

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

PAX Global (327 HK)

VBill's business resumption positive to PAX's POS shipment in China

- VBill, one of PAX's major acquirer clients in China (~12% of FY13 sales), is allowed to resume developing new merchants in FY15E
- Assuming VBill's FY15E orders to PAX return to 185K (same as FY13), it implies 6%/4% upside to our FY15E volume/EPS estimates
- Reiterate BUY with TP HK\$9.8, (20x FY15E P/E, 31% discount to global peers)

What's new

VBill (SXF, 随行付), a subsidiary of Hi Sun, announced that it has been allowed by PBOC to resume accepting new merchants for its bank card acquiring business in China (except 5 provinces) since its suspension in April 2014. VBill is the 3rd largest third-party payment acquirer in China (11% mkt share in FY13), with 320K merchants in FY14E. Previously in Apr 2014, PBOC has suspended 8 third-party acquirers from developing new merchants, and further penalties were implemented on 4 acquirers (ChinaPNR, Fuiou, Yeepay and VBill) in 15 provinces on 10 Sep 2014.

Implications:

VBill was one of PAX's major China customers before suspension in April 2014 (~12%/5% of FY13/1H14 PAX's sales). After PBOC's suspension of 8 third-party acquirers in 2Q14, we noticed POS shipment slowdown in 3Q/4Q in China (1.08mn/1.27mn in 3Q/4Q, vs 1.38mn/1.57mn in 1Q/2Q), based on PBOC data. Given that PAX was VBill's largest POS supplier in FY13, we expect PAX will benefit from the resumption of VBill's POS orders in FY15E. If we assume PAX's shipment VBill could return to FY13 level of 185K units (vs 65K in 1H14), it will imply 6%/4% upside to our FY15E shipment/EPS estimates.

Valuation/ Key risks

We reiterate our BUY rating and TP HK\$9.8 based on 20x FY15E P/E. PAX is currently trading at 16.7x FY15E P/E (12.9x ex-cash FY15E P/E), 31% discount to its global peers (21.9x FY15E P/E). We expect near-term catalysts from M&A, continued share gains and Apple Pay/UnionPay Quick Pass. Key risks include product concentration risk, pricing/margin pressure in EM and deal execution risk.

Financials

HKD m	2013	2014	2015E	2016E	2017E
Revenue	1,472	2,373	3,084	3,888	4,712
Growth (%)	12%	61%	40%	26%	21%
Net profit	227	392	527	663	797
Growth (%)	24%	73%	34%	26%	20%
EPS (HKD)	0.22	0.36	0.49	0.61	0.74
DPS (HKD)	0	0	0	0	0
P/E (x)	37.3	22.4	16.7	13.2	11.0
P/B (x)	4.0	3.4	2.9	2.3	1.9
ROE (%)	11%	15%	17%	18%	18%

Source: Company data, CMS (HK) estimates

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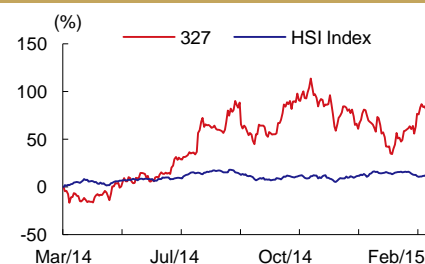
WHAT'S NEW

N/A

BUY

Previous	BUY
Price	HK\$8.13
12-month Target Price (Potential upside)	HK\$9.8 (+21%)
Previous	HK\$9.8

Price Performance



Source: Bigdata

%	1m	6m	12m
327 HK	21.4	16.4	73.0
HSI	(1.5)	0.7	13.4

Industry: Hardware Technology

Hang Seng Index	24375
HSCEI	12156

Key Data

52-week range (HK\$)	3.61-9.51
Market cap (HK\$ mn)	8992
Avg. daily volume (mn)	6.5
BVPS (HK\$)	2.3

shareholdings Structure

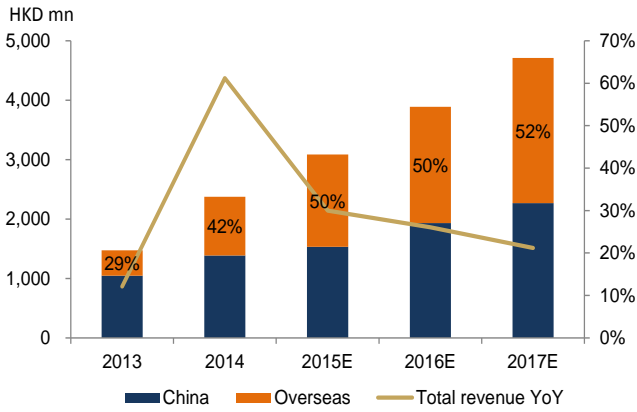
Hi Sun Technology (818 HK)	33.1%
FMR LLC	8.0%
No. of shares outstanding (mn)	1,101
Free float	58.9%

Related Research

1. PAX Global (327 HK) – NDR takeaways: solid and focused; Product innovation and overseas expansion to fuel growth in FY15E (13/03/2015)
2. PAX Global (327 HK) – Strong FY14 results; Expect accelerated growth on mobile payment trend (06/03/2015)
3. PAX Global (327 HK) – China payment giant going global; Initiate with BUY (04/03/2015)

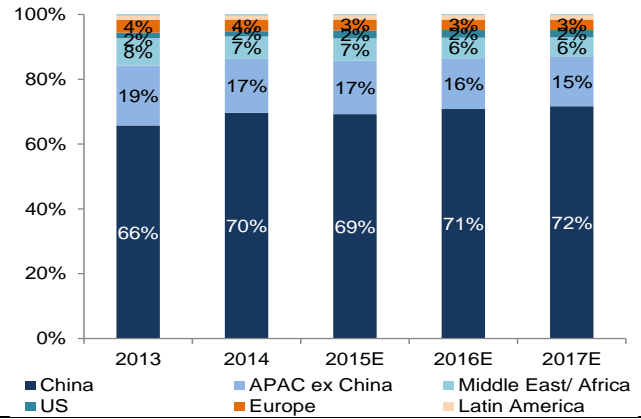
Focus charts

Figure 1: FY15-17E Rev CAGR: 24% with increasing overseas exposure



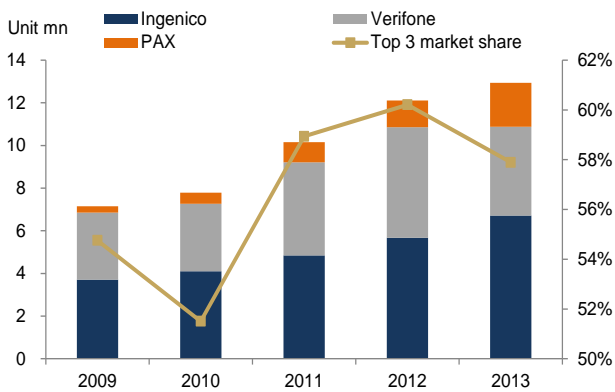
Source: Company, CMS(HK)

Figure 2: Margin improvement with shipment mix change to higher-ASP overseas market



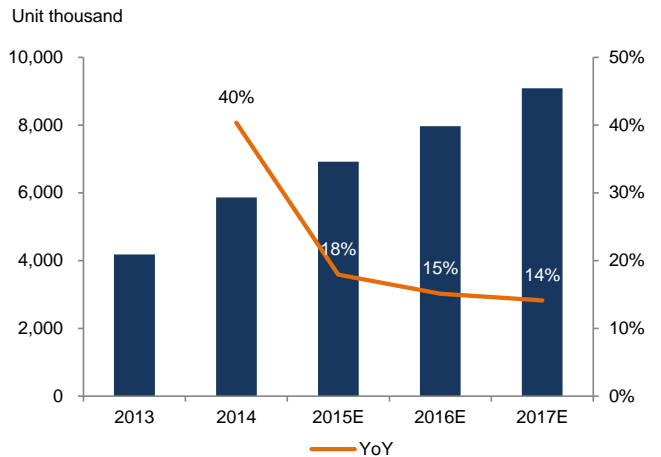
Source: Company, CMS(HK)

Figure 3: PAX gained global market share amid consolidation



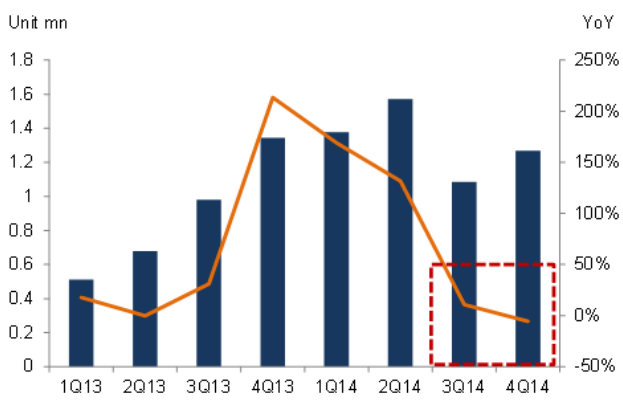
Source: Nilson, CMS(HK)

Figure 4: China POS terminal market growth is stabilizing



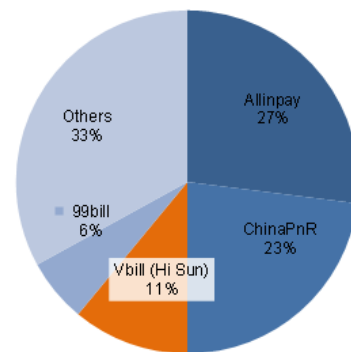
Source: PBOC, Bureau of Statistics, CMS(HK)

Figure 5: China – POS terminal net adds slowed down in 3Q-4Q14



Source: PBOC, CMS(HK)

Figure 6: China – Third party acquirers market share (2013)



Source: iResearch, CMS(HK)

PAX global development overview (EFT-POS terminals)

Region	FY13		FY14E	FY15E	Country	Position					
	Vol ('000)	Mkt Shr	Vol. gth	Vol. gth							
EM APAC	1,735 (+79% YoY)	16%	38%	33%	China	2012 Selected as UnionPay POS solutions providers 2014 Shipment over 1.3m in 40+ cities 2015 Renew e-payment tie-up with CCB					
					HK	2003 Products certified by EPS network and won HSBC bid					
					Indonesia	2014 Partnered with 3 major banks which mkt shr >50% of total merchant transaction volume					
					India	2013 Shipped 10,000 contactless					
					N.Zealand	2014 Selected as mPOS solutions provider of ASB Bank					
					Korea	2001 Won First overseas deal in Korea					
					Vietnam	2001 Entered the market					
					Latin America	29 (+35% YoY)	1%	30%	30%	Brazil	2013 Partnered with No. 1 acquirer Cielo (CIEL3 BZ) 2014 Partnered with UOL (>40,000 retail POS software customers)
										Argentina	2014 Partnered with No. 1 acquirer LAPOS (set up by Visa Argentina 80% mkt share) & First Systems
					Middle East/Africa	173 (+4% YoY)	6%	20%	18%	Egypt	2013 Partnered with EBE targeting at govt/ acquiring banks 2014 Chosen by the Egyptian govt to deploy 20,000 mobile terminals
										Iran	2011 Partnered with Tosan (>150,000 POS shipped)
										Saudi Arabia	2011 Partnered with STC mobile (30,000 shipment)
					Kuwait	2010 Partnered with KNET, with connections to all local banks, as exclusive agent for PAX POS deployment					
					Egypt	2013 Partnered with EBE targeting at govt/ acquiring banks 2014 Chosen by the Egyptian govt to deploy 20,000 mobile terminals					
DM Europe	81 (+23%YoY)	2%	20%	23%	Iran	2011 Partnered with Tosan (>150,000 POS shipped)					
					U.K.	2012 Opened office in London 2014 Launched new POS with Optomany for acquiring banks					
					Russia	2013 Won tender to provide 15,000 POS devices to largest bank 2014 Launched a fiscal E-payment terminal integrated with tax modules at lowest cost among competitors					
					Portugal	2014 Passes SIBS certification and partnered with Petrotec					
					Turkey	2010 Partnered with Verisoft to deliver POS solutions to banks 2014 Partnered with Derpos					
					U.S./Canada	41 (+25%YoY)	3%	25%	150%	U.S.	2008 Entered the market 2013 Received products certifications from one of the top 5 acquirers, Heartland Payment System (HPY US) 2014 Partnered with KinPOS to capture Central America mkt
					Total EFT-POS terminal shipment	2,058 (+64%YoY)	9%	34%	34%		

Source: Nilson report, Company data, CMS(HK) estimates

Figure 7: PAX revenue assumptions

HK\$m, Dec-YE	2013	2014	2015E	2016E	2017E
Sales of electronic payment products	1,431	2,547	3,027	3,821	4,667
YoY	11.2%	62.4%	30.2%	26.2%	22.1%
POS terminals	1,367	2,222	2,561	3,238	3,988
mPOS	-	222	355	463	604
Consumer activated devices (PIN pads)	48	92	101	111	70
Contactless devices	16	12	10	9	5
Services	21	26	34	42	30
YoY	12.1%	27.8%	28.0%	25.0%	25.0%
Others	20	22	23	24	15
YoY	167.6%	7.3%	5.0%	5.0%	5.0%
Total revenue	1,472	2,595	3,084	3,888	4,712
YoY	12%	61%	30%	26%	21%

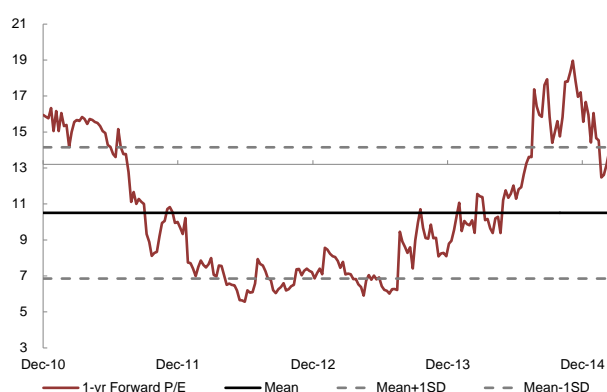
Source: Company, CMS(HK) Estimates

Valuation

We maintain our BUY rating with TP of HK\$9.8 (21% upside). Trading at 31% discount to its global peers (21.9x FY15E P/E), we expect further room for multiple expansions given 1) stronger revenue/EPS growth vs history, 2) continued global share gains in next few years, 3) higher overseas exposure towards high-margin DM and high-growth EM, and 4) accelerated M&A to diversify into services with recurring revenues. Key risks include product concentration risk, pricing/margin pressure in EM and deal execution risk.

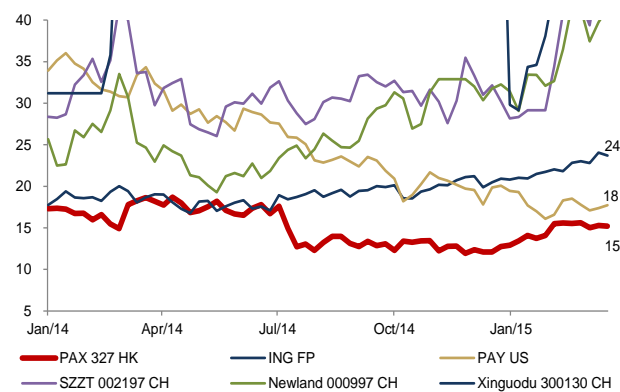
PAX is currently trading at 16.6x our FY15 EPS estimates (12.9x ex-cash P/E), 17% below its historic high-end (19.4x P/E) and 1-SD above 5-year historical average (10.4x P/E). We believe our target multiple of 20x FY15 P/E is justified, given 1. stronger revenue and EPS growth (24%/23% FY15E-17E CAGR) vs history (26%/16% FY10-13 CAGR), 2. global No.3 position with 9% market share vs smaller domestic player in the past, 3. increasing overseas exposure towards higher margin mature markets (US, UK, Italy, Germany) and fast-growing emerging countries (Brazil, Argentina, Turkey), and 4. higher mix in services segment with higher recurring revenues (mgmt guidance 10% mix in 3-5 years). We also expect further room for multiple expansion given PAX's improving growth profile, continued margin expansion and global market share gains.

Figure 8: PAX 1-yr fwd P/E band



Source: Bloomberg, CMS(HK) Estimates

Figure 9: Industry 1-yr fwd P/E comparison



Source: Bloomberg, CMS(HK) Estimates

Peer comparison

Company	Ticker	Rating	Market Cap (US\$ mn)	Current Price (LC\$)	TP (LC\$)	Upside	P/E (x)		P/B (x)		ROE (%)		
							FY14	FY15E	FY14	FY15E	FY14	FY15E	
PAX Global	327 HK	BUY	1,159	8.12	9.76	20%	22.4	16.7	3.4	2.9	10%	17%	
China													
SZZT Electronics	002197 CH	NR	1,248	28.96	N/A	N/A	N/A	N/A	4.2	4.5	7%	10%	
Fujian Newland	000997 CH	NR	3,209	38.36	N/A	N/A	64.3	45.5	10.8	9.1	16%	20%	
Xinguodu	300130 CH	NR	1,163	63.30	N/A	N/A	174.1	86.0	N/A	N/A	N/A	N/A	
Simple Avg								119.2	65.7	7.5	6.8	12%	15%
Overseas													
Ingenico	ING FP	NR	7,279	103.85	N/A	N/A	29.9	24.3	6.4	4.9	21%	21%	
VeriFone	PAY US	NR	4,036	35.48	N/A	N/A	23.8	19.4	3.6	4.0	15%	21%	
Simple Avg								26.9	21.9	5.0	4.4	18%	21%

Source: Bloomberg, CMS(HK) Estimates

Financial Summary

Balance Sheet

HKD million	2013	2014	2015E	2016E	2017E
Current assets	2,824	3,323	4,328	5,163	6,406
Cash & equivalents	1,698	1,919	2,450	2,863	3,619
Account receivables	638	898	1,098	1,418	1,631
Inventories	465	475	733	827	1,092
Restricted cash	17	16	16	16	16
Other current assets	6	14	31	39	47
Non-current assets	8	12	10	7	5
Property, plant and equipment	8	11	9	7	5
Leasehold land	0	0	0	0	0
Other non-current assets	0	0	0	0	0
Total assets	2,833	3,334	4,338	5,171	6,410
Current liabilities	746	786	1,297	1,468	1,911
ST borrowings	0	0	0	0	0
Account payables	446	424	658	663	936
Other payables	275	285	586	739	895
Tax payables	25	78	52	66	80
Other current liabilities	0	0	0	0	0
Non-current liabilities	0	0	0	0	0
LT borrowings	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0
Total liabilities	746	786	1,297	1,468	1,911
Share capital	104	110	110	110	110
Reserves	1,983	2,438	2,965	3,628	4,425
Minority interest	0	0	0	0	0
Shareholders' equity	2,087	2,548	3,075	3,738	4,535
Total equity and liabilities	2,833	3,334	4,372	5,207	6,446

Cashflow Statement

HKD million	2013	2014	2015E	2016E	2017E
Operating cashflow	292	199	552	392	729
Net income before tax	266	463	620	780	938
Depreciation and amortisation	4	4	4	4	5
Share-based payments	14	0	0	0	0
Interest income	(15)	(23)	(15)	(25)	(29)
Provision of obsolete inventories	11	64	0	0	0
Other operating cash flow	54	(290)	62	(265)	(58)
Change in working capital	(42)	(19)	(118)	(103)	(127)
Investing cashflow	23	22	(21)	21	27
Capital expenditure	(1)	(1)	(2)	(2)	(2)
Financial assets (net)	10	0	0	0	0
Interest income	15	23	15	25	29
Other investments	0	0	(34)	(2)	0
Financing cashflow	8	0	0	0	0
Net proceeds from borrowings	0	0	0	0	0
Net proceeds from share issue	0	0	0	0	0
Dividend paid	0	0	0	0	0
Other financing cashflow	8	0	0	0	0
Net change in cash	323	220	532	412	756
Cash and year end	1,698	1,919	2,450	2,863	3,619

Profit & Loss Statement

HKD million	2013	2014	2015E	2016E	2017E
Revenues	1,472	2,373	3,084	3,888	4,712
Cost of sales	(931)	(1,508)	(1,917)	(2,412)	(2,918)
Gross profit	541	865	1,167	1,476	1,793
Selling exp	(131)	(219)	(285)	(361)	(442)
R&D exp	(94)	(114)	(160)	(213)	(267)
Other admin exp	(100)	(140)	(179)	(223)	(269)
Operating profit	216	393	543	678	815
Interest income	15	23	15	25	29
Interest expense	0	0	0	0	0
Other non-op items	36	47	62	78	94
Pre-tax profit	266	463	620	780	938
Income tax expense	(40)	(71)	(93)	(117)	(141)
After-tax profit	227	392	527	663	797
Non-controlling interests	0	0	0	0	0
Net profit	227	392	527	663	797
Basic EPS (HKD)	0.22	0.36	0.49	0.61	0.74
DPS (HKD)	0.00	0.00	0.00	0.00	0.00

Financial Ratios

	2013	2014	2015E	2016E	2017E
YoY growth rate					
Revenue	12%	61%	30%	26%	21%
Operating profit	12%	82%	38%	25%	20%
Net profit	24%	73%	34%	26%	20%
Profitability					
Operating margin	15%	17%	18%	17%	17%
Net margin	15%	17%	17%	17%	17%
ROE	11%	15%	17%	18%	18%
ROA	8%	12%	12%	13%	12%
ROIC	54%	77%	86%	93%	93%
Liquidity					
D/A	0	0	0	0	0
ND/A	-60%	-58%	-56%	-55%	-56%
Current ratio	3.8	4.2	3.3	3.5	3.4
Quick ratio	2.3	2.5	1.9	2.0	1.9
Operating efficiency					
Asset turnover	0.52	0.71	0.71	0.75	0.73
Inventory turnover	2.00	3.17	2.62	2.92	2.67
AR turnover	2.31	2.64	2.81	2.74	2.89
AP turnover	2.09	3.56	2.91	3.64	3.12
Per share ratios (HKD)					
EPS	0.22	0.36	0.49	0.61	0.74
CFPS	0.28	0.18	0.51	0.36	0.68
BPS	2.01	2.36	2.85	3.46	4.20
DPS	0	0	0	0	0
Valuation ratios					
PE	37.3	22.4	16.7	13.2	11.0
PB	4.0	3.4	2.9	2.3	1.9
EV/EBITDA	30.7	17.3	11.6	8.7	6.3

Source: Company data, CMS (HK) estimates

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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