

Company Update

KFM Kingdom Holdings Limited 3816 HK

Strategic cooperation with Ctrip

- *KFM Kingdom Holdings Limited entered into a negotiation of a strategic cooperation agreement regarding the development of kiosk products for automatic electronic ticketing system for long haul buses operating in the PRC.*
- *We have kept our earnings estimates unchanged until we obtain more financial information from the management.*

Sunny Chan
 (852) 2533 3700
 sunnychan@sbichinacapital.com

Stock Data (3816 HK)

Rating	BUY
Price (HK\$)	1.09
Target Price (HK\$)	1.63
12m Price Range (HK\$)	0.81-1.42
Market cap. (HK\$m)	654.0
Daily t/o (HK\$m)	3.9
Free float (%)	25.6
<i>Source: Bloomberg</i>	

KFM Kingdom Holdings Limited announced that it entered into a negotiation of a strategic cooperation agreement with Shanghai Xun Tu Ticketing Agency Company Limited regarding the development of kiosk products for automatic electronic ticketing system for long haul buses operating in the PRC. The group will be responsible for the design of the logistics flow and hardware as well as software of the system, including the group's kiosk products, on-line to off-line (OTO), artificial intelligence and internet of things solutions, etc.

Shanghai Xun Tu Ticketing Agency Company Limited is a leading travel service provider of accommodation reservation, transportation ticketing, packaged tours and corporate travel management in the PRC. It is one of the affiliated companies of Ctrip, which is a travel agency company listed on NASDAQ with market capitalization of approximately USD5.7b.

While we believe the group will generate additional income through strategic cooperation with Ctrip, we have kept our earnings estimates unchanged until we obtain more financial information from the management.

For more views about the group, please refer to our initial coverage report of KFM Kingdom Holdings Limited on 15 Dec 2014.

Figure 1. Financials and valuation

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
Total revenue (HKD m)	846.5	945.8	1,101.9	1,322.2	1,586.7
<i>Revenue growth (YoY)</i>	<i>-11.0%</i>	<i>11.7%</i>	<i>16.5%</i>	<i>20.0%</i>	<i>20.0%</i>
PBT (HKD m)	49.3	37.5	65.5	119.2	182.3
<i>PBT growth (YoY)</i>	<i>-58.0%</i>	<i>-23.9%</i>	<i>74.6%</i>	<i>81.8%</i>	<i>52.9%</i>
Net profit (HKD m)	40.2	35.0	53.1	96.5	147.6
<i>Net profit growth (YoY)</i>	<i>-57.5%</i>	<i>-12.8%</i>	<i>51.6%</i>	<i>81.8%</i>	<i>52.9%</i>
EPS (HKD cents)	7.7	6.1	8.6	15.9	24.4
DPS (HKD cents)	14.2	3.3	2.6	4.8	7.3
P/E (x)	17.8	19.6	13.8	7.5	4.9
Dividend yield	11.9%	2.8%	2.2%	4.0%	6.1%

Source: Company data

Figure 2. Per share items

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
EPS (HK cents)					
- Basic (HK cents)	7.7	6.1	8.6	15.9	24.4
- Diluted (HK cents)	7.7	6.1	8.6	15.9	24.4
DPS (HKD cents)	14.2	3.3	2.6	4.8	7.3
BVPS (HKD)	0.8	0.9	1.0	1.1	1.4

Source: Company data

Figure 3. Ratio analysis

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
Growth (YoY)					
Revenue	-11.0%	11.7%	16.5%	20.0%	20.0%
Profit before tax	-58.0%	-23.9%	74.6%	81.8%	52.9%
Net profit	-57.5%	-12.8%	51.6%	81.8%	52.9%
Margins					
EBIT margin	6.5%	6.5%	4.6%	6.7%	9.7%
Net profit margin	4.7%	4.7%	3.7%	4.8%	7.3%
Other ratios					
Return on average assets	5.0%	4.1%	5.9%	9.4%	12.4%
Return on average equity	8.5%	6.9%	9.7%	15.3%	19.7%
Dividend payout ratio	212.2%	54.5%	30.0%	30.0%	30.0%
Valuation measures					
P/E (x)	17.8	19.6	13.8	7.5	4.9
P/B (x)	1.4	1.4	1.2	1.1	0.9
Dividend yield	12%	2.8%	2.2%	4.0%	6.1%

Source: Company data

Figure 4. Income statement (HKD m)

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
Revenue	846.5	945.8	1,101.9	1,322.2	1,586.7
COGS	(641.2)	(737.9)	(832.6)	(981.9)	(1,163.7)
Gross profit	205.3	207.9	269.3	340.3	423.0
Other gains, net	7.8	0.1	0.0	0.0	0.0
Distribution and selling expenses	(17.6)	(22.4)	(41.5)	(44.8)	(53.8)
General and administrative expenses	(140.1)	(142.1)	(153.8)	(166.5)	(175.8)
Operating profit	55.3	43.5	73.9	128.9	193.4
Finance income	0.3	0.7	0.1	0.2	0.3
Finance costs	(6.3)	(6.7)	(8.5)	(9.9)	(11.4)
Profit before income tax	49.3	37.5	65.5	119.2	182.3
Income tax expenses	(9.1)	(2.5)	(12.5)	(22.6)	(34.6)
Profit for the year	40.2	35.0	53.1	96.5	147.6
Currency translation differences	4.4	0.4	0.0	0.0	0.0
Non-controlling interests	0.0	1.4	(1.4)	(1.4)	(1.4)
Profit for the year attributable to equity holders of company	40.2	36.4	51.7	95.2	146.3
Dividend	85.2	19.8	15.5	28.5	43.9

Source: Company data

Figure 5. Balance sheet (HKD m)

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
Non-current assets					
Property, plant and equipment	224.1	300.8	419.4	445.0	441.1
Leasehold land and land use right	0.0	26.0	25.6	25.1	24.7
Intangible assets	11.3	11.8	12.8	14.8	18.1
Goodwill	24.5	24.5	24.5	24.5	24.5
Deferred income tax assets	5.6	4.8	4.8	4.8	4.8
Total non-current assets	265.5	367.9	487.1	514.3	513.3
Current assets					
Inventories	110.5	138.9	170.5	204.6	245.5
Trade and other receivables	229.2	199.6	249.8	299.7	359.7
Current income tax recoverable	0.0	3.9	3.9	3.9	3.9
Derivatives financial asset	0.3	0.0	0.0	0.0	0.0
Available-for-sale financial assets	0.0	12.5	0.0	0.0	0.0
Restricted bank deposit	46.8	23.4	0.0	0.0	0.0
Cash and cash equivalents	218.7	105.4	47.3	75.6	163.6
Total current assets	605.5	483.7	471.4	583.7	772.7
Total assets	871.0	851.6	958.5	1,098.1	1,286.0
Current liabilities					
Trade and other payables	144.3	169.9	191.7	226.1	267.9
Bank borrowings	211.0	150.6	170.0	180.0	190.0
Current income tax liabilities	7.5	5.1	0.0	0.0	0.0
Total current liabilities	362.8	325.6	361.7	406.1	457.9
Non-current liabilities					
Deferred income tax liabilities	14.7	10.8	12.4	12.4	12.4
Total liabilities	377.5	336.4	374.1	418.5	470.3
Capital and reserves					
Share capital	60.0	60.0	60.0	60.0	60.0
Share premium	26.1	26.1	26.1	26.1	26.1
Reserves	407.4	424.3	503.1	598.2	734.3
-proposed dividends					
-others					
Total	493.5	510.5	589.2	684.4	820.4
Minority interest	0.0	(4.7)	(4.7)	(4.7)	(4.7)
Equity attributable to shareholder	493.5	515.2	584.4	679.6	815.7
Total asset minus total liabilities	493.5	515.2	584.4	679.6	815.7

Source: Company data

Figure 6. Cash flow statement (HKD m)

	FY03/13	FY03/14	FY03/15E	FY03/16E	FY03/17E
Operating activities					
Pre-tax profit	49.3	37.5	65.5	119.2	182.3
Depreciation of fixed assets	29.8	34.7	41.4	44.4	43.9
Amortisation of leasehold land and land use right	0.0	0.4	0.4	0.4	0.4
Amortisation of intangible assets	3.8	4.2	4.2	4.2	4.2
Loss/gain on derivative financial instrument	(0.1)	0.3	0.0	0.0	0.0
Gain on disposal of property, plant and equipment	(10.3)	(1.9)	0.0	0.0	0.0
Finance income	(0.3)	(0.7)	(0.1)	(0.2)	(0.3)
Finance costs	6.3	6.7	8.5	9.9	11.4
Operating profit before change in working capital	78.5	81.3	120.0	178.0	242.0
Change in inventory	(5.9)	(29.3)	(23.9)	(26.3)	(31.5)
Change in receivables	(19.7)	31.6	(50.2)	(50.0)	(59.9)
Change in payable	16.1	26.4	21.8	34.4	41.8
Change in working capital	(9.5)	28.7	(52.4)	(41.8)	(49.6)
Operating cash flow	69.0	110.0	67.6	136.2	192.4
Income tax paid	(12.5)	(12.2)	(12.5)	(22.6)	(34.6)
Income tax refunded	1.3	0.3	0.0	0.0	0.0
Interest received	0.3	0.7	0.1	0.2	0.3
Net cash generated from operating activities	58.0	98.9	55.3	113.7	158.0
Investing activities					
Proceeds from sale of property, plant and equipment	37.9	4.4	0.0	0.0	0.0
Purchase of property plant and equipment	(97.6)	(113.8)	(160.0)	(70.0)	(40.0)
Acquisition of leasehold land and land use right	0.0	(26.9)	0.0	0.0	0.0
Acquisition of available-for-sale financial assets	0.0	(199.4)	0.0	0.0	0.0
Proceeds from disposal of available-for-sale financial assets	0.0	186.9	12.5	0.0	0.0
Acquisition of business	(26.0)	0.0	0.0	0.0	0.0
Net cash used in investing activities	(85.7)	(148.8)	(147.5)	(70.0)	(40.0)
Financing activities					
Proceeds from issue of shares	102.0	0.0	0.0	0.0	0.0
Share issue expenses	(16.0)	0.0	0.0	0.0	0.0
Proceeds from bank borrowings	185.0	38.0	170.0	180.0	190.0
Repayment of bank borrowings	(86.8)	(97.4)	(150.6)	(170.0)	(180.0)
Decrease in restricted bank deposits	0.0	23.4	23.4	0.0	0.0
Capital injection by non-controlling interests	0.0	0.2	0.0	0.0	0.0
Receipt of amounts due from shareholders	20.0	0.0	0.0	0.0	0.0
Interest paid	(6.3)	(7.0)	(8.5)	(9.9)	(11.4)
Dividends paid	0.0	(85.2)	(19.8)	(15.5)	(28.5)
Net cash (used in)/generated from financing activities	197.9	(128.0)	14.5	(15.4)	(29.9)
(Decrease)/increase in cash and cash equivalents	170.2	(178.0)	(77.7)	28.3	88.1
Cash opening balance	132.0	302.7	125.0	47.3	75.6
Currency translation differences	0.5	0.2	0.0	0.0	0.0
Cash closing balance	302.7	125.0	47.3	75.6	163.6

Source: Company data

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Disclosure of Interest: SBI China Capital has entered into a consultancy agreement with KFM Kingdom (3816 HK) in Nov, pursuant to which SBI China Capital will provide consultancy services to KFM Kingdom.

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