

Analyst: Paul Sham

Main Board Listing – Research

東瀛遊控股有限公司

EGL Holdings Company Limited [Stock Code:06882]
Sole Sponsor, Global Coordinator, Bookrunner and Lead Manager : Shenyin Wanguo

Sector : Consumer Services

Business : Design, development and sale of package tours and FIT (“free and independent travellers”) products in HK & Macau

Total share offer: * <u>125,000,000</u> shares (25.0% of the enlarged share capital) Public Offer: 12,500,000 shares (10.0%) Placing: 112,500,000 shares (90.0%) <i>* Comprising 100,000,000 New Shares and 25,000,000 Sale Shares</i>	<u>Business of EGL (“the Company”)</u> <p>Founded in 1987, EGL is a leading travel company in Hong Kong and Macau with 9.3% market share and ranked third for outbound travel in 2013. In particular, EGL has been the major travel company in the Japan-bound package tour market in Hong Kong with 32.5%, 29.6% and 31.6% market share based on revenue in 2011, 2012 and 2013.</p> <p>EGL is principally engaged in the design, development and sale of package tours and FIT products, as well as in the provision of ancillary travel related products and services. The package tours comprise principally traditional package tours, theme tours, as well as tailored tours for corporate customers and individual customers with specific requirements. The FIT product segment designs and offers FIT products, which include flight-only booking, hotel-only booking, and flight-plus-hotel packages. In addition, EGL offers ancillary travel-related products and services, such as travel visa application service, travel insurance agency service, and retail of gifts and souvenirs to inbound tour participants.</p> <p>EGL promotes and sells its products and services through its various sales channels comprising seven branches in Hong Kong, one branch in Macau, call centres and online sales platform.</p>
Price: HK\$1.30 – HK\$1.48 per share Market Cap: HK\$650 million – HK\$740 million Pro forma fully diluted FY14 P/E: 10.0x – 11.4x Adjusted NTA per share: HK\$0.33 – HK\$0.36 Staffing: 679 (as of 10 th November 2014)	
HK Public Offer period: 18 th November 2014 – 21 st November 2014 Receiving banker: The Bank of East Asia Share Registrar: Tricor Investor Services Limited Listing date: 28 th November 2014	

Shareholders after Listing

Evergloss – owned as to	75.0%
- 26.69% by a family trust set up by Mr. Yuen Man Ying, the Chairman and an Executive Director of EGL ;	
- 0.91% by Ms. Lee Po Fun, the spouse of Mr. Yuen Man Ying and an Executive Director of EGL;	
- 23.08% by Mr. Huen Kwok Cheun, an Executive Director of EGL;	
- 9.95% by Mr. Leung Shing Chiu, an Executive Director of EGL;	
- 4.98% by Mr. Lam Wai Man, a director of a subsidiary of EGL;	
- 4.98% by Mr. Lui Lok Pun, a director of a subsidiary of EGL;	
- 3.17% by Mr. Chong Cheung Po, a director of a subsidiary of EGL;	
- 26.24% by a trust set up by Mr. Yau Shui Fung , an independent third party	
Public shareholders	25.0%
	100.0%

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$114.5 million (based on an offer price of HK\$1.39, being the mid-point of the indicative price range).

	HK\$ million
To enhance sales channels	40.1
To promote brand image and recognition through marketing initiatives	28.6
To strengthen operational infrastructure	30.9
To develop overseas wedding tours	5.7
For working capital and other general corporate purposes	9.2

Financial Highlights

	Year ended 31 st December			6 months ended 30 th June	
(HK\$ million)	2011	2012	2013	2013	2014
Revenue	1,247	1,365	1,647	725	772
Gross profit	196	228	353	156	151
Attributable profit	15	41	103	35	32
Gross margin	15.7%	16.7%	21.4%	21.5%	19.5%
Net margin	1.2%	3.0%	6.2%	4.8%	4.1%

Breakdown of revenue in terms of geographical regions

	Year ended 31 st December						6 months ended 30 th June			
(HK\$ million)	2011		2012		2013		2013		2014	
	%		%		%		%		%	
Package tour										
Japan	488	39.2%	556	40.7%	823	50.0%	335	46.2%	376	48.6%
Asia ex-Japan	520	41.7%	548	40.1%	493	29.9%	235	32.5%	230	29.7%
Europe and others	146	11.7%	150	11.0%	183	11.1%	91	12.5%	97	12.6%
Sub-total	1,154	92.6%	1,253	91.8%	1,499	91.0%	661	91.1%	702	90.9%
FIT products										
Japan	23	1.8%	31	2.2%	49	3.0%	21	2.9%	20	2.6%
Asia ex-Japan	19	1.5%	24	1.8%	25	1.5%	12	1.6%	12	1.5%
Europe and others	3	0.2%	2	0.2%	2	0.1%	1	0.1%	1	0.2%
Sub-total	45	3.6%	57	4.2%	76	4.6%	33	4.6%	34	4.3%
Ancillary travel related products and services	47	3.8%	55	4.0%	73	4.4%	31	4.2%	37	4.7%
Total	1,247	100.0%	1,365	100.0%	1,647	100.0%	725	100.0%	772	100.0%

Strengths/Opportunities

- ✓ The weak exchange rates of Japanese Yen against HKD will encourage potential travellers to travel to Japan. In 2013, there was a 54.9% increase in number of visitors from Hong Kong to Japan mainly due to weaker Japanese Yen against Hong Kong dollar over the period. Given the further depreciation of Japanese Yen starting from 4Q14, EGL is expected to benefit from higher demand on Japanese package tours and FIT products.
- ✓ The FY14E P/E ratio of EGL ranges from 10.0x to 11.4x. Compared with its rival Travel Expert (01235), whose FY13/14 P/E ratio was 13.7x, the valuation of EGL is considered to be reasonable given their similar operating scale.



Weaknesses/Threats

- × Since the entry barrier is not high, the travel service industry in Hong Kong is fragmented. The number of licensed travel agents in Hong Kong increased from about 1,493 license holders in 2009 to about 1,698 license holders in 2013 at a CAGR of about 3.3%.
- × Technology provides another form of competition where consumers can book their own travel tickets and purchase other travel related products and services over the Internet. The role of travel agencies may be marginalized in the long run.
- × The increase in consumption tax in Japan from 5% to 8% effective April 2014, and possible increase to 10% in October 2015, may lead to a reduction in the general demand for tour products bound for Japan.
- × Given the matured nature of travel service industry in Hong Kong, package tours and FIT products are expected to achieve only a stable growth from 2014 to 2018 at CAGR of approximately 6.3% and 5.6%, respectively, according to an estimate made by the independent industry consultant Ipsos Hong Kong.

Recommendation: Hit and Run



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