

Far East Horizon Limited (3360 HK)

FY20 results slight beat; recovery in industrial operation to lead the growth in FY21E

FEH reported FY20 net profit of RMB 4.7bn, up 5% YoY, 4%/1% higher than CMBIS/consensus estimates. Top-line came in above expectation at RMB 29.0bn (+8% YoY) mainly on higher IEA growth and wider NIM expansion, as well as better hospital and equipment operation income. We expect industrial operation to increase 27% YoY (vs. 17% of financial business) in FY21E on recovering demand for healthcare and infrastructure construction post-pandemic, and fuel further upward re-rating. We raise FY21E-22E earnings by 5-6% and lift our SOTP-derived TP to HK\$ 11.10. **Reiterate BUY.**

- **Equipment operation: scale-up enhanced market leadership; potential spin-off listing of HCD earliest by YE FY21E.** FEH's equipment operation achieved 40%/29% YoY of revenue/PAT in FY20, as the Company enhanced its leading position by further asset and network expansion, i.e. AWP fleet size (55k, +175% YoY), turnover materials (1.3mn tons, +44% YoY) and outlets (207, +40% YoY). We expect this business to continue scaling up to grow top-line in FY21E (+51% YoY); the potential spin-off listing of HCD could provide capital for mid-term expansion and boost the valuation of FEH.
- **Hospital operation: disposed less efficient hospitals; post-pandemic recovery and ongoing integration to drive growth.** FEH's hospital operation revenue grew 18% YoY, though GP/PAT was down 9%/35% YoY due to impact from pandemic. The Company disposed its holding in 31 "less efficient" hospitals in FY20, slightly reducing the no. of its available beds to 11,000, but the per bed revenue improved 12% YoY in FY20. We believe the continuous integration of hospitals, recovering healthcare demand after pandemic together with a low base in 1Q20 could well support efficiency improvement and better profitability of hospital operation in FY21E.
- **Financial business: FY20 NIM expansion and asset quality b-t-e; NIM and IEA growth to stabilize in FY21E.** FEH's NIM expanded 61bps HoH in 2H20 to 4.12%/17 bps YoY in FY20 to 3.83%, thanks to lowering funding cost (-32ppt YoY to 4.63%) and better yield in 2H20. NPA ratio improved 1bps YoY/3bps HoH to 1.10%, as FEH increased write-offs. It is worth noticing that FEH's 30D overdue ratio was 0.99%, lower than NPA ratio, as FEH adopts stringent NPA recognition policy to include overdue loans & receivables even not exceeding 30 days. Looking into FY21E, as monetary policy normalizes, we expect FEH's NIM to slightly decline 3bps YoY on higher funding cost, and IEA growth to moderate to 9% YoY. The Company has allocated ~80% of its IEA to less-cyclical sectors ended FY20, therefore we are confident that it can maintain stable asset quality ahead.

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\$ 10.40**)
 Up/Downside **18.8%**
 Current Price **HK\$ 9.34**

China Leasing Sector

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Stock Data

Mkt Cap (HK\$ mn)	38,849
Avg 3 mths t/o (HK\$ mn)	43.84
52w High/Low (HK\$)	9.46/ 5.54
Total Issued Shares (mn)	4,159
Source: Bloomberg	

Shareholding Structure

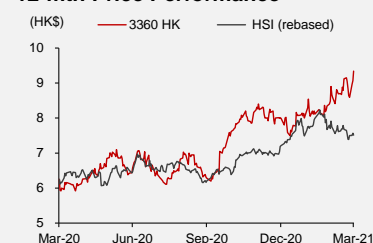
Sinochem Group	20.66%
Kong Fanxing	16.79%
JPMorgan Chase & Co.	9.41%
Source: Company data	

Share Performance

	Absolute	Relative
1-mth	8.8%	10.3%
3-mth	13.2%	7.6%
6-mth	44.4%	18.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Report

"Rooting in finance, thriving on industrial operation - Initiation" – 22 Dec 2020

- **Raise TP to HK\$ 11.10. Reiterate BUY.** We revise up FEH's FY21E-22E net profit by 5%-6%, mainly to reflect higher NIM assumption and better profitability of industrial operation. We derive our new TP of HK\$ 11.10 from SOTP method, applying unchanged 0.85x FY21E P/B to leasing business, a 12x (vs. prev. 10x) FY21E P/E to industrial operation and 20% valuation discount. We also factored in the CB conversion in Jan 2021 that increased total share base by 5%. Our TP reflects 0.97x FY21E P/B and 7.2x FY21E P/E. FEH now trades at 0.81x forward P/B and 5.9x forward P/E, both at historical average. As domestic equipment operator and hospital operator peers now trades at 20x/10x FY21E P/E, we believe a higher revenue contribution from industrial operation business could drive an upward re-rating of FEH. Reiterate BUY.
- **Key catalysts:** 1) major progress in spin-off IPO of HCD; 2) release of 1Q21E operating data. **Key risks:** 1) asset quality deterioration; 2) weaker demand for industrial operation.

Figure 1: FEH's FY20 results summary

(RMB mn)							
I/S	FY19	FY20	YoY	CMBIS est. FY20E	Diff	1H20	2H20
Revenue	26,856	29,042	8%	28,244	3%	13,275	15,766
Financial business	20,416	20,358	0%	20,210	1%	9,699	10,659
Incl: Interest income	15,842	16,522	4%	16,042	3%	7,730	8,792
Incl: Advisory fees	4,574	3,836	-16%	4,168	-8%	1,969	1,867
Industrial operation	6,521	8,811	35%	8,147	8%	3,620	5,191
Incl: FEH Medical Group	2,913	3,447	18%	3,325	4%	1,535	1,912
Incl: Horizon Construction							
Development	2,622	3,664	40%	3,450	6%	1,398	2,265
Incl: Education institution operation	235	228	-3%	194	17%	88	139
Cost of sales	(12,525)	(14,076)	12%	(13,949)	1%	(6,501)	(7,575)
Incl: Interest expenses	(8,039)	(8,070)	0%	(8,426)	-4%	(3,980)	(4,089)
Incl: industrial operation costs	(4,486)	(6,007)	34%	(5,523)	9%	(2,521)	(3,486)
Gross profit	14,331	14,966	4%	14,295	5%	6,774	8,191
Incl: Net interest income	7,803	8,452	8%	7,616	11%	3,750	4,702
Incl: Gross profit of industrial operation	2,035	2,805	38%	2,624	7%	1,100	1,705
PPoP	9,126	10,106	11%	9,466	7%	4,481	5,625
Provision	(1,982)	(2,599)	31%	(2,208)	18%	(1,152)	(1,447)
Net profit	4,338	4,576	5%	4,408	4%	2,056	2,520
B/S	FY19	FY20	YoY	FY20E	Diff	1H20	2H20
Interest-earning assets	203,149	235,414	16%	225,730	4%	220,038	229,397
Interest-bearing liabilities	162,396	202,292	25%	191,628	6%	188,183	202,292
Ratios	FY19	FY20	YoY	FY20E	Diff	1H20	2H20
ROE	15.0%	14.2%	-0.7ppt	13.9%	0.4ppt	13.5%	15.5%
ROA	1.6%	1.6%	0.0ppt	1.6%	0.1ppt	1.5%	1.7%
NIM	3.66%	3.83%	0.17ppt	3.52%	0.31ppt	3.51%	4.12%
NPA ratio	1.11%	1.10%	-0.01ppt	1.13%	-0.03ppt	1.13%	1.10%

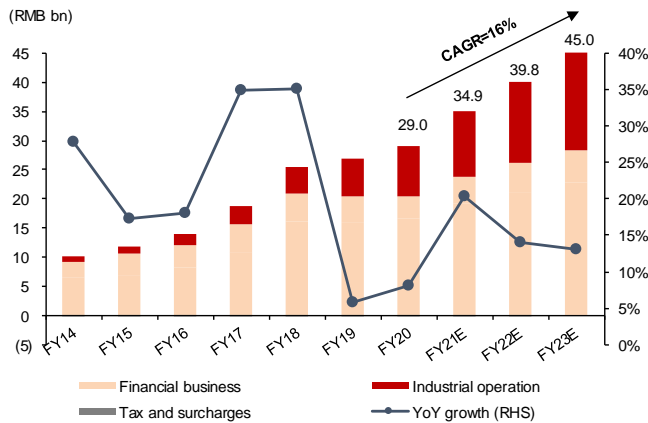
Source: Company data, CMBIS estimates

Figure 2: Earnings revision

(RMB)	New		Old		Diff	
	FY21E	FY22E	FY20E	FY21E	FY20E	FY21E
Revenue (mn)	34,928	39,812	32,938	37,830	6%	5%
Financial business	23,902	26,113	22,520	25,034	6%	4%
Industrial operation	11,180	13,873	10,551	12,948	6%	7%
Net profit (mn)	5,291	6,412	5,020	6,034	5%	6%
EPS	1.27	1.54	1.26	1.52	1%	1%
BVPS	9.48	10.69	9.35	10.53	1%	2%
ROE	14.4%	15.3%	14.2%	15.3%	0.2ppt	0.0ppt
ROA	1.7%	1.9%	1.6%	1.7%	0.1ppt	0.2ppt

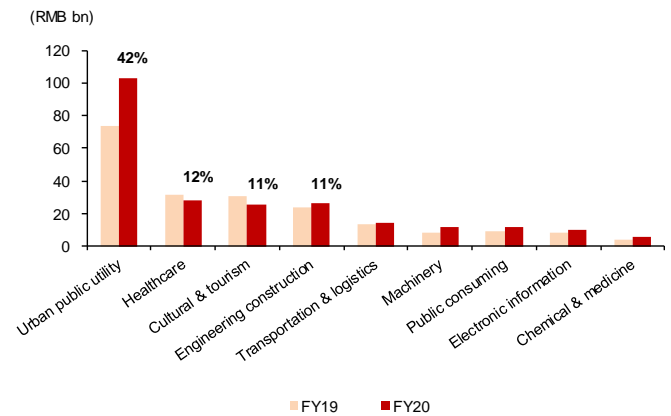
Source: CMBIS estimates

Figure 3: FEH's revenue trend



Source: Company data, CMBIS estimates

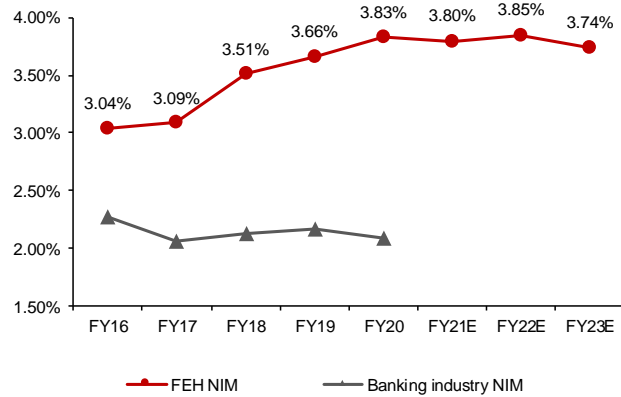
Figure 4: FY20 IEA portfolio by industry of FEH



Source: Company data, CMBIS

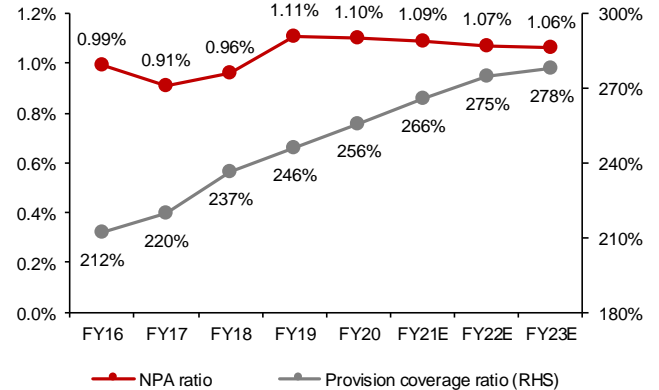
Note: percentage in bold refers to % in total IEA ended FY20.

Figure 5: FEH's NPA ratio and provision coverage



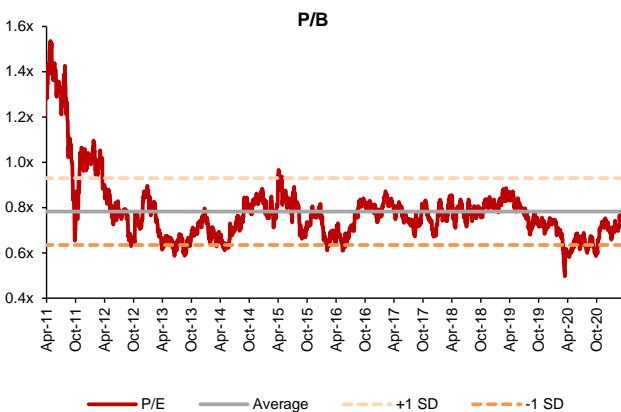
Source: Company data, CMBIS estimates

Figure 6: FEH's NPA ratio and provision coverage



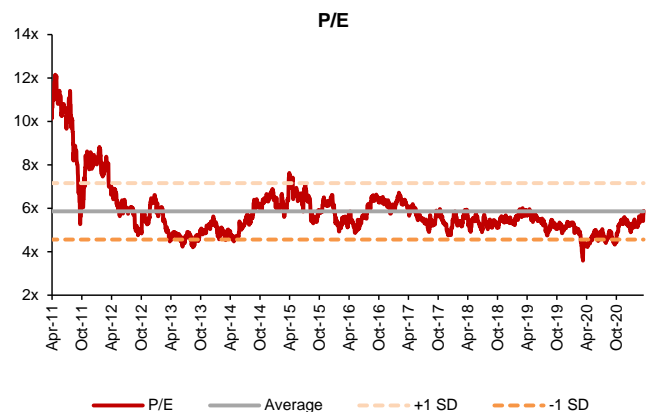
Source: Company data, CMBIS estimates

Figure 7: FEH's 1-year forward P/B



Source: Bloomberg, CMBIS estimates

Figure 8: FEH's 1-year forward P/E



Source: Bloomberg, CMBIS estimates

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)
Holders 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
Holders 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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