

Analyst: Sabina Cheng

Main Board Listing – Research

百富環球科技有限公司
PAX Global Technology Limited [Stock Code:00327]
**Sole Sponsor, Global Coordinator
and Bookrunner** : CITIC Securities International

Joint Lead Managers : CITIC Securities International
First Shanghai Group

Sector : Technology Hardware & Equipment

Business : An electronic fund transfer point-of-sale (EFT-POS) terminal solutions provider

<p>Total share offer: <u>319,200,000 shares</u> (31.92% of the enlarged share capital) (including 260,000,000 New shares and 59,200,000 Sales shares)</p> <p>Public Offer: 31,920,000 shares (10%)</p> <p>Placing: 285,509,976 shares (89.4%)</p> <p>Reserved: 1,770,024 shares (0.6%)</p> <p>Greenshoe: 47,880,000 shares</p>	<p><u>Business of PAX Global Technology (the Company)</u></p> <p>The Company is an electronic fund transfer point-of-sale (EFT-POS) terminal solutions provider principally engaged in the development and sale of EFT-POS products and provision of related services. It ranked the first in terms of sales volume of EFT-POS terminals, with a 32.5% market share of the sales volume of EFT-POS terminals, in China in 2009, according to Analysys International.</p> <p>The Company develops and sells countertop and mobile EFT-POS terminals which are able to process a wide range of electronic payment types (such as signature and PIN-based debit cards, credit cards, contactless or radio frequency identification cards, RF-enabled mobile phones, IC cards, pre-paid gift and other stored-value cards). The Company also develops and sells consumer activated devices, contactless devices and EFT-POS software (which is installed in the Company's EFT-POS products and not being sold independently).</p> <p>In China, the Company's customers include Unionpay Merchant Services (UMS), Bank of China, Agricultural Bank of China, Bank of Communications and China Mobile.</p> <p>The Company's EFT-POS products have been sold to more than 50 overseas countries and regions including the US, Singapore, Taiwan, Japan, South Korea, New Zealand, France, Finland, Saudi Arabia, South Africa and Russia.</p>
<p>Price: HK\$2.53– HK\$3.23 per share</p> <p>Market Cap: HK\$2,530 million – HK\$3,230 million</p> <p>Net profit estimate for FY2010: Not less than RMB142.7 million</p> <p>Adjusted NTA per share: HK\$1.06 – HK\$1.24</p> <p>Staffing: 434 (as of 1st December 2010)</p>	
<p>HK Public Offer period: 8th December 2010 – 13th December 2010 noon</p> <p>Receiving bankers: ICBC (Asia) Standard Chartered Bank (Hong Kong) Wing Lung Bank</p> <p>Share Registrar: Tricor Investor Services</p> <p>Listing date: 20th December 2010</p>	

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Shareholders after Listing (Immediately upon completion of the Hao Shares Swap Agreement, the global offering (without taking into account of any shares which may be issued upon the exercise of the over-allotment option) and the capitalization issue)

Hi Sun Technology (China), whose shares are listed on the Main Board (Stock code: 00818)	44.40%
Digital Investment and Dream River, 95% owned by HAO Capital China Fund L.P. and a substantial shareholder of the Company	23.68%
Public shareholders	31.92%
	<u>100.00%</u>

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$670.7 million (based on an offer price of HK\$2.88, being the mid-point of the indicative price range and assuming the over-allotment option is not exercised).

	HK\$ million
For research and development	268.3
For expanding the Company's distribution network	100.6
For potential merger and acquisition opportunities	234.8
For funding the working capital requirements of the Company's operations and other general corporate purposes	67.0

Financial Highlights

	Year ended 31 st December			6 months ended	
	2007	2008	2009	30 th June 2009	30 th June 2010
	(HK\$'000)				
Revenue	323,143	493,589	492,942	196,221	267,698
Gross profit	112,520	190,890	192,860	69,220	108,950
Profit before tax ("PBT")	69,011	116,766	100,083	29,336	58,662
Profit attributable to shareholders	64,215	106,062	84,551	24,613	50,173
Gross margin	34.8%	38.7%	39.1%	35.3%	40.7%
PBT margin	21.4%	23.7%	20.3%	15.0%	21.9%
Net profit margin	19.9%	21.5%	17.2%	12.5%	18.7%

Breakdown of revenue

	FY2007		FY2008		FY2009		6MFY2009		6MFY2010	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Countertop EFT-POS terminals	288,097	89.15	414,148	83.91	401,685	81.49	156,907	79.96	216,279	80.79
Mobile EFT-POS terminals	23,082	7.14	61,724	12.51	55,646	11.29	28,764	14.66	19,787	7.39
Consumer activated devices	1,512	0.47	3,921	0.79	16,165	3.28	2,715	1.38	11,433	4.27
Contactless devices	-	0.00	919	0.19	3,665	0.74	625	0.32	8,921	3.33
Contract-based maintenance services	7,423	2.30	9,636	1.94	13,574	2.75	6,261	3.20	6,386	2.39
Others (^)	3,029	0.94	3,241	0.66	2,207	0.45	949	0.48	4,892	1.83
Total	323,143	100.00	493,589	100.00	492,942	100.00	196,221	100.00	267,698	100.00

Remark: (^) the selling of accessory items, including download cable, telephone line, thermal paper, sticker and barcode scanning gun etc.

**Peer valuation comparison**

	PAX Global Technology (00327)		Average PER of Global peers (*)		Average PER of peers in China (**)	
	2010E	2011E	2010E(^)	2011E(^)	2010E(^)	2011E(^)
P/E ratio	17.7x – 22.6x	N.A.	20x	16x	70x	50x

Source: (^) Bloomberg as of 25th November 2010

Remarks: (*) including VeriFone (PAY.US), Ingenico (ING.FP), Hypercom (HYC.US) and Gemalto (GTO. FP); (**) Shenzhen Xinguodu (300130.CH) and Fujian Newland (000997.CH)

Strengths/Opportunities

- ✓ According to Analysys International, sales volume of EFT-POS sales in China is estimated to have a strong 2010-2012E compound annual growth rate (CAGR) of 40.2% with sales value reaching RMB2.8 billion by 2012E. The Company should benefit from such a robust industry growth amid its leading position in the EFT-POS market in China.
- ✓ The penetration of EFT-POS in China remained low in 2009 (roughly 2 EFT- POS terminals per 1,000 people in China, against US's 35 terminals per 1,000 people in China), implying huge potential growth for the Company.
- ✓ The Company is well positioned in the industry which has high entry barriers due to stringent industry standards and regulations. The Company is one of the few domestic EFT-POS players who can have international qualifications, such as Terminal Quality Management, MasterCard's PayPass certification and Visa's PayWave certification.
- ✓ The Company has an established customer base. Its major clients in China include UMS, China Mobile and major commercial banks like Bank of China, Agricultural Bank of China, Bank of Communications and China Construction Bank. The Company also targets overseas customers who are payment processors, financial institutions, as well as distributors from various countries and regions.
- ✓ The Company has new revenue stream from its new telephone-POS business from 2011E onwards, as it was selected as a qualified supplier of the Bank of China for standard model of telephone-POS terminals. The Company is estimated to deliver 140,000 and 196,000 units in 2011E and 2012E respectively.

Weaknesses/Threats

- × The Company depends on a single contract manufacturer (Guangzhou Panyu Kyokuto Sakata Electronics) to process and assemble its EFT-POS products. The Company's business is likely to be affected adversely should it fail to effectively manage its relationship with this manufacturer.
- × The average selling price of the Company's EFT-POS products has been trending down as a number of the Company's older product models saw falling selling prices. Given the declining product prices, sustainability of the Company's high gross profit margin (1H2010: 40.7%) will very much depend on its ability to have continuous efforts to reduce unit costs of its products, as well as its ability to develop new premium products.
- × Although the Company's customer concentration risk has been trending down since 2007 (2007: 79.8%, 2008: 85.4%, 2009: 74.3% and 1H2010: 62.5%), its major client, UMS still accounted for over 25% of the Company's total revenue in 1H2010.

Recommendation: Trading Buy



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