

Great Eagle: Prime Real Estate And Stellar Management At 23% Of NAV

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by: Benedict Ong

Summary

- Great Eagle is a major Hong Kong property company, with the bulk of its assets from Hong Kong prime commercial property, and international luxury hotels under the Langham brand.
- Great Eagle trades at a price to adjusted book value of only 0.227x, and at four year historical stock price lows amidst Hong Kong's ongoing protests.
- On the surface, Great Eagle appears to have net gearing of 18.2%, but on closer examination, is almost unlevered after excluding non-recourse debt.
- The company's Chairman has been making significant on the market purchases at current levels, and the stock also has potential near-term and long-term catalysts.
- View a buy at current price level, with a high margin of safety and out-sized upside to long-term Sum of the Parts valuation that is 97% above current level.

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Great Eagle is a major Hong Kong property company listed in Hong Kong (41 HK) and OTC (OTCPK:GEAHF) with a market cap of HKD18.59billion (USD2.37billion) as at 26 November 2019, with the bulk of its property assets being from prime real estate assets in Hong Kong commercial property (through a majority stake in listed Champion REIT), and international luxury hotels under the Langham and sister brand names.

Great Eagle also has an almost unlevered balance sheet with net gearing at 0.2% after excluding the debt of its listed subsidiaries and a fund, which are consolidated on its books but are non-recourse to Great Eagle. The majority shareholder of Great Eagle, the Lo family led by Chairman Dr. Lo Ka Shui, have a long-established track record as real estate and hospitality developers and managers, and with prescient acumen in buying real estate at their lows.

Yet, one has the opportunity presently to buy into Great Eagle at a massive 77% discount

to adjusted book value, as the stock trades at a four year low (presently HKD26.25, 52 week high of HKD40.40 and low of HKD25.50) after a drop of more than 22% since July's escalation in social unrest in Hong Kong. Based on my sum of the parts valuation, long-term fair value is 97% higher than present levels.

Great Eagle can be considered as a holding company for its wholly or majority owned holdings in prime real estate assets, as follows, by order of contribution to the company:

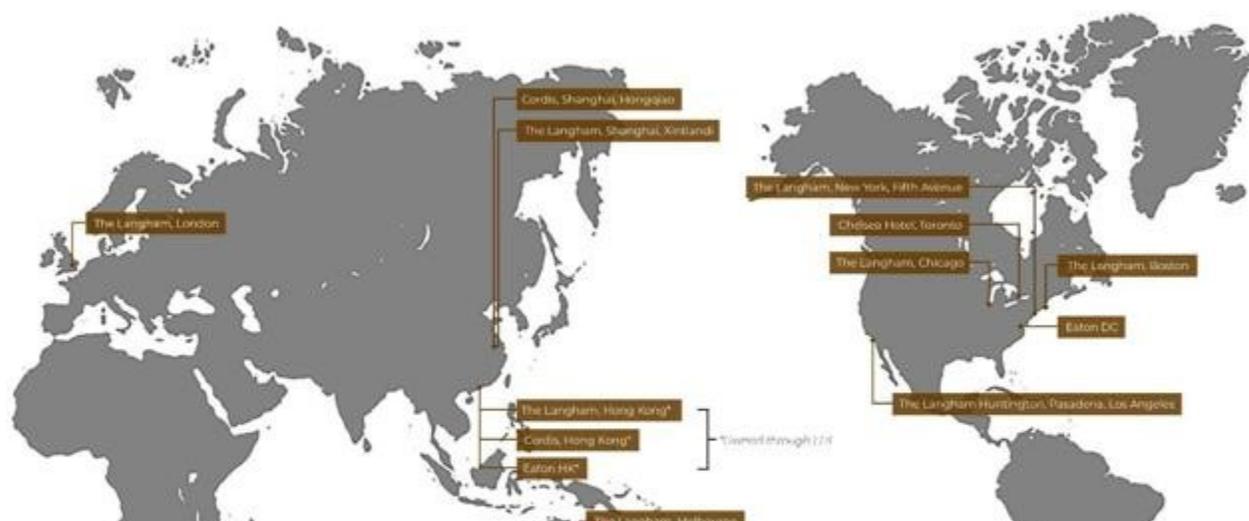
1. 66.0% interest in listed REIT Champion Real Estate Investment Trust.

Hong Kong listed REIT, Champion Real Estate Investment Trust, per annual report, "owns 1.64 million square feet of Grade-A commercial office space in Three Garden Road in the central business district of Hong Kong, as well as the office tower and shopping mall of Langham Place comprising a total floor area of 1.29 million square feet in the prime shopping district of Mongkok, Kowloon". Great Eagle is also both the REIT manager, where it earns 12% of net property income, and the property manager, where it earns 3% of gross revenue and additional marketing fees of Champion REIT, hence deriving both fee income and dividend distribution income from Champion.

2. Portfolio of owned or managed hotels under Langham Hospitality Group

Great Eagle's international hotel portfolio currently comprises of 12 hotels it owns and manages (8 under Langham brand, 2 under Cordis, 1 under Eaton and 1 under Chelsea) globally, and outside of its ownership, 10 hotels it manages. All the hotels are managed by Langham Hotels International Limited, which is a wholly-owned subsidiary of Great Eagle. Below shows the locations of the hotels owned and managed.

Hotels owned by Great Eagle





Hotels managed by Great Eagle, without ownership



Source: Company website

3. 63.14% in listed Langham Hospitality Investments Ltd. (LMMHF)

GEAHF holds a 63.14% interest in Hong Kong and OTC listed investment trust Langham Hospitality Investments Limited. My previous investment thesis on LMMHF can be found here. LMMHF is an investment trust involving share stapled units, with an asset portfolio of three hotels in Kowloon, Hong Kong, comprising of The Langham, Hong Kong, Cordis, Hong Kong and Eaton Hong Kong. These three hotels were spun off from Langham Hospitality Group into LMMHF in a 2013 IPO. Great Eagle as the manager of the hotels for LMMHF, earns a base fee of 1.5% of the total revenue, an incentive fee of 5% of the adjusted gross operating profit and a licence fees of 1% of the total revenue of the hotels of LMMHF. Hence, Great Eagle derives both fee income and dividend distribution income from LMMHF.

4. Investment properties

Great Eagle has two investment properties in Hong Kong from which it derives rental income; these comprise Great Eagle Center, a 35 storey office building with retail, and Eaton Residence Apartments, three blocks of serviced apartments in three locations.

5. Development projects

Great Eagle's development projects comprise a high-end residential development project in Pak Shek Kok, Tai Po, Hong Kong, two hotel development projects in San Francisco to be under the Langham and Eaton brands, a hotel development project in Seattle with the brand to be determined, and a hotel development project in Tokyo, Japan to be under the Langham brand. It also has two joint venture development projects in Dalian, China and Miami.

6. US Real Estate Fund

Great Eagle "owns a 50.0% equity stake in the U.S. Real Estate Fund, which invests in office properties and residential developments in the United States", per annual report. Great Eagle is also the asset manager of the fund, owning an 80% stake in the fund's asset management company.

Contribution by business segment

Contribution of operating income by segment is as follows below. Income from Champion REIT was the biggest contributor at 56%, followed by the hotel portfolio at 23.1%, distribution income from LMMHF at 8.8% and net rental income from investment properties at 6.6%.

Breakdown of operating income	Six months ended 30 June 2019	
	HKD m	Percent
Hotels EBITDA	304.4	23.1%
Income from Champion REIT	737.5	56.0%
Distribution income from LMMHF	116.6	8.8%
Net Rental Income from investment properties	87.1	6.6%
Operating income from other operations	72.4	5.5%
	1,318	100.0%

Source: Company interim report

Great Eagle breaks down its NAV as follows:

NAV based on statutory accounting principles (June 2019)				NAV based on net assets of Champion REIT, LHI and US Fund			
HK\$m	HK\$/shr	% of Total		HK\$m	HK\$/shr	% of Total	

Investment properties	7,672	11.0	11%	Investment properties	7,672	11.0	9%
Appraised valuation by independent valuer				Appraised valuation by independent valuer			
	HK\$m				HK\$m		
Hotels	15,484	22.2	22%	Hotels	15,484	22.2	19%
All valued at cost less depreciation				All valued at cost less depreciation			
Investment in JVs - Dalian and Miami project	1,423	2.0	2%	Investment in JVs - Dalian and Miami project	1,423	2.0	2%
Pak Shek Kok Development project (on cost incurred)	4,400	6.3	6%	Pak Shek Kok Development project (on cost incurred)	4,400	6.3	5%
	HK\$m	HK\$/shr			HK\$m	HK\$/shr	
Statutory accounting treatments for Champion REIT and LHI				Share of net assets of Champion REIT and LHI			
Investment in Champion REIT:				Investment in Champion REIT:			
-66.10% share of Champion's Net Assets	46,285	66.2	64%	-66.10% share of Champion's Net Assets	46,285	66.2	56%
Investment in U.S. Real Estate Fund				Investment in U.S. Real Estate Fund			
-49.97% share of Fund's NAV	432	0.6	1%	-49.97% share of Fund's NAV	432	0.6	1%
Investment in Langham Hospitality Investments (LHI):				-63.14% share of LHI's Net Assets			
Net liabilities from three HK hotels (calculated as book cost of the hotels less debt)	(1,988)	(2.8)	-3%	Based on appraised valuation of LHI's hotels	8,089	11.6	10%
	44,729	64.0	62%		54,806	78.4	67%
Other net (liabilities)/assets	(1,848)	(2.6)	-3%	Other net (liabilities)/assets	(1,848)	(2.6)	-2%
Total	71,860	102.86	100%	Total	81,937	117.28	100%
Net debt	(149)	(0.21)		Net debt	(149)	(0.21)	
Great Eagle's NAV	71,711	102.64		Great Eagle's NAV	81,788	117.07	

Source: Company interim report

Based on Great Eagle's NAV on 30 June 2019 of HKD81,788million, its NAV per share was HKD117.07 (based on the net assets of Champion REIT, LMMHF, and US Fund). Note that as at 31 October 2019, the number of issued shares has since increased, to 708,374,048, and adjusting for this updated share count, the NAV per share is HKD115.46. Therein, at the price of HKD26.25, Great Eagle trades at 0.2273x price to NAV, an astounding 77% discount to NAV for a company with prime real estate assets and virtually no debt. Note that as of 28 November, Champion REIT and LMMHF trade at price to NAV per share ratios of 0.43x and 0.37x respectively, therein by investing into Great Eagle, one would be getting part exposure to Champion REIT and LMMHF at even bigger discounts to NAV than their respective stock listings themselves.

Majority Shareholder of the Company

Great Eagle was founded by the late property tycoon Lo Ying-Shek, with his wife, Lo To Lee Kwan in 1963. Eight members of the Lo family from the first, second and third generation, sit on its board, including Lo To Lee Kwan who's 99. Great Eagle has been led by son Dr. Lo Ka Shui as Chairman. Collectively, the Lo family owns more than 61% of the company; at least 33% is held in a family trust for the Lo family under HSBC International Trustee, whilst Dr. Lo Ka Shui holds at least 28% individually.

Per Forbes, other sons of Lo Ying-Shek and Lo To Lee Kwan have branched out on their own and control other prominent listed real estate companies in Hong Kong: "Vincent founded Shui On Land (272 HK), best known for developing Xintiandi, the famous shopping and entertainment district in Shanghai. Son Lo Yuk Sui helms Century City

International (355 HK), parent of Regal Hotels (78 HK)". Clearly, the family has a very long, established track record as quality real estate and hospitality developers and managers.

Great Eagle and its Chairman Dr. Lo Ka Shui also have a track record of prescience in buying real estate assets at their lows, and selective monetizing of assets at opportune timings. For instance, Great Eagle re-entered Hong Kong residential property development in 2014 (for the first time since 1990), purchasing land in Pak Shek Kok for its Ontolo project at "nearly half the price for which nearby waterfront sites had changed hands in 2007", per SCMP. Its spin-off of Hong Kong commercial real estate assets into Champion REIT in 2006 (deleveraging Great Eagle at the peak of the property market when the company was then highly geared) and hospitality real estate into LMMHF in 2013, were also well-suited in market timing to realize part of the value of the assets.

Review of the business segments and sum of the parts target valuation

I conduct a sum of the parts valuation for Great Eagle, being a holding company for various prime real estate businesses or assets, to derive its long-term fair value. I also seek to err on the side of conservatism in the valuation ascribed to each part.

1. 66.1% interest in listed REIT Champion Real Estate Investment Trust

I value the 66.1% stake in Champion REIT based on Champion's current market capitalization of HKD29.72billion with a price to book of 0.42x, giving a target valuation of HKD19.64billion and per share value of HKD27.73.

2. 63.14% in listed Langham Hospitality Investments Ltd.

I value the 63.14% stake in Langham Hospitality Investments based on LMMHF's current market capitalization of HKD4.78billion with a price to book of 0.36x, giving a target valuation for Great Eagle's stake of HKD3.02billion and per share value of HKD4.26.

Given that Great Eagle's stake in Champion REIT and LMMHF does not have the benefit of being able to be monetized if desired (as one could if owning Champion REIT or LMMHF stock directly), one could debate that they should be valued at a discount to their respective listed market values. However, Great Eagle derives management fee income from both Champion REIT and LMMHF, in its manager roles for the two listed trusts; from Champion REIT this was HKD396.8m in FY 31 December 2018. Ascribing a 9x multiple here, would give a potential value of HKD3,571m or HKD5.04 per share. I exclude

including a valuation for this management business, for added conservatism in having valued the Champion REIT and LMMHF stakes at their listed market value.

3. Portfolio of owned or managed hotels under Langham Hospitality Group

I value Langham Hospitality Group at price to book of 0.5x or 9.06x FY 2018 EBITDA, equating to HKD7.742billion and per share value of HKD10.93. A comparable owner manager hospitality peer, Mandarin Oriental International Ltd., trades at 12.11x FY 2018 EBITDA currently and a 0.52x price to book. Therein, this valuation multiple assigned to Langham Hospitality Group potentially errs on the side of conservatism.

Furthermore, the valuation for Langham Hospitality Group is kept conservative by the book value being based on cost of the hotels less depreciation, not reassessed market value which is higher.

4. Investment properties

The net rental income from these Hong Kong properties totaled HKD177.4million in FY 2018. Valuing this at a 8% net income yield, provides a valuation of HKD2,218.75million or HKD3.13 per share. This represents 0.285x price to book or a 71.5% discount to book value. In view that income in FY 2019 will be lower as a result of the ongoing Hong Kong protests and economic downturn, applying a high 8% net income yield based on FY2018 income is a conservative approach.

5. Development projects

For Great Eagle's residential development project ONTOLO in Pak Shek Kok, Tai Po, Hong Kong, I value this at its cost incurred to date, being HKD4,400million, or per share value of HKD6.21. In view that the proceeds from this project when completed and fully sold (completion expected early 2020) will generate a significant profit margin over its cost, taking the valuation at cost incurred to date is a conservative measure. Furthermore, sales of units in ONTOLO released to date have been fully sold with brisk demand.

Great Eagle has joint ventures in two other development projects, in Dalian, China and Miami. Its JV Dalian project which comprises 1,200 high-end apartments and a luxury hotel, is having all its remaining unsold units and phase 2 of the project sold to an independent third party. This agreement was signed in July 2019 and Great Eagle will book disposal gains in two stages totaling HKD250m by 2020. As a testament to Great Eagle's track record and reputation, its joint venture partner in the project is Blackstone, the largest global private equity firm, and it was Blackstone's first residential investment in

China. Miami represents a small part of the JV project's NAV. I value the JV project at NAV of HKD1,423million or HKD2.01 per share.

6. US Real Estate Fund

The US Real Estate Fund is only a small contributor to Great Eagle, accounting for 1% of NAV. Based on its ongoing and previous investments, the time horizon for its holding of its US commercial and residential properties appears to be typically for a few years; therein there is an expected timeframe for monetization of assets. For conservatism, I value it at 50% of its NAV, representing HKD216m or HKD0.30 per share.

7. Great Eagle has a small net debt position, of HKD149m, for a gearing ratio of only 0.2% as at 30 June 2019, or per share of negative HKD0.21. Note that for statutory accounting purposes of the accounts, the net debt of Champion REIT, LMMHF and the US fund attributable to Great Eagle shareholders, totaling HKD13,083million, are reported on consolidation of the group; giving a gearing ratio of 18.2%, but as these debts are non-recourse to Great Eagle, it is more appropriate that one excludes these for the view on Great Eagle's debt position.

8. Other net liabilities

Great Eagle has other net liabilities, totaling HKD1,848million as at 30 June 2019, or a negative HKD2.61 per share.

The end result of the above sum of the parts valuation is a target fair value of HKD51.76 per share. This represents a still major 55.2% discount to NAV of HKD115.46 per share, and potential upside of 97% to current price of HKD26.25 at point of writing.

	Sum of the parts value (HKD billion)	Sum of the parts value per share (HKD)	NAV per share (HKD)	Discount to NAV
66.1% interest in Champion REIT	19.645	27.732	65.340	57.6%
63.14% interest in LMMHF	3.018	4.261	11.419	62.7%
Langham Hospitality Group	7.742	10.929	21.859	50.0%
Investment properties	2.219	3.132	10.830	71.1%
Pak Shek Kok development project	4.400	6.211	6.211	0.0%
JV projects - Dalian and Miami	1.423	2.009	2.009	0.0%
US real estate fund	0.216	0.305	0.610	50.0%
Net debt	-0.149	-0.210	-0.210	0.0%
Net liabilities	-1.848	-2.609	-2.609	0.0%
Total	36.666	51.760	115.459	55.2%
Current market cap and stock price	18.590	26.250		

Great Eagle at current levels is clearly deeply undervalued. Great Eagle has always traded at significant discounts to NAV, for a variety of concurrent reasons - such as, holding company discount, being controlled by a single (family) shareholder, and possibly a view of a lack of potential catalyst to unlock asset value (e.g. privatization or large scale asset monetization). Its relative stock illiquidity concurrent with the large majority

shareholding held by the family, also makes it potentially overlooked and off the radar of institutional investors. Hong Kong property prices are also at record highs at the end of 1H of this year, and some discount to book can be attributed to a high valuation market. However, the current level of discount to NAV that Great Eagle is seeing is almost unprecedented, especially with the stellar quality of assets and management of the company.

Insider buying

Perhaps, one of the best indicators of Great Eagle stock's high attractiveness and the market irrationality at its current stock valuation, is insider buying. Analyzing exchange filings shows that Great Eagle Chairman Dr. Lo Ka Shui has been buying significantly in the stock since September 2019 - total purchases of 2,947,000 shares at an average cost of HKD26.69 (total consideration of HKD76.67m or USD9.8m. On the days of his purchases since September, Dr. Lo's purchases average 27.1% of the daily traded volume.

Name of director	No. of shares bought / sold / involved	Average price per share HKD	Consideration paid HKD	No. of shares interested	% of issued voting shares	Date of relevant event (dd/mm/yyyy)	Stock volume on day of purchase	Stock purchased as percent of daily volume
Lo Ka Shui	48,000	26.2000	1,257,600	434,300,271(L)	61.31(L)	21/11/2019	179,180	26.8%
Lo Ka Shui	50,000	25.9000	1,295,000	434,252,271(L)	61.30(L)	15/11/2019	141,597	35.3%
Lo Ka Shui	122,000	25.9594	3,167,047	434,202,271(L)	61.30(L)	14/11/2019	215,503	56.6%
Lo Ka Shui	81,000	25.9300	2,100,330	434,080,271(L)	61.28(L)	13/11/2019	168,627	48.0%
Lo Ka Shui	29,000	26.1259	757,651	433,999,271(L)	61.27(L)	12/11/2019	115,735	25.1%
Lo Ka Shui	200,000	26.4970	5,299,400	433,970,271(L)	61.26(L)	11/11/2019	273,000	73.3%
Lo Ka Shui	10,000	26.5000	265,000	433,770,271(L)	61.23(L)	4/11/2019	194,030	5.2%
Lo Ka Shui	10,000	25.6550	256,550	433,770,271(L)	61.23(L)	25/10/2019	233,639	4.3%
Lo Ka Shui	11,000	26.0000	286,000	433,760,271(L)	61.23(L)	15/10/2019	109,620	10.0%
Lo Ka Shui	46,000	26.2000	1,205,200	433,749,271(L)	61.23(L)	14/10/2019	126,594	36.3%
Lo Ka Shui	34,000	25.8956	880,450	433,703,271(L)	61.23(L)	11/10/2019	346,216	26.9%
Lo Ka Shui	142,000	25.7704	3,659,397	433,669,271(L)	61.22(L)	10/10/2019	250,000	56.8%
Lo Ka Shui	130,000	25.7896	3,352,648	433,527,271(L)	61.20(L)	9/10/2019	314,585	41.3%
Lo Ka Shui	100,000	26.1955	2,619,550	433,397,271(L)	61.18(L)	8/10/2019	215,593	31.8%
Lo Ka Shui	24,000	26.1375	627,300	433,297,271(L)	61.17(L)	3/10/2019	229,921	10.4%
Lo Ka Shui	71,000	26.2930	1,866,803	433,273,271(L)	61.16(L)	2/10/2019	297,018	23.9%
Lo Ka Shui	100,000	26.3285	2,632,850	433,202,271(L)	61.15(L)	27/9/2019	275,112	33.7%
Lo Ka Shui	130,000	26.7500	3,477,500	433,102,271(L)	61.14(L)	24/9/2019	715,417	18.2%
Lo Ka Shui	292,000	26.6682	7,787,114	432,972,271(L)	61.12(L)	23/9/2019	2,394,259	12.2%
Lo Ka Shui	200,000	26.8035	5,360,700	432,680,271(L)	61.08(L)	19/9/2019	516,644	8.4%
Lo Ka Shui	470,000	26.8947	12,640,509	432,480,271(L)	61.05(L)	18/9/2019	992,010	47.4%
Lo Ka Shui	200,000	27.2605	5,452,100	432,010,271(L)	60.99(L)	17/9/2019	620,420	32.2%
Lo Ka Shui	100,000	27.6220	2,762,200	431,810,271(L)	60.96(L)	16/9/2019	433,000	16.1%
Lo Ka Shui	100,000	28.1415	2,814,150	431,710,271(L)	60.94(L)	13/9/2019	567,401	17.6%
Lo Ka Shui	100,000	27.9400	2,794,000	431,610,271(L)	60.93(L)	12/9/2019	395,271	25.3%
Lo Ka Shui	74,000	27.7824	2,055,898	431,510,271(L)	60.92(L)	11/9/2019	694,661	18.7%
Lo Ka Shui	63,000	27.5143	1,733,401	431,436,271(L)	60.91(L)	10/9/2019	397,239	15.9%
Lo Ka Shui	10,000	26.8500	268,500	431,373,271(L)	60.90(L)	4/9/2019	823,939	1.2%
Total	2,947,000		78,674,848				Average	27.1%

Source: Hong Kong Exchange

Great Eagle daily volume

41 HK Equity	96 Export	97 Settings	Page 2/3	Historical Price Table
Great Eagle Holdings Ltd			35.25	05/28/19
Range	05/27/2019 - 11/25/2019	Period	Low	25.60
				10/23/19

Market View	Last Price	Volume	Currency	HKD	Average Net Chg	29.77	315,233	
Price Table					-8.15	-23.29%		
Date	Last Price	Volume	Date	Last Price	Volume	Date	Last Price	Volume
Fr 09/27/19	26.55	275,112	Fr 09/06/19	28.95	441,237	Fr 08/16/19	29.60	290,334
Th 09/26/19	26.40	215,649	Th 09/05/19	28.70	530,000	Th 08/15/19	29.05	123,000
We 09/25/19	27.10	417,250	We 09/04/19	28.20	823,039	We 08/14/19	29.05	276,982
Tu 09/24/19	27.10	715,417	Tu 09/03/19	26.60	769,102	Tu 08/13/19	29.05	401,491
Mo 09/23/19	26.70	2,394,259	Mo 09/02/19	28.30	247,471	Mo 08/12/19	29.60	174,044
Fr 09/20/19	26.65	8,623,208	Fr 08/30/19	29.00	213,227	Fr 08/09/19	29.80	124,688
Th 09/19/19	26.75	516,644	Th 08/29/19	28.70	42,383	Th 08/08/19	29.85	195,478
We 09/18/19	26.85	992,010	We 08/28/19	28.90	111,726	We 08/07/19	29.55	265,643
Tu 09/17/19	26.80	620,420	Tu 08/27/19	28.45	375,723	Tu 08/06/19	29.10	696,566
Mo 09/16/19	27.70	433,000	Mo 08/26/19	28.60	559,000	Mo 08/05/19	29.60	185,336
Fr 09/13/19	28.20	567,401	Fr 08/23/19	29.90	80,057	Fr 08/02/19	30.30	172,450
Th 09/12/19	28.00	395,271	Th 08/22/19	30.30	304,812	Th 08/01/19	31.10	146,220
We 09/11/19	27.85	694,661	We 08/21/19	30.30	203,990	We 07/31/19	31.80	379,882
Tu 09/10/19	27.70	397,239	Tu 08/20/19	30.20	242,000	Tu 07/30/19	32.10	143,108
Mo 09/09/19	28.05	264,126	Mo 08/19/19	30.15	296,183	Mo 07/29/19	32.30	180,825

41 HK Equity		90 Export		97 Settings		Page 1/3		Historical Price Table	
Great Eagle Holdings Ltd		Range 05/27/2019 - 11/25/2019		Period Daily		High 35.25 on 05/28/19		Low 25.60 on 10/23/19	
Market View	Last Price	Volume	Currency	HKD	Average Net Chg	29.77	315,233	-8.15	-23.29%
Date	Last Price	Volume	Date	Last Price	Volume	Date	Last Price	Volume	
Fr 11/29/19			Fr 11/08/19	26.80	140,000	Fr 10/18/19	26.35	78,170	
Th 11/28/19			Th 11/07/19	27.10	226,074	Th 10/17/19	26.50	117,804	
We 11/27/19			We 11/06/19	26.85	151,162	We 10/16/19	26.50	127,014	
Tu 11/26/19			Tu 11/05/19	26.65	158,809	Tu 10/15/19	26.25	109,620	
Mo 11/25/19	26.85	499,037	Mo 11/04/19	26.60	194,030	Mo 10/14/19	26.35	126,594	
Fr 11/22/19	26.15	103,275	Fr 11/01/19	26.45	119,000	Fr 10/11/19	26.05	346,216	
Th 11/21/19	26.20	179,180	Th 10/31/19	26.50	136,137	Th 10/10/19	25.70	250,000	
We 11/20/19	26.80	228,892	We 10/30/19	26.30	79,925	We 10/09/19	25.80	314,585	
Tu 11/19/19	26.45	142,014	Tu 10/29/19	26.45	181,970	Tu 10/08/19	26.10	215,593	
Mo 11/18/19	26.15	117,707	Mo 10/28/19	26.90	543,587	Mo 10/07/19			
Fr 11/15/19	25.90	141,597	Fr 10/25/19	26.05	233,639	Fr 10/04/19	26.50	298,170	
Th 11/14/19	25.85	215,503	Th 10/24/19	25.65	304,768	Th 10/03/19	26.50	229,921	
We 11/13/19	25.95	168,627	We 10/23/19	25.60	297,823	We 10/02/19	26.35	297,018	
Tu 11/12/19	26.25	115,735	Tu 10/22/19	26.05	150,971	Tu 10/01/19			
Mo 11/11/19	26.30	273,000	Mo 10/21/19	26.30	70,634	Mo 09/30/19	26.80	128,631	

Source: Bloomberg

Potential nearer term and long-term catalysts

Amidst the significant economic slowdown and market correction in Hong Kong with the ongoing protests, Great Eagle's businesses and share price have been impacted, with the stock down about 22.8% since July. The bulk of the decline in stock price took place between July and September, whilst the stock has traded within a tight range of its lows in October and November.

There are both nearer term and long-term possible catalysts to Great Eagle stock. In the near to mid-term, signs of an improvement or end to the ongoing situation in Hong Kong, will provide a (more sustained) catalyst to the broader Hong Kong market and the stock. Furthermore, small and mid cap stocks in Hong Kong have lagged large cap stocks during recent spurts of market rebound that have taken place, whilst generally having seen greater percentage declines from July levels vs. large caps. Ultimately in time, I view the

disparity in performance of smaller and mid cap stocks vs. large caps will narrow, as when a sustained market rebound takes place in Hong Kong, investors will look for greater value in the small and mid cap and the relatively more under-followed space after large cap stocks have led the rebound.

I see longer term catalysts for Great Eagle coming from its international hotels under Langham Hospitality Group. Great Eagle has numerous hotel management agreements as well as owned hotels in the pipeline for 2020 through to 2022 and beyond, per below. With the expansion and greater scale in number of hotels under the Langham and its sister brands, view there will be an accompanying higher valuation multiple reflected for Langham Hospitality Group/Great Eagle.

2019	Rooms	Status
Cordis, Hangzhou	184	Agreement
2020	Rooms	Status
Cordis, Shanghai East Bund	161	Agreement
The Langham, Jakarta	225	Agreement
The Langham, Changsha	296	Agreement
2021	Rooms	Status
Cordis, Yuhu Lake, Chongqing	202	Agreement
The Langham Turtle Bay, Queensland, Australia	58	Agreement
Cordis, Hangzhou	175	Agreement
2022 and after	Rooms	Status
The Langham, Tokyo	280	Owned hotel
The Langham, Chengdu	231	Agreement
Eaton, San Francisco	180	Owned hotel
Cordis, Baoshan, Shanghai	262	Agreement
Cordis, Xiamen	400	Agreement
The Langham, San Francisco	410	Owned hotel
The Langham, Nanjing	230	Agreement
A hotel in Seattle	173	Owned hotel

Source: Company interim report

There is also significant value that can be unlocked from the existing hotel portfolio in the long term. Great Eagle has submitted a development proposal to redevelop its Chelsea Hotel in Toronto into a "mixed-used project with a 400-key hotel, two residential towers and other commercial space which would more than double the existing aggregate floor area", per interim report. Great Eagle will submit a site permit application in the second

half of 2019 and expects to receive construction permit approval in two to three years' time after the application submission.

Furthermore, given the valuation difference between Great Eagle and LMMHF, any spin-off of Great Eagle's Asia hotels into LMMHF in the long term, or even a separate listing of its international hotels ex-Asia (LMMHF has first right of refusal to purchase the hotels in Asia) after a longer term expansion in the number of hotels, would be further catalysts to unlock the significant value in the assets.

Conclusion

In summary, Great Eagle is perhaps unrivaled, in holding prime real estate, stellar management, an almost no debt position, having consistent insider stock purchases, potential catalysts and trading at this kind of massive 77% discount to NAV. Amidst an investment market in a state of maximum pessimism, I am maximum bullish on Great Eagle in offering out-sized upside in the long-term and minimal long-term downside at current price levels, and have bought in at these recent/current stock price lows.





Disclosure: I am/we are long GEAHF, LMMHF. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Comments (1)

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very interesting. thank you

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