2	1.4	1.4	1.6	1.8
YoY growth (%)	5.3	13.4	4.9	13.0	13.0
Consensus EPS (RMB)	1.3	1.6	1.6	1.8	2.0
P/E (x)	4.7	4.2	4.0	3.5	3.1
P/B (x)	0.7	0.6	0.5	0.5	0.4
Yield (%)	5.4	6.3	6.6	7.5	8.4
ROE (%)	14.2	14.6	14.2	14.6	14.7
Net gearing (%)	81.7	81.0	80.4	80.1	79.7

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price **HK\$ 12.50**  
 Up/Downside **+81.2%**  
 Current Price **HK\$ 6.92**

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### Stock Data

Mkt Cap (HK\$ mn)	29,772
Avg 3 mths t/o (HK\$ mn)	24.21
52w High/Low (HK\$)	9.31/ 5.78
Total Issued Shares (mn)	4,315

Source: Bloomberg

### Shareholding Structure

Sinochem Group	20.66%
Kong Fanxing	16.79%
JPMorgan Chase & Co.	9.41%

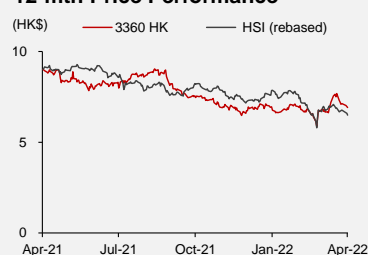
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	4.0%	6.4%
3-mth	0.1%	19.3%
6-mth	-7.8%	15.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**



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<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
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