

2010 potential bumper year

Not rated

Financial summary

Year to Oct.	06A	07A	08A
Turnover (HK\$m)	1,803.5	2,149.1	2,631.1
Net Profit (HK\$m)	135.3	145.5	169.7
EPS (HK\$)	0.115	0.121	0.141
EPS Δ%	9.3	4.8	16.9
P/E (x)	10.0	9.5	8.1
P/B (x)	1.8	1.6	1.5
EV/EBITDA (x)	5.3	4.3	3.2
Yield (%)	8.9	6.1	6.1
ROE (%)	18.5	18.5	19.0
ROCE (%)	17.6	17.5	18.1
N. Gear. (%)	cash	cash	cash

Source: Company Data

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-9.2	-1.7	+13.1
Actual price changes (%)	+0.9	+22.3	+11.7

	09F	10F	10F
Consensus EPS (HK\$)	0.100	0.140	-
Previous forecasts (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

Price Chart



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while key growth area including Abu Dhabi remains strong.

IH performance better than expected. The company recently announced IH FY10/09A results which were better than expected., given the adverse macro economic conditions Revenue was down 12.7% YoY to HK\$1,049.7m while net profit dropped 25.4% YoY to HK\$60.4m. The better than expected performance came in a lesser than expected top line YoY decline and an improved gross margin to 33.8% (IH FY10/08A: 32.1%). The company also seemed to have controlled expenses well with administrative expenses down 4.8% YoY (most likely in lesser bonuses paid out). We think the improved gross margin was due to a combination of: 1) lower raw material prices and 2) the tougher operating environment actually improved Pico's bargaining position with its suppliers and sub-contractors.

Ticker: 0752.HK	12 mth range: HK\$0.35-1.36
Price: HK\$1.15	Market cap: US\$176.5m
Target: n.a.	Daily t/o, 3 mth: US\$0.3m
	Free float %: 45.3%

Key points:

- * Our channel checks suggests that Pico has been aggressive and successful in securing contracts for Shanghai 2010 World Expo and is likely to secure in excess of the HK\$400.0m previously guided by management
- * There are still more opportunities for Pico as many countries are late in letting out their tenders
- * There will also be a good supply of large scale events in 2010, further giving Pico opportunities to boost its P&L performance
- * Recent 1H earnings of HK\$60.4m (down 25.4% YoY) surprised on the upside. 2H looks to be sustainable
- * 2010 can potentially be an outperforming year for Pico
- * Counter currently trading at 8.2x FY10/10A P/E on consensus

Outperforming for 2010 World Expo. Our channel checks have suggested to us that Pico has thus far outperformed in securing projects to 2010 Shanghai World Expo. The company has been aggressively tendering for projects and has thus far secured between 6-7 pavilion contracts. The global economic slowdown has adverse impacted on the worldwide exhibition market and Pico has reacted by relocating idle resources to China to aggressively secure Expo projects. The company continues to be busy in tendering, currently bidding for pavilions of Singapore, Qatar, UAE and Algeria. We think there are still more opportunities in the pipeline as many countries are behind in letting out their tender contracts for the Expo. Pico's tendering positioning should improve the further that these countries delay, given the company's established base in China and readily available resources to execute the contracts. This will be a positive as the countries seek to mitigate time and execution risks. In our view, the company would secure in excess of the HK\$400m worth of contracts previously guided by the management.

2010 has glut of large events. While it is arguable whether the exhibition/conferences scene would recover in 2010, the glut of large events and timely roll out of large scale theme projects should provide ample opportunities for Pico. This would include: Hong Kong's Ocean Park Redevelopment as well as international events such as: 2010 World Cup, Asian Games, Commonwealth Games,

Segment breakdown. In terms of segment breakdown, exhibition and event market services was down 11.3% YoY to HK\$860.5m, signage and visual communications was stable at HK\$96.5m (down 1.6% YoY), museum and other themed contracting was down 46.7% YoY to HK\$63.3m, hit by completing contracts and deteriorating conditions in Macau. Conference and show management revenues was up 91.3% to HK\$29.5m.

2H should sustain 1H performances. We think that Pico should be able to sustain its 1H performance in 2H. While there is no doubt that exhibition activities have declined, the company appears to have benefitted from fast tracked government stimulus projects, including government sponsored events (eg. Singapore's National Day celebrations) and museum upgrade/renovations (eg. China: Daqing Oilfield Museum, Macau: Science Museum, Singapore: Maritime Museum). In many respects, these smaller and more "shovel ready" projects are easier to fast track for governments, relative to large scale infrastructure projects.

Could surprise on the upside in FY10/10A. With large number of projects secured for the 2010 Shanghai World Expo as well as services contracts and corporate opportunities from large scale events next year, we think Pico could potentially outperform market expectations. The company currently has around HK\$600-700m contracts on hand, though we think that this may be slightly understated by the management.

Valuation. The counter is trading at 11.5x FY10/09A and 8.2x FY10/10A P/E based on market consensus.

Table 1: P & L

Year to Oct (HK\$m)	06A	07A	08A	1H 08A	1H 09A
Turnover					
Exhibition and event marketing services	1,555.9	1,763.5	2,194.9	969.8	860.5
Brand signage and visual communications	101.8	217.3	197.1	98.1	96.5
Museum, themed environment, interior and retail	107.4	143.9	187.8	118.6	63.3
Conference and show management	38.4	24.4	51.2	15.4	29.5
	1,803.5	2,149.1	2,631.1	1,201.9	1,049.7
Cost of sales	(1,187.6)	(1,426.7)	(1,778.5)	(816.1)	(695.4)
Gross profit	615.9	722.3	852.6	385.7	354.4
Other net (loss)/income	39.7	48.6	43.4	19.6	19.7
Selling and distribution costs	(243.1)	(292.7)	(325.4)	(149.2)	(142.1)
Administrative expenses	(247.4)	(300.1)	(349.2)	(153.0)	(145.6)
Other operating expenses	(0.4)	(2.8)	(1.4)	(0.3)	(0.2)
Operating profit	164.7	175.3	220.0	102.8	86.2
Financial costs	(3.0)	(3.2)	(2.5)	(1.2)	(1.4)
Share of loss of a jointly controlled entity	15.6	16.2	12.4	10.4	0.2
Share of loss of an associate	-	2.5	1.1	-	(0.6)
Pre-tax profit	177.3	190.9	231.0	112.0	84.3
Tax	(29.0)	(28.5)	(44.1)	(19.8)	(15.4)
Minority interests	(12.9)	(16.8)	(17.2)	(11.2)	(8.5)
Net profit	135.3	145.5	169.7	81.0	60.4

Source: Company data

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