

Far East Horizon Limited (3360 HK)

FY21 review: Sequential improvement in NIM and asset quality in 2H21

FEH announced its FY21 results and held analyst briefing on 16 March. FY21 net profits grew 20% YoY, translating into 17% YoY growth in 2H21. Pre-provision operating profit (PPoP) increased by 11% YoY in FY21, implying a 6% YoY growth in 2H21. The decent business growth was primarily driven by: 1) YoY and HoH NIM expansion (+23bps YoY and +21bps HoH) on the back of lower funding costs, and 2) continual strong revenue/profit growth from industrial operations, which contributed 34% of total operating income. Asset quality continued to improve on a HoH basis, as the NPA ratio trending down to 1.06% by end FY21 from 1.10% by end 1H21. We expect a strong growth of industrial operating income to sustain over FY22E, and the expanding new business, i.e. inclusive finance business, will support a stable NIM. We reiterate BUY rating.

- Financial business: NIM expansion with improving asset quality.** NIM further expanded by 23bps YoY to 4.06% in FY21, translating into 21bps HoH in 2H21, mostly benefited from lower funding costs on the back of more diversified funding sources. On asset quality front, FEH also saw sequential improvements in both non-performing asset (NPA) ratio and 30+ days overdue ratio, with NPA down 4bps HoH and 30+ days overdue ratio down 3bps HoH to 0.94% at end of FY21. Looking into 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 of Horizon Construction Development (HCD) continued to deliver strong growth of assets and operating income in 2H21, while the hospital operations achieved steady revenue increases YoY in spite of a higher base. Looking into 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 (i.e. spin-off IPO of HCD) could potentially unlock the FEH's hidden value.
- Valuation.** FEH is trading at 0.5x FY22E P/B and 3.6x FY22E P/E, at the lower end of its historical trading range. We think the recent weak share price performance amid macro concerns creates a good entry point, as the long-term growth outlook of the company remain stable. 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)	4,576	5,512	6,159	6,962	7,868
EPS (RMB)	1.20	1.36	1.43	1.61	1.82
YoY growth (%)	5.3	13.4	4.9	13.0	13.0
Consensus EPS (RMB)	1.26	1.34	1.52	1.74	n.a.
P/E (x)	4.6	4.0	3.9	3.4	3.0
P/B (x)	0.64	0.57	0.53	0.47	0.42
Yield (%)	5.5	6.5	6.8	7.7	8.7
ROE (%)	14.2	14.6	14.2	14.6	14.7
Net gearing (%)	81.7	81.0	80.4	80.1	79.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$ 12.50
(Previous TP)	HK\$12.50)
Up/Downside	+100%
Current Price	HK\$ 6.26

China Leasing Sector

Gigi Chen, CFA
(852) 3916 3739
gigichen@cmbi.com.hk

Nika Ma
(852) 3916 0805
nikama@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	25,970
Avg 3 mths t/o (HK\$ mn)	16.83
52w High/Low (HK\$)	9.58/ 5.78
Total Issued Shares (mn)	4,314

Source: Bloomberg

Shareholding Structure

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

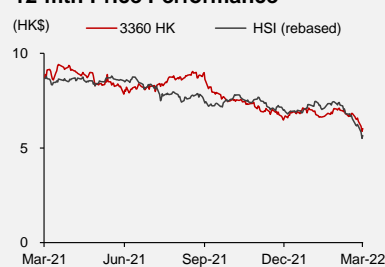
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-16.1%	10.9%
3-mth	-9.3%	15.4%
6-mth	-34.6%	-11.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Financial summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	29,042	33,644	38,210	43,649	48,301
Finance lease, factoring and loans	16,522	19,168	21,199	23,228	25,402
Advisory services	3,836	3,179	3,337	3,891	4,260
Industrial operation	8,811	11,435	13,831	16,710	18,837
Less: tax and surcharges	(127)	(138)	(157)	(179)	(198)
Cost of sales	(14,076)	(16,431)	(19,163)	(21,320)	(23,383)
Gross profit	14,966	17,213	19,047	22,329	24,919
S&M, G&A exp.	(6,212)	(7,878)	(8,024)	(9,166)	(10,143)
Finance cost	(617)	(916)	(1,014)	(1,068)	(1,151)
Other income, gains and expenses	1,503	2,152	1,538	1,555	1,588
Shares of gains from JVs and associates	468	662	761	875	1,006
PPoP	10,106	11,232	12,308	14,525	16,219
Impairment losses	(2,599)	(1,219)	(1,202)	(2,069)	(2,242)
Pre-tax profit	7,508	10,013	11,106	12,456	13,977
Income tax	(2,475)	(3,785)	(4,198)	(4,709)	(5,283)
Holder of perpetual bonds	(455)	(384)	(384)	(384)	(384)
Minority interest	(2)	(332)	(365)	(402)	(442)
Net profit	4,576	5,512	6,159	6,962	7,868

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	8.1	15.8	13.6	14.2	10.7
Finance lease, factoring and loans	4.3	16.0	10.6	9.6	9.4
Advisory services	(16.1)	(17.1)	5.0	16.6	9.5
Industrial operation	35.1	29.8	21.0	20.8	12.7
Gross profit	4.4	15.0	10.7	17.2	11.6
PPoP	10.7	11.1	9.6	18.0	11.7
Net profit	5.5	20.5	11.7	13.0	13.0
Total IEA	15.9	9.7	12.0	9.5	9.5
Total IBL	24.6	12.2	3.0	8.0	8.0
Profitability (%)					
Finance lease, factoring and loans					
NIM	3.83	4.06	4.13	4.22	4.27
NIS	2.85	3.21	3.47	3.40	3.40
Industrial operation					
Hospital operation GPM	19.7	30.9	22.0	22.1	22.2
Infrastructure operation GPM	45.0	67.2	46.0	46.5	46.5
Education operation GPM	-	-	-	-	-
Other operation GPM	83.0	263.9	101.7	103.1	105.3
Pre-tax margin	25.9	29.8	29.1	28.5	28.9
Net profit margin	15.8	16.4	16.1	16.0	16.3

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and restricted cash	15,352	19,899	797	2,535	5,441
Financial assets at FVTPL	9,343	12,760	14,036	15,580	17,294
Loans and receivables	229,397	252,218	283,868	310,907	340,485
Investments in JVs & associates	7,291	7,820	8,211	8,622	9,053
PP&E	16,872	24,531	22,539	21,168	18,748
Other assets	21,672	18,652	20,271	21,796	23,485
Total assets	299,927	335,880	349,724	380,609	414,507
Borrowings	202,292	226,880	233,686	252,381	272,571
Other liabilities	52,368	55,947	58,979	65,413	72,615
Total liabilities	254,660	282,826	292,665	317,794	345,187
Share capital	10,397	13,043	13,043	13,043	13,043
Reserves	23,722	28,480	32,082	37,397	43,416
Shareholders' fund	34,119	41,523	45,125	50,440	56,459
Holder of perpetual bonds	8,478	7,514	7,514	7,514	7,514
Minority interest	2,670	4,017	4,419	4,861	5,347
Total equity	45,267	53,054	57,058	62,815	69,320

Asset quality (%)

NPA ratio	1.10	1.06	1.07	1.09	1.10
Provision coverage ratio	256	249	200	193	189

B/S ratios (%)

ROE	14.2	14.6	14.2	14.6	14.7
ROA	1.6	1.7	1.8	1.9	2.0
Net gearing	81.7	81.0	80.4	80.1	79.7

Per share (RMB)

EPS	1.20	1.36	1.43	1.61	1.82
DPS	0.31	0.36	0.37	0.42	0.48
BVPS	8.58	9.63	10.46	11.69	13.09

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.