

HK to boost exhibition space

Hong Kong Media

Pico (752 HK, HK\$1.78)

BUY (unchanged)

Target price: HK\$2.40 (+35%)

HK to increase exhibition space. It has been reported that the HKSAR government is currently undertaking a study for the development of phase 3 of the Hong Kong Convention and Exhibition Centre (HKCEC). HKCEC is presently in the process of expanding the atrium link between its phase 1 and phase 2 facilities. When the atrium link expansion is completed in 2009, HKCEC's total exhibition area will increase from the current 46,000sq.m to 65,000sq.m. In addition, the government is also urging the newly completed AsiaWorld-Expo (located adjacent to the Hong Kong International Airport) to bring forward the commencement of its phase 2 expansion plans.

Pico will be a key beneficiary. The move by the HKSAR government will maintain Hong Kong's status as a key exhibition hub in Asia. Pico is one of Asia and Hong Kong's largest exhibition contractors and organisers and will be a prime beneficiary of the increased exhibition space and larger addressable market. We also interpret the government's aggressive plans as a bullish view of the continual strong growth of the exhibition market in Asia.

FY10/06 results to be announced on 22 Jan. Pico will announce their FY10/06 results on 22 Jan 2007. We forecast that the company's net profit to be between HK\$136.5-146.5m depending on the extending of potential write back on the Torino Winter Olympics.

Re-iterate BUY on healthy industry outlook. We re-iterate our BUY call on the counter on continuing positive signals emerging on Asia's exhibition industry. We forecast FY10/07F to be a strong year for Pico, with an estimated net profit forecast of HK\$205.2m. Currently trading at 10.3x FY10/07F P/E, valuation is still undemanding. Our target price of HK\$2.40 represents 14.0x FY10/07F P/E, while other comparables of similar scale (VIAD Corp (VVI US), GL Events (GLO FP)) are trading at and average of 21.3x forward P/E on consensus basis.

Disclosure of interests: SBI E2-Capital Securities Ltd. acted as the Bookrunner and Placing Agent for Pico's top-up placement 42m shares at HK\$2.025 on May 10, 2006.

Table 1: Financial summary

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Oct	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
04A	45.1	0.040	245.4	44.1	4.5	10.5	2.8	10.0	9.7	Cash
05A	121.1	0.107	164.2	16.7	3.8	4.7	6.5	23.7	24.7	Cash
06F	146.5	0.124	16.3	14.4	2.8	4.2	3.9	22.4	23.1	Cash
07F	205.2	0.172	39.0	10.3	2.7	3.0	5.3	26.6	28.4	Cash
08F	266.8	0.224	30.1	7.9	2.2	2.3	7.0	30.2	32.9	Cash

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: sbie2capital.com, thomsononeanalytics.com, factset.com and multex.com

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other primary businesses with the companies in this report.

Analyst certification: the views expressed in this report accurately reflects the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer: the information and opinions in this report were prepared by SBI E2-Capital Securities Limited. SBI E2-Capital Securities Limited does not undertake to advise you of changes in its opinion or information. SBI E2-Capital Securities Limited and others associated with it may have positions in and effect transactions in securities of companies mentioned and may also perform or seek to perform investment banking services for those companies. This memorandum is based on information available to the public. No representation is made that it is accurate or complete. This memorandum is not an offer to buy or sell the securities mentioned.