

Great Eagle Holdings Ltd (41.HK)

Geographically Diversified Property Investor

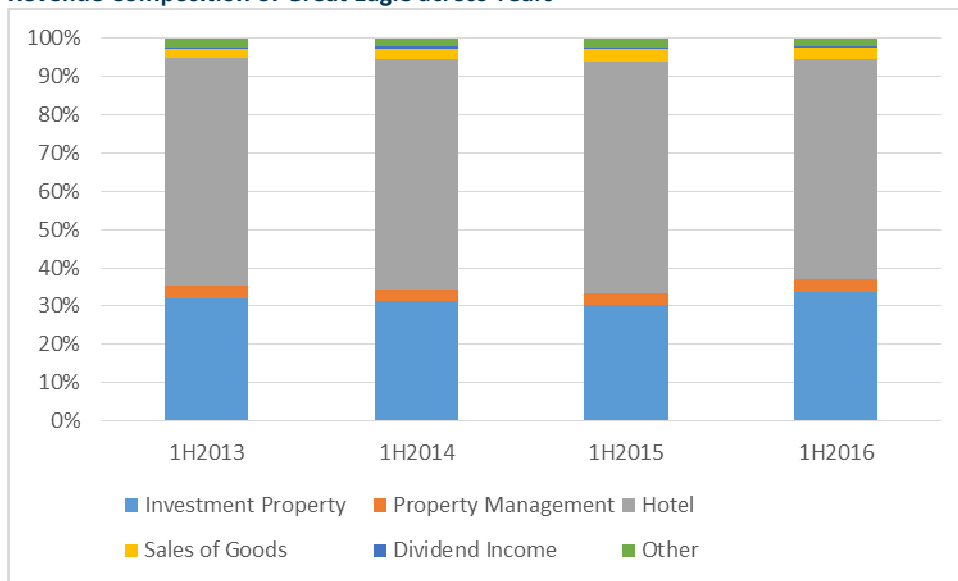
Hong Kong | Hotel | Company report

29 December 2016

Geographically Diversified Property Investor

Great Eagle is a diversified property investor, with its major revenue coming from its hotel operating business, which operates hotels in major cities around the world. Apart from the hotels directly operated by Great Eagle, Great Eagle's main assets include Champion REIT (2778.HK) and Langham Hospitality Investment (1270.HK), each of whom hold valuable assets of different types in prime locations such as Central and Mong Kok. The assets held by Champion REIT and Langham Hospitality Investment are vastly different, with Champion REIT holding mainly commercial and retail properties in Central and Mong Kok and Langham Hospitality Investment holding the hotels in Tsim Sha Tsui, and Mong Kok. According to the below chart, the revenue composition has been fairly constant across the years, with investment property and hotel segments contribute to the majority of the revenue. In particular, the hotel segment alone contributes to 58% of the revenue.

Revenue Composition of Great Eagle across Years



Source: Company Reports, Phillip Securities

Hotel Portfolio Spans across the Globe

Great Eagle has established strategic presence for its hotel business in major cities around the world. Langham Hotels can be found in almost every continents and in top cities such as London, Toronto, Boston, New York, Washington and Chicago and these hotels are directly owned by Great Eagle instead of owned indirectly via Langham Hospitality Investment. Besides, the company plans to expand its presence by setting up hotels in Tokyo and San Francisco.

Accumulate

CMP: HKD 33.65

(Closing price as at 27 Dec 2016)

TARGET: HKD 38.60 (+14.7%)

COMPANY DATA

O/S SHARES (MN) :	677.35
MARKET CAP (HKDMN) :	22,793
52 - WK HI/LO (HKD):	38.00/17.78

SHARE HOLDING PATTERN • %

Lo Ka Shui	59.21
Lo Kai Shui	33.75
Lo Hong Sui	33.66
Lo Ying Sui	39.01

PRICE PERFORMANCE • %

	1M	3M	1Y
Great Eagle	(3.16)	(5.21)	34.6
HSI	(4.43)	(8.41)	(2.85)

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY14	FY15	FY16E	FY17E
Net Sales	8,127	8,271	8,282	8,216
Net Profit	3,010	4,734	4,188	4,224
EPS, HKD	3.2300	4.9800	4.4059	4.4435
PER, x	9.54	6.83	8.25	8.69
BVPS, HKD	78.9404	81.7370	84.2343	86.7529
P/BV, x	0.39	0.42	0.43	0.44
ROE, %	4.09	6.10	12.12	11.51

Source: Company reports, Phillip Securities Est.

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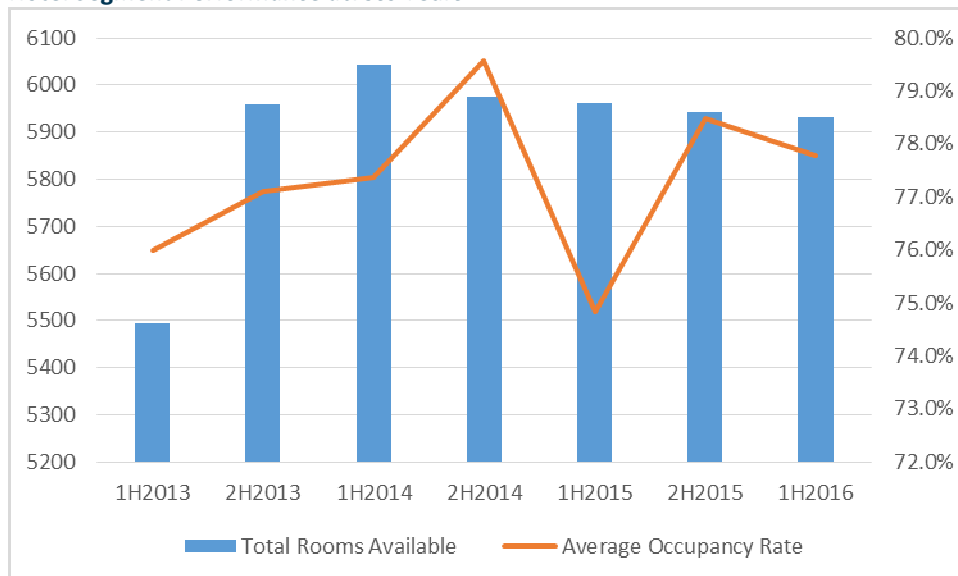
Geographical Distribution of Great Eagle's Hotels



Source: Great Eagle

Great Eagle's hotels are well-positioned in the prime location and the heart of the cities. In particular, the London hotel is located at Regent Street, which is the primary shopping area while the New York hotel is located at Fifth Avenue and is just a few minutes' walk away from the Empire State Building. With such a prime location, Great Eagle's hotels regularly achieve high occupancy rate and are able to charge high room rate in recent years and in 1H2016, the London hotel's occupancy rate reached the 81.8%, the highest in 4 years and the room rate was 274 pound per night, one of the top tier rates in London.

Hotel Segment Performance across Years



Source: Company Reports, Phillip Securities

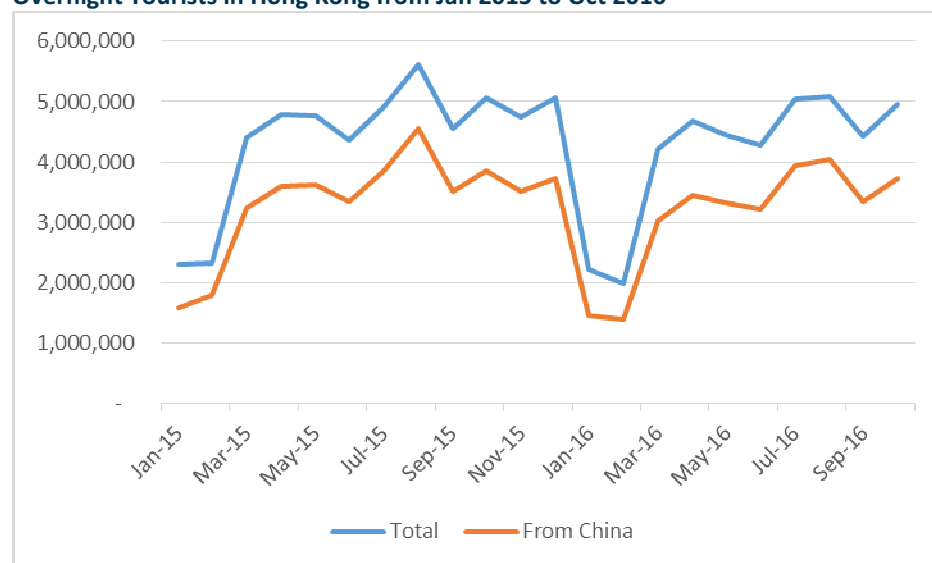
The number of hotel rooms available has increased significantly in 2013 and has stayed fairly stable afterwards. The general occupancy rate of the hotels has also shown improvement in 1H2016 in comparison with 1H2015.

Apart from the current hotels, Great Eagle has been actively expanding its hotel portfolio. In June 2016, Great Eagle has completed the acquisition of a land for hotel development in Tokyo. The hotel is expected to commence construction in 2017 and the expected GFA is 36,000 square metres. Besides, Great Eagle has projects in USA and Shanghai. The projects will provide more than 1000 hotel rooms in total and about 815 hotel rooms will be gradually available in 2017 and 2018.

Hong Kong Tourism Outlook

The hotels in Hong Kong of Great Eagle alone contributed to 8% of the total revenue of the group. The revenue for Langham Hospitality Investment, the operator of the Hong Kong hotels of Great Eagle, however has a YoY drop of 0.3% in 1H2016. The drop in revenue is caused by the drop in total overnight tourist visiting Hong Kong in 1H2016 from 22,926,968 to 21,843,257, a drop of 4.7% which is in turn caused by the drop in overnight tourists from China, which in the same period has dropped from 17,172,526 to 15,839,514. The decline in number of tourist has narrowed between July and October and the total number of tourist has dropped from 20,170,577 to 19,511,664, a 3.7% decline, which is a lower percentage decline than the one in 1H2016.

Overnight Tourists in Hong Kong from Jan 2015 to Oct 2016



Source: Immigration Department

The occupancy rate of the hotels in Hong Kong has increased in general despite the reduction in the total number of visitors. However, the room rate has dropped, with Eaton having the greatest drop of up to 12%.

OCCUPANCY RATE	1H2015	1H2016
THE LANGHAM, HONG KONG	81.8%	84.2%
CORDIS, HONG KONG	88.2%	85.4%
EATON, HONG KONG	86.2%	92.2%

ROOM RATE	1H2015	1H2016
THE LANGHAM, HONG KONG	2,204	2,078
CORDIS, HONG KONG	1,725	1,610
EATON, HONG KONG	1,097	963

Source: Company Reports, Phillip Securities

The reduction in total number of overnight tourists visiting Hong Kong is solely contributed by the reduction in Chinese overnight visitors. In fact, the number of non-Chinese overnight visitors have increased in general throughout 2016. The reason for the reduction in Chinese tourists is partly contributed by the depreciation of Renminbi. According to the diagram below, ever since CNY\HKD reached its peak of around HKD1.2834 per unit of CNY, CNY has depreciated about 13% to the level of 1.1171 today. Because of the reduction in purchase power, the number of Chinese tourists coming to Hong Kong has reduced.

CNY\HKD Spot Exchange Rate in 5 Years



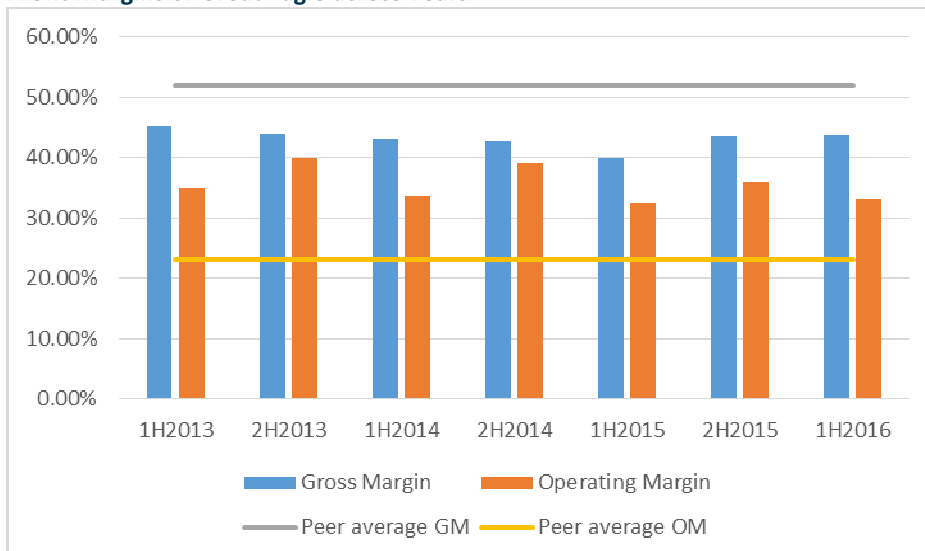
Source: Bloomberg

With the expectation that USA continuing its rate hike in the coming years, we expect Renmibi to depreciate further. The tourism of Hong Kong, which is mainly driven by the northern incoming people, is expected to suffer from the depreciation and the possibly a drop in incoming Chinese tourists. Hence the occupancy rate and room rate charged by the hotels will continue to face pressure.

Great Eagle's Profitability

Great Eagle's gross profit margin has ended its 3-year consecutive drop and has rebounded to 43.66%, the highest in 2 years.

Profit Margins of Great Eagle across Years



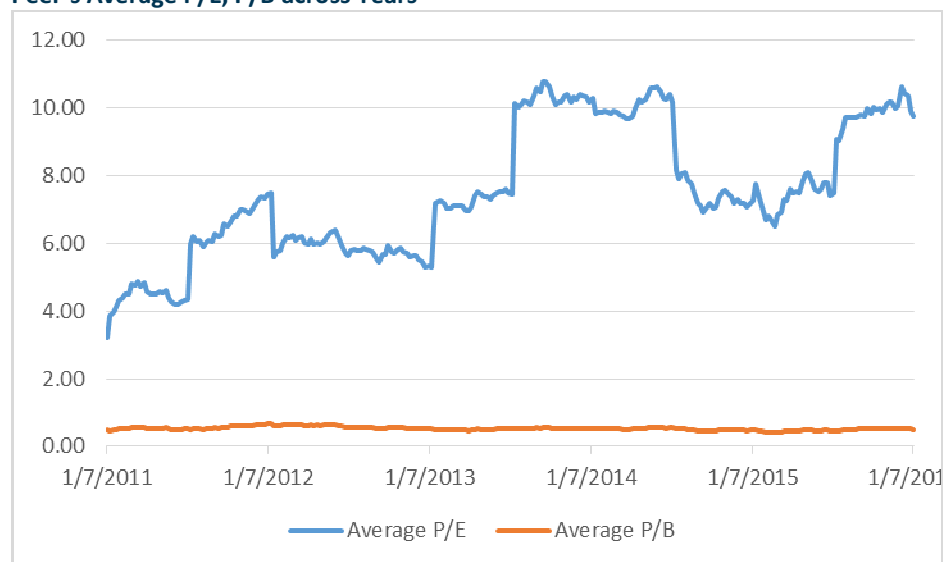
Source: Company Reports, Phillip Securities

Great Eagle's gross profit margin is lower than that of its peers engaging in the hotel sectors. By examining the gross profit margin of Langham Hospitality Investment (1270.HK), which solely composes of hotel asset, the gross margin is much higher than the current 43%. Since Great Eagle's business consists of investment property and sale of goods, the gross margin is therefore dragged down due to the lower margin in other business. After accounting for all other expenses, Great Eagle in fact has higher operating margin than its peers.

Valuation

The peer average P/E and P/B are 7.50x, and 0.53x respectively. Great Eagle's target price is therefore \$38.60, with Accumulate rating assigned. (Closing price as at 27 Dec 2016)

Peer's Average P/E, P/B across Years



Source: Bloomberg, Phillip Securities (HK) Research

Risk

Rapid depreciation in Renminbi
Delay in opening of new hotels

Financials

FYE	2013	2014	2015	2016F	2017F
Valuation Ratios					
Price Earnings (P/E)	7.15	9.54	6.83	8.25	8.69
Price to Book (P/B)	0.34	0.39	0.42	0.43	0.44
Per Share Data (HKD)					
EPS	3.7600	3.2300	4.9800	4.4059	4.4435
Book Value Per Share	78.1447	78.9404	81.7370	84.2343	86.7529
Dividend Per Share	2.1600	0.7400	2.4700	1.9087	1.9249
Growth & Margins (%)					
Growth					
Revenue	8.2	11.3	1.8	0.13	(0.80)
Operating Income	9.8	7.9	(6.5)	7.18	(0.80)
Net Profit	(37.4)	(10.9)	57.3	(11.5)	(0.85)
Margins					
Gross Profit Margin	44.5	42.9	41.8	43.1	42.6
Operating Profit Margin	37.7	36.5	33.6	35.9	35.9
Net Profit Margin	46.3	37.0	57.2	46.8	46.8
Key Ratios					
ROE (%)	4.80	4.09	6.10	12.12	11.51
ROA (%)	2.45	2.08	3.15	2.74	2.72
Income Statement (HKD Mn)					
Revenue	7,301	8,127	8,271	8,282	8,216
- Cost of Goods Sold	(4,050)	(4,639)	(4,810)	(4,713)	(4,714)
Gross Income	3,251	3,488	3,461	3,569	3,502
- Operating Expenses	(499)	(520)	(685)	(594)	(550)
Operating Income	2,752	2,968	2,776	2,975	2,952
- Net Non-Operating Gain	1,052	538	2,497	1,777	1,841
Pretax Income	3,804	3,506	5,273	4,752	4,793
- Income Tax Expenses	(426)	(496)	(539)	(564)	(569)
Net Profit	3,378	3,010	4,734	4,188	4,224

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 27 Dec 2016)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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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