

New drivers emerging

Hong Kong Media

Pico (752 HK, HK\$2.50)

BUY (unchanged)

Target price: HK\$2.80 (+12%)

Exhibition industry growth sustained, new drivers emerge. The robust growth of the exhibition industry in China and South East Asia over the past few years appears to have been sustained. We estimate that Pico's 1H FY7/07 exhibition revenues will grow around 20.0% YoY. Product launches for MNC brands (eg. Coca-Cola) and one-off exhibitions are emerging as a new growth driver on the exhibition front. As product life cycles become shorter resulting in the need to introduce more products into the market, brand owners initiate customized product launches instead of waiting until trade shows. This is especially true for fast moving consumer goods (FMCG). We expect this trend to continue in the run up to the Beijing 2008 Olympics, with product launches offering extra advertising exposure for brand owners.

Museum interior revenues to beat expectations. We expect Pico's museum interior revenue to rebound markedly in 1H FY7/07F with a 55.0% YoY increase underpinned by its recovering contracts pipeline in 2H FY7/06A. Our prediction that the segment can become a major growth driver appears to be materializing. Pico has recently announced that it secured a second fit-out contract at the Venetian Macau worth about HK\$163.0m, which far exceeds its HK\$34.0m Venetian Macau deal awarded in June 2006. We understand that the company has also won a contract with Hong Kong Disneyland. With the build out of themed hotels and integrated resorts across Southeast Asia over the next few years, we expect Pico to maintain a steady pipeline of contracts in this segment. The company should also be able to secure more mid-sized contracts in the Middle East and end up a big winner in the casino build-out in Singapore (based on home market strength) and, further down the line, in the Ocean Park Redevelopment, where it had been a key contractor during previous upgrading works.

Maintain target price, revising estimates. We have cut our 1H FY7/07F net profit to HK\$184.8m from HK\$202.6m due to: 1) change in revenue mix with a larger contribution from lower-margin museum interior fit-out business; 2) higher effective tax rate and 3) lower operating margin for the exhibition business. We have adjusted our running estimate of the operating margin of the exhibition contracting business, which was too aggressive. We now expect 1H FY7/07F net profit to come in at HK\$75.8m. We maintain our target price at HK\$2.80, representing 14.0x FY7/08F P/E (12.9x ex-cash P/E). The counter is currently trading at 16.1x FY7/07F P/E and 12.6x FY7/08F P/E. In our view, Pico will continue to re-rate based on: 1) rising consumerism in China; 2) increasing focus on the MICE business by many countries in Southeast Asia and the Middle East and 3) Beijing Olympics.

Table 1: Financial summary

Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gearing
Jul	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
05A	120.6	0.106	163.3	18.8	4.3	4.8	5.8	23.4	24.5	Cash
06A	135.3	0.116	9.3	17.2	3.5	4.5	3.8	21.8	22.9	Cash
07F	184.8	0.155	33.7	12.9	3.1	3.3	4.3	25.4	28.0	Cash
08F	235.7	0.198	27.5	10.1	2.6	2.5	5.5	27.6	31.1	Cash
09F	228.8	0.192	(2.9)	10.4	2.2	2.6	5.3	22.9	26.1	Cash

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