

FIRST SPONSOR GROUP LIMITED

Property Development outlook turns positive

SINGAPORE | REAL ESTATE | 1H22 RESULTS

- 1H22 profit of \$71.3mn was above our estimates, at 60.5%. The beat came from Property Holding (PH).
- Housing policy relaxation measures in Dongguan drove sales higher. Sales accelerated in the 1.5 months after the implementation of the relaxation measures.
- RMB271.6mn (S\$55mn) in net auction proceeds recovered from RMB330mn in defaulted loans. The potential disposal of Pudong Mall, which we estimate in FY23 could see a further recovery of the defaulted loans.
- Upgrade to ACCUMULATE from NEUTRAL with unchanged SOTP target price of S\$1.39. Catalysts for a TP upgrade are a recovery in the Chinese property market and its China hotel portfolio.

Results at a glance

S\$'mn	1H22	1H21	YoY	Comments
Revenue	115.3	156.8	-26.5%	Results below, driven mainly by Property Development.
- Property Development	21.1	81.1	-74.0%	Below, due mainly to weaker buyer's sentiment in 1Q22.
- Property Holding	54.9	21.2	159.0%	Above, RevPAR above expectations.
- Property Financing	39.3	54.5	-27.9%	In-line. Lower from repayments.
PRC PF loan book as at	277.0	703.0	-60.6%	In-line. Decline attributed to accelerated repayments from its customers
Profit after tax	70.8	68.5	3.4%	Above, driven by Property Holding
Diluted EPS (SG cents)	5.38	5.20	3.5%	
Gearing ratio (x)	0.18	0.49	-63.3%	Lowered due to repayment of bank borrowings.

Source: PSR, Company data

The Positives

+ 1H22 profit of \$71.3mn above our estimates, at 60.5%. The beat came from PH. PH's profit was driven by the acquisition of the Dutch Bilderberg hotel portfolio it acquired on 2 May 2022 and the overall improvement in RevPAR of its hotel portfolio due to fewer Covid-19 restrictions. All of its hotel properties reported positive profits for 1H22. Interim dividend of 1.1 Singapore cents was in-line with our forecasts.

+ Housing policy relaxation measures in Dongguan drove sales higher. Buyer sentiment in the Dongguan residential market improved after two rounds of housing policy relaxation by the local municipal authorities in May 2022. 190 residential units of its project in Time Zone were sold in 1.5 months after relaxation measures were announced. This was significantly higher than the 139 residential units sold in the first 4.5 months of 2022. We believe this bodes well for the two residential projects it has targeted to launch in 2H22, the Hefu project and Phase 1.2 of its Time Zone development, both in Dongguan.

+ RMB271.6mn in net auction proceeds recovered from RMB330mn in defaulted loans. The Group recovered a portion of the proceeds in April 2022 from the mortgaged properties (Figure 2). The estimated net proceeds of RMB271.6mn however, is insufficient to cover the outstanding loan principal, default and penalty interest and other fees, resulting in an estimated shortfall of RMB160.4mn, with a book exposure of RMB112.8mn left to be collected. The Group will continue to pursue the shortfall via the court process. In other words, if the Group fails to recover such an amount, the negative P&L impact on the Group would be RMB112.8mn.

4 August 2022

ACCUMULATE (Upgraded)

LAST CLOSE PRICE	SGD 1.240
FORECAST DIV	SGD 0.035
TARGET PRICE	SGD 1.390
TOTAL RETURN	14.9%

COMPANY DATA

BLOOMBERG CODE:	FSG SP
O/S SHARES (MN) :	913
MARKET CAP (USD mn / SGD mn) :	964 / 1279
52 - WK HI/LO (SGD) :	1.44 / 1.08
3M Average Daily T/O (mn) :	0.03

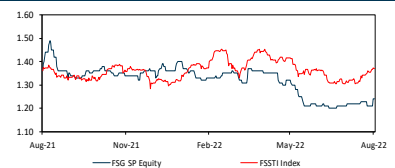
MAJOR SHAREHOLDERS (%)

REPUBLIC HOT & RES LTD	31.7%
FIRST SPONSOR CAPITAL LTD	31.4%
TAI TAK ASIA PROPERTIES LTD	12.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.7)	11.0	8.5
STI RETURN	1.7	9.4	13.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$'000)	FY20	FY21	FY22e	FY23e
Gross Rev	203,936	589,170	407,558	274,098
Gross Profit	171,906	241,316	154,284	111,953
EBITDA	143,423	217,064	172,076	104,669
PATMI	103,174	121,469	107,646	59,920
P/NAV (x)	0.68	0.57	0.55	0.54
P/E (x)	10.36	9.35	10.55	18.95
ROE (%)	5.90	6.14	5.21	2.84

Source: Company, PSR

VALUATION METHOD

SOTP (20% discount)

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Figure 2: Update on the RMB330mn PRC defaulted loans

(RMB'mn)	Pudong Villa - RMB50mn	Pudong Mall – RMB280mn	Total RMB330mn defaulted loan
Gross proceeds	127.8	281.9	409.7
Less: Expected deductions	(70.3)	(67.8)	(138.1)
Estimated net auction proceeds	57.5	214.1	271.6
Outstanding debt (Principal + Interest)	64.1	367.9	432.0
Estimated shortfall	(6.6)	(153.8)	(160.4)
Book exposure to borrowers	0	(112.8)	(112.8)

Source: Company, PSR

Potential recovery from the disposal of Pudong Mall. The legal title of the Pudong Mall as well as net auction proceeds of the Pudong Villa are expected to be transferred to the Group in 3Q22. As the Group managed to win the title of the mall through an auction process, we believe there is upside to the valuation of the mall at the end of the year when a valuation is done. We believe the Group will attempt to divest the mall to recover the shortfall, which we estimate to be in FY23e.

The Negatives

- **Primus Bay residential apartment blocks receive muted response at launch.** The pre-sales for the three residential blocks in Panyu, Guangzhou, with 177 units was launched on 26 May this year, with only 11% of the units sold as the weak macro backdrop weighed on sales. ASP of RMB26,200/sqm is on the lower end of the spectrum, but we expect pricing to remain stable as the Group will launch the smaller units in 2H22, which should support pricing.

- **Potential impairment of hotels in 2H22 as rates soar.** With inflation rates in Netherlands (+8.6% YoY) and Germany (+7.5% YoY) soaring in June and July respectively, management has guided for potential impairments arising from higher rates. The ECB recently raised rates for the first time in 11 years, with a larger than expected rise of 50bps. That said, we expect the impairments, if any, to be offset partially by the continued recovery of RevPAR and occupancy in Europe.

Outlook

Property outlook in China continues to be uncertain. Falling property prices in China have resulted in a slowdown in demand. Some developers have also resorted to lowering prices to clear inventory, adding to the downward pressure in the property sector. New home prices fell 7.2% YoY in June, bringing the YTD decline to ~42% as sentiment remained weak.

However, there are signs that the Chinese government may be shoring up support for its property market. Management guided that the banks have started lending aggressively in 1H22, which caused its customers to re-finance its rates with the banks instead. This has caused a more rapid repayment of its loan book in 1H22. Buying sentiment in the Dongguan residential property market has improved after two rounds of housing policy relaxation by the local municipal authorities in May 2022. On 4 July, a further round of relaxation measures was implemented, which we believe bodes well for the properties it will launch in 2H22.

In 2H22, we expect the Company to launch the Hefu project (Dongguan), Time Zone development (Dongguan) and Plot E1 of Millennium Waterfront project (Chengdu).

Strong balance sheet to capitalise on new opportunities. FSG is backed by a strong balance sheet, substantial unutilised committed credit facilities and potential equity infusion from the exercise of outstanding warrants. Its gearing improved to 0.18x in 1H22 vs. 0.38x for FY21, as it realised a substantial infusion of cash ~S\$258mn in PRC loan repayment during the period. We continue to model for these repayments to continue in FY22e and FY23e against the banks more aggressive lending policy. All of this will further strengthen the cash resources of the Group and enable it to capitalise on any new business opportunities when they arise.

Dongguan projects

- Star of East River *
- Emerald of the Orient *
- The Pinnacle *
- Skyline Garden *
- Humen TOD **
- Fenggang **
- New Humen (NEW)

Chengdu project

Millennium Waterfront

- Plot E **
- Plot F *

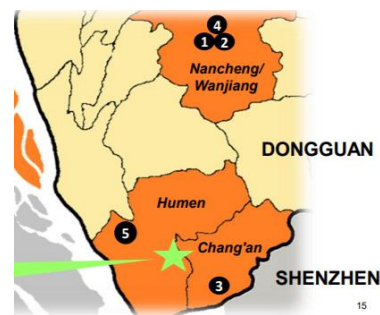
Guangzhou project

- Panyu **

* Launched and largely sold

** Not launched/ sold

Figure 1: New Humen project



Source: FSG

Upgrade to ACCUMULATE from NEUTRAL with unchanged SOTP-TP of S\$1.39. We view the latest round of relaxation property relaxation measures in Dongguan positively. We believe the relaxation measures will provide support for the upcoming projects the Group will launch in 2H22. Catalysts for a TP upgrade are a recovery in the Chinese property market and its China hotel portfolio.

Financials
Income statement

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22e	FY23e
Revenue	319,164	203,936	589,170	407,558	274,098
Cost of sales	(130,129)	(32,030)	(347,854)	(253,274)	(162,144)
Gross Profit	189,035	171,906	241,316	154,284	111,953
Net finance income	870	(3,588)	(9,804)	(9,687)	(9,546)
Administrative expenses	(38,206)	(28,726)	(36,138)	(43,731)	(29,411)
Share of profits from JVs and associates	71,222	(12,373)	11,075	59,973	11,822
Other items	(28,722)	(1,607)	(3,854)	(10,321)	(6,942)
Profit Before Tax	194,199	125,612	202,595	150,517	77,877
Taxation	(28,623)	(24,501)	(72,350)	(37,629)	(19,469)
Profit After Tax	165,576	101,111	130,245	112,888	58,408
PATMI	167,088	103,174	121,469	107,646	59,920
EBIT	194,841	131,263	203,623	154,962	88,935
EBITDA	205,197	143,423	217,064	172,076	104,669

Per share data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAVPS (S\$)	1.97	1.83	2.16	2.26	2.30
NAVPS (S\$, diluted)	1.65	1.70	1.78	1.85	2.85
EPS (S\$ cents)	21.64	11.97	13.26	11.75	6.54
EPS (S\$ cents, diluted)	17.12	8.87	10.21	9.44	10.44
DPS (S\$ cents)	2.70	3.10	3.45	3.29	1.83
DPS (S\$ cents, diluted)	2.14	2.30	2.55	2.64	2.92

Cash Flow

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit for the year	165,576	101,111	130,245	112,888	58,408
Adjustments	(55,097)	120,193	33,896	(597)	(1,751)
WC changes	27,838	(18,512)	(277,398)	(134,166)	231,182
Cash generated from ops	138,317	202,792	(113,257)	(31,871)	294,761
Others	20,005	(32,947)	(39,654)	(16,058)	-
Cashflow from ops	158,322	169,845	(152,911)	(49,614)	294,761
CFI					
Acquisition of subsidiaries	(156,770)	(5,037)	(241,867)	-	-
Advances to associates (net)	(86,867)	(216,620)	(4,155)	-	-
Payment - other investments	(357)	(16,097)	-	-	-
Payment - additions to PPE	(37,482)	(16,496)	(7,867)	-	-
Payment - associates and JVs	(81,242)	(18,027)	(13,353)	-	-
Others	154,632	32,176	77,863	21,911	22,686
Cashflow from investments	(208,086)	(240,101)	(189,379)	21,911	22,686
CFF					
Advances from associates (net)	120,261	73,329	120,807	-	-
Dividends to the owners of FSG	(19,078)	(22,855)	(28,386)	(30,141)	(16,778)
Proceeds from issuance of MTN	-	100,000	-	-	-
Repayment of bank borrowings	(632,633)	(1,222,658)	(941,492)	(130)	(20)
Proceeds from bank borrowings	611,205	1,274,264	1,007,381	-	-
Others	164,773	16,952	(29,819)	(22,996)	8,262
Cashflow from financing	244,528	219,032	128,491	(53,267)	(8,536)
Net change in cash	194,764	148,776	(213,799)	(82,442)	307,732
Cash at the start of the period	125,711	313,389	476,304	343,967	261,525
Currency translation	(7,086)	14,139	-	(11,506)	-
Ending cash	313,389	476,304	262,505	250,019	569,257

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE and IP	440,674	469,324	481,262	470,888	460,817
Interest in assoc and JVs	298,062	549,943	1,027,535	1,087,168	1,098,954
Others	971,690	862,040	777,395	777,395	777,395
Total non-current assets	1,710,426	1,881,307	2,286,192	2,335,508	2,337,214
Development properties	390,046	530,542	704,679	754,007	806,787
Trade receivables	315,255	482,401	946,133	1,020,682	776,743
CCE	313,389	476,304	343,932	261,525	569,258
Inventories	550	394	376	406	439
Others	30,830	53,633	22,203	22,203	22,203
Total current assets	1,050,070	1,543,274	2,017,323	2,075,090	2,189,094
Total Assets	2,760,496	3,424,581	4,303,515	4,410,597	4,526,307

LIABILITIES

Trade payables	307,085	348,603	840,864	831,439	861,124
ST borrowings	251,220	124,560	151,158	151,028	151,008
Contract liabilities	39,288	372,236	173,904	173,199	183,591
Others	65,663	49,432	101,315	101,315	101,315
Total current liabilities	663,256	894,831	1,267,241	1,256,981	1,297,038
LT borrowings	369,943	615,012	937,749	937,749	937,749
Others	128,708	167,419	116,448	116,448	116,448
Total non-current liabilities	498,651	782,431	1,054,197	1,054,197	1,054,197
Total liabilities	1,161,907	1,677,262	2,321,438	2,311,178	2,351,235

Represented by:

Share Capital	101,251	117,329	118,357	118,357	118,357
Reserves	1,320,670	1,553,818	1,744,725	1,827,472	1,869,102
Others	176,668	76,172	115,772	120,629	120,629
Total equity	1,598,589	1,747,319	1,978,854	2,066,458	2,108,088

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	0.6	0.7	0.6	0.5	0.5
P/E (x)	5.7	10.4	9.4	10.6	19.0
Dividend yield (%)	2.2	2.5	2.8	2.7	1.5

Growth & Margins (%)

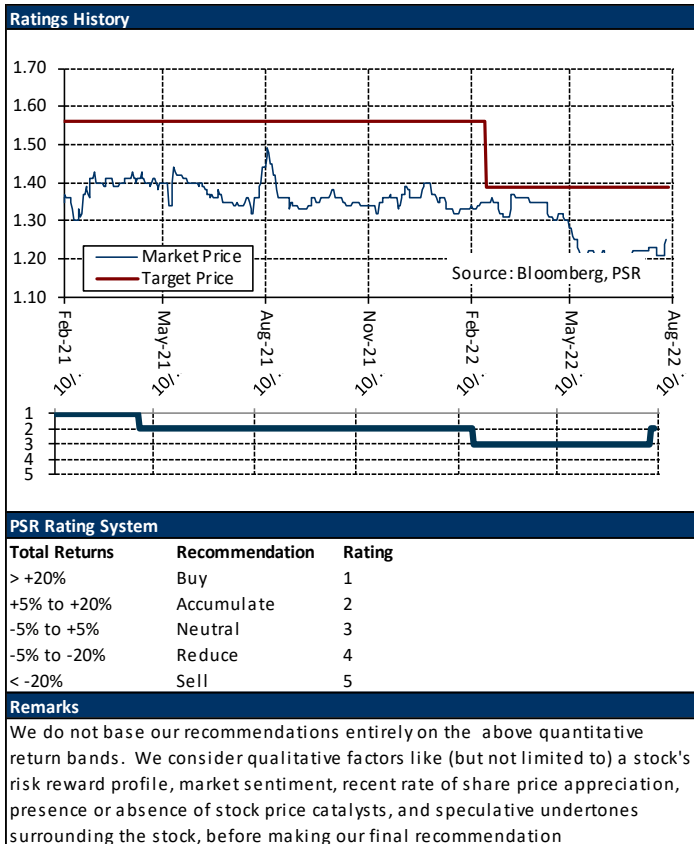
Growth					
Revenue	15.1%	-36.1%	188.9%	-30.8%	-32.7%
Gross profit	17.0%	-9.1%	40.4%	-36.1%	-27.4%
EBITDA	48.4%	-30.1%	51.3%	-20.7%	-39.2%
EBIT	47.5%	-32.6%	55.1%	-23.9%	-42.6%

Margins

Gross profit margin	59.2%	84.3%	41.0%	37.9%	40.8%
EBITDA margin	64.3%	70.3%	36.8%	41.3%	37.2%
EBIT margin	61.0%	64.4%	34.6%	38.0%	32.4%

Key Ratios

ROE	10.5%	5.9%	6.1%	5.2%	2.8%
ROA	6.1%	3.0%	2.8%	2.6%	1.4%
Net Gearing	19.3%	15.1%	37.6%	40.1%	24.6%



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