

FIRST SPONSOR GROUP LIMITED

Property development, the growth driver

SINGAPORE | REAL ESTATE | 3Q20 UPDATE

28 October 2020

- 80.4% YoY growth in 3Q20 gross profit largely attributable to 246% YoY growth in property development revenue. 9M20 PATMI up 33.4% YoY
- Unrecognised development revenue of S\$599mn. S\$1.93bn of gross development value (GDV) for unlocking, equivalent to six years of sales.
- Enlarged share base from 1:4 bonus issue. Maintain BUY with revised target price of S\$1.56, from S\$1.65 previously; Valuation is based on a 90% diluted basis (previously 100%)

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.280
FORECAST DIV	SGD 0.031
TARGET PRICE	SGD 1.560
TOTAL RETURN	24.3%

COMPANY DATA

BLOOMBERG CODE:	FSG SP
O/S SHARES (MN) :	912
MARKET CAP (USD mn / SGD mn) :	858 / 1168
52 - WK HI/LO (SGD) :	1.39 / 1
3M Average Daily T/O (mn) :	0.02

MAJOR SHAREHOLDERS (%)

REPUBLIC HOT & RES LTD	31.8%
FIRST SPONSOR CAPITAL LTD	31.4%
TAI TAK ASIA PROPERTIES LTD	12.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	4.1	0.9	0.8
STI RETURN	2.3	(1.7)	(15.9)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S\$'000)	FY18	FY19	FY20e	FY21e
Gross Rev	277,361	319,164	255,289	463,787
Gross Profit	161,500	189,035	180,741	277,217
EBITDA	133,707	201,719	179,770	241,739
PATMI	108,467	163,610	137,090	191,226
P/NAV (x)	0.63	0.69	0.58	0.53
P/E (x)	7.66	6.28	7.48	5.36
ROE (%)	8.20	10.23	7.74	9.87

Source: Company, PSR

VALUATION METHOD

RNAV (30% discount)

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Results at a glance

In S\$'000	3Q20	3Q19	YoY	YTD Sept 20	YTD Sept 19	YoY
Revenue	60,055	44,596	34.7%	164,203	169,371	-3.1%
Property development	25,860	7,457	246.8%	48,293	58,455	-17.4%
Property Holding	13,185	18,181	-27.5%	29,966	50,286	-40.4%
Property Financing	21,010	18,958	10.8%	85,944	60,630	41.8%
Gross Profit	51,334	28,448	80.4%	135,404	114,807	17.9%
Profit before Tax	40,392	37,321	8.2%	112,549	99,164	13.5%
PATMI	38,180	33,321	14.6%	96,251	72,178	33.4%
Basic EPS (cents)	4.56	4.00	14.0%	11.49	9.45	21.6%
Diluted EPS (cents)	3.40	3.03	12.2%	8.68	7.73	12.3%

The Positives

+ Robust 3Q20, notwithstanding Covid-19. 3Q20 revenue rose 34.7% YoY, led by more carpark lots sold at its Millennium Waterfront project (Plot A: 1091; Plot C: 882) which have zero carrying book costs. 9M20 topline held up, largely due to a 41.8% YoY increase in property financing revenue. The increase was aided by one-off loan restructuring income of S\$15.5mn and establishment fees from its new development venture in Australia.

+ Better-than-expected property holdings. Its two Wenjiang hotels made a combined gross operating profit of RMB6.7m during the quarter, up 39% YoY. European hotels were mixed. While most of its non-core-city Bilderberg hotels and Bilderberg Bellevue Hotel Dresden in Germany benefited from local leisure demand during summer, its two core-city Bilderberg hotels in Amsterdam and Rotterdam were hit by low corporate demand. Nevertheless, the European hotels made a gross operating profit of €3.9 mn for 3Q20 vis-à-vis -€3.6mn in 1H20.

+ 14.8% YoY DPS growth registered in FY20e. In lieu of a final dividend, FSG has announced a second interim cash DPS of 2.0c for FY20, bringing total DPS declared YTD to 3.1c. This is 14.8% higher than the FY19 full year DPS of 2.7 cents. FSG will work towards a stable dividend payout with a steady growth when appropriate, subject to prevailing market conditions.

The Negatives

- Financial subsidies from governments which cushioned hotel losses to taper off. FSG's European hotels are being supported by subsidies from the German and Dutch governments, which provided a €4.9mn cushion to the hotels' gross operating profits. The Dutch government recently announced Temporary Emergency Measure for the Preservation of Jobs (NOW) 3, which is less generous than NOW 1 and 2. NOW 1 and 2 allowed claims of up to 90% of a company's wage bill, depending on loss of turnover. Under NOW 3, the wage claim is capped at 80% and will be decreased every three months: from 80% to 70% and to 60%.

Mixed outlook due to European hotels

Dongguan still vibrant. The Dongguan property market continues to see overwhelming demand for the residential properties and unwavering strength in the selling prices. Most inventories at FSG's existing projects that were eligible for presales - Star of East River, Emerald of the Orient and the Pinnacle - were sold as of 3Q20. Some properties that are ineligible for presales have also been pre-booked 2-5 years in advance with upfront cash deposits. According to FSG, over 7,000 interested applicants have registered for the presales of 830 units at its upcoming Skyline Garden project. Presales are expected to commence next month. FSG is confident that the units at Skyline Garden will see good buying interest.

Humen TOD project to be the key project from FY21 onwards. Construction work has begun for the first sector of its newly-acquired Humen transit-oriented development project. Sector 1 has a land area of c.46,300 sqm and constitutes c.231,500 sqm of the 1mn sqm GFA project. We are expecting completion of this sector to bring in c.\$220-230mn of gross development value upon handover in 2022/2023 as the progressive launch of this project is expected to commence in the second half of 2021.

Possible Plot E Sale. The company announced it has been approached by an independent third party with regard to Plot E of the Chengdu Millennium Waterfront project. Plot E is expected to comprise three blocks of approximately 2,900 SOHO units and an elder care centre of total 304,300 sq m (includes a hospital building of 69,500 sqm), 91,800 sqm of commercial / retail space and 3,200 underground carpark lots. Upon completion, we are expecting the handover to bring in c.\$630-640mn of gross development value.

Property financing is stable. With regards to FSG's property financing business, its PRC loan book remained steady at RMB2295.3mn. While FSG continues to receive requests for loans, it remains selective as it is looking to pace its loan growth with its property development business.

Hotel woes. As the number of Covid-19 cases in Europe continues to spike, we are less optimistic on its European hotels, even for the ones located away from cities. 3Q20 occupancy at its Bilderberg Bellevue Hotel Dresden was in the mid-70s to high 90s everyday, as it benefitted from being in the countryside. These numbers have since tumbled to the low 60s-70s. At its key Amsterdam and Rotterdam hotels, occupancy was low teens on good days and low single digits on other days. These hotels would be affected when subsidies from the government dwindle in the coming months. We expect some mark-downs in the fair value of the hotels at year end. A 3% decline in hotel investment properties implies a c.\$1.8mn impact on revenue (FY19 hotel revenue: S\$60.8m).

Covid-19 has driven more hotels into liquidation. Some lessees are also looking to return their operating leases. With cash of S\$474.9mn and low net gearing of 0.12x, FSG has the balance-sheet strength to pursue opportunities. In October, it successfully refinanced S\$50.5mn worth of debt and upsized its revolving credit facilities by S\$124.5mn. Coupled with undrawn facilities and potential equity infusions from the exercise of outstanding warrants, FSG is exploring new business opportunities.

Dongguan Projects

- Star of East River *
- Emerald of the Orient *
- The Pinnacle *
- Skyline Garden **
- Humen TOD **

Chengdu Project

Millennium Waterfront

- Plot E **
- Plot F *

*Launched and largely sold

** Not launched/ sold

Figure 1: Millennium Waterfront - Plot E & F



Source: FSG

Maintain BUY with revised TP of S\$1.56. Our target price implies a total potential return of 24.3% and dividend yield of 2.4%. It remains based on a 30% discount to FSG's diluted RNAV per share. Our new TP is based on its enlarged share base after its 1:4 bonus warrant issue announced on 23 July, factored on a 90% diluted basis (1196mn) from 100% previously. Unexercised warrants total 416mn, which increase issued ordinary shares to 1,329mn on a fully diluted basis (1H20: 1,102mn). Based on its current 912mn shares, our TP is S\$2.04.

Figure 2: RNAV estimation

		Valuation (\$mn)
A)	Hotel properties	851
B)	Investment Properties	789
C)	Development Properties	487
D)	Property Financing	361
E)	Other Investments	398
	Interests in associates and joint ventures	308
	East Sun Portfolio	34
	Other equity investments	11
	Other debt investments	40
Total		2886
-	Net Debt	221
FSG VALUATION		2665
	No of shares (mn, 90% diluted basis)	1,196
	Discount	30%
	TP (S\$)	\$1.56

Source: PSR, Company

Financials

Income statement

Y/E Dec, (S\$'000)	FY17	FY18	FY19	FY20e	FY21e
Revenue	384,392	277,361	319,164	255,289	463,787
Cost of sales	(231,360)	(115,861)	(130,129)	(74,548)	(186,570)
Gross Profit	153,032	161,500	189,035	180,741	277,217
Net finance income	8,072	7,230	870	(3,841)	(3,494)
Administrative expenses	(24,146)	(27,997)	(38,206)	(19,951)	(49,930)
Share of profits from JVs and associa	3,648	5,502	71,222	4,051	20,801
Other items	(19,373)	(1,687)	(28,722)	6,635	(13,154)
Profit Before Tax	121,233	144,548	194,199	167,634	231,440
Taxation	(27,940)	(26,298)	(28,623)	(27,603)	(36,111)
Profit After Tax	93,293	118,250	165,576	140,031	195,329
PATMI	88,283	108,467	163,610	137,090	191,226
EBIT	108,151	127,535	191,363	168,534	230,831
EBITDA	113,661	133,707	201,719	179,770	241,739

Per share data

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
NAVPS (S\$)	1.83	2.02	1.97	2.21	2.42
NAVPS (S\$, diluted)	1.83	1.65	1.65	1.70	1.82
EPS (S\$ cents)	13.61	16.72	21.64	17.11	23.87
EPS (S\$ cents, diluted)	13.61	15.02	17.12	11.66	15.87
DPS (S\$ cents)	2.20	2.30	2.70	3.08	3.34
DPS (S\$ cents, diluted)	2.20	2.07	2.14	2.10	2.22

Cash Flow

Y/E Dec, (S\$'000)	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit for the year	93,293	118,250	165,576	140,031	195,329
Adjustments	42,872	(15,948)	(55,097)	76,701	29,711
WC changes	(122,542)	(444,608)	27,838	(11,635)	(123,027)
Cash generated from ops	13,623	(342,306)	138,317	205,097	102,013
Others	23,529	45,577	20,005	1,461	(36,111)
Cashflow from ops	37,152	(296,729)	158,322	206,558	65,903

CFI

Acquisition of subsidiaries	-	-	(156,770)	-	-
Advances to associates (net)	-	-	(86,867)	(194,723)	-
Payment - other investments	-	(3,395)	(357)	(16,097)	-
Payment - additions to PPE	(6,423)	(421)	(37,482)	(14,984)	-
Payment - associates and JVs	(6,187)	(36,778)	(81,242)	(17,971)	-
Others	48,488	61,602	154,632	35,564	24,304
Cashflow from investments	35,878	21,008	(208,086)	(208,211)	24,304

CFF

Advances from associates (net)	13,484	3,009	120,261	72,852	-
Dividends to the owners of FSG	(11,796)	(14,271)	(19,078)	(28,130)	(30,519)
Proceeds from issuance of MTN	-	-	-	100,000	-
Repayment of bank borrowings	(744,192)	(345,950)	(632,633)	(958,820)	-
Proceeds from bank borrowings	766,308	293,551	611,205	903,713	-
Others	(55,260)	148,795	164,773	(524)	(27,798)
Cashflow from financing	(31,456)	85,134	244,528	89,091	(58,316)

Net change in cash	41,574	(190,587)	194,764	87,438	31,890
Cash at the start of the period	280,304	319,298	125,711	313,389	414,599
Currency translation	(2,580)	(3,000)	(7,086)	13,772	13,772
Ending cash	319,298	125,711	313,389	414,599	460,261

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (S\$'000)	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Investment properties	282,634	259,135	94,827	101,069	101,069
Property, plant and equipment	230,844	170,435	345,847	374,410	363,502
Interests in associates and joint	64,361	80,817	298,062	312,655	333,456
Trade and other receivables	284,455	660,948	824,848	897,437	897,437
Others	49,635	130,903	146,842	133,634	133,634
Total non-current assets	911,929	1,302,238	1,710,426	1,819,205	1,829,098
Development properties	390,704	356,890	390,046	487,079	487,079
Trade receivables	445,534	505,887	315,255	535,747	657,479
CCE	319,298	125,711	313,389	414,599	446,489
Inventories	175	215	550	421	548
Others	38,863	90,872	30,830	26,584	26,584
Total current assets	1,194,574	1,079,575	1,050,070	1,464,430	1,618,180
Total Assets	2,106,503	2,381,813	2,760,496	3,283,635	3,447,278
LIABILITIES					
Trade payables	166,093	138,381	307,085	331,861	312,493
ST borrowings	-	45,338	251,220	130,449	352,460
Contract liabilities	177,726	161,279	39,288	344,508	140,697
Others	36,012	45,202	65,663	53,888	53,888
Total current liabilities	379,831	390,200	663,256	860,706	859,538
LT borrowings	609,988	641,390	369,943	504,707	504,707
Others	29,803	26,729	128,708	146,104	146,104
Total non-current liabilities	639,791	668,119	498,651	650,811	650,811
Total liabilities	1,019,622	1,058,319	1,161,907	1,511,517	1,510,349
Net assets	1,086,881	1,323,494	1,598,589	1,772,118	1,936,929
Represented by:					
Share Capital	73,640	81,405	101,251	117,327	117,327
Reserves	1,006,514	1,069,091	1,320,670	1,574,468	1,739,279
Others	6,727	172,998	176,668	80,323	80,323
Total equity	1,086,881	1,323,494	1,598,589	1,772,118	1,936,929

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	0.6	0.6	0.7	0.6	0.5
P/E (x)	7.6	7.7	6.3	7.5	5.4
EV/EBITDA (x)	2.6	23.7	15.2	18.1	14.3

Growth & Margins (%)

Growth					
Revenue		-27.8%	15.1%	-20.0%	81.7%
Gross profit		5.5%	17.0%	-4.4%	53.4%
EBITDA		17.6%	50.9%	-10.9%	34.5%
EBIT		17.9%	50.0%	-11.9%	37.0%

Margins

Gross profit margin	39.8%	58.2%	59.2%	70.8%	59.8%
EBITDA margin	29.6%	48.2%	63.2%	70.4%	52.1%
EBIT margin	28.1%	46.0%	60.0%	66.0%	49.8%

Key Ratios

ROE	8.1%	8.2%	10.2%	7.7%	9.9%
ROA	4.2%	4.6%	5.9%	4.2%	5.5%
Gearing (%)	48.4%	44.4%	42.1%	46.0%	43.8%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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