Corporate Snippet

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MICE space offers potential upside — Hong Kong Media

Pico (752 HK, HK$1.38) — BUY (unchanged)

Target price: HK$2.40 (+74%)

We conducted a conference call with Pico's management, key takeaways are as follows:

Exhibition and exhibition related business

- 1H FY10/06 YoY growth is sustainable into 2H FY10/06F, we expect 2H revenues to be up 30% YoY.
- Management indicated that there is a possibility to write back between HK$5-10m for Torino Winter Olympic Games for 2H FY10/06. Note that Pico took a net HK$7m charge for this event in 1H FY10/06, which depressed EBIT margin in this segment to 9.5% in 1H FY10/06, down 0.9 pcp YoY.
- Strategic alliance with GIIR is progressing well. We expect this partnership to commence contribution in FY10/07F, mainly through trade shows and other below-the-line marketing events with Korean brands such as LG.
- Management maintains confidence in China's exhibition market and expects the industry to sustain a CAGR of 25-30% over the next few years.

Museums and interior fitouts

- Management is very bullish on this sector, citing emerging opportunities in Middle East and interior fitout contracts by MNC brands. There are also additional "meeting, incentives, convention and exhibition" (MICE) opportunities in South East Asia in countries such as Vietnam, Macau and Singapore.
- We see MNC interior fitout contracts being a potential growth driver for Pico going forward. The MNC contracts are typically for a longer duration, involving upwards of 100+ POS. The need for scale, manufacturing and workmanship consistency raises the entry barriers and reduces the amount of tender competition.
- Pico is currently undertaking fitout works for a major handset manufacturer in China/Vietnam, with an estimated contract sum of HK$40m. It is also currently tendering for another similar fitout contract in India and we estimate that the expected contract sum is in the region of HK$200-300m. Should Pico be successful in securing several such contracts, we estimate that this segment can account for around 15% of total revenues in around 3 years time.
- Pico is also presently tendering for the Hong Kong Jockey Club (HKJC) 2008 Beijing Olympics equestrian contract. However, our channel checks suggest that it is unlikely to win.
- The company has secured a US$5m contract in Jordan and is in the process for tendering other work in

Table 1: Financial summary

Year to Oct	Net profit HK$m	EPS HK$	EPS Δ %	P/E x	P/B x	EV/EBITDA x	Yield %	ROE %	ROCE %	N. Gearing %
04A	45.1	0.040	245.4	34.2	3.5	10.5	3.6	10.0	9.7	Cash
05A	121.1	0.107	164.2	12.9	3.0	4.7	8.3	23.7	24.7	Cash
06F	146.5	0.124	16.3	11.1	2.2	4.2	5.1	22.4	23.1	Cash
07F	205.2	0.172	39.0	8.0	2.1	3.0	6.9	26.6	28.4	Cash
08F	266.8	0.224	30.1	6.2	1.7	2.3	9.1	30.2	32.9	Cash

Jordan, Dubai and Abu Dhabi.

- We are positive that the company is increasing its presence in the Middle East as we believe that margins are substantially higher (10-15%) compared with similar contracts in China (6-8%).
- We see the major risk in scaling up this business being execution due to: 1) manage workers from different cultures; 2) working with regulations of different countries and 3) political issues for some Middle East countries.

Sign advertising

- Shell signage replacement for corporate buildings and refineries has commenced. Management indicated that they also have verbal confirmation for the signage replacement for gas stations in US, but the contract has not been formally signed yet.
- We estimate that the Shell contracts would amount to around HK$200m in revenues over 3 years, with margins of around 10%.
- Management indicated that they may consider acquisitions to scale up this segment of business.

Compelling value, maintain target price HK$2.40. We forecast that the company's FY10/06F profit will come in between HK$136.5-146.5m depending on the magnitude of the Torino write back. At present, we maintain our FY10/07F profit forecast of HK$205.2m, though we note that there may be further upside on any news of contract wins in the museum and interior fitout business. With outlook and growth prospects intact, we believe that now is a good time to accumulate the stock given that it is trading at an undemanding valuation of 8.0x FY10/07F P/E. We maintain our target price at HK$2.40, representing 14.0x FY10/07F P/E. Our target price is not aggressive with other international comparables such as VIAD Corp (VVI US) and GL Events (GLO FP) all trading at 20X+ forward P/E on consensus basis. In our view, the market has been incorrectly valuing Pico by comparing it to other Singapore peers such as Kingsmen (KMEN SP), which are significantly smaller both in scale and geographic reach and hence it should be trading at a substantially lower P/E multiple.

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.