



# First Sponsor Group Limited

(FSG SP/FSCA.SI)

## Not Rated

Price as of 29 Aug 2017	1.380
12M target price (S\$)	na
Previous target price (S\$)	na
Upside, incl. div (%)	na

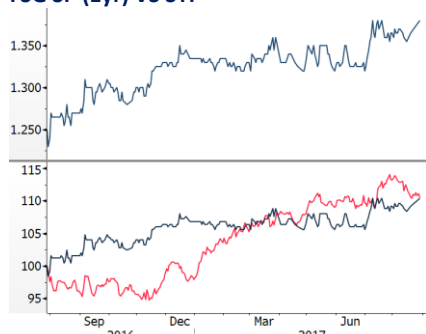
## Trading data

Mkt Cap (S\$m) / (US\$m)	814 / 602
Issued Shares (m)	590
Ave Daily Traded (3-Month) Vol / Val	0.1m / \$0.1m
52 week lo / hi	\$1.26 / \$1.40
Free Float	16.5%

## Major Shareholders

First Sponsor Capital	44.2%
M&C Hospitality Internat	35.9%

## FSG SP (1yr) VS STI



Source: Bloomberg

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## Further inroads into the Netherlands to capture growth

### Event

First Sponsor Group (FSG), a property developer for a mixed development project in Chengdu, China, has made further inroads into the Netherlands' property market with recent acquisitions. The group also owns commercial and hotel properties in China.

### Impact

**Residential project in Chengdu almost fully sold.** The project is part of its Millennium Waterfront which has sold 99% of the aggregate 7,302 residential units as at end 2Q17. The project has also sold 71% of its 371 commercial units. We project that about S\$489 million in revenue could be recognised in the next few years upon progressive handover of the units to the buyers, based on a RMB/SGD exchange rate of 4.90.

### Probable recovery of S\$43.2 million in interest income from financing business.

FSG provides third-party property financing in China through its subsidiary, Shanghai Sigma, generating lucrative interest income at up to 24% per annum. Some of the loans have been in default since Dec 2015, which led to a cessation of income recognition. We deem that FSG is likely to recover default interests of S\$26.0 million in FY2017F. A recovery of another S\$17.2 million in default interests pending foreclosure procedures is expected by FY2018F.

### Riding on booming hospitality market in Netherlands with Bilderberg acquisition.

Bilderberg operates a chain of hotels that are in key gateway cities such as Amsterdam, Rotterdam and The Hague. FSG had acquired the hotel portfolio for a sum of €205.0 million at an EBITDA yield of 6.5%. The recent acquisition is seen as a positive step in capturing growth opportunities in the booming Dutch hotel industry, which continues to enjoy positive RevPar growth since 2010. We opined the acquisition is a fair price as many other listed European hotel peers are trading at an EBITDA yield range of 4.6% – 6.3%.

### Valuation & Action

Based on our SOTP valuation, we ascribe a fair value of S\$1.62 on a 25% discount to RNAV, implying a 18% upside to its current share price. We do not have a rating on the stock.

### Risks

Key risks could arise from sharp fall in home prices in China; FX risks arising from RMB and Euro; inability to recover principal and interests from defaulted loans.

### Financials & Key Operating Statistics

YE Dec SGD mn	2014	2015	2016
Revenue	153	215	190
PATMI	22	67	113
Core PATMI	21	68	18
Core EPS (SGD cents)	4.23	11.5	3.0
EPS growth (%)	(71.3)	170.7	(73.4)
Div Yield (%)	0.6	1.2	1.4
NAV (SGD)	1.78	1.65	1.74
Price / Book (x)	0.8	0.8	0.8
Net Margin (%)	14.2	31.3	59.6
Net Debt/Equity (%)	(5)	37	7
ROE (%)	3.2	7.2	11.3

Source: Company Data, KGI Research

See the last page for important disclosures.

**No visible impact from bearish outlook for Chengdu residential market**

FSG still has two plots of land (E and F) that are untapped in the remaining phase for Millennium Waterfront Project. As these two plots of land are designated as commercial land, FSG is not likely to be impacted by outlook for Chengdu residential market, which could be poised for cooldown as the government plans to ramp up residential land supply from 2017 to 2021 according to the land supply plan by the Chengdu Municipal Bureau of Land. Meanwhile, the group has ruled out building SOHO units in those two plots and is assessing further development feasibility.

**Figure 1: Development progress of Millennium Waterfront Project, Chengdu**


Source: Company presentation

**Financing business**

The group encountered its first problematic loans, which typically have a LTV ratio of not more than 60%, by the start of FY2016 since the inception of the property inception business in 2011. Following auction proceedings on the pledged properties, which still retain most of their values, FSG would be able to recover the bulk of outstanding loan principals (S\$570m) and accrued interests (S\$43.2m) over FY17-FY18F period.

**Figure 2: Status of problematic loans - most of which had successful foreclosures**

Loan No.	Date of First Disbursement	Date of Maturity	Principal (RMB'm)	Court	Status	Applicable Interest rate p.a. (%)	Loan to Value ratio (%) <sup>(a)</sup>	Interest yet to be Recognised (S\$m <sup>1</sup> net of VAT)	
								As of 30-6-2017	FY2017 Monthly
1	<b>Case 1</b> (In default when interest due was not received on 21-Dec-15)		170.0	Shanghai First Intermediate Court	Foreclosure procedures suspended pending criminal proceeding involving a subsidiary of the borrower	24% (30.4% from 5-Aug-16)	48.0% (Adj. LTV: 68.6%) <sup>(b)</sup>	14.0	0.9
2.1	<b>Case 2 (c)</b> (In default when interest due was not received on 21-Jan-16; all loans under Case 2 were cross-collateralized.)		70.0		All rulings have become effective and the court has commenced the foreclosure procedures	24% (30.4% from 4-Jan-17)	22.5% (Adj. LTV: 31.1%) <sup>(b)</sup>	5.1	0.3
2.2			60.0		24% (30.4% from 8-Nov-16)	4.5		0.3	
2.4			64.0		24% (30.4% from 5-Dec-16)	4.7		0.3	
2.5			60.0		24% (30.4% from 28-Nov-16)	4.5		0.3	
2.6			67.0		24% (30.4% from 29-Nov-16)	5.0		0.3	
2.7			29.0			2.2		0.1	
2.8			50.0		Shanghai Second Intermediate Court	Court arranged settlement reached		24%	3.2
<b>Case 2 Subtotal</b>			400.0				29.2	1.6	
<b>Total (Case 1 + Case 2)</b>			570.0				43.2	2.5	

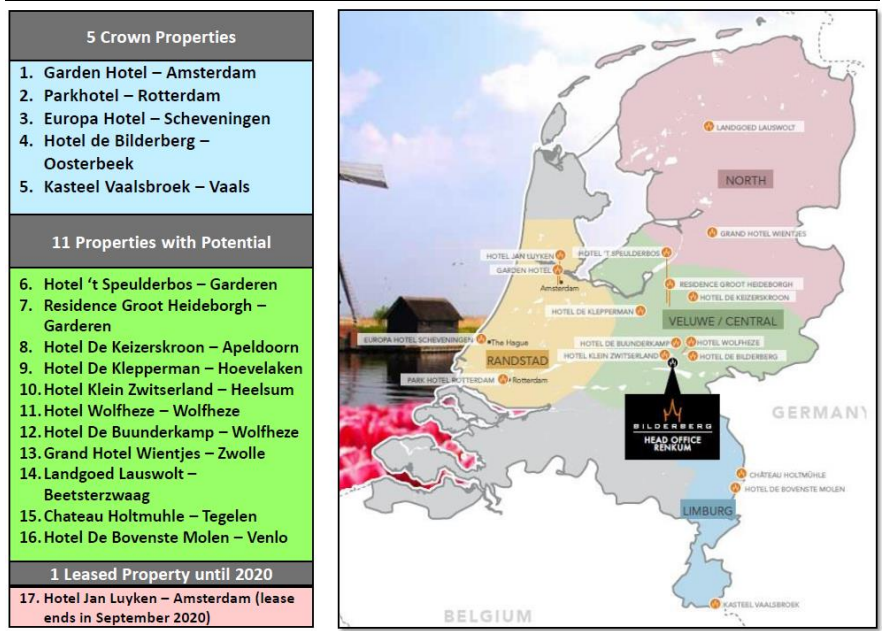
Source: Company presentation

**Outlook for hotel industry in Netherlands generally positive**

The hotel markets in Europe, including the Netherlands, are expected to continue to benefit from increasing tourism, driven by real income growth and pick-up in consumer confidence. According to STR global, 2Q17 data reports overall occupancy in Netherlands achieved its highest level at 79.5% since 2006 and RevPar grew double-digit for the quarter, a testament to its growing hospitality industry. In addition, local legislators are looking to limit development of new hotels as well as Airbnb in Amsterdam through new legislations, which could drive room rates up and lift existing hotel performance.

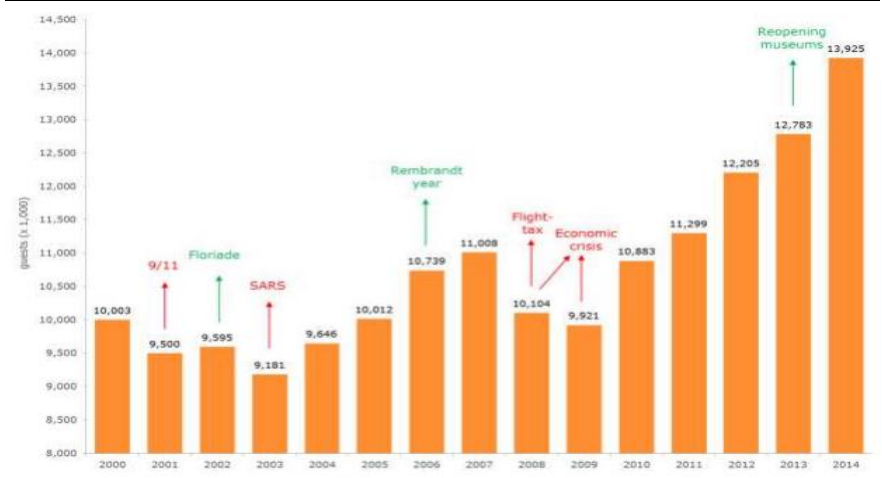
The group also see upside potential from higher F&B revenue from restaurants under Bilderberg, underpinned by a robust Dutch economy. Based on a study from NBTC Holland Marketing, 40% of inbound tourism arrivals were from Germany and Belgium.

**Figure 3: Geographical spread of Bilderberg Portfolio**



Source: Company presentation

**Figure 4: Inbound tourism in the Netherlands (2000 – 2014)**



Source: NBTC

**Potential upside from further improvement in hotel operations in Chengdu**

The group owns several hotel properties in Chengdu, including the newly commenced Crowne Plaza Chengdu Wenjiang and Holiday Inn Express Chengdu Wenjiang Hotspring hotels since December 2016. Hotel performance has apparently improve on better occupancy since then, potentially leading to further upside in valuation.

**Figure 5: Hotel occupancy still low in their infant stages for the newly opened hotels**

	<b>Crowne Plaza</b>	<b>Holiday Inn Express</b>
	<b>1H2017</b>	<b>1H2017</b>
Occupancy	24.4%	37.6%
ADR	RMB306	RMB204
RevPar	RMB74	RMB77

Source: Company presentation

**Valuation**

Based on our Sum-of-the-Parts valuation on its 3 businesses: 1) property development; 2) property investment and 3) property financing, we ascribe a fair value of FSG at \$1.62 per share on a 25% discount to its RNAV, representing 18% upside to its current share price at \$1.38.

Value of its property development, mainly the Millennium Waterfront project in Chengdu, is estimated at about S\$677 million based on projected NPV of the future development profits and estimated value of its two land banked plots in the project. We project a 50% increase in the estimated cost of land to reflect increases in Chengdu residential property prices, which has almost doubled from 2011 to 2016 according to Chinese Residential Land Price Index for Chengdu by Wharton-NUS-Tsinghua<sup>1</sup>.

FSG does not provide detailed breakdown in the valuation of its investment properties, thus we took this at face value as disclosed in its Annual Report and add on to its recent acquisitions of properties in the Netherlands.

We valued the property financing business at S\$225 million, representing 11.2x FY19F PE on a normalised basis (past recovery of defaulted interests).

**Figure 6: SOTP Valuation**

Valuation	2017F (SGD m)	% of total (%)	per share (SGD)	Comments
<b>Property Development</b>	<b>730</b>	<b>54.0%</b>	<b>1.24</b>	
Millennium Waterfront (Plots A-D)	486	35.9%	0.82	42% of units not yet handed over, to contribute bulk of profits in FY17-FY19; WACC: 6.1%
Rest of developed properties	244	18.1%	0.41	Mainly plots E and F; assume 50% revision from cost to current market value
<b>Property Investment</b>	<b>377</b>	<b>27.9%</b>	<b>0.64</b>	
Poortgebouw Hoog Catherijne	16	1.2%	0.03	
Bilderberg hotel portfolio	130	9.6%	0.22	Acquired for €205 million in July 2017
Rest of investment properties	231	17.1%	0.39	Comprises commercial and hotel properties in Chengdu and Netherlands
<b>Property Financing</b>	<b>180</b>	<b>13.3%</b>	<b>0.31</b>	Normalised FY2019F PE of 11.2x
<b>Interest in associates</b>	<b>55</b>	<b>4.1%</b>	<b>0.09</b>	30% stake in Star of East River project, Dongguan
<b>Others</b>	<b>9</b>	<b>0.7%</b>	<b>0.02</b>	
<b>Gross asset value</b>	<b>1,352</b>	100.0%	<b>2.29</b>	
Less net (debt)/cash	(76)			
<b>RNAV</b>	<b>1,276</b>		<b>2.16</b>	
Projected diluted shares (m)	590			
Discount to RNAV (%)	25%			
<b>Fair value per share</b>	<b>\$ 1.62</b>			

Source: Company data, KGI Research

<sup>1</sup> Source: <http://real.wharton.upenn.edu/~gyourko/chineselandpriceindex.html>

**Figure 7: Peer comparison of European hotels**

Company Name	Market Cap (EUR m)	EBITDA yield (%)		EV / EBITDA (x)		P / E (x)		P / B (x)	
		Last FY	FY+1	Last FY	FY+1	Last FY	FY+1	Last FY	FY+1
		<b>11.9</b>	<b>2.2</b>	<b>19.6</b>	<b>12.7</b>	<b>52.1</b>	<b>29.0</b>		
Accor Sa	11,194	5.4	2.7	24.1	23.8	86.4	37.7	1.8	1.7
Melia Hotels International	2,762	11.4	5.3	11.1	10.9	25.1	23.0	1.7	1.7
Nh Hotel Group Sa	1,841	16.8	6.3	9.6	11.0	39.7	40.7	1.2	1.6
Dalata Hotel Group Plc	881	8.8	4.6	14.1	10.9	23.0	14.8	1.3	1.3
Pierre & Vacances	432	26.2	(15.4)	6.4	6.9	-	-	1.0	1.1
International Hotel Invest	369	4.9	5.3	40.1	-	-	-	0.6	-
Lampsa Hotel Co	361	3.6	2.5	30.0	-	158.7	-	4.4	-
Hotel Majestic Societe Immo	241	-	4.6	-	-	24.1	-	-	-
Ifa Hotel & Touristik Ag	198	26.8	4.6	6.1	-	7.5	-	0.8	-
Les Hotels Baverez	119	2.9	1.7	35.2	-	-	-	3.0	-

Source: Bloomberg, KGI Research

**Figure 8: Peer comparison of financing companies globally**

BB ticker	Company Name	Market Cap (US\$ m)	P / E (x)		P / B (x)	
			Last FY	FY+1	Last FY	FY+1
	<b>AVERAGE</b>	<b>25,779</b>	<b>14.5</b>	<b>11.1</b>	<b>1.1</b>	<b>1.6</b>
GMA AU	Genworth Mortgage Insurance	1,472	8.8	9.4	0.8	0.7
605 HK	China Financial Services Hol	2,737	7.6	-	0.8	-
AFG AU	Australian Finance Group Ltd	339	7.1	10.5	-	2.2
MOC AU	Mortgage Choice Ltd	299	12.1	12.8	2.6	2.8
SIF SP	Sing Investments & Finance	241	13.4	11.8	0.6	0.7
8772 JP	Asax Co Ltd	18,733	6.4	-	0.6	-
HOM AU	Homeloans Ltd	187	9.8	-	-	-
SBD SP	Singapura Finance Ltd	160	67.7	-	0.5	-
1669 HK	Global International Credit	440	6.4	-	0.7	-
145 HK	Hong Kong Building & Loan	364	-	-	1.3	-
1273 HK	Hong Kong Finance Group Ltd	336	8.7	-	0.8	-
7192 JP	Mortgage Service Japan Ltd	4,679	11.5	-	2.6	-

Source: Bloomberg, KGI Research

**Financials**

FYE 31 December

<b>INCOME STATEMENT (SGD mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>
Revenue	153.2	215.0	189.7
Cost of goods sold	(96.1)	(122.2)	(145.1)
<b>Gross profit</b>	<b>57.1</b>	<b>92.7</b>	<b>44.7</b>
Administrative expenses	(17.8)	(16.4)	(27.0)
Selling expenses	(4.9)	(6.5)	(5.6)
Other income/(expenses)	(6.9)	3.9	73.9
<b>Operating profit</b>	<b>27.6</b>	<b>73.7</b>	<b>85.9</b>
Finance income	15.1	21.8	28.5
Finance expenses	(2.1)	(4.6)	(8.2)
Share of results from assoc	0.0	0.0	12.3
<b>Profit before tax</b>	<b>40.5</b>	<b>91.0</b>	<b>118.4</b>
Income tax	(18.8)	(22.7)	(3.5)
Minority interests	0.0	(1.0)	(1.8)
<b>PATMI</b>	<b>21.7</b>	<b>67.4</b>	<b>113.1</b>
<b>BALANCE SHEET (SGD mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>
Cash and cash equivalents	131.8	112.0	280.6
Trade and other receivables	276.1	299.6	388.9
Other current assets	560.0	660.3	403.3
<b>Total current assets</b>	<b>967.9</b>	<b>1,071.9</b>	<b>1,072.7</b>
PP&E	116.5	151.1	234.5
Investment properties	81.0	245.6	231.2
Others	127.6	332.1	257.7
<b>Total assets</b>	<b>1,293.0</b>	<b>1,800.8</b>	<b>1,796.1</b>
Trade and other payables	280.9	127.8	196.3
Borrowings (current)	0.0	216.3	9.5
Other current liabilities	21.6	202.5	204.3
<b>Total current liabilities</b>	<b>302.5</b>	<b>546.6</b>	<b>410.1</b>
LT Borrowings	83.0	260.8	347.2
Other non-current liabilities	13.0	15.3	9.2
<b>Total liabilities</b>	<b>398.5</b>	<b>822.7</b>	<b>766.4</b>
Total Equity	894.5	978.1	1,029.7
<b>Total liabilities and equity</b>	<b>1,293.0</b>	<b>1,800.8</b>	<b>1,796.1</b>
<b>CASH FLOW STATEMENT (SGD mn)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>
<b>Income tax</b>	<b>(18.8)</b>	<b>(22.7)</b>	<b>(3.5)</b>
Other non-cash adjustments	71.4	134.2	16.1
Changes in working capital	(281.3)	(149.9)	85.5
Taxes paid	(22.6)	(24.0)	(22.5)
<b>Cash from operations</b>	<b>(251.3)</b>	<b>(62.3)</b>	<b>75.6</b>
Additions to investment ppty	0.0	(84.0)	(2.7)
Capex	(33.0)	(33.7)	(71.3)
Other investing	(92.7)	(216.1)	266.4
<b>Cash in investing</b>	<b>(125.7)</b>	<b>(333.8)</b>	<b>192.3</b>
Dividends paid	0.0	(8.6)	(11.8)
Equity raised / (bought back)	125.4	0.0	0.0
Borrowings raised / (repaid)	84.6	342.6	(112.9)
Other financing	(12.1)	39.3	29.4
<b>Cash from financing</b>	<b>197.8</b>	<b>373.3</b>	<b>(95.3)</b>
FX Effects, Others	(0.2)	3.1	(4.4)
<b>Net increase in cash</b>	<b>(179.4)</b>	<b>(19.7)</b>	<b>168.3</b>
Beginning cash	311.2	131.8	112.0
Ending cash	131.8	112.1	280.3
<b>KEY RATIOS</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>
DPS (SGD cents)	0.76	1.70	2.00
Dividend yield %	0.55	1.23	1.45
NAV per share (SGD)	1.78	1.65	1.74
Price/NAV	0.77	0.84	0.79
<b>Profitability (%)</b>			
Gross Margin	37.3	43.1	23.5
EBITDA Margin	18.9	35.1	46.1
Net Margin	14.2	31.3	59.6
ROE	3.2	7.2	11.3
ROA	1.9	4.4	6.3
<b>Financial Structure (x)</b>			
Interest Coverage	13.09	15.90	10.43
Net Debt / Equity	(0.05)	0.37	0.07

Source: KGI Research



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Rating	Definition
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<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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