

Far East Horizon Limited (3360 HK)

1Q21 net profit +~30%; expect further contribution from industrial operation

FEH released 1Q21 operating data on 20 Apr, stating its operating income/ net profit grew >30%/~30% YoY, and non-finance leasing business revenue contributed over 30% to total op. income. We think top-line growth was largely in-line with our expectation while bottom-line beat, likely on improved operating efficiency. We expect industrial operation to achieve faster revenue growth than financial business and deliver better profitability in FY21E on recovering demand for healthcare and infrastructure construction post-pandemic, fueling further upward re-rating of FEH. **We maintain BUY** rating and TP of HK\$ 11.10.

- Industrial operations: Equipment/Hospital revenue +>50%/+>30% YoY in 1Q21.** Though we believe the stellar growth was partly due to low base in 1Q20 when operation was hit by COVID-19 outbreak, this was also attributable to **1) further expansion of equipment operation** (AWP fleet size reached 65k, vs. 55k ended 4Q20, and turnover materials reached 1.4mn tons, vs. 1.3mn tons ended 4Q20), and **2) solid improvement in hospitals' profitability after consolidation in 2H20.** Looking ahead, we anticipate industrial operation revenue to increase 27% YoY (vs. 17% of financial business) in FY21E, largely driven by the rapidly expanding equipment operation business (est. revenue +50% YoY in FY21E), with continuously improving operating leverage. Progress of capitalizing its industrial operation segments could potentially unlock FEH's hidden value.
- Financial business: stable NIM trend and asset quality.** FEH achieved steady growth of interest-earning asset (IEA) growth in 1Q21, retained stable NIM trend (vs. 3.83% in FY20), and at the same time, saw further recovery of its advisory business. As monetary policy normalizes, we expect FEH's NIM to slightly contract in FY21E. On asset quality front, we believe FEH will continue to allocate more IEA to less cyclical sectors, such as urban public utility, as well as healthcare and cultural & tourism which are welcoming a post-pandemic demand recovery. This will also secure FEH with stable IEA growth in FY21E.
- Maintain BUY.** We maintain our earnings forecast and TP unchanged. Our TP of HK\$ 11.10 reflects 0.97x FY21E P/B and 7.2x FY21E P/E. FEH now trades at 0.82x FY21E P/B and 6.1x FY21E P/E, both at historical average level.
- Key catalyst:** major progress in spin-off IPO of Horizon Construction Development ("HCD"). **Key risks:** 1) asset quality deterioration; 2) weaker demand for industrial operation.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	26,856	29,042	34,928	39,812	44,984
YoY growth (%)	6	8	20	14	13
Net profit (RMB)	4,338	4,576	5,291	6,412	7,470
EPS (RMB)	1.14	1.20	1.27	1.54	1.80
YoY growth (%)	11	5	6	21	17
Consensus EPS (RMB)	N/A	N/A	1.33	1.51	N/A
P/E (x)	6.8	6.5	6.1	5.0	4.3
P/B (x)	0.98	0.90	0.82	0.73	0.64
Yield (%)	3.8	3.9	4.2	5.1	5.9
ROE (%)	15.0	14.2	14.4	15.3	15.8
Net gearing (%)	79.6	81.7	81.1	80.8	80.4

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 11.10
(Previous TP)	HK\$ 11.10)
Up/Downside	23.2%
Current Price	HK\$ 9.01

China Leasing Sector

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Stock Data

Mkt Cap (HK\$ mn)	37,480
Avg 3 mths t/o (HK\$ mn)	41.71
52w High/Low (HK\$)	9.58/ 5.54
Total Issued Shares (mn)	4,160
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	-0.5%	-1.0%
3-mth	12.4%	15.6%
6-mth	27.6%	7.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Report

- "FY20 results slight beat; recovery in industrial operation to lead the growth in FY21E" – 1 Apr 2021
- "Rooting in finance, thriving on industrial operation - Initiation" – 22 Dec 2020

Financial summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	26,856	29,042	34,928	39,812	44,984
Finance lease, factoring & loans	15,842	16,522	19,200	21,062	22,772
Advisory services	4,574	3,836	4,701	5,052	5,462
Industrial operation	6,521	8,811	11,180	13,873	16,947
Less: tax and surcharges	(80)	(127)	(153)	(175)	(197)
Cost of sales	(12,525)	(14,076)	(17,274)	(19,554)	(22,187)
Gross profit	14,331	14,966	17,655	20,258	22,796
S&M, G&A exp.	(5,596)	(6,212)	(7,510)	(8,520)	(9,537)
Finance cost	(460)	(461)	(519)	(465)	(375)
Other income and expenses	660	1,503	1,025	1,066	1,093
Gains from JVs & associates	192	468	561	645	742
PPoP	9,127	10,263	11,212	12,984	14,720
Impairment losses	(1,982)	(2,599)	(2,637)	(2,737)	(2,893)
Pre-tax profit	7,146	7,664	8,575	10,247	11,827
Income tax	(2,317)	(2,475)	(2,827)	(3,378)	(3,898)
Holder of perpetual bonds	(511)	(455)	(455)	(455)	(455)
Minority interest	21	(2)	(2)	(3)	(3)
Net profit	4,338	4,732	5,291	6,412	7,470

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash and restricted cash	9,956	15,352	12,024	13,756	13,148
Financial assets at FVTPL	4,443	9,343	11,211	12,332	13,689
Loans and receivables	201,121	229,397	249,752	272,053	299,190
Inv. in JVs & associates	7,219	7,291	7,656	8,039	8,440
PP&E	11,583	16,872	19,854	21,403	22,761
Other assets	26,249	21,672	23,729	25,618	27,392
Total assets	260,571	299,927	324,225	353,200	384,620
Borrowings	162,396	202,292	218,475	235,953	254,830
Other liabilities	56,640	52,368	54,908	61,077	67,485
Total liabilities	219,036	254,660	273,384	297,031	322,315
Shareholders' fund	30,128	34,119	39,427	44,461	50,274
Holder of perpetual bonds	9,860	8,478	8,478	8,478	8,478
Minority interest	1,546	2,670	2,937	3,230	3,553
Total equity	41,535	45,267	50,841	56,170	62,305

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix (%)					
Finance lease, factoring & loans	59	57	55	53	51
Advisory services	17	13	13	13	12
Industrial operation	24	30	32	35	38
Less: tax and surcharges	(0)	(0)	(0)	(0)	(0)
YoY growth (%)					
Revenue	6	8	20	14	13
Finance lease, factoring & loans	(2)	4	16	10	8
Advisory services	(6)	(16)	23	7	8
Industrial operation	44	35	27	24	22
Gross profit	3	4	18	15	13
PPoP	5	11	11	16	13
Net profit	10	5	16	21	17
Total IEA	(9)	16	9	9	10
Total IBL	(6)	25	8	8	8
Profitability (%)					
Finance lease, factoring & loans					
NIM	3.66	3.83	3.80	3.85	3.74
NIS	2.48	2.85	3.12	3.13	2.95
Industrial operation					
Hospital operation GPM	25.5	19.7	23.7	24.8	25.7
Equipment operation GPM	45.7	45.0	46.0	47.5	49.0
Pre-tax margin	26.6	25.9	24.6	25.7	26.3
Net profit margin	16.2	15.8	15.1	16.1	16.6
Asset quality (%)					
NPL ratio	1.11	1.10	1.09	1.07	1.06
Provision coverage ratio	246	256	266	275	278
B/S ratios (%)					
ROE	15.0	14.2	14.4	15.3	15.8
ROA	1.6	1.6	1.7	1.9	2.0
Net gearing	79.6	81.7	81.1	80.8	80.4
Per share (RMB)					
EPS	1.14	1.20	1.27	1.54	1.80
DPS	0.30	0.31	0.33	0.40	0.46
BVPS	7.94	8.58	9.48	10.69	12.09

Source: Company data, CMBIS estimates

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