

# Far East Horizon Limited (3360 HK)

## Resume coverage; 3Q21 NIM expansion and improving asset quality

FEH released 3Q21 operating data on 21 Oct, stating its operating income/ net profit both grew >20% YoY in 9M21, primarily driven by 1) further QoQ NIM expansion in 3Q21 and 2) continual strong revenue/profit growth from industrial operations, which contributed over 30% of total operating income. Asset quality continued to improve, as the NPA ratio trending down QoQ. We expect a strong growth of industrial operating income to sustain into 4Q21-FY22E, and the expanding new business, i.e. inclusive finance business, will support a stable NIM. **We resume coverage with a BUY rating and TP of HK\$ 12.50.**

- Financial business: NIM expansion and improving asset quality.** FEH saw NIM further expanding QoQ in 3Q21, mostly benefited from lower funding costs on the back of more diversified funding sources. Meanwhile, FEH also achieved sequential improvements on asset quality, as non-performing asset (NPA) ratio trended down QoQ. Looking into 4Q21-FY22E, we expect FEH will continue to allocate more interest-earning assets (IEA) to less cyclical sectors, such as healthcare, cultural & tourism and urban public utility, which will further underpin the robust IEA growth. The expansion in new business lines, i.e. inclusive finance, is as well likely to support a stable NIM.
- Industrial operations: Continual strong growth.** The equipment operations continued to deliver rapid growth of assets and operating income in 3Q21, while the hospital operations achieved steady revenue increases YoY in spite of a higher base in 3Q. Looking into 4Q21-FY22E, we expect the strong income/profit growth of industrial operations to sustain, with continuously improving operating leverage. Progress in capitalizing its industrial operation segments could potentially unlock the FEH's hidden value.
- Resume coverage with a Buy.** Our TP of HK\$ 12.50 is derived from SOTP method, applying 0.7x P/B FY21E to its financial leasing business, 10x P/E FY21E to the industrial operation business with an 20% conglomerate discount. Our TP implies 1.1x P/B FY21E and 8.1x P/E FY21E. FEH is trading at 0.66x FY21E P/B and 4.9x FY21E P/E, at the lower end of its historical trading range.
- Key catalysts:** 1) Spin-off IPO of Horizon Construction Development ("HCD"); 2) Major progress in spin-off restructuring of Horizon Healthcare. **Key risks:** 1) asset quality deterioration; 2) weaker demand for financial business or industrial operation.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	26,856	29,042	35,182	40,672	46,658
YoY growth (%)	5.8	8.1	21.1	15.6	14.7
Net profit (RMB)	4,338	4,576	5,325	6,135	7,275
EPS (RMB)	1.14	1.20	1.28	1.48	1.75
YoY growth (%)	11.4	5.3	6.7	15.2	18.6
Consensus EPS (RMB)	1.13	1.26	1.34	1.54	1.76
P/E (x)	5.5	5.2	4.9	4.2	3.6
P/B (x)	0.8	0.7	0.7	0.6	0.5
Yield (%)	4.7	4.9	5.3	6.1	7.2
ROE (%)	15.0	14.2	14.5	14.7	15.5
Net gearing (%)	79.6	81.7	81.1	80.8	80.4

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$ 12.50
(Previous TP)	HK\$ 11.10)
Up/Downside	66.7%
Current Price	HK\$ 7.50

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### Stock Data

Mkt Cap (HK\$ mn)	31,096
Avg 3 mths t/o (HK\$ mn)	46.61
52w High/Low (HK\$)	9.58/ 7.01
Total Issued Shares (mn)	4,168

Source: Bloomberg

### Shareholding Structure

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

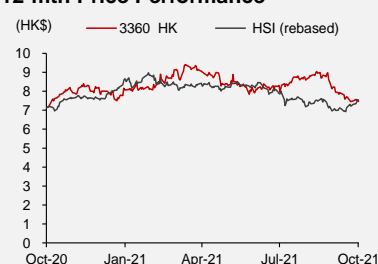
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-7.1%	-14.4%
3-mth	-9.0%	-5.1%
6-mth	-16.8%	-7.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

## SOTP valuation

Our target price of HK\$ 12.50 is derived from SOTP method, applying 0.7x P/B FY21E to its financial leasing business, 10x P/E FY21E to the industrial operation business with an 20% conglomerate discount. Our TP implies 1.1x P/B FY21E and 8.1x P/E FY21E. FEH is trading at 0.66x FY21E P/B and 4.9x FY21E P/E, at the lower end of its historical trading range.

**Figure 1: FEH SOTP valuation**

Item	Valuation method	Assumption	Valuation base	Valuation
BV of FY21E financial business (RMB mn)	P/B	0.71x	56,959	40,206
FY21E net profit of industrial operation (RMB mn)	P/E	10x	1,385	13,847
Subtotal (RMB mn)				54,054
% of conglomerate discount (%)		20%		
HK\$/RMB forex rate		0.83		
Valuation in HK\$				52,100
FY21E WAVG no. of total issued shares (mn)		4,159		
<b>Target price (HK\$)</b>				<b>12.50</b>
Implied FY21E P/B				1.09x
Implied FY21E P/E				8.1x

Source: CMBIS

## 3Q21 results summary

Total operating income and net profits both increased by 20%+ YoY in 9M21. Industrial business generated more than 30% of total operating income.

### Financial business

- Traditional business: IEA grew at a steady pace in 3Q21, with NIM expansion on both QoQ and YoY basis. NPA ratio slightly improved on QoQ basis.
- New business: Continual rapid growth of operating revenue from new business lines, i.e. inclusive finance, PPP investment and operation, overseas financing, asset business and commercial factoring etc.

### Industrial business

- Horizon Construction Development: HCD maintained the leading position in equipment operation service industry, with the continuous expansion of the operating scale and rapid growth of assets and operating income.
- Horizon Healthcare: Operating income grew at 20%+ YoY in 9M21, and operating efficiency continued to improve.

## Financial summary

Income statement						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>26,856</b>	<b>29,042</b>	<b>35,182</b>	<b>40,672</b>	<b>46,658</b>	<b>Revenue mix (%)</b>					
Finance lease, factoring & loans	15,842	16,522	19,884	22,351	24,366	Finance lease, factoring and loans	59	57	57	55	52
Advisory services	4,574	3,836	3,478	3,574	4,140	Advisory services	17	13	10	9	9
Industrial operation	6,521	8,811	11,975	14,925	18,356	Industrial operation	24	30	34	37	39
Less: tax and surcharges	(80)	(127)	(154)	(179)	(205)	Less: tax and surcharges	(0)	(0)	(0)	(0)	(0)
<b>Cost of sales</b>	<b>(12,525)</b>	<b>(14,076)</b>	<b>(17,633)</b>	<b>(20,262)</b>	<b>(23,162)</b>	<b>YoY growth (%)</b>					
<b>Gross profit</b>	<b>14,331</b>	<b>14,966</b>	<b>17,549</b>	<b>20,410</b>	<b>23,497</b>	Revenue	6	8	21	16	15
S&M, G&A exp.	(5,596)	(6,212)	(7,036)	(8,745)	(10,032)	Finance lease, factoring and loans	(2)	4	20	12	9
Finance cost	(461)	(617)	(709)	(511)	(498)	Advisory services	(6)	(16)	(9)	3	16
Other income and expenses	660	1,503	973	1,003	1,018	Industrial operation	44	35	36	25	23
Gains from JVs & associates	192	468	561	645	742	Gross profit	3	4	17	16	15
<b>PPoP</b>	<b>9,126</b>	<b>10,106</b>	<b>11,338</b>	<b>12,803</b>	<b>14,727</b>	PPoP	5	11	12	13	15
Impairment losses	(1,982)	(2,599)	(2,713)	(2,969)	(3,193)	Net profit	10	5	16	15	19
<b>Pre-tax profit</b>	<b>7,145</b>	<b>7,508</b>	<b>8,625</b>	<b>9,835</b>	<b>11,535</b>	Total IEA	(9)	16	17	9	10
Income tax	(2,317)	(2,475)	(2,843)	(3,242)	(3,802)	Total IBL	(6)	25	8	8	8
Holders of perpetual bonds	(511)	(455)	(455)	(455)	(455)	<b>Profitability (%)</b>					
Minority interest	21	(2)	(2)	(3)	(3)	Finance lease, factoring & loans					
<b>Net profit</b>	<b>4,338</b>	<b>4,576</b>	<b>5,325</b>	<b>6,135</b>	<b>7,275</b>	NIM	3.66	3.83	4.00	4.06	4.06
						NIS	2.48	2.85	3.19	3.08	3.03
						Industrial operation					
						Hospital operation GPM	25.5	19.7	23.6	23.7	23.8
						Infrastructure operation GPM	45.7	45.0	45.0	46.0	46.5
						Education operation GPM	1.1	-	-	-	-
						Other operation GPM	79.1	83.0	93.5	94.1	94.8
						Pre-tax margin	26.6	25.9	24.5	24.2	24.7
						Net profit margin	16.2	15.8	15.1	15.1	15.6
						<b>Asset quality (%)</b>					
						NPL ratio	1.11	1.10	1.07	1.11	1.10
						Provision coverage ratio	246	256	256	257	267
						<b>B/S ratios (%)</b>					
						ROE	15.0	14.2	14.5	14.7	15.5
						ROA	1.6	1.6	1.7	1.8	2.0
						Net gearing	79.6	81.7	81.1	80.8	80.4
						<b>Per share (RMB)</b>					
						EPS	1.14	1.20	1.28	1.48	1.75
						DPS	0.30	0.31	0.33	0.38	0.45
						BVPS	7.94	8.58	9.49	10.63	12.00

Source: Company data, CMBIS estimates

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