

## EARNINGS REVIEW

## Great Eagle Holdings (0041.HK)

Sell

Equity Research

## In line with expectations: Still eyeing overseas hotel acquisitions

## What surprised us

Great Eagle reported FY2014 operating income from core business at HK\$2,238mn, up 2% yoy, and we estimate its recurring underlying profit at HK\$1,597mn, up 4% yoy, in line with our forecasts. HK\$134mn profit from securities trading (only HK\$21mn in 2013) more than offset its HK\$24mn write-down for its Sydney hotel and HK\$70mn FX loss on Rmb deposits. DPS was HK¢0.74, up 12% yoy.

**Key takeaways from the briefing: (1) Overseas hotels:** EBITDA grew 22% yoy in 2014 amid improved US/Canada, which were partially offset by weak London. Management sees further growth in 2015 likely from hotels in Chicago and Sydney but this could be negatively affected by weaker currencies. **(2) Champion and LHI:** Great Eagle guided that Champion's distribution is likely to decline further in 2015; for LHI's HK hotels, Feb 2014's RevPAR decline has expanded further to double-digit-levels yoy. However, mgmt. sees its forward booking from business travelers showing some pickup into Mar/Apr. **(3) M&A:** Mgmt. intend to expand its hotel portfolio in gateway cities where it has no presence, such as San Francisco, Singapore and Tokyo, in addition to potential HK land tenders.

## What to do with the stock

Looking ahead, mgmt. expects likely weaker core operating income in 2015 yoy amid the lower Champion distribution and smaller overseas rental after the injection of selected office projects into an US fund and a delay in Dalian completion to 2016. However, we think another key swing factor to the bottom line may come from securities trading profits. We lower 2015E-16E EPS by up to 6-7% on the Dalian delay and RevPAR revisions and introduce FY17E EPS of HK\$2.77. No change to HK\$25.5 12m TP (based on unchanged 50% discount to 2015E NAV). Risks: Stronger-than-expected overseas hotel demand.

## Great Eagle FY2014 result highlights

(HK\$mn)	2013	2014	YoY chg	1H FY14	2H FY14	HoH chg	GSe	vs. GSe
EBITDA (attributable)	1,992	2,075	4%	963	1,112	15%	2,071	0%
Reported core profit	1,680	1,919	14%	965	954	-1%	1,739	10%
<b>Recurring underlying profit</b>	<b>1,542</b>	<b>1,597</b>	<b>4%</b>	<b>709</b>	<b>888</b>	<b>25%</b>	<b>1,533</b>	<b>4%</b>
DPS (HK cents, excl. special div)	66	74	12%	27	47	n.a.	73	1%

Source: Company data, Goldman Sachs Global Investment Research.

## INVESTMENT LIST MEMBERSHIP

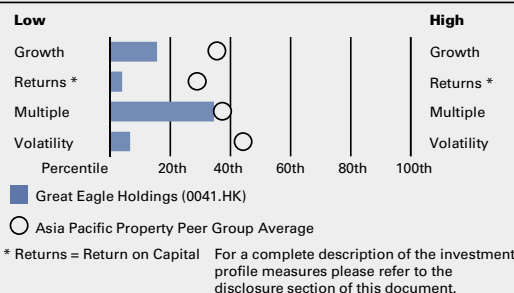
Asia Pacific Sell List

## Coverage View: Attractive

**Anthony Wu**  
+852-2978-0634 anthony.wu@gs.com Goldman Sachs (Asia) L.L.C.

**Justin Kwok, CFA**  
+852-2978-0481 justin.kwok@gs.com Goldman Sachs (Asia) L.L.C.

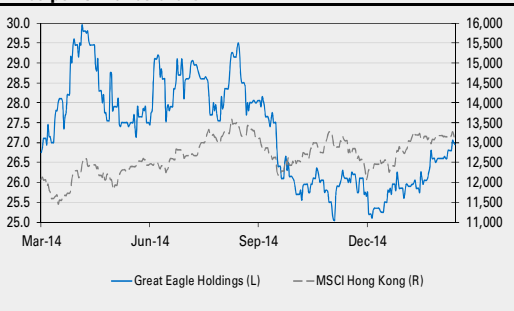
## Investment Profile



Key data	Current
Price (HK\$)	26.95
12 month price target (HK\$)	25.50
Market cap (HK\$ mn / US\$ mn)	17,010.5 / 2,193.1
Foreign ownership (%)	--

	12/14	12/15E	12/16E	12/17E
<b>EPS (HK\$) New</b>	<b>3.39</b>	<b>2.39</b>	<b>2.65</b>	<b>2.77</b>
EPS revision (%)	42.3	(7.3)	(5.8)	--
EPS growth (%)	(9.9)	(29.6)	11.1	4.4
<b>EPS (dil) (HK\$) New</b>	<b>3.38</b>	<b>2.42</b>	<b>2.69</b>	<b>2.81</b>
P/E (X)	8.0	11.3	10.2	9.7
P/B (X)	0.4	0.3	0.3	0.3
EV/EBITDA (X)	16.6	15.7	15.4	14.5
Dividend yield (%)	2.7	2.7	2.7	2.7
ROE (%)	4.4	3.0	3.3	3.4

## Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	2.9	(3.8)	0.7
Rel. to MSCI Hong Kong	1.4	(1.5)	(6.6)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/05/2015 close.

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# Great Eagle Holdings: Summary Financials

Profit model (HK\$ mn)	12/14	12/15E	12/16E	12/17E	Balance sheet (HK\$ mn)	12/14	12/15E	12/16E	12/17E
<b>Total revenue</b>	<b>8,104.6</b>	<b>8,676.3</b>	<b>8,970.3</b>	<b>9,053.0</b>	Cash & equivalents	9,100.2	9,773.7	10,821.0	12,282.4
Cost of goods sold	(4,552.9)	(4,941.1)	(5,180.4)	(5,096.4)	Accounts receivable	645.7	677.9	711.8	747.4
SG&A	(281.2)	(301.0)	(311.2)	(314.1)	Inventory	155.4	160.0	164.8	169.8
R&D	--	--	--	--	Other current assets	0.0	0.0	0.0	0.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>13,806.1</b>	<b>14,516.6</b>	<b>15,602.5</b>	<b>17,104.5</b>
<b>EBITDA</b>	<b>3,270.5</b>	<b>3,434.2</b>	<b>3,478.6</b>	<b>3,642.5</b>	Net PP&E	85,686.4	86,664.9	87,440.5	87,970.6
Depreciation & amortization	(487.8)	(492.6)	(497.6)	(502.5)	Net intangibles	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>2,782.7</b>	<b>2,941.5</b>	<b>2,981.0</b>	<b>3,139.9</b>	Total investments	2,277.2	2,240.8	2,376.8	2,470.3
Interest income	291.0	263.6	291.5	331.0	Other long-term assets	175.6	175.6	175.6	175.6
Interest expense	(623.4)	(626.6)	(675.9)	(690.1)	<b>Total assets</b>	<b>101,945.4</b>	<b>103,597.9</b>	<b>105,595.4</b>	<b>107,721.1</b>
Income/(loss) from uncons. subs.	(9.7)	0.0	0.0	0.0	Accounts payable	3,113.0	3,268.6	3,432.1	3,603.7
Others	1,171.2	(36.4)	135.9	93.5	Short-term loans	3,230.7	5,402.9	5,402.9	5,402.9
<b>Pretax profits</b>	<b>3,611.8</b>	<b>2,542.1</b>	<b>2,732.6</b>	<b>2,874.4</b>	Other current liabilities	359.7	363.1	361.4	362.3
Income tax	(496.3)	(395.3)	(404.1)	(428.5)	<b>Total current liabilities</b>	<b>6,703.3</b>	<b>9,034.7</b>	<b>9,196.4</b>	<b>9,368.8</b>
Minorities	(894.7)	(558.1)	(563.9)	(604.5)	Long-term debt	24,681.6	22,348.7	22,348.7	22,348.7
<b>Net income pre-preferred dividends</b>	<b>2,220.8</b>	<b>1,588.7</b>	<b>1,764.6</b>	<b>1,841.4</b>	Other long-term liabilities	1,182.9	1,182.9	1,182.9	1,182.9
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	25,864.5	23,531.6	23,531.6	23,531.6
<b>Net income (pre-exceptionals)</b>	<b>2,220.8</b>	<b>1,588.7</b>	<b>1,764.6</b>	<b>1,841.4</b>	<b>Total liabilities</b>	<b>32,567.8</b>	<b>32,566.2</b>	<b>32,727.9</b>	<b>32,900.4</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>2,220.8</b>	<b>1,588.7</b>	<b>1,764.6</b>	<b>1,841.4</b>	<b>Total common equity</b>	<b>51,769.7</b>	<b>52,865.7</b>	<b>54,137.5</b>	<b>55,486.2</b>
EPS (basic, pre-except) (HK\$)	3.39	2.39	2.65	2.77	Minority interest	17,607.9	18,166.0	18,729.9	19,334.5
EPS (basic, post-except) (HK\$)	3.39	2.39	2.65	2.77	<b>Total liabilities &amp; equity</b>	<b>101,945.4</b>	<b>103,597.9</b>	<b>105,595.4</b>	<b>107,721.1</b>
EPS (diluted, post-except) (HK\$)	3.38	2.42	2.69	2.81	<b>BVPS (HK\$)</b>	<b>77.75</b>	<b>79.40</b>	<b>81.31</b>	<b>83.34</b>
DPS (HK\$)	0.74	0.74	0.74	0.74	<b>RNAV (HK\$ mn)</b>	<b>32,890.6</b>	<b>33,959.7</b>	--	--
Dividend payout ratio (%)	21.8	31.0	27.9	26.8	<b>RNAVPS (HK\$)</b>	<b>49.40</b>	<b>51.01</b>	--	--
Free cash flow yield (%)	(10.2)	3.7	4.2	5.2					
Growth & margins (%)	12/14	12/15E	12/16E	12/17E	Ratios	12/14	12/15E	12/16E	12/17E
Sales growth	11.0	7.1	3.4	0.9	ROE (%)	4.4	3.0	3.3	3.4
EBITDA growth	8.2	5.0	1.3	4.7	ROA (%)	2.2	1.5	1.7	1.7
EBIT growth	6.2	5.7	1.3	5.3	ROACE (%)	4.0	2.8	3.0	NM
Net income growth	(7.4)	(28.5)	11.1	4.4	Inventory days	10.5	11.6	11.4	12.0
EPS growth	(9.9)	(29.6)	11.1	4.4	Receivables days	28.1	27.8	28.3	29.4
Gross margin	43.8	43.1	42.2	43.7	Payable days	242.4	235.7	236.1	251.9
EBITDA margin	40.4	39.6	38.8	40.2	Net debt/equity (%)	27.1	25.3	23.2	20.7
EBIT margin	34.3	33.9	33.2	34.7	Interest cover - EBIT (X)	8.4	8.1	7.8	8.7
Cash flow statement (HK\$ mn)	12/14	12/15E	12/16E	12/17E	Valuation	12/14	12/15E	12/16E	12/17E
Net income pre-preferred dividends	2,220.8	1,588.7	1,764.6	1,841.4	P/E basic (X)	8.0	11.3	10.2	9.7
D&A add-back	487.8	492.6	497.6	502.5	P/B (X)	0.4	0.3	0.3	0.3
Minorities interests add-back	894.7	558.1	563.9	604.5	EV/EBITDA (X)	16.6	15.7	15.4	14.5
Net (inc)/dec working capital	88.8	118.7	124.7	131.1	Dividend yield (%)	2.7	2.7	2.7	2.7
Other operating cash flow	(1,662.3)	39.8	(137.7)	(92.7)					
<b>Cash flow from operations</b>	<b>1,924.0</b>	<b>2,798.0</b>	<b>2,813.1</b>	<b>2,986.9</b>	<b>Underlying valuation</b>	<b>12/14</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Capital expenditures	(5,541.4)	(1,471.1)	(1,273.1)	(1,032.7)	Underlying profit (HK\$ mn)	1,635.7	1,588.7	1,764.6	1,841.4
Acquisitions	0.0	0.0	0.0	0.0	Underlying EPS (HK\$)	2.49	2.39	2.65	2.77
Divestitures	0.0	0.0	0.0	0.0	Underlying ROE (%)	3.2	3.0	3.3	3.4
Others	0.0	0.0	0.0	0.0	Underlying ROA (%)	1.6	1.5	1.7	1.7
<b>Cash flow from investments</b>	<b>(5,541.4)</b>	<b>(1,471.1)</b>	<b>(1,273.1)</b>	<b>(1,032.7)</b>	Underlying ROACE (%)	3.3	2.8	3.0	NM
Dividends paid (common & pref)	(452.3)	(492.7)	(492.7)	(492.7)	Underlying P/E (X)	10.9	11.3	10.2	9.7
Inc/(dec) in debt	(1,273.1)	(160.7)	0.0	0.0	Underlying dividend payout (%)	29.7	31.0	27.9	26.8
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0	Underlying EPS growth (%)	3.8	(4.4)	11.1	4.4
Other financing cash flows	3,731.2	0.0	0.0	0.0					
<b>Cash flow from financing</b>	<b>2,005.9</b>	<b>(653.4)</b>	<b>(492.7)</b>	<b>(492.7)</b>					
<b>Total cash flow</b>	<b>(1,611.5)</b>	<b>673.5</b>	<b>1,047.3</b>	<b>1,461.4</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Analyst Contributors

### Anthony Wu

anthony.wu@gs.com

### Justin Kwok, CFA

justin.kwok@gs.com

## Exhibit 1: Great Eagle FY2014 results review

(HK\$m)	2013	2014	YoY chg	1H FY14	2H FY14	HoH chg	Remarks
<b>Turnover</b>	<b>5,419</b>	<b>5,594</b>	<b>3%</b>	<b>2,696</b>	<b>2,899</b>	<b>8%</b>	
Rental income	335	417	25%	217	200	-8%	Growth yoy mainly due to addition on 123 Mission Street in San Francisco
Hotel operations	3,481	3,361	-3%	1,596	1,766	11%	Lower yoy as HK hotel revenue was up to May 30, 2013
Champion REIT manager fee	316	310	-2%	158	152	-3%	
Distribution income from Champion REIT	717	717	0%	363	354	-3%	
Distribution income from LHI	189	306	62%	148	158	6%	Spin-off listed on May 30, 2013 onwards
Other income	382	483	27%	213	269	26%	
Net rental income	210	263	25%	134	128	-4%	HK hotel EBITDA up to May 30, 2013; incl. fees from LHI
Hotel EBITDA	673	515	-24%	203	312	54%	Overseas EBITDA dragged by US hotels ramp-up and re-branding expenses
LHI distribution income	189	306	62%	148	158	6%	LHI distribution income for May 30 to Dec 31, 2013
Champion REIT manager and other fees	316	310	-2%	158	152	-3%	
Champion REIT distribution income	717	717	0%	363	354	-3%	Champion's 3% yoy DPU decline partially offset by higher shareholdings
Other inc/(exp) and G&A	(113)	(36)	-68%	(44)	7	-117%	
<b>EBITDA (attr.)</b>	<b>1,992</b>	<b>2,075</b>	<b>4%</b>	<b>963</b>	<b>1,112</b>	<b>15%</b>	EBITDA based GE's attributable shares of its listed subsidiaries
Adjustments for consolidation	1,011	996	-1%	424	572	35%	This line adjust for consolidation for aforesaid listed subsidiaries
<b>EBITDA (reported)</b>	<b>3,002</b>	<b>3,070</b>	<b>2%</b>	<b>1,386</b>	<b>1,684</b>	<b>21%</b>	EBITDA based on 100% interests of its listed subsidiaries
Depreciation & Amortization	(404)	(488)	21%	(241)	(247)	3%	
Net finance charges	(413)	(345)	n.a.	(157)	(188)	n.a.	Helped by a higher interest income from Rmb-denominated deposits
<b>Operating profits</b>	<b>2,186</b>	<b>2,238</b>	<b>2%</b>	<b>989</b>	<b>1,249</b>	<b>26%</b>	
Fair value change on investment properties	1,119	1,205	n.a.	(144)	1,349	n.a.	
Fair value change on financial instruments	346	0	n.a.	0	(0)	n.a.	
Write-off of hotel fixed assets		(24)	n.a.		(24)	n.a.	
Impairment charges/reversal of hotel buildings	149	0	n.a.	-	0	n.a.	Related to a US hotel in 2013
Gain on disposal of listed investments	21	134	n.a.	40	93	n.a.	
Gain on conversion of convertible bonds	29	0	n.a.	-	0	n.a.	Related its ownership of Champion REIT's CB
Associates and JCEs	(46)	(46)	n.a.	(18)	(28)	n.a.	Including contribution from Shanghai Xintiandi hotel, while Dalian project still at loss amid construction stage
<b>Profit before taxation</b>	<b>3,804</b>	<b>3,506</b>	<b>-8%</b>	<b>867</b>	<b>2,639</b>	<b>204%</b>	
Taxation	(426)	(496)	16%	(285)	(212)	-26%	
Minority interest	(978)	(895)	-9%	(110)	(785)	615%	Mainly represent the minority interests in GE's listed subsidiaries
<b>Net profits</b>	<b>2,400</b>	<b>2,115</b>	<b>-12%</b>	<b>473</b>	<b>1,642</b>	<b>247%</b>	
Adjustments for HKFRS items:	(720)	(196)	n.a.	493	(689)	n.a.	Mainly excl. effect fair value changes, addback D&A, and adjust for one-off items such as disposal gains and FX changes
<b>Reported core profit</b>	<b>1,680</b>	<b>1,919</b>	<b>14%</b>	<b>965</b>	<b>954</b>	<b>-1%</b>	
Adjustments:							
D&A for hotel properties	(212)	(207)	-2%	(104)	(104)	0%	
Unrealised loss on FX holdings	74	(114)	n.a.	(152)	38	n.a.	Related to its Rmb deposits
<b>Recurring underlying profit</b>	<b>1,542</b>	<b>1,597</b>	<b>4%</b>	<b>709</b>	<b>888</b>	<b>25%</b>	We adjust for non-recurring items while taking into account of FX loss
<b>Reported core EPS (HK\$)</b>	<b>2.63</b>	<b>2.93</b>	<b>11%</b>	<b>1.47</b>	<b>1.46</b>	<b>-1%</b>	
<b>Recurring underlying EPS (HK\$)</b>	<b>2.42</b>	<b>2.44</b>	<b>1%</b>	<b>1.08</b>	<b>1.35</b>	<b>25%</b>	
DPS (HK\$)	0.66	0.74	12%	0.27	0.47	n.a.	Full year DPS up 12% yoy
Special dividend (HK\$)	1.50	0.50	n.a.	n.a.	n.a.	n.a.	
BVPS (HK\$)	78.14	78.96	1%	76.90	78.96	3%	
<b>RevPAR (LCY)</b>	<b>2013</b>	<b>2014</b>	<b>YoY chg</b>	<b>1H FY14</b>	<b>2H FY14</b>	<b>HoH chg</b>	
The Langham, Hong Kong (HKD)	2,013	2,040	1%	2,017	2,009	0%	
Langham Place, Hong Kong (HKD)	1,707	1,706	0%	1,731	1,683	-3%	2H RevPAR affected by Occupy Central
Eaton Hong Kong (HKD)	1,149	1,166	1%	1,127	1,171	4%	
The Langham, London (GBP)	224	216	-4%	204	244	20%	London was weak amid some rooms under renovations
The Langham, Boston (USD)	182	210	15%	188	176	-6%	
The Langham, Huntington Hotel & Spa (USD)	170	194	14%	191	149	-22%	Improvement as SFO's tech business is on upside
The Langham, Chicago (USD)	136	196	44%	155	117	-25%	Ongoing ramp-up amid poor weather conditions
Langham Place, Fifth Avenue NY (USD)	511	400	-22%	383	639	67%	
Hotel in Washington D.C. (USD)	n.a.	92	n.a.	n.a.	92	n.a.	Will undergo renovations in 2015E
Delta Chelsea Toronto (CAD)	85	93	9%	83	87	5%	Still undergoing re-branding exercise
The Langham, Melbourne (AUD)	238	246	3%	242	234	-3%	
The Langham, Sydney (AUD)	241	250	4%	252	230	-9%	Was under renovation in 2014, with HK\$24mn related write-down
The Langham, Auckland (NZD)	135	143	6%	141	129	-9%	
Shanghai Xintiandi Hotel (RMB)	997	1,156	16%	1,092	902	-17%	Occupancy improved, but pricing under pressure

Source: Company data, Goldman Sachs Global Investment Research.

# Disclosure Appendix

## Reg AC

We, Anthony Wu and Justin Kwok, CFA, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

## Quantum

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## GS SUSTAIN

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## Disclosures

### Coverage group(s) of stocks by primary analyst(s)

Anthony Wu: Hong Kong Property. Justin Kwok, CFA: Asia Pacific Conglomerates, Hong Kong Property.

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Hong Kong Property: Champion REIT, China Lodging Group, Ltd., eHi Car Services, Fortune REIT (Hong Kong), Great Eagle Holdings, Hang Lung Group, Hang Lung Properties, Henderson Land, Homeinns Hotel Group, Hongkong and Shanghai Hotels, Hongkong Land, Hui Xian REIT, Hysan Development, Jinmao Investments, K Wah International, Kerry Properties, Mandarin Oriental International, Mapletree Greater China Commercial, New World Development, Shangri-La Asia, Sino Land, Sun Hung Kai Properties, Swire Properties, The Link REIT, Yuexiu Real Estate Investment Trust.

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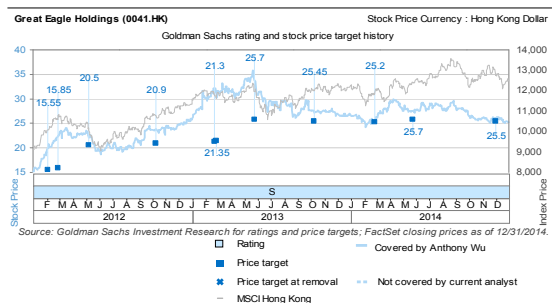
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Goldman Sachs Investment Research global coverage universe

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