

Far East Horizon (3360 HK)

Continual NIM expansion in 1H22

FEH delivered a set of decent results in 1H22 in spite of the headwinds from COVID restrictions. Net profit grew 10% YoY to RMB2.84bn in 1H22, tracking 47% of our FY22E forecast. The solid earnings growth was primarily driven by 1) continual NIM expansion (+53bps YoY, or +32bps HoH) on the back of lower funding costs, 2) robust growth of interest-earning assets (+10% HoH) and 3) strong revenue growth from industrial operations (+21% YoY). Asset quality remained stable in 1H22. Looking into 2H22, we expect the NPA ratio to further improve and the NIM to remain high. We think the inclusive finance business and other innovative business lines will provide new growth drivers and support margin. Reiterate BUY.

■ **Financial business: continual NIM expansion.** With stable yield on assets front and lower funding cost due to 1) easing liquidity and 2) optimized funding sources mix, FEH managed to further expand its NIM on both YoY and HoH basis in 1H22. On asset quality front, FEH recorded 2bps HoH sequential improvement in 30+ days overdue ratio, while the non-performing asset (NPA) ratio was flattish HoH at 1.06%. We expect the asset growth and NIM to remain stable while NPA ratio to improve in 2H22 as the negative impact from COVID restrictions has peaked.

■ **Industrial operations: strong revenue growth against headwinds.** The revenue contribution from industrial operations further expanded to 35% in 1H22 from 32% in 1H21, as the equipment operations and hospital operations delivered 47%/4% YoY income growth in 1H22. Looking into 2H22, we expect to see a recovery in net margin of industrial operations, as the expense ratio is likely to normalize from the high level amid COVID lockdowns in 2Q22.

■ **Valuation.** FEH is trading at 0.5x P/BV FY22E and 3.6x P/E FY22E with over 7% dividend yield and a ROE of 14%. We believe the long-term growth outlook of the company remains stable and the expanding new business, i.e. inclusive finance business, will further improve profitability. Reiterate BUY.

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
Operating profit (RMB mn)	10,106	11,232	12,049	13,985	15,636
YoY growth (%)	10.7	11.1	7.3	16.1	11.8
Net profit (RMB mn)	4,576	5,512	5,997	6,626	7,506
YoY growth (%)	5.5	20.5	8.8	10.5	13.3
EPS (Reported) (RMB)	1.2	1.4	1.4	1.5	1.7
YoY growth (%)	5.3	13.4	2.2	10.5	13.3
Consensus EPS (RMB)	1.3	1.6	1.6	1.8	2.0
P/E (x)	4.5	3.9	3.9	3.5	3.1
P/B (x)	0.6	0.6	0.5	0.5	0.4
Yield (%)	5.7	6.6	6.8	7.5	8.5
ROE (%)	14.2	14.6	13.9	14.0	14.2
Net gearing (%)	81.7	81.0	81.2	80.9	80.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$12.50
(Previous TP) HK\$12.50)
Up/Downside 105.3%
Current Price HK\$6.09

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Stock Data

Mkt Cap (HK\$ mn)	26,272.3
Avg 3 mths t/o (HK\$ mn)	6.5
52w High/Low (HK\$)	9.04/5.87
Total Issued Shares (mn)	4314.0

Source: FactSet

Shareholding Structure

Sinochem Group	21.3%
Kong Fanning	18.6%

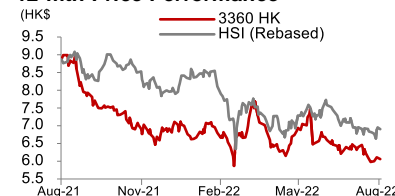
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.9%	-4.9%
3-mth	-11.5%	-6.3%
6-mth	-8.6%	5.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	26,856	29,042	33,644	38,210	43,649	48,301
Cost of goods sold	(12,525)	(14,076)	(16,431)	(19,398)	(21,810)	(23,911)
Gross profit	14,331	14,966	17,213	18,812	21,840	24,390
Operating expenses	(5,205)	(4,859)	(5,981)	(6,763)	(7,854)	(8,754)
SG&A expense	(5,596)	(6,212)	(7,878)	(8,024)	(9,166)	(10,143)
Others	391	1,353	1,898	1,261	1,312	1,390
Operating profit	9,126	10,106	11,232	12,049	13,985	15,636
Other gains/(losses)	(1,982)	(2,599)	(1,219)	(1,202)	(2,069)	(2,242)
Pre-tax profit	7,145	7,508	10,013	10,846	11,917	13,395
Income tax	(2,317)	(2,475)	(3,785)	(4,100)	(4,505)	(5,063)
Minority interest	21	(2)	(332)	(365)	(402)	(442)
Others	(511)	(455)	(384)	(384)	(384)	(384)
Net profit	4,828	5,033	6,228	6,746	7,412	8,331
Net dividends	1,122	1,164	1,442	1,568	1,733	1,963

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	112,785	145,068	162,802	175,983	193,685	214,110
Cash & equivalents	3,990	11,877	15,659	14,093	14,516	14,951
Account receivables	98,741	122,921	133,600	150,365	164,688	180,355
Inventories	404	397	559	559	559	559
Prepayment	2,716	2,904	4,775	5,461	6,093	6,800
ST bank deposits	5,963	3,475	4,240	1,208	3,137	6,313
Financial assets at FVTPL	313	3,166	3,270	3,597	3,993	4,432
Other current assets	659	328	699	699	699	699
Non-current assets	147,786	154,859	173,078	188,245	202,042	216,220
PP&E	11,583	16,872	24,531	22,539	21,168	18,748
Investment in JVs & assos	7,219	7,291	7,820	8,211	8,622	9,053
Intangibles	34	49	72	72	72	72
Goodwill	2,322	2,032	374	374	374	374
Financial assets at FVTPL	4,130	6,177	9,490	10,439	11,588	12,862
Other non-current assets	122,498	122,438	130,791	146,609	160,219	175,110
Total assets	260,571	299,927	335,880	364,227	395,727	430,330
Current liabilities	111,210	129,335	156,793	171,283	186,471	203,090
Short-term borrowings	87,745	103,931	122,694	132,510	143,111	154,560
Account payables	21,943	23,104	30,686	35,143	39,491	44,398
Tax payable	1,257	1,765	2,172	2,389	2,628	2,891
Other current liabilities	265	535	1,241	1,241	1,241	1,241
Non-current liabilities	107,826	125,324	126,033	136,047	146,896	158,650
Long-term borrowings	74,651	98,361	104,185	112,520	121,522	131,243
Bond payables	0	2,924	3,321	3,321	3,321	3,321
Obligations under finance leases	1,637	583	443	443	443	443
Deferred income	1,054	1,064	1,465	1,612	1,773	1,950
Other non-current liabilities	30,483	22,393	16,618	18,151	19,837	21,692
Total liabilities	219,036	254,660	282,826	307,331	333,367	361,739
Share capital	10,281	10,397	13,043	13,043	13,043	13,043
Retained earnings	18,545	21,923	26,102	30,629	35,655	41,392
Other reserves	1,303	1,800	2,378	1,292	1,287	1,294
Total shareholders' equity	30,128	34,119	41,523	44,964	49,985	55,729
Minority interest	1,546	2,670	4,017	4,419	4,861	5,347
Total equity and liabilities	260,571	299,927	335,880	364,227	395,727	430,330

GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	5.8%	8.1%	15.8%	13.6%	14.2%	10.7%
Gross profit	3.1%	4.4%	15.0%	9.3%	16.1%	11.7%
Operating profit	4.5%	10.7%	11.1%	7.3%	16.1%	11.8%
Net profit	10.4%	5.5%	20.5%	8.8%	10.5%	13.3%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	53.4%	51.5%	51.2%	49.2%	50.0%	50.5%
Operating margin	34.0%	34.8%	33.4%	31.5%	32.0%	32.4%
Return on equity (ROE)	15.0%	14.2%	14.6%	13.9%	14.0%	14.2%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	5.2	5.4	5.0	5.2	5.1	5.1
Net gearing (%)	79.6	81.7	81.0	81.2	80.9	80.6
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	4.7	4.5	3.9	3.9	3.5	3.1
P/B	0.7	0.6	0.6	0.5	0.5	0.4
Div yield (%)	5.5	5.7	6.6	6.8	7.5	8.5
ROE (%)	15.0	14.2	14.6	13.9	14.0	14.2
Enterprise value	245,175	276,902	308,690	338,201	368,836	402,517

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

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