

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)

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

China Financials

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

Nika MA
(852) 3900 0805
nikama@cmbi.com.hk

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%

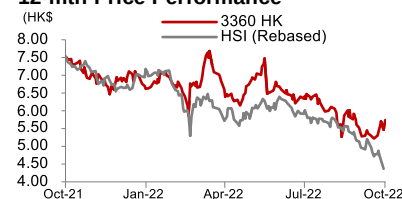
Source: HKEx

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

GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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.

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 CMBIS 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.