

# Far East Horizon (3360 HK)

## NIM expansion continued in 3Q

FEH reported stable and decent results of 3Q22 in spite of the macro headwinds. In 9M22, total revenue and net profit both grew around 10% YoY, largely in line with 1H22 growth (revenue +9.5% YoY, net profit +10.5% YoY). In spite of the lowering loan yields, FEH managed to further expand its NIM on both QoQ and YoY basis, thanks to the improved funding structure and costs. We expect the NIM expansion will sustain into 4Q22. On asset quality front, the non-performing assets (NPA) ratio was flattish at 1.06% at end-3Q22 (vs. 1.06% at end-1H22) and likely will remain stable into 4Q22, in our view. Provision coverage ratio stayed at a sufficient level. The revenue contribution from industrial operations stood above 35% (vs. 35.0% in 1H22), indicating robust segment growth in 3Q22. Looking into 4Q22, we expect the NIM may further expand and the NPA ratio to remain stable. Reiterate BUY.

- Financial business: Continual NIM expansion, along with stable asset quality.** The total interest-earning assets (IEA) continued to grow at a steady pace in 3Q22, along with a NIM expansion thanks to lower funding costs and more diverse funding sources. The asset quality remained intact given an expanding scale of total IEAs, underpinned by stable NPA ratio and provision coverage ratio, owing to the prudent risk management strategy guided by the management.
- Industrial operations: Robust revenue growth sustained against headwinds of COVID restrictions.** The revenue contribution from industrial operations stood above 35% in 9M22 vs. 35.0% in 1H22, as the equipment operations delivered robust growth in 3Q22. Looking forward, we expect to see a recovery in net margin of industrial operations in 2023, as the expense ratio is likely to normalize from the high level amid COVID lockdowns.
- Valuation.** FEH is trading at 0.5x P/BV FY23E and 3.6x P/E FY23E with over 7.4% dividend yield and a ROE of 14%. We believe the long-term growth outlook will remain stable and the profitability of new business lines, i.e. inclusive finance business, will be further improved. 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
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)	n.a	1.6	1.5	1.7	2.1
P/E (x)	4.6	4.0	3.9	3.6	3.1
P/B (x)	0.6	0.6	0.5	0.5	0.4
Yield (%)	5.6	6.5	6.7	7.4	8.3
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)

<b>Target Price</b>	<b>HK\$12.50</b>
(Previous TP)	HK\$12.50)
<b>Up/Downside</b>	<b>111.5%</b>
<b>Current Price</b>	<b>HK\$5.91</b>

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### Stock Data

Mkt Cap (HK\$ mn)	25,504
Avg 3 mths t/o (HK\$ mn)	24.83
52w High/Low (HK\$)	7.91/5.17
Total Issued Shares (mn)	4315.0

Source: FactSet

### Shareholding Structure

Kong Fanxing	21.86%
Sinochem Group	21.32%

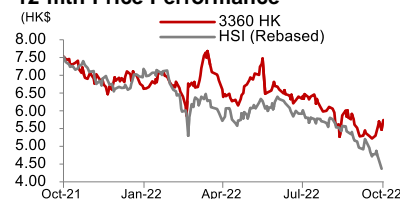
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	4.0%	21.2%
3-mth	-10.6%	22.0%
6-mth	-10.2%	16.9%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Recent reports:

- Far East Horizon Limited (3360 HK) – Resume coverage; 3Q21 NIM expansion and improving asset quality ([link](#))
- Far East Horizon Limited (3360 HK) – FY21 review: Sequential improvement in NIM and asset quality in 2H21 ([link](#))
- Far East Horizon Limited (3360 HK) – 1Q22 review: Stable and sound development under the “finance + industry” strategy ([link](#))
- Far East Horizon Limited (3360 HK) – Continual NIM expansion in 1H22 ([link](#))

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
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)
<b>Gross profit</b>	<b>14,331</b>	<b>14,966</b>	<b>17,213</b>	<b>18,812</b>	<b>21,840</b>	<b>24,390</b>
<b>Operating expenses</b>	<b>(5,205)</b>	<b>(4,859)</b>	<b>(5,981)</b>	<b>(6,763)</b>	<b>(7,854)</b>	<b>(8,754)</b>
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
<b>Operating profit</b>	<b>9,126</b>	<b>10,106</b>	<b>11,232</b>	<b>12,049</b>	<b>13,985</b>	<b>15,636</b>
Other gains/(losses)	(1,982)	(2,599)	(1,219)	(1,202)	(2,069)	(2,242)
<b>Pre-tax profit</b>	<b>7,145</b>	<b>7,508</b>	<b>10,013</b>	<b>10,846</b>	<b>11,917</b>	<b>13,395</b>
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)
<b>Net profit</b>	<b>4,828</b>	<b>5,033</b>	<b>6,228</b>	<b>6,746</b>	<b>7,412</b>	<b>8,331</b>
Net dividends	1,122	1,164	1,442	1,568	1,733	1,963
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>112,785</b>	<b>145,068</b>	<b>162,802</b>	<b>175,983</b>	<b>193,685</b>	<b>214,110</b>
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
<b>Non-current assets</b>	<b>147,786</b>	<b>154,859</b>	<b>173,078</b>	<b>188,245</b>	<b>202,042</b>	<b>216,220</b>
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
<b>Total assets</b>	<b>260,571</b>	<b>299,927</b>	<b>335,880</b>	<b>364,227</b>	<b>395,727</b>	<b>430,330</b>
<b>Current liabilities</b>	<b>111,210</b>	<b>129,335</b>	<b>156,793</b>	<b>171,283</b>	<b>186,471</b>	<b>203,090</b>
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
<b>Non-current liabilities</b>	<b>107,826</b>	<b>125,324</b>	<b>126,033</b>	<b>136,047</b>	<b>146,896</b>	<b>158,650</b>
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
<b>Total liabilities</b>	<b>219,036</b>	<b>254,660</b>	<b>282,826</b>	<b>307,331</b>	<b>333,367</b>	<b>361,739</b>
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
<b>Total shareholders equity</b>	<b>30,128</b>	<b>34,119</b>	<b>41,523</b>	<b>44,964</b>	<b>49,985</b>	<b>55,729</b>
Minority interest	1,546	2,670	4,017	4,419	4,861	5,347
<b>Total equity and liabilities</b>	<b>260,571</b>	<b>299,927</b>	<b>335,880</b>	<b>364,227</b>	<b>395,727</b>	<b>430,330</b>

<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
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%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
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)	18.0%	17.3%	18.5%	17.7%	17.0%	17.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	7.1	7.1	6.4	6.5	6.4	6.2
Current ratio (x)	1.0	1.1	1.0	1.0	1.0	1.1
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	4.8	4.6	4.0	3.9	3.6	3.1
P/B	0.7	0.6	0.6	0.5	0.5	0.4
ROE%	15.0	14.2	14.6	13.9	14.0	14.2
Net gearing	79.6	81.7	81.0	81.2	80.9	80.6

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

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