

**Company Rating:**  
**Unrated**  
**Target price: N/A**

## Far East Global (830 HK) Building Products Industry

### Company visit note

#### Key data

H-share price (HK\$)	2.72
Upside potential (%)	N/A
52Wk H/L(HK\$)	2.99/1.28
Issued shares (mn)	2,156
Market cap (HK\$mn)	5,864
30-day avg daily vol (HK\$mn)	24.0
Auditors	PWC
Major shareholder (%)	
CSCIHL (3311 HK)	74.1

Source: Company & Bloomberg

#### Revenue breakdown by product (%)<sup>1</sup>

USA	51.00
Canada	8.30
Hong Kong and Macau	31.90
China	2.90
APAC & Other	5.90

1: Based on FY2012 results

Source: Company

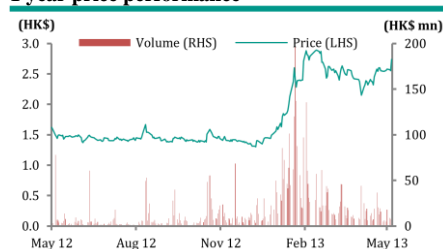
#### Share performance (%)

	Absolute	Relative <sup>1</sup>
1-mth	17.24	10.47
3-mth	-2.51	-2.49
6-mth	90.21	76.73

1: Relative to Hang Seng Index

Source: Bloomberg

#### 1 year price performance



Source: Bloomberg

The share price of Far East Global (“FEG”), an international curtain wall subcontractor, has gone up by 90.21% in 6 months after the acquisition from CSCIHL. After the meeting with the Group, we summarize several key points: 1) strong growth in new contracts from the synergy of CSCIHL; 2) credibility and visibility on earnings improvement under the corporate governance of CSCIHL; and 3) potential transformation from subcontractor to main contractor.

**Expecting strong growth in new contract flow.** China State Con (“CSCIHL”, 3311 HK) injected HK\$647mn capital to strengthen the financial position of the Group. Moreover, FEG leverages on the good market reputation and strong financial position of CSCIHL, as well as becomes easier to obtain new banks’ facilities. All these help enlarge its working capital sources and subsequently will facilitate it to take up more new contracts. During the meeting, FEG reiterates its new contract target of HKD1,800mn, or up 53.01% YoY, in 2013. The Group had unveiled its total new contracts at HKD443mn in 1Q13, vs. nil amount of new contract in 1Q12.

**Positive influence from CSCIHL’s management.** We believe that CSCIHL will help to improve corporate governance of FEG. The new management team of the Group made a one-off provision of HKD180mn in FY2012 and lowered the budgeted GPM for existing projects. The P&L’s enhancement of credibility and visibility will reflect market optimism on the stock.

**Future growth drivers.** By leveraging on the project management experience of CSCIHL and its global sales network, we believe the Group will expand its business boundary from curtain wall subcontractor into main contractor in the future. By vertically integrating the production chain, the competitive edges of FEG will be sharpened as well.

**Risk factors:** Duration on restructuring; Time taken for digesting the businesses acquisition in North America; GPM recovery situation

### Financial Summary

FY ended Dec 31	FY08A	FY09A	FY10A	FY11A	FY12A
Revenue (HKD mn)	1,285	860	867	848	1,296
Chg (%YoY)	N/A	-33.07	0.81	-2.19	52.83
Net Income (HKD mn)	105	74	110	77	(136)
Chg (%YoY)	N/A	-29.52	48.65	-30.00	-276.62
EPS (HKD)	N/A	0.087	0.104	0.068	(0.068)
Chg (%YoY)	N/A	N/A	19.88	-34.50	-199.96
PER (x)	-	-	-	-	-39.81
PBR (x)	-	-	-	-	4.95
Yield (%)	-	-	-	-	-
ROAA (%)	15.01	8.71	13.46	8.09	-10.04
ROAE (%)	42.04	23.09	25.82	14.14	-16.30
Net debt/total equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company

#### Analyst Information

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Previous report  
Date: N/A  
Rating: N/A  
Target price: N/A

*Provision breakdown table for FY2012*

Booked in P&L	Detail of provision	Estimated provision amount (HKD mn)	Percentage to total provision (%)	Percentage to revenue (%)
Other operating expenses	Impairment of trade receivables mainly from the PRC projects	17	9.44	1.31
	One-off restructuring cost for the PRC production center	25	13.89	1.93
	Impairment of goodwill for North America business division	22	12.22	1.70
	Other provision	31	17.22	2.39
Cost of sales	Provision for project cost in Canada, Chile and Greater China	85	47.22	6.56
<b>Total Provision</b>		<b>180</b>	<b>100.00</b>	<b>13.89</b>

Source: Company

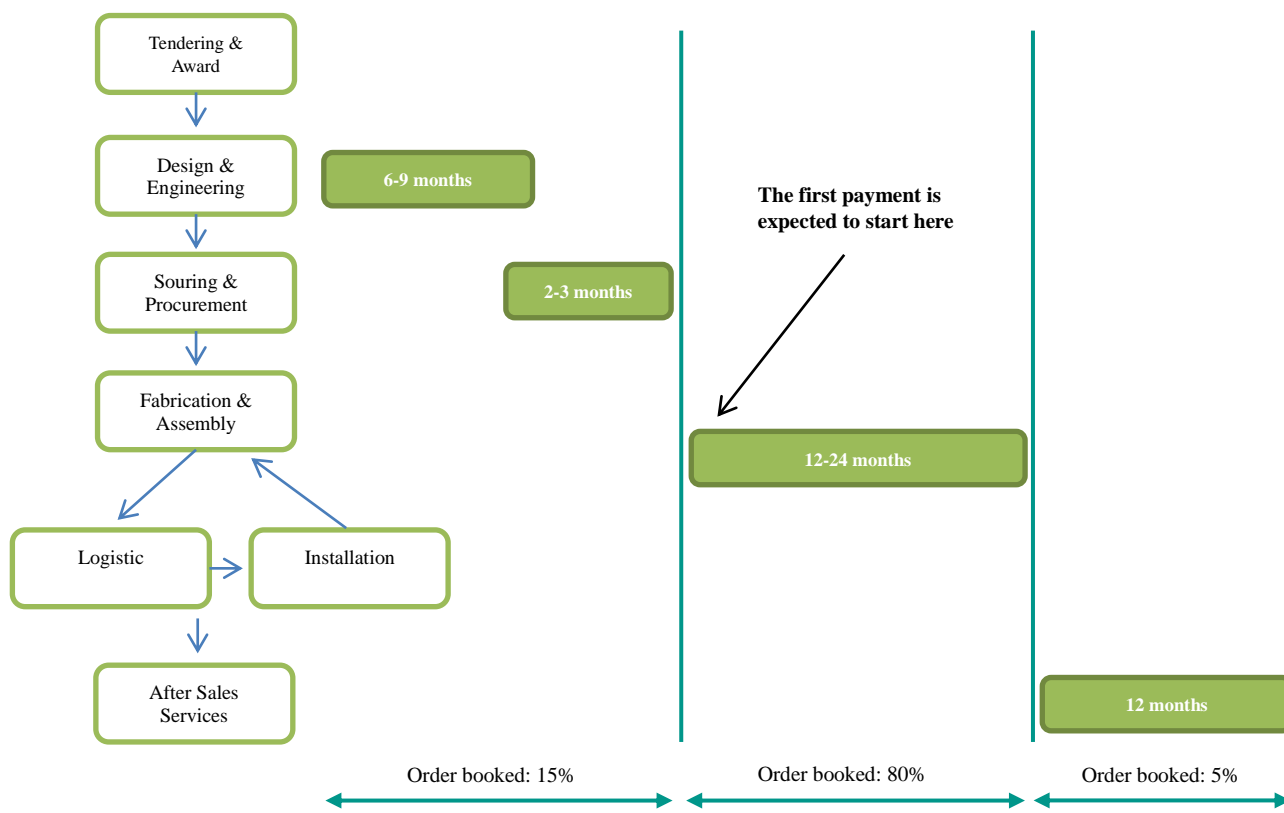
*Profitability of the Group, the parent companies and Yuanda China*

		FY08	FY09	FY10	FY11	FY12	Average <sup>1</sup> (FY08-11)
<b>830 HK</b>	Revenue (HKD mn)	1,285	860	867	848	1,296	0.21%
<b>Far East Global</b>	Gross profit (HKD mn)	253	192	226	195	77	-25.73%
	Net income (HKD mn)	105	74	110	77	-136	N/A
	Gross profit margin (%)	19.69	22.33	26.07	23.00	5.94	19.40
	Net margin (%)	8.17	8.60	12.69	9.08	-10.49	5.61
	ROAA (%)	15.01	8.71	13.46	8.09	-10.04	7.05
	ROAE (%)	42.04	23.09	25.82	14.14	-16.30	17.76
<b>2789 HK</b>	Revenue (Rmb mn)	5,911	7,062	9,261	10,797	11,845	18.98%
<b>Yuanda China</b>	Gross profit (Rmb mn)	1,148	1,657	2,074	2,306	1,958	14.27%
	Net income (Rmb mn)	328	661	806	850	438	7.54%
	Gross profit margin (%)	19.43	23.46	22.40	21.36	16.53	20.63
	Net margin (%)	5.55	9.35	8.70	7.88	3.70	7.04
	ROAA (%)	N/A	12.52	13.05	10.03	3.93	9.88
	ROAE (%)	N/A	59.56	72.36	32.25	10.46	43.66
<b>3311 HK</b>	Revenue (HKD mn)	11,021	9,706	11,983	16,379	19,765	15.72%
<b>China State Con</b>	Gross profit (HKD mn)	1,144	750	1,316	1,798	2,410	20.48%
	Net income (HKD mn)	489	674	1,036	1,507	2,131	44.47%
	Gross profit margin (%)	10.38	7.72	10.98	10.98	12.19	10.45
	Net margin (%)	4.44	6.94	8.65	9.20	10.78	8.00
	ROAA (%)	5.72	5.55	6.10	6.64	6.67	6.13
	ROAE (%)	20.93	22.35	25.49	21.37	18.53	21.73
<b>601668 CH</b>	Revenue (Rmb mn)	194,407	250,346	355,531	472,109	549,459	29.66%
<b>China State Con</b>	Gross profit (Rmb mn)	15,199	21,578	29,648	39,924	47,624	33.05%
	Net income (Rmb mn)	2,746	6,092	9,240	13,900	15,714	54.67%
	Gross profit margin (%)	7.82	8.62	8.34	8.46	8.67	8.38
	Net margin (%)	1.41	2.43	2.60	2.94	2.86	2.45
	ROAA (%)	1.48	2.44	2.66	3.05	2.70	2.47
	ROAE (%)	19.48	13.89	12.36	16.67	16.42	15.77

1: CAGR for revenue, gross profit and net income

Source: Companies, Bloomberg, ABCI Securities

**Projection workflow and estimated duration**



Source: Company

**Project workflow**

The process commencing from the time of tender and award of the contract to installation of the building facade products generally takes between 18 months to two years. This period varies according to a number of factors, including the size of the building facade area and the technical features and complexity of the curtain wall system. The design, engineering and testing stage generally takes between 6 to 9 months. The work to be carried out in next 2 to 3 months involves the procurement of materials, fabrication and assembly of such materials in the Shenzhen Production Facilities and the delivery of the fabricated products to the project work sites. Installation requires approximately 12 to 24 months before the project is completed and handed over to the client. And the after sales services is expected to be 12 months started right after the completion of installation.

The Group is expected to receive no down payment from the project owner. The first payment is expected to receive from the project owner in 1 to 1.5 month after the first batch of installation. 5% of the total project size will be retained as performance retention expected to be collected gradually in a year.

Under the percentage of completion method, for a project lasting for 48 months, we estimate that the Group manages to book 15% on total project size during the 1<sup>st</sup> 12 months, and 80% will be booked during the 2<sup>nd</sup> and the 3<sup>rd</sup> 12 months. The rest of 5% will be booked in the 4<sup>th</sup> 12 months.

### Financial highlights of the Group

(HKD mn)	1H11	2H11	FY11	1H12	2H12	FY12	1H12 (% YoY)	2H12 (% YoY)	FY12 (% YoY)
<b>Revenue</b>	<b>367</b>	<b>481</b>	<b>848</b>	<b>569</b>	<b>727</b>	<b>1,296</b>	55.04	51.14	52.83
North America	185	259	444	370	399	769	99.95	54.21	73.29
Greater China	137	119	255	151	300	451	10.86	152.40	76.69
Others	46	104	149	48	29	76	5.03	-72.37	-48.77
<b>Gross Profit</b>	<b>108</b>	<b>87</b>	<b>195</b>	<b>18</b>	<b>59</b>	<b>77</b>	-83.33	-32.18	-60.51
<b>GPM (%)</b>	<b>29.43</b>	<b>18.09</b>	<b>23.00</b>	<b>3.16</b>	<b>8.12</b>	<b>5.94</b>	-26.26ppts	-9.97ppts	-17.05ppts
North America	24.90	21.47	22.90	14.50	3.90	9.00	-10.40ppts	-17.57ppts	-13.90ppts
Greater China	28.70	17.74	23.60	-22.60	11.11	-0.20	-51.30ppts	-6.62ppts	-23.80ppts
Others	49.30	10.38	22.24	-4.20	37.51	11.44	-53.50ppts	27.13ppts	-10.81ppts
General administrative cost	(46)	(59)	(105)	(91)	(107)	(198)	97.83	81.36	88.57
As percentage of revenue (%)	12.53	12.27	12.38	15.99	14.72	15.28	3.46ppts	2.45ppts	2.90ppts
<b>Operating profit (loss)</b>	<b>63</b>	<b>28</b>	<b>91</b>	<b>(72)</b>	<b>(47)</b>	<b>(119)</b>	-214.29	-267.86	-230.77
<b>Operating profit margin (%)</b>	<b>17.17</b>	<b>5.82</b>	<b>10.73</b>	<b>-12.65</b>	<b>-6.46</b>	<b>-9.18</b>	-29.82ppts	-12.29ppts	-19.91ppts
<b>Pretax profit (loss)</b>	<b>67</b>	<b>22</b>	<b>89</b>	<b>(171)</b>	<b>(10)</b>	<b>(181)</b>	-355.22	-145.45	-303.37
Income tax	(11)	2	(9)	6	20	26	-154.55	900.00	-388.89
<b>Net profit (loss)</b>	<b>56</b>	<b>24</b>	<b>80</b>	<b>(165)</b>	<b>10</b>	<b>(155)</b>	-394.64	-58.33	-293.75
Minority interest	3	0	3	(14)	(5)	(19)	-566.67	N/A	-733.33
<b>Net profit (loss) to equity owners</b>	<b>56</b>	<b>21</b>	<b>77</b>	<b>(165)</b>	<b>29</b>	<b>(136)</b>	-394.64	38.10	-276.62
<b>Net profit margin (%)</b>	<b>15.26</b>	<b>4.37</b>	<b>9.08</b>	<b>-29.00</b>	<b>3.99</b>	<b>-10.49</b>	-44.26ppts	-0.38ppts	-19.57ppts

Source: Company

### Consolidated balance sheets forecast

As of Dec 31 (HKD mn)	FY10A	FY11A	FY12A
<b>Current assets</b>	<b>750</b>	<b>695</b>	<b>1,260</b>
Cash and equivalent	447	127	340
Trade and bill receivables	64	138	181
Retention receivables	108	170	180
Construction contract due from	86	196	442
Inventories	0	5	7
Other current assets	45	59	110
<b>Non-current assets</b>	<b>82</b>	<b>376</b>	<b>377</b>
Property, plant and equipment	33	114	160
Intangible assets	-	206	169
Long term investments	48	55	42
Other non-current assets	1	1	6
<b>Total assets</b>	<b>832</b>	<b>1,071</b>	<b>1,637</b>
<b>Current liabilities</b>	<b>311</b>	<b>392</b>	<b>454</b>
Trade and bill payables	52	97	183
Construction contract due to	133	90	87
Receipts in advance	-	-	32
Short term borrowings	-	63	24
Other current liabilities	126	142	128
<b>Non-current liabilities</b>	<b>-</b>	<b>51</b>	<b>54</b>
Trade and bill payables	-	-	-
Long term borrowings	-	28	27
Other non-current liabilities	-	79	81
<b>Total liabilities</b>	<b>311</b>	<b>443</b>	<b>508</b>
<b>Minority interests</b>	<b>7</b>	<b>53</b>	<b>35</b>
<b>Shareholders' equities</b>	<b>514</b>	<b>575</b>	<b>1,094</b>

Source: Company

### Consolidated cash flow statements forecast

FY ended Dec 31 (HKD mn)	FY10A	FY11A	FY12A
<b>Profit before tax</b>	<b>137</b>	<b>89</b>	<b>(181)</b>
Depreciation and amortization	7	17	54
Change in working capital	(97)	(156)	(247)
Income tax paid	(33)	(14)	(10)
Interest received	1	3	5
Others	-	-	-
<b>CF Operating<sup>1</sup></b>	<b>26</b>	<b>(59)</b>	<b>(350)</b>
Increase in PP&E	(2)	(98)	(65)
Increase in intangible assets	-	(208)	-
Other	(17)	50	63
<b>CF Investing<sup>2</sup></b>	<b>(19)</b>	<b>(256)</b>	<b>(2)</b>
Capital injection	321	1	647
Net debt financing	-	91	(40)
Dividend paid	(239)	(16)	-
Interest paid	-	(1)	(3)
Others	(41)	(41)	(3)
<b>CF Financing<sup>3</sup></b>	<b>41</b>	<b>34</b>	<b>601</b>
<b>Net change in cash</b>	<b>48</b>	<b>(281)</b>	<b>249</b>
Cash at the beginning	373	447	127
Effect of foreign exchange rate	26	(39)	(36)
<b>Cash at the end</b>	<b>447</b>	<b>127</b>	<b>340</b>

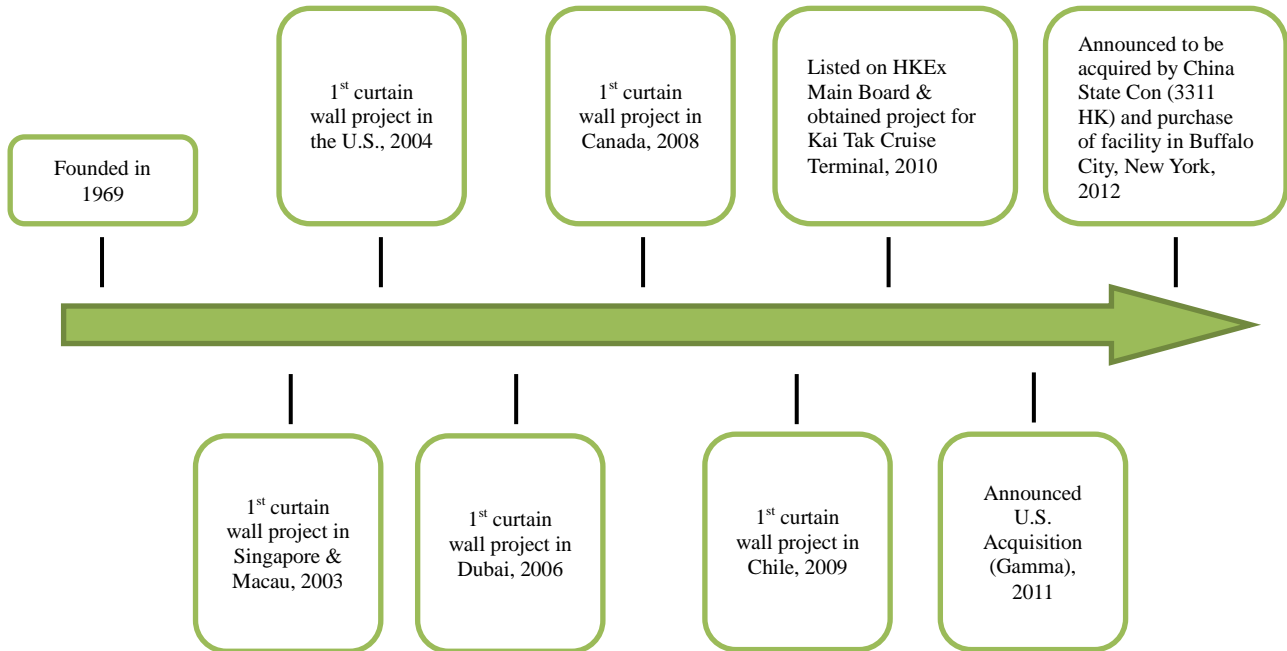
1: the operating cash flow is including interest received

2: the investing cash flow is excluding interest received

3: the financing cash flow is including interest paid

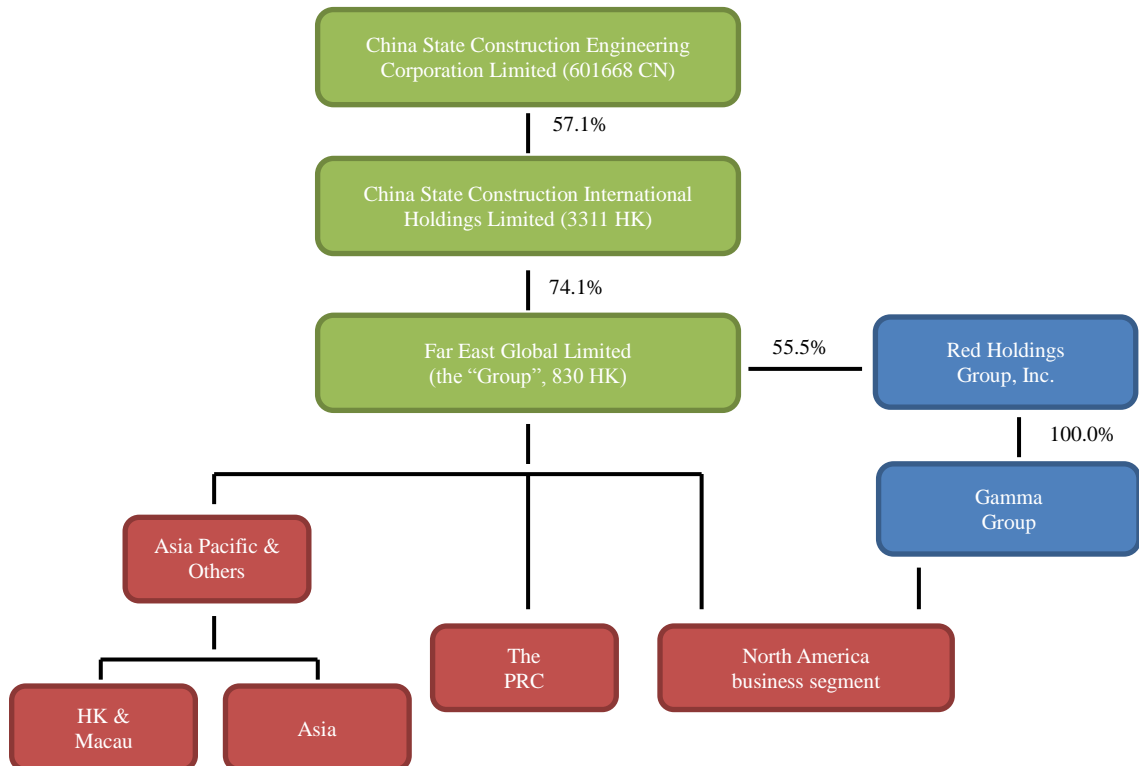
Source: Company

**Corporate milestones**



Source: Company

**Corporate Structure**



Source: Company

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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