

Company Flash

AMCO United Holdings Limited

 0630 HK
 Looking to transform into a medical company

- *We met with AMCO earlier this week to get more updated information regarding its recent business development and future plans*
- *AMCO is mainly engaged in 2 lines of business: i) manufacture and sale of medical devices products under OEM basis; and ii) manufacture and sale of plastic moulding products under OEM basis*
- *With the ample cash position and asset-light operating model, the company is looking to transform into a medical company in the future.*

Research Team

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Stock Data (630 HK)

Rating	Not Rated
Price (HK\$)	0.14
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.1-0.44
Market cap. (HK\$m)	182.9
Daily t/o (HK\$m)	7.1
Free float (%)	58.0
<i>Source: Bloomberg</i>	

A brief company background: AMCO United Holding Limited (AMCO) is mainly engaged in 2 lines of business: i) manufacture and sale of medical devices products under an OEM basis, including disposal lancet devices, endoscopic and laparoscopic devices, etc.; and ii) manufacture and sale of plastic moulding products under an OEM basis, mainly for media packaging, cosmetics display, electronics, telecommunications, as well as industrial and consumer products. The company used to manufacture and sell data media products and distribute data media production as well. However, these businesses were disposed by the company in FY12/12.

An asset-light company with potential to transform into a medical company: As of 30 Jun 2014, the company has a total asset of HKD83.8m, which comprised of HKD50.6m cash and cash equivalent and HKD7.8m intangible asset (arise from the acquisition of Titron Group, the medical devices manufacturer, in 2011). As of the same date, the company was in a net cash position of HKD42.8m. The ample cash position and asset-light operating model allows the company to easily transform into a medical company without a significant disposal of its existing assets or business. We view the acquisition of Titron Group as a first step to get inroads into the medical industry, and we expect there will be more M&A coming forward.

Deserve a re-rating after transforming into a medical company: Currently, HK-listed medical device companies are on average trading at a prospective P/E of 28.7x for FY2015, while that of molding products manufacturers are on average trading at 12.9x. AMCO does not have a P/E since it recorded loss in FY12/13. That said, we believe the company will deserve a re-rating if it can successfully transform into a medical company in the future.

Figure 1: Financials and valuation

	FY12/11	FY12/12	FY12/13	1H FY12/14
Total revenue (HKD m)	43.2	132.4	89.0	34.4
<i>Revenue growth (YoY)</i>	46.6%	206.6%	-32.8%	-30.5%
PBT (HKD m)	1.1	(55.8)	(74.8)	(24.9)
<i>PBT growth (YoY)</i>	n.a.	n.a.	34.0%	78.6%
Net profit (HKD m)	(81.5)	(44.7)	(74.6)	(24.9)
<i>Net profit growth (YoY)</i>	-78.8%	-45.2%	67.1%	78.5%
BVPS	0.09	0.04	(0.04)	0.04
P/B (x)	1.6	3.5	n.a.	3.5

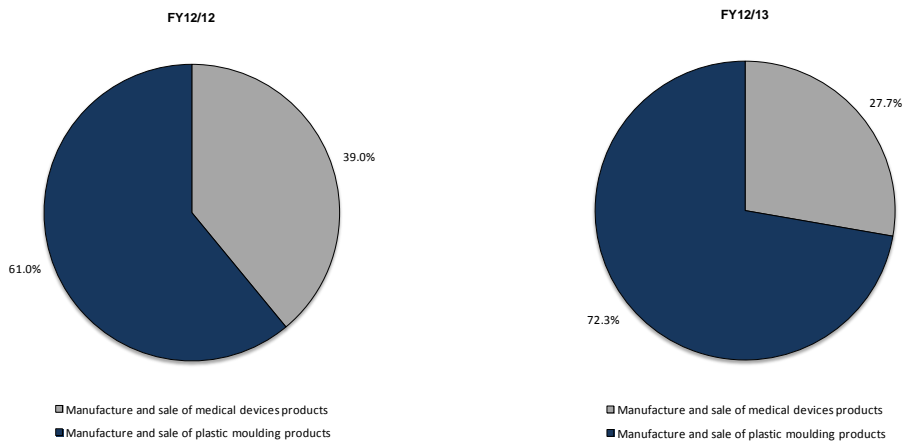
Source: Company data

Company Background

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Over the past 2 years, manufacture and sale of plastic moulding products is the main revenue source of the company, representing approximately 61.0% and 72.3% of its total revenue (excluding the discontinued business) in FY12/12 and FY12/13 respectively (See Figure 2).

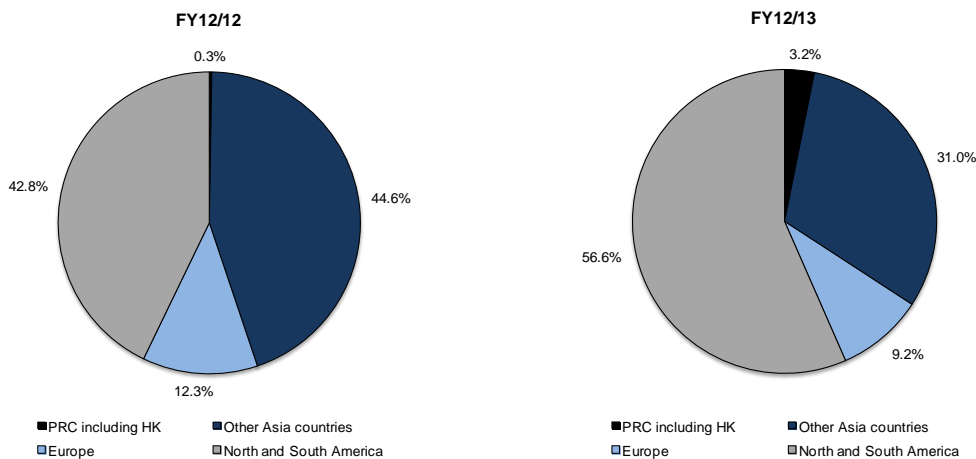
Figure 2. Revenue breakdown by segments



Source: Company data

In term of geographic locations, Asia countries and North and South America are the major markets of the company, cumulatively generating approximately 87.7% and 90.8% of its revenue in FY12/12 and FY12/13 respectively (See Figure 3). The management of the company revealed that they would continue to focus on these locations going forward.

Figure 3. Revenue breakdown by geographical locations



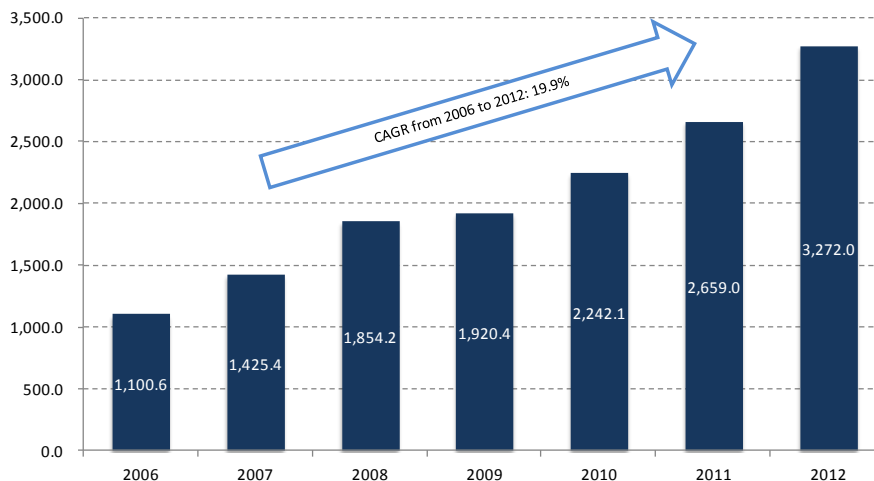
Source: Company data

Our view

An asset-light company with potential to transform into a medical company. As of 30 Jun 2014, the company has total assets of HKD83.8m, which comprised of HKD50.6m cash and cash equivalents and HKD7.8m of intangible assets (arising from the acquisition of Titron Group, a medical devices manufacturer, in 2011). As of the same date, the company was in a net cash position of HKD42.8m. The ample cash position and asset-light operating model allows the company to easily transform into a medical company without a significant disposal of its existing assets or business. In fact, in June this year, the company has signed an MOU with SkinNovation Never Limited (“SNL”) regarding the potential cooperation of setting up a medical aesthetic center in HK under the brand name “Face College”, and establishing a chain of medical aesthetic centers that provide a range of medical aesthetic services to clients. Although the MOU eventually lapsed due to the failure of reaching an agreement between the two parties, it reveals the company’s intention to purchase more medical-related assets and business in the future. We view the acquisition of Titron Group as a first step in achieving inroads into the medical industry, and we expect there to be more M&A coming forward.

Benefit from the growing demand from overseas. For the 1H FY12/14, the manufacture and sale of medical devices products segment recorded the revenue of HKD8.2m, indicating a 31.5% YoY decrease compared with same period last year. The decrease was mainly attributable to the decline in sales orders from its clients in U.S. However, over the past few years we saw a consistent increase in the export of medical supplies from China, with the CAGR of 19.9% between 2006 and 2012. We believe that the trend will continue given with the gradual recovery of the U.S. economy, and that the decrease in its sales orders from its clients in U.S in 1H FY12/14 will not have a significant impact on its long-term trend.

Figure 4: Export of medical supplies from China (USD m)



Source: Bloomberg

Valuation

Valuation wise, HK-listed medical device companies are currently on average trading at a prospective P/E of 28.7x for FY2015, while that of molding products manufacturers are on average trading at 12.9x (See Figure 5). AMCO does not have a P/E since it recorded loss in FY12/13. That said, we believe the company will deserve a re-rating if it can successfully transform into a medical company in the future.

Figure 5: Peer comparison

Company	Ticker	Mkt Cap (HK\$ m)	3M avg turnover (HK\$ m)	2014E P/E (x)	2015E P/E (x)	P/book (x)	ROIC (%)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
Medical device companies											
Shangdong Weigao	1066.HK	34,378.5	40.2	25.5	21.0	2.9	8.2	4.6	3.8	1.0	(26.2)
Microport Scientific	853.HK	5,645.0	13.6	34.1	16.5	1.9	(0.1)	(0.2)	(0.1)	1.9	(37.5)
Lifetech Scientific	1302.HK	5,700.0	5.5	n.a.	48.6	19.4	n.a.	(24.9)	(14.9)	0.0	(69.9)
Trauson Holdings	325.HK	n.a.	n.a.	n.a.	n.a.	n.a.	14.9	15.6	14.2	n.a.	(66.7)
Average		15,241.2	19.8	29.8	28.7	8.1	7.7	(1.2)	0.8	1.0	(50.1)
Molding products manufacturers											
Haitian International	1882.HK	25,089.1	18.4	14.8	12.9	3.0	14.2	19.8	11.6	2.1	(38.5)
Chen Hsong Holdings	57.HK	1,343.0	0.3	n.a.	n.a.	0.5	1.3	2.8	2.1	3.3	(19.0)
Average		13,216.1	9.3	14.8	12.9	1.7	7.8	11.3	6.8	2.7	(28.7)

Source: Bloomberg

Figure 6. Income statement (HKD m)

	FY12/11 HKD'm	FY12/12 HKD'm	FY12/13 HKD'm	1H FY12/14 HKD'm
Turnover	43.2	132.4	89.0	34.4
Cost of sales	(32.7)	(102.5)	(75.0)	(30.8)
Gross profit	10.5	29.9	14.0	3.7
Other income	0.4	0.0	8.9	0.4
Distribution costs	(2.2)	(6.9)	(4.4)	(1.4)
Administrative expenses	(40.5)	(57.4)	(48.9)	(18.9)
Share-based payment expenses	(2.1)	0.0	0.0	0.0
Impairment losses and write offs	(0.2)	(25.7)	(41.0)	(4.0)
Gain on extinguishment of financial liabilities by issue of ordinary shares	32.1	0.0	0.0	0.0
(Loss)/Gain on change in fair value of convertible notes	18.0	4.9	(1.6)	(4.0)
Finance costs	(14.8)	(0.6)	(1.7)	(0.7)
Loss before income tax expense	1.1	(55.8)	(74.8)	(24.9)
Income tax credit	(0.2)	0.3	0.1	0.0
Loss for the year from continuing operations	0.9	(55.5)	(74.6)	(24.9)
Discontinued operations				
Operating loss after income tax expense	(106.4)	(3.6)	0.0	0.0
Gain on disposal of subsidiaries	24.0	14.5	0.0	0.0
Profit for the year from discontinued operations	(82.4)	10.9	0.0	0.0
Loss for the year	(81.5)	(44.7)	(74.6)	(24.9)

Source: Company data

Figure 7. Cash flow statement (HKD m)

	FY12/11	FY12/12	FY12/13	1H FY12/14
	HKD'm	HKD'm	HKD'm	HKD'm
Net cash used in operating activities	(56.8)	(21.9)	(37.2)	(12.7)
Net cash generated from investing activities	6.5	(0.2)	(0.2)	(0.6)
Net cash generated from financing activities	61.9	15.9	(2.1)	59.4
Net increase in cash and cash equivalents	11.6	(6.2)	(39.5)	46.0
Cash and cash equivalents at 1 Jan	37.9	10.2	49.6	4.6
Effect of exchange rate changes	0.1	0.0	0.0	(0.0)
Cash and cash equivalents at 31 Dec	49.6	4.0	10.2	50.6
Represented by:				
Cash and cash equivalents	49.6	4.6	10.2	50.6
Bank overdraft	0.0	(0.6)	0.0	0.0
	49.6	4.0	10.2	50.6

Source: Company data

Figure 8. Balance sheet (HKD m)

	FY12/11	FY12/12	FY12/13	1H FY12/14
	HKD'm	HKD'm	HKD'm	HKD'm
Non Current Asset				
Property, plant and equipment	22.0	17.6	6.0	5.0
Intangible assets	0.0	45.9	11.8	7.8
Goodwill	67.4	0.0	0.0	0.0
Available-for-sale financial assets	1.2	0.0	0.0	0.0
Deferred tax assets	0.5	0.5	0.0	0.0
	91.1	64.0	17.8	12.8
Current assets				
Inventories	14.2	7.5	7.0	3.2
Trade and other receivables	44.4	26.8	13.4	13.5
Refundable deposit paid for acquisition of mining rights	0.0	0.0	0.0	0.0
Tax recoverable	0.0	0.8	0.3	0.3
Pledged time deposits	3.5	3.5	3.4	3.4
Cash and cash equivalents	49.6	10.2	4.6	50.6
	111.7	48.9	28.7	71.0
Current liabilities				
Trade and other payables	66.9	39.0	31.5	29.7
Bank and other borrowings	14.6	9.6	16.1	7.8
Obligation under finance leases	0.4	0.2	0.2	0.1
Amount due to a director	0.0	4.0	12.2	0.0
Convertible notes	12.6	10.3	16.1	0.0
Tax payable	11.8	0.0	0.0	0.0
	106.4	63.2	76.0	37.6
Non-current liabilities				
Obligation under finance leases	0.4	0.2	0.0	0.0
Deferred tax liabilities	1.0	0.6	0.0	0.0
Convertible bonds	0.0	0.0	0.0	0.0
Convertible notes	13.9	11.3	7.1	0.0
	15.3	12.2	7.1	0.0
Net Assets	81.1	37.6	(36.7)	46.2
Equity	81.1	37.6	(36.7)	46.2

Source: Company data

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