

Hi Sun Tech. (818 HK)
Strong Buy
Sector: TMT
Focus on the Offline Acquiring Services

Suixingfu (SXF, 随行付), a subsidiary of Hi Sun, is the top 10 offline third-party acquirer in China whom involved in bank-card payment acquiring services. SXF currently has 320,000 merchants and is expected to become the growth driver of Hi Sun in the next three years.

Investment Highlights :

- ✧ **Positive operating cash flow with HK\$1.98bn cash available by the end of FY14.** Hi Sun reported FY14 results with revenue up 18% to HK\$1,529mn y-o-y, it was mainly due to positive performance from the payment processing solutions segment (including SXF) and financial solutions segment, with approximately 18% and 50% growth yoy respectively. Net profit increased by 1,408% to HK\$401mn y-o-y, which was mainly contributed by the one-off gain from disposal of equity stake in PAX (327.HK) with a gain of HK\$304mn as well as other one-off items. We expect the huge cash available can strengthen the financial ability to fund some potential projects on hand.
- ✧ **Acceptance of new merchants will be resumed soon.** Business operation of SXF, one of the key growth drivers in the future as we believed, is continuing to provide payment processing solutions services to their existing 320,000 merchants. Whilst reformation process required by PBoC and other relevant regulatory bodies is still in progress, the acceptance of new merchants will be resumed upon passing of inspection.
- ✧ **Financial solutions segment achieved 50% growth in revenue yoy.** Hi Sun continues to strengthen the competitive edge in the core banking sector. The company has successfully entered into new contracts with customers such as China Guangfa Bank and China Minsheng Bank (HK branch), enhancing the operating revenue and profit margin. Internet banking promotion has produced initial results, and P2B/P2P business is implemented by customers such as China Guangfa Bank, Bohai Bank. For the third party payment aspect, Anbang Insurance Group is one of the new major customers. We believe the good relationship with banks and insurance allow Hi Sun to create its own eco-system throughout the finance industry.
- ✧ **Maintain Strong Buy rating with target price HK\$3.45.** We revise up our FY15E/16E/17E estimates of net profit to HK\$217mn / HK\$328mn / HK\$443mn, respectively. Due to the fact that 2 of the 8 offline third party acquirers have been lifted for accepting new merchants, we are confident that SXF can soon resume marketing new merchants. We maintain our recommendation and target price of HK\$3.45, base on our SOTP methodology.
- ✧ **Risk Disclosure :** Fail to pass the inspection by PBoC on the acquiring business

Financial Data

Unit : Million (HK\$)	FY2014	FY2015E	FY2016E	FY2017E
Revenue	1,529	1,524	2,293	3,374
YoY (%)	18.1%	-0.4%	50.5%	47.2%
Net Profit to com. Shareholder	401	218	317	482
YoY (%)	1408.4%	-45.7%	45.2%	52.3%
GPM (%)	33.3%	43.2%	45.1%	46.4%
ROE (%)	13.5%	6.6%	8.8%	12.0%
EPS (HK\$)	0.144	0.079	0.114	0.174
P/E (x)	14.53	26.75	18.42	12.09
P/B (x)	1.81	1.69	1.54	1.36

Source: CIS(HK), Bloomberg,

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6 - 12m TP : HK\$ 3.45 (+64.3%)

Current Price : HK\$ 2.10

Change of Rating : Unchanged

Basic Information

Total no. of shares : 2,777mn

Free Floats : 64.72%

Market Cap : HK\$5,831mn

Trading Volume : 4,419,013

Trading Turnover : 9,204,603

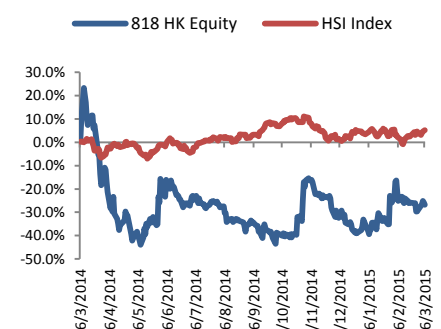
Share Price Performance

Related Research Reports
<A Leading Offline Third-party Bankcard Acquirer in PRC> Initiation Report on 3Feb15

Figure 1 : Financial Data and Forecast

Income Statement		FY2014	FY2015E	FY2016E	FY2017E	Balance Sheet		FY2014	FY2015E	FY2016E	FY2017E
Total Revenue	HKD mn	1,529	1,524	2,293	3,374	PPE	HKD mn	109	125	138	151
Cost of sales	HKD mn	(1,020)	(864)	(1,258)	(1,810)	Others	HKD mn	1,442	1,614	1,821	2,059
Gross profit	HKD mn	509	660	1,034	1,564	Total Non-Current Assets	HKD mn	1,551	1,739	1,959	2,210
Other income	HKD mn	141	30	31	33	Inventories	HKD mn	54	45	66	95
Operating expense	HKD mn	(599)	(616)	(910)	(1,326)	Trade and bills receivables	HKD mn	337	336	505	743
Operating Profit	HKD mn	51	73	155	271	Cash at bank and on hand	HKD mn	1,978	2,100	2,339	2,732
Associates	HKD mn	370	171	208	237	Others	HKD mn	191	191	191	191
Finance costs	HKD mn	-	-	-	-	Total Current Assets	HKD mn	2,560	2,672	3,101	3,761
Profit before tax	HKD mn	421	245	363	509	Trade payables	HKD mn	489	554	852	1,272
Income tax expense	HKD mn	(20)	(13)	(19)	(26)	Borrowings	HKD mn	0	0	0	0
Minority interest	HKD mn	4	(14)	(27)	(47)	Others	HKD mn	407	407	407	407
Net Profit to common.	HKD mn	401	218	317	482	Total Current Liabilities	HKD mn	896	961	1,259	1,679
No. of shares outstanding (mn)		2,777	2,777	2,777	2,777	Borrowings	HKD mn	0	0	0	0
Growth y-o-y						Others	HKD mn	0	10	14	20
Revenue	%	18.1%	-0.4%	50.5%	47.2%	Total Non-Current Liabilities	HKD mn	0	10	14	20
Gross profit	%	5.3%	29.6%	56.8%	51.2%	Share capital	HKD mn	7	7	7	7
Operating Profit	%	-188.5%	43.8%	111.6%	74.8%	Total reserve	HKD mn	3,185	3,398	3,717	4,156
Net Profit to common	%	1408.4%	-45.7%	45.2%	52.3%	Non-controlling interests	HKD mn	22	36	63	110
						Total equity	HKD mn	3,214	3,440	3,787	4,273
Ratio Analysis		FY2014	FY2015E	FY2016E	FY2017E	Cash Flow		FY2014E	FY2015E	FY2016E	FY2017E
Profitability						Profit before tax	HKD mn	421	245	363	509
GPM	%	33.3%	43.3%	45.1%	46.4%	Depreciation in PPE	HKD mn	48	50	52	54
OPM	%	3.3%	4.8%	6.8%	8.0%	Change in working capital	HKD mn	120	74	108	153
NPM	%	26.2%	14.3%	13.8%	14.3%	Others	HKD mn	(122)	(177)	(210)	(246)
ROA	%	20.9%	10.2%	13.4%	17.5%	Cashflow from operating act.	HKD mn	523	192	313	469
ROE	%	13.5%	6.6%	8.8%	12.0%	Capex	HKD mn	(69)	(72)	(76)	(80)
Liquidity & Solvency						Others	HKD mn	462	2	2	2
Current Ratio	(x)	2.9	2.8	2.5	2.2	Cashflow from investment ac	HKD mn	394	(70)	(73)	(77)
Quick Ratio	(x)	2.6	2.5	2.3	2.1	Loan change	HKD mn	0	0	0	0
Cash Ratio	(x)	2.2	2.2	1.9	1.6	Others	HKD mn	(0)	(0)	(0)	(0)
DuPont Analysis						Cashflow from financing act.	HKD mn	(0)	(0)	(0)	(0)
Net Profit Margin	%	26.2%	14.3%	13.8%	14.3%	Net cashflow	HKD mn	917	122	239	392
Asset Turnover	x	0.8	0.7	1.0	1.2	Free cashflow	HKD mn	454	120	237	390
Leverage Ratio	x	0.6	0.6	0.7	0.7						

Source: CIS(HK)

Figure 2 : Valuation Table

Business Segement	Controlling Stake (%)	2015E Net Profit (HK m)	Valuation (HKD m)	Methodology
SXF	80%	82	4,631.5	0.2x FY14-16 PEG
IT and payment solutions	100%	41	330.8	8x PER
PAX Global	33%	518	2,522.0	Current Mkt Cap
Sum			7,484.3	
Net Cash in FY15E			2,099.8	
Total Value			9,584.1	
Number of Shares Outstanding (m)			2,776.8	
Implied target price (HKD)			3.45	

Source: CIS(HK)

Disclaimer

Investment Recommendation System

Company Rating:

Strong Buy: Expecting a relative return of over 20% against Hang Seng Index in coming 6-12months

Buy: Expecting a relative return of 10-20% against Hang Seng Index in coming 6-12months

Hold: Expecting a relative return of $\pm 10\%$ against Hang Seng Index in coming 6-12months

Avoid: Expecting a relative return of -10% or less against Hang Seng Index in coming 6-12months

Sector Rating

Outperform: Expecting a relative return of over 5% against Hang Seng Index in coming 6-12months

Neutral: Expecting a relative return of over $\pm 5\%$ against Hang Seng Index in coming 6-12months

Underperform: Expecting a relative return of -5% or less against Hang Seng Index in coming 6-12months

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