

## Pico: The little known Macau play

**Recommendation: BUY (unchanged)**

**Hong Kong Media**

Price	HK\$2.02	Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.
Target price	HK\$2.80 (+39%)	Oct	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
<b>12 mth range</b>	HK\$1.33-2.28	<b>05A</b>	120.6	0.106	163.3	19.0	4.3	4.8	5.7	23.4	24.5	Cash
<b>Market cap.</b>	US\$309.3m	<b>06A</b>	135.3	0.116	9.3	17.4	3.5	4.4	3.7	21.8	22.9	Cash
<b>Daily t/o, 3 mth</b>	US\$1.2m	<b>07F</b>	202.6	0.170	46.5	11.9	3.2	3.1	4.6	28.2	30.2	Cash
<b>Free float %</b>	49.4%	<b>08F</b>	242.7	0.204	19.8	9.9	2.6	2.5	5.6	28.6	31	Cash
<b>Ticker</b>	0752.HK/752 HK	<b>09F</b>	231.8	0.195	(4.5)	10.4	2.2	2.5	5.3	22.5	26.8	Cash

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): +34.7%, -1.6%, +33.6%

Actual price changes (1 mth, 3 mth, 12 mth): +1.0%, +0.5%, +43.3%

Consensus EPS (07F-08F): HK\$0.148, HK\$0.182

Previous forecasts (07F-10F): HK\$202.6m (\$0.170), HK\$273.2m (\$0.230), HK\$241.0m (\$0.202)

### Key points:

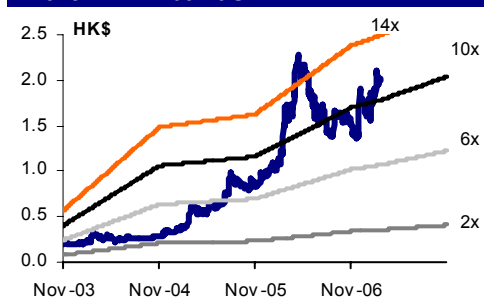
- With the focus on gaming-related plays on the Macau theme, Pico is an interesting alternative angle on the investment theme. With its leading position in Asia, the company should benefit from both the current mega-hotel/resort build-out and emerging MICE market.
- Venetian Macau will transform the face of Macau MICE market with its 1.2m.m<sup>2</sup> convention and exhibition facility, offering in excess of 100,000m<sup>2</sup> exhibition floor space.
- Las Vegas Sands Corp has already organized a pipeline of more than 20 conventions and tradeshows, to be held within the first year of Venetian Macau's operations.
- Las Vegas Sands Corps' other developments on the Cotai Strip will contribute an additional 160,000m<sup>2</sup> exhibition space.
- Pico already has business relationship with Venetian Macau through interior fit-out contracts. We believe that relationship can extend into exhibition contract services.
- Macau is positioning its exhibition and convention industry different to Hong Kong and in our view, Pico can benefit from both.
- Rotational switching into alternative Macau theme plays will provide scope for the counter to narrow its valuation gap with peers. Target price upgraded to HK\$2.80 (from previously HK\$2.35), implying 16.6x FY10/07F and 13.8x FY10/08F P/E on a fully diluted basis. Valuation represents a discount of about 20% and 50% on peer comparables in the exhibition and Macau related space respectively.

**Pico - little known alternative play on the Macau theme.** With the market widely focusing on gaming-related plays on the Macau theme, we believe that an interesting alternative, yet solid play, on the Macau angle is Pico. The company is Asia's leading meetings, incentives, conventions and exhibition (MICE) contractor and its strength in theme park/hotel facility fit-out and exhibition organizing and contracting services means that it is in an enviable position to benefit from both: 1) Macau's current construction boom, led by the build out of specialized "themed" hotels/resorts and exhibition facilities and 2) and future positioning as one of Asia's leading MICE destinations.

### Macau Government is focused on tapping the MICE market.

Though Macau is a relative latecomer to the convention and exhibition sector, the Macau SAR Government has made it a priority industry as it attempts to diversify away from the gaming industry. The government opened the Macau Business Tourism Centre in Apr 2006 to promote and develop business tourism and the associated

**Chart 1: P/E bands**

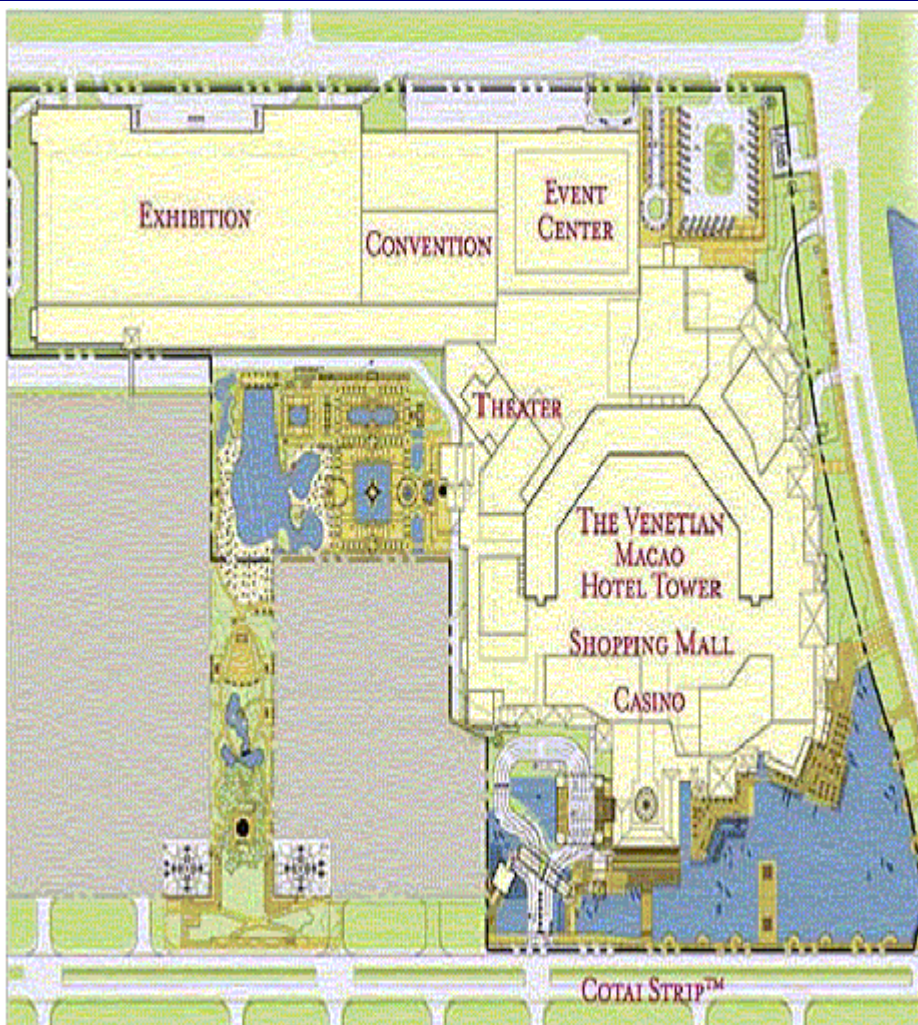


Source: SBI E2-Capital

convention and exhibition industry. The MSAR has a number of advantages to achieve this including: 1) the presence of the gaming industry to draw business tourism, in a similar manner to Las Vegas; 2) proximity to China and Hong Kong; 3) the ability to offer a fusion of east-meets-west culture, stemming from its past as a Portugese colony and 4) simple customs procedures as well as efficient land and marine transportation links. Furthermore, with its massive build-out of hotel facilities, Macau potentially will not face hotel inventory problems experienced by other regional exhibition hubs such Hong Kong. Macau presently has a hotel inventory of around 12,978 rooms according to the SAR’s Statistics and Census Service, which is expected to swell to around 30,000 rooms by 2010.

**Venetian will transform the face of MICE in Macau.** The opening of the Venetian Macau scheduled in late 2007 will transform the MICE industry in Macau, giving it a significant kickstart. The mega hotel complex is of a similar size as its counterpart in Las Vegas and will feature a 1.2m<sup>2</sup> convention and exhibition facility, offering in excess of 100,000m<sup>2</sup> exhibition floor space. The developer, Las Vegas Sands Corp., has already organized a pipeline of more than 20 conventions and tradeshows, with an estimated 5,000 to 20,000 attendees per show, to be held within the facility’s first year of operation.

**Chart 2: Plan of exhibition and convention facilities at the Venetian Macau**



Source: Company data

**Table 1: Venetian Macau exhibition space capacity**

Description	Total area (m <sup>2</sup> )
Exhibition (6 halls)	74,682
Event centre	18,431
Meeting rooms (optional configurations; 7 large ballrooms to 104 meeting rooms)	15,223
<b>Total</b>	<b>108,336</b>

Source: Las Vegas Sands Corp.

**Table 2: Venetian Macau tradeshow pipeline (sample)**

<b>Conventions/tradeshows</b>	<b>Organiser</b>
Global gaming expo Asia	Reed Exhibitions
CMP Asia jewelery and watch show	CMP Asia
Asian automotive aftermarket products expo	William T Glasgow, Inc
ASD/AMD show	Assoc of Surplus Dealers / Assoc of Merchandise Dealers
Others	VNU Expositions (Germany), Messe Frankfurt (Netherlands)

Source: Las Vegas Sands Corp.

**More from the Cotai Strip.** In addition to the Venetian Macau, there are a further 12 mega hotel developments under planning/construction on the Cotai Strip. These developments will add to the convention/exhibition capabilities of Macau. We estimate that the projects involving Las Vegas Sands Corp. alone (six developments) will contribute an additional 160,000m<sup>2</sup> exhibition space.

**Pico already has a relationship with Sands Corp. / Venetian Macau.** We believe that Pico is in a prime position to tap this enlarging MICE market. The company already has a business relationship with Venetian Macau. It is about to complete works on the Venetian Macau Phase I interior fit-out (HK\$34m) and is presently tendering for the Phase II works, which management estimates to be around HK\$150m. Pico is likely to extend this valuable relationship into the operational phase of the convention and exhibition facility. We expect the company to secure main contractor services for several of Venetian Macau's upcoming tradeshows.

**Differentiation with Hong Kong means Pico can benefit from both.** Macau is positioning its exhibition and convention industry differently to Hong Kong and, in our view, Pico can benefit from both. Macau appears to be focusing more on conventions and meetings while Hong Kong's strength is in exhibition tradeshows given its manufacturing ties to the Mainland. Already, we see some of the Macau MICE facilities, such as the Fisherman's Wharf (exhibition space 5,000m<sup>2</sup>), offering a differentiated product with its themed approach. The facility has already reached a utilization rate of 75% since opening last year.

**Hong Kong is not holding back.** Hong Kong, eager to maintain its de-facto status as the premier exhibition hub in Asia, is not holding back. The 19,400m<sup>2</sup> atrium extension to the Hong Kong Convention and Exhibition Centre (HKCEC) is already in progress, which will boost the facility's size of 46,000m<sup>2</sup> by 42% when completed in 2009. In addition, as we have previously reported in "HK to boost exhibition space" (11 Jan 2007), the government is to commence a study to select a suitable site for development of phase 3 of the HKCEC. In addition, the government is also urging the newly completed AsiaWorld-Expo (adjacent to the Hong Kong International Airport) to bring forward the commencement of its phase 2 expansion plans.

**Upgrading target price to HK\$2.80 on valuation re-rating.** We believe as the Macau investment theme begins to play out, there will be rotational switching into alternative Macau theme plays such as Pico. This will provide scope for the counter to narrow its valuation gap with other peers. The counter is significantly undervalued both in terms of international comparables in the exhibition sector, or relative to other Macau plays. We have upgraded our target price on Pico to HK\$2.80 from HK\$2.35, implying 16.6x FY10/07F and 13.86x FY10/08F P/E on a fully diluted basis. The target price valuation represents a discount of about 20% and 50% on peer comparables in the exhibition and Macau related space, respectively.

**Table 3: earnings model**

Year to Oct (HK\$m)	04A	05A	06A	07F	08F	09F
<b>Turnover</b>						
Exhibition & exhibition related business	1,078.7	1,185.6	1,472.4	1,811.4	2,194.3	2,002.5
Museum interior fit-outs	110.9	276.0	101.8	139.4	164.0	196.8
Sign advertising	79.9	93.0	107.4	124.5	117.5	126.9
Exhibition & conference organizer	28.2	119.9	38.4	49.5	57.9	71.0
Exhibition hall management & related business	32.1	40.3	83.5	121.8	183.1	214.0
Other activities	20.1	-	-	-	-	-
	<b>1,349.9</b>	<b>1,714.8</b>	<b>1,803.5</b>	<b>2,246.7</b>	<b>2,717.4</b>	<b>2,611.2</b>
% chg	39.0	27.0	5.2	24.6	21.0	(3.9)
Cost of revenues	(947.7)	(1,157.2)	(1,187.6)	(1,486.0)	(1,809.1)	(1,747.7)
Gross profit	402.2	557.6	615.9	760.7	908.3	863.5
Other income	21.5	28.6	39.7	42.1	45.3	50.5
Selling and marketing expenses	(164.0)	(213.1)	(243.1)	(269.7)	(326.9)	(290.2)
G&A expenses	(201.8)	(220.1)	(247.4)	(286.4)	(323.7)	(310.6)
Other operating expenses	(3.1)	(1.8)	(0.4)	(0.3)	(3.9)	(3.7)
<b>Operating profit</b>	<b>54.6</b>	<b>151.6</b>	<b>164.7</b>	<b>247.2</b>	<b>299.0</b>	<b>309.4</b>
Net int. income/(exp.)	(2.7)	(2.9)	(3.0)	(3.1)	(3.2)	(3.1)
Exceptionals	6.1	-	-	-	-	-
Associates	16.3	6.6	15.6	18.3	18.6	16.8
Jointly-controlled entit.	-	-	-	-	-	-
<b>Pre-tax profit</b>	<b>74.3</b>	<b>154.8</b>	<b>177.3</b>	<b>262.4</b>	<b>314.4</b>	<b>323.0</b>
Tax	(19.0)	(27.5)	(29.0)	(42.2)	(50.6)	(71.1)
Minority interests	(10.2)	(9.5)	(12.9)	(17.6)	(21.1)	(20.2)
<b>Net profit</b>	<b>45.1</b>	<b>120.6</b>	<b>135.3</b>	<b>202.6</b>	<b>242.7</b>	<b>231.8</b>
% chg	249.0	167.5	12.1	49.7	19.8	(4.5)

Source: company data, SBI E2-Capital

**Table 4: Valuation comparisons**

Company Name	Stock Code	Country	Mkt Cap (US\$m)	Price	Cur Yr PE (x)	Cur Yld (%)	Est Yld (%)
<b>Exhibition</b>							
GL Events	GLO FP	FR	931.5	EUR44.60	29.5	23.4	1.2
VIAD Corp	VVI US	US	834.8	USD38.60	21.4	17.2	-
Kingsmen	KMEN SP	SG	18.1	SGD0.28	15.7	12.6	2.9
<b>Average</b>					<b>22.2</b>	<b>17.7</b>	<b>2.1</b>
<b>Macau related</b>							
Melco Int'l	200 HK	HK	2,404.9	HK\$15.14	n/a	8.0	2.9
Shun Tak	242 HK	HK	3,308.2	HK\$12.20	43.4	33.3	0.9
Wynns Resorts	WYNN US	US	10,386.8	USD102.29	239.9	43.7	-
Las Vegas Sands	LVS US	US	33,035.4	USD93.22	55.5	31.3	-
MGM Mirage	MGM US	US	19,682.0	USD70.00	29.7	25.0	-
PBL	PBLAU	AU	10,575.0	AUD19.88	21.1	18.5	3.2
<b>Average</b>					<b>37.4*</b>	<b>26.6</b>	<b>1.2</b>
Pico	752 HK	HK	309.3	HK\$2.02	11.9	9.9	4.6

\* ex. WYNN

Source: Bloomberg &amp; SBI E2-Capital

**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.**

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