

Company Report

PAX Global (327 HK)

Implications of Apple Pay/Samsung Pay launch in China

- Several Chinese banks announced to launch Apple Pay on 18 Feb, following UnionPay's aggressive push of its NFC Quickpass terminals
- Apple/Samsung Pay launch in China is a major catalyst for PAX given stronger upgrade demand from rising mobile payment trend
- Maintain BUY with TP HK\$12.0, based on 15.5x FY16E ex-cash P/E plus HK\$2.63 cash

UnionPay poised to gain share in China mobile payment market

Following China UnionPay's previous announcement in Dec to launch Apple Pay /Samsung Pay in early 2016, news media (e.g. Sina news) reported that several major Chinese banks, (e.g. ICBC, Guangfa Bank and Construction Bank), will officially launch Apple Pay on Feb 18. In addition, PAX Global announced to establish a partnership with Samsung to implement 'Samsung Pay' in all its POS terminal products. We believe introduction of NFC-based Apple Pay and MST-based Samsung Pay in China will boost mobile payment adoption in China. China's mobile payment market is now dominated by QR-code based solution (Alipay/ TenPay), due to their easy-of-use, lower installation/transaction cost and strong marketing capability. However, we believe government-backed UnionPay is set to boost its own NFC-based mobile payment solution in near future, accelerating the upgrade demand of NFC-enabled POS terminals.

Positive to PAX: strong NFC products and UnionPay key supplier

We believe the adoption of Apple/Samsung Pay in China is positive to PAX, as PAX is the first Chinese POS vendor approved by Apple Pay and 2nd largest POS vendor in China (mkt share ~25%). PAX debuted its Apple PAY solution with CCB and UnionPay in early 2015, and 70% of PAX's China shipment is now equipped with NFC. Being the major supplier for UnionPay's Quickpass terminals, we believe PAX will benefit from UnionPay's aggressive push of its NFC-based mobile payment solution. China UnionPay is the largest 3rd-party acquirer in China (30% share in 2013), with 5mn+ Quickpass installed base at 10,000+ locations of 25 franchise chains in China, including Carrefour, McDonald's, Watsons, FamilyMart, COSTA).

China demand (NFC/SmartPOS) better than feared; Retain BUY

Our conservative estimate for PAX's China business is 10% sales CARG during FY15-17E, vs 27% sales CARG for overseas market. Trading at 9.4x ex-cash FY16E P/E, 36% discount vs. global peers, we think current valuation is attractive given China NFC/SmartPOS global potential, multilane order in U.S., and recurring sales from M&A. We maintain BUY with TP of HK\$12.0, based on 15.5x ex-cash FY16E P/E plus HK\$2.63 cash. Downside risks include product launch delay, weaker China sales and M&A failure.

Financials

HK\$ mn	2013	2014	2015E	2016E	2017E
Revenue	1,472	2,373	2,811	3,310	3,922
Growth (%)	12%	61%	18%	18%	18%
Net profit	227	392	569	668	791
Growth (%)	24%	73%	45%	17%	18%
EPS (HK\$)	0.22	0.36	0.51	0.60	0.71
DPS (HK\$)	0.00	0.00	0.04	0.06	0.07
Ex-cash P/E (x)	30.5	18.0	11.6	9.4	7.0
P/B (x)	4.1	3.5	3.0	2.5	2.1
ROE (%)	11%	15%	19%	18%	18%

Sources: Company data, CMS (HK) estimates

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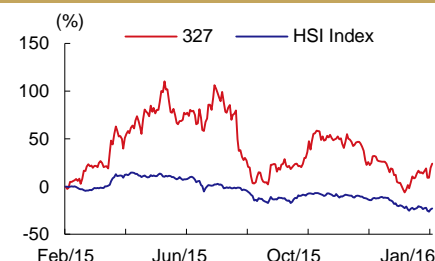
WHAT'S NEW

N/A

BUY

Previous	BUY
Price	HK\$8.29
12-month Target Price (Potential upside)	HK\$12.00 (+45%)
Previous	HK\$12.00

Price Performance



%	1m	6m	12m
327 HK	23.7	(2.9)	29.6
HSI	(2.0)	(20.3)	(22.7)

Industry: Hardware Technology

Hang Seng Index	19122
HSCEI	8028

Key Data

52-week range (HK\$)	6.14-14.2
Market cap (HK\$ mn)	9219
Avg. daily volume (mn)	7.58
BVPS (HK\$)	2.59

Shareholdings Structure

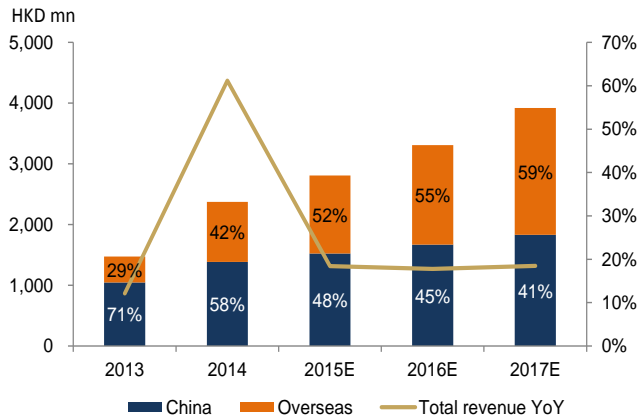
Hi Sun Technology (818 HK)	32.9%
FMR LLC	5.1%
No. of shares outstanding (mn)	1,112
Free float	67.2%

Related Research

1. PAX Global (327 HK) – Time for harvest: U.S. sales to double in FY16E (22/01/2015)
2. PAX Global (327 HK) – Implications of Heartland Payment acquired by Global Payments (18/12/2015)

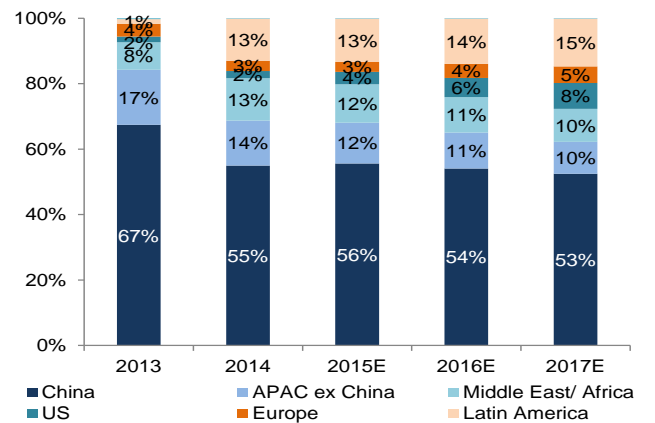
Focus charts

Figure 1: FY15E-17E revenue CAGR: 18% with increasing overseas exposure



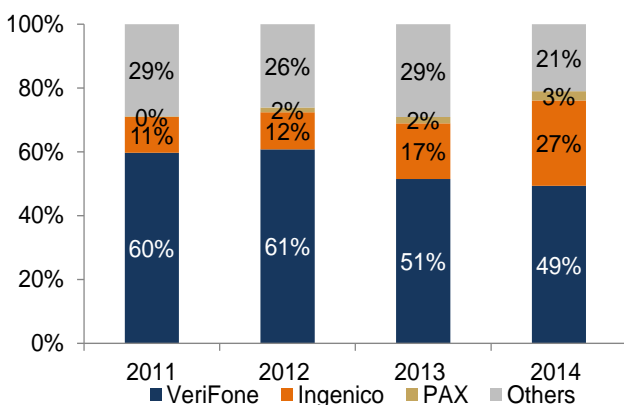
Source: Company, CMS(HK) estimates

Figure 2: We expect China market sales contribution to be lowered to 53% by FY17E



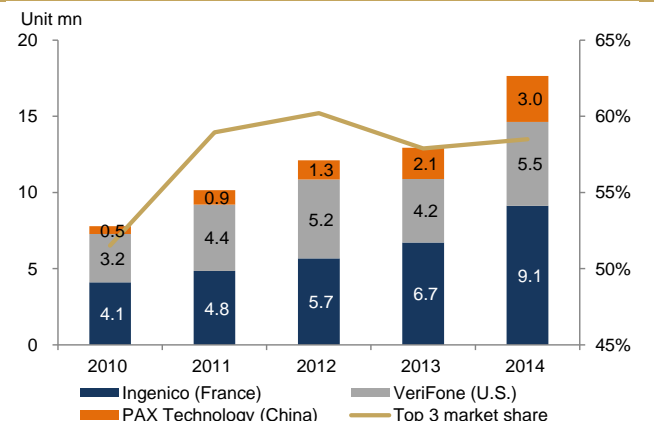
Source: Company, CMS(HK) estimates

Figure 3: U.S. POS shipment market share



Source: Nilson report, CMS(HK)

Figure 4: Top 3 players POS shipment globally



Source: Nilson report, CMS(HK)

Figure 5: Comparison of Apple Pay, Android Pay and Samsung Pay

Mobile Payment	Apple Pay	Android Pay	Samsung Pay
Technology	NFC	NFC	NFC/ MST (Magnetic Secure Transmission)
Official launch	Oct 2014	Sep 2015	Sep 2015
Supporting devices	iPhone 6/6s, Apple Watch, iPad Air 2, iPad Pro, iPad Mini 3/4	Any NFC-enabled android smartphone running KitKat 4.4+	Galaxy Note 5, Galaxy S6-series
Registered users	>2 mn	>1 mn	>500,000
Number of merchants with compatible POS	>1 mn	>1 mn	Estimated at 30mn worldwide
Available countries	US, UK, Canada, Australia, China	US	Korea, US, Spain, China, UK
POS upgrade needed	Yes	Yes	No
Partnership banks	> 500 Banks/ Credit union	9 Banks	3 Banks
Advantage	More secure with TouchID and better protect privacy as Apple have no access to txn data	Potential market size is largest as Android has more than 1.4bn active users	Compatible with traditional magnetic card readers (Supports 90% of POS)

Source: Company, CMS(HK)

Figure 6: PAX revenue assumptions

HK\$m, Dec-YE	2013	2014	2015E	2016E	2017E
Sales of electronic payment products	1,431	2,547	2,759	3,254	3,862
YoY	11.2%	62.4%	18.7%	17.9%	18.7%
POS terminals	1,367	2,222	2,407	2,874	3,426
mPOS	-	222	263	293	349
Consumer activated devices (PIN pads)	48	92	83	82	81
Contactless devices	16	12	6	5	5
Services	21	26	29	32	35
YoY	12.1%	27.8%	9.0%	10.0%	10.0%
Others	20	22	23	24	25
YoY	167.6%	7.3%	5.0%	5.0%	5.0%
Total revenue	1,472	2,595	2,811	3,310	3,922
YoY	12%	61%	18%	18%	18%

Sources: Company, CMS(HK) estimates

Figure 7: Development overview (EFT-POS/mPOS terminals)

Region	FY15E Vol YoY	Country	Developments
EM APAC	28%	China	2012 Selected as UnionPay POS solutions providers 2014 Shipment over 1.3m in 40+ cities 2015 Selected by Postal Savings Bank of China to supply full range of POS terminals 2016 Samsung Pay/Apple Pay supported on PAX terminals
		HK	2003 Products certified by EPS network and won HSBC bid
		Indonesia	2014 Partnered with 3 major banks with market share >50% of total merchant transaction volume 2015 Selected by Bank Rakyat Indonesia (>10,000 merchants)
		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	19%	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
		Venezuela	2015 Partnered with PagSeguro (>80k online stores network) 2015 Received certificates from Banesco, one of the largest bank in Venezuela
		Ecuador	2015 Partnered with Banco Pichincha, largest bank in Ecuador
Middle East/Africa	5%	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
		Iran	2011 Partnered with Tosan (>150,000 POS shipped)
		Jordan	2015 Partnered with EMP (>14,000 merchants)
DM Europe	13%	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 2015 Became major supplier to Sberbank, largest bank in Russia (>250mn merchants)
		Portugal	2014 Passed SIBS certification and partnered with Petrotec
		Turkey	2010 Partnered with Verisoft to deliver POS solutions to banks 2014 Partnered with Derpos
		Germany	2015 Partnered with CCV Germany (>200k clients, 500k terminals)
		Bulgaria	2015 Teamed with InterCard Finance to supply mPOS targeting individual payment market
		Poland	2015 Partnered with Novelpay to supply mPOS to LOT Polish Airlines
U.S./Canada	100%	U.S.	2008 Entered the market 2013 Received product certifications from one of the top 5 acquirers, Heartland Payment System (HPY US) 2014 Partnered with KinPOS to capture Central America mkt

FY15E total EFT-POS/ mPOS terminal shipment: 3.5m units (+16% YoY) / 560k units (+40% YoY)

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

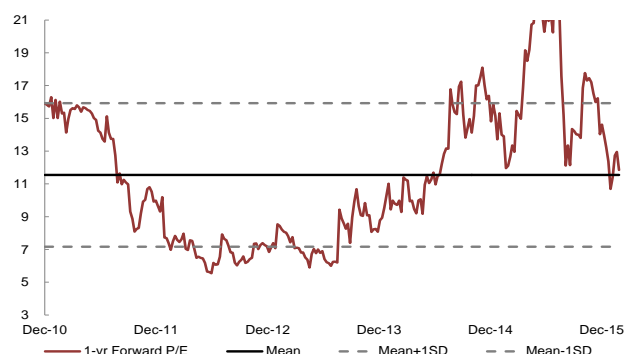
Valuation

Maintain BUY with TP of HK\$12.0

We derive our TP based on target 15.5x ex-cash FY16E P/E plus HK\$2.63 cash. Our TP valuation implies 19% discount to Global No. 1 Ingenico given PAX's lower recurring revenue and China's economic uncertainties.

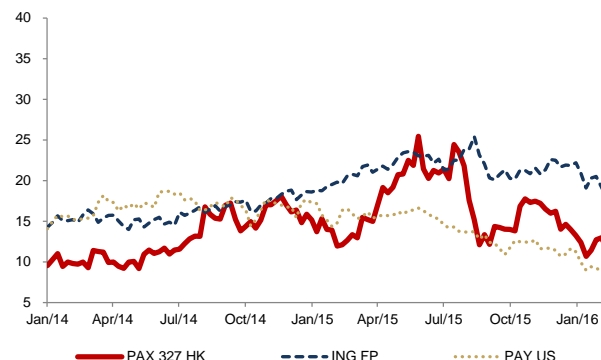
Key catalysts include M&A, increasing multilane order visibility in the U.S., new products launch in China (smart POS and Cloud POS) and wide adoption of Apple payment (NFC). Downside risks include 1) product launch delays, 2) weaker China market and 3) M&A failure.

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



Sources: Bloomberg, CMS(HK) estimates

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



Sources: Bloomberg, CMS(HK) estimates

Figure 10: Peers comparison

Company	Ticker	Rating	Market Cap (US\$ mn)	Current Price (LC\$)	TP (LC\$)	Upside	P/E (x)		P/B (x)		ROE (%)	
							FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
PAX Global	327 HK	BUY	1,189	8.29	12.00	45%	11.6*	9.4*	3.0	2.5	19%	18%
China												
SZZT Electronics	002197 CH	NR	1,552	22.66	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fujian Newland	000997 CH	NR	2,842	18.83	N/A	N/A	44.1	36.2	7.9	6.6	19%	20%
Xinguodu	300130 CH	NR	1,105	30.06	N/A	N/A	81.2	63.3	N/A	N/A	7%	8%
Simple Avg							62.7	49.7	N/A	N/A	13%	14%
Overseas												
Ingenico	ING FP	NR	7,159	100.95	N/A	N/A	21.7	19.2	4.2	3.6	22%	21%
VeriFone	PAY US	NR	2,446	22.20	N/A	N/A	12.2	10.3	2.6	2.3	17%	26%
Simple Avg							16.9	14.7	3.4	2.9	0.2	0.2

Sources: Bloomberg, CMS(HK) estimates, *ex-cash P/E

Financial Summary

Balance Sheet

HK\$ million	2013	2014	2015E	2016E	2017E
Current assets	2,824	3,323	4,161	4,871	5,911
Cash & equivalents	1,698	1,919	2,581	2,906	3,658
Account receivables	638	898	921	1,221	1,317
Inventories	465	475	615	695	880
Restricted cash	17	16	16	16	16
Other current assets	6	14	28	33	39
Non-current assets	8	12	9	6	3
Property, plant and equipment	8	11	9	6	2
Leasehold land	0	0	0	0	0
Other non-current assets	0	0	0	0	0
Total assets	2,833	3,334	4,170	4,877	5,913
Current liabilities	746	786	1,134	1,242	1,567
ST borrowings	0	0	0	0	0
Account payables	446	424	553	557	755
Other payables	275	285	534	629	745
Tax payables	25	78	48	56	67
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	1,134	1,242	1,567
Share capital	104	110	110	110	110
Reserves	1,983	2,438	2,959	3,561	4,272
Minority interest	0	0	0	0	0
Shareholders' equity	2,087	2,548	3,069	3,671	4,382
Total equity and liabilities	2,833	3,334	4,204	4,913	5,949

Cashflow Statement

HK\$ million	2013	2014	2015E	2016E	2017E
Operating cashflow	292	154	723	357	790
Net income before tax	266	463	636	768	909
Depreciation and amortization	4	4	5	5	5
Share-based payments	14	29	0	0	0
Interest income	(15)	(23)	(23)	(39)	(44)
Provision of obsolete inventories	11	19	0	0	0
Other operating cash flow	54	(320)	202	(286)	27
Change in working capital	(42)	(18)	(96)	(91)	(108)
Investing cashflow	23	16	(13)	35	42
Capital expenditure	(1)	(7)	(2)	(2)	(2)
Financial assets (net)	10	0	0	0	0
Interest income	15	24	23	39	44
Other investments	0	0	(34)	(2)	0
Financing cashflow	8	74	(48)	(67)	(79)
Net proceeds from borrowings	0	0	0	0	0
Net proceeds from share issue	0	0	0	0	0
Dividend paid	0	0	(48)	(67)	(79)
Other financing cashflow	8	74	0	0	0
Net change in cash	323	245	662	325	752
Cash at year end	1,698	1,919	2,581	2,906	3,658

Profit & Loss Statement

HK\$ million	2013	2014	2015E	2016E	2017E
Revenues	1,472	2,373	2,811	3,310	3,922
Cost of sales	(931)	(1,508)	(1,730)	(2,025)	(2,395)
Gross profit	541	865	1,081	1,285	1,527
Selling expense	(131)	(219)	(246)	(287)	(341)
R&D expense	(94)	(114)	(134)	(163)	(191)
Other admin expense	(100)	(140)	(152)	(179)	(212)
Operating profit	216	393	549	656	783
Interest income	15	23	23	39	44
Interest expense	0	0	0	0	0
Other non-op items	36	47	64	73	83
Pre-tax profit	266	463	636	768	909
Income tax expense	(40)	(71)	(66)	(100)	(118)
After-tax profit	227	392	569	668	791
Non-controlling interests	0	0	0	0	0
Net profit	227	392	569	668	791
Basic EPS (HKD)	0.22	0.36	0.51	0.60	0.71

Financial Ratios

	2013	2014	2015E	2016E	2017E
YoY growth rate					
Revenue	12%	61%	18%	18%	18%
Operating profit	12%	82%	40%	20%	19%
Net profit	24%	73%	45%	17%	18%
Profitability					
Gross margin	37%	36%	38%	39%	39%
Operating margin	15%	17%	20%	20%	20%
Net margin	15%	17%	20%	20%	20%
ROE	11%	15%	19%	18%	18%
ROA	8%	12%	14%	14%	13%
Liquidity					
D/A	0	0	0	0	0
ND/A	-60%	-58%	-62%	-60%	-62%
Current ratio	3.8	4.2	3.7	3.9	3.8
Quick ratio	2.3	2.5	2.3	2.4	2.4
Operating efficiency					
Asset turnover	0.52	0.71	0.67	0.68	0.66
Inventory turnover	2.00	3.17	2.81	2.91	2.72
AR turnover	2.31	2.64	3.05	2.71	2.98
AP turnover	2.09	3.56	3.13	3.63	3.17
Per share ratios (HKD)					
EPS	0.22	0.36	0.51	0.60	0.71
CFPS	0.28	0.14	0.65	0.32	0.71
BPS	2.01	2.36	2.78	3.32	3.96
DPS	0.00	0.00	0.04	0.06	0.07
Valuation ratios					
Ex-cash PE	30.5	18.0	11.6	9.4	7.0
PE	38.0	22.8	16.1	13.7	11.6
PB	4.1	3.5	3.0	2.5	2.1
EV/EBITDA	31.5	17.7	11.9	9.5	7.0

Source: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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