



October 10, 2013
 Equity Focus
 Rating: Unrated

Share price (HK\$) 2.50

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Key Data

52Wk H/L(HK\$)	2.76/1.05
Issued shares (mn)	628.9
Market cap (HK\$ mn)	1,597.4
3-mth avg daily turnover (HK\$ mn)	5.12
Major shareholder(s) (%): Chak Mo Chan	44.37

* Chairman of Co.
 Source(s): Company, Bloomberg

1H13 Revenue breakdown (%)

F&B	90.4
Property Investment	9.6

Source(s): Company, ABCI Securities

Share performance (%)

	Absolute	Relative*
1-mth	2.9	1.3
3-mth	24.3	11.9
6-mth	14.1	7.9

*Relative to HSI
 Source(s): Bloomberg

1-Year stock performance (HK\$)



Source(s): Bloomberg

Future Bright (703 HK)
 Key takeaways from management meeting

- Future Bright (FB) is diversifying into campus restaurants and industrial catering as a strategy to lower business risks as tourists growth has slowed
- Potential upside will come from the food souvenir market that FB has recently tapped into. Investment risk is low, but potential upside is high
- FB's ROAE of 25.7% is higher than the sector average of 19.0% but is trading at core FY13/14E PE of 11.4/9.8x, lower than the sector average of 21.1/17.2x. We believe the counter may be subject to re-rating.

Diversifying for long-term growth. Revenue growth in 2H13 and 2014 will be driven by the increasing per capita spending and the seven new restaurants to be opened in 4Q13. Per capita F&B spending by Macau visitors have registered double-digit growth since 2012. This benefits the Group's existing restaurants that target at mid- to high-end tourists. Increasing per capita spending also implies that the Group would be able pass on increasing labor costs to consumers. The net addition of seven stores in FY13 is the same as FY12, but the new restaurants to be opened this year will target mainly at students in the University of Macau rather than tourists. This will lower the Group's gross operating margin. Nonetheless, we believe broadening the customer base to include students and industrial catering would help diversify business risks in the long run as YoY growth in Macau visitors slowed to 0 to mid-single digit in 2012 - 8M13 (Refer to Exhibit 1). However, tourists growth is expected to accelerate in 2015 on improved infrastructure (i.e. Opening of Hong Kong-Zhuhai-Macau Bridge in 2016 and extension of Guangzhou-Zhuhai Intercity Railway) complimented with increasing accommodations. Management plans to add another 20-25 restaurants to a total of 47-52 restaurants in 2015-2017 to fulfill the increasing demand.

Rental income to double. Leasing of the six-storey commercial building near the prime tourist site at the Runis of St. Paul's in Macau to the Macau Tourist Board has an annual rental rate of HK\$ 14.1mn. The lease will be expired by end-2013. Rental rate of the next tenancy is expected to double, but the rental-free period to be offered to new tenant(s) would mean that rental income may reduce in 1H14.

Food souvenir market offers great potential. FB acquired the trademark of 'Macau Yeng Kee Bakery', a local bakery brand with a history of over 80 years, for MOP 4.0mn in Aug 2013. We believe this investment entails a attractive return at a low risk given its low cost. Retail sales of Chinese food souvenir grew rapidly by 21.8%YoY to MOP 519mn in 2012. Assuming growth can continue in next few years, the Macau food souvenir market may reach MOP 622mn p.a in 2014. FB is going to leverage on its existing restaurants and future outlets to promote the acquired bakery brand. The new business will commence operation in mid-2014. FB targets to gain 3-5% share in the food souvenir market in the beginning and based on our estimates, turnover would be MOP19mn-31mn. With the right marketing and packaging strategies, FB can potentially become another Koi Kei, a leading player in Macau's souvenir food market that opened its first store in 1997. Together with Choi Heong Yuen, the two brands accounted for 60-70% of Macau's food souvenir market share in 2012.

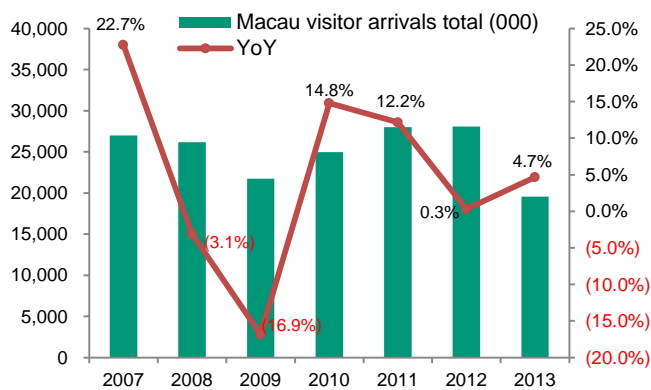
Results and Valuation

FY ended Dec 31	2009A	2010A	2011A	2012A	1H2013
Revenue (HK\$ mn)	235.2	375.8	546.5	646.1	345.1
Chg (% YoY)	43.1	59.8	45.4	18.2	9.3
*Net Income (HK\$ mn)	18.3	40.8	79.6	117.3	68.9
*EPS (HK\$)	0.040	0.086	0.144	0.209	0.110
Chg (% YoY)	-233.3	125.0	77.8	45.4	0.0
BVPS (HK\$)	0.300	0.399	0.557	0.959	1.047
Chg (% YoY)	15.4	32.9	39.6	72.3	9.1
P/E (x)	-	-	-	11.42	-
P/B (x)	-	-	-	2.61	2.39
ROA(%)	8.14	12.09	14.17	12.62	14.54
ROE (%)	14.41	22.78	30.08	25.72	27.26
DPS(HK\$)	0.00	0.020	0.030	0.060	0.025
Yield (%)	-	-	-	2.40	1.00
Net gearing (%)	32.3	23.9	33.4	33.9	29.8

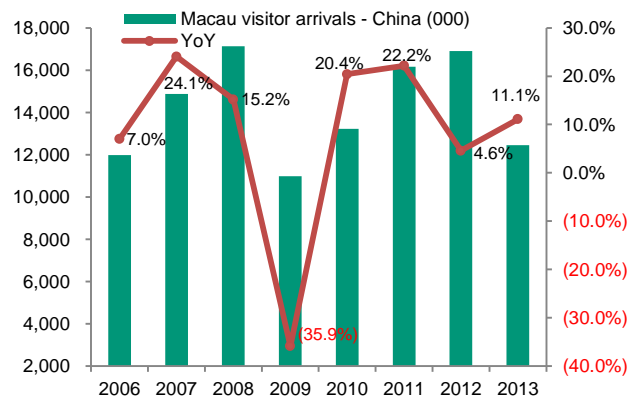
*Net income and EPS exclude fair value gain from property investment
 Source(s): Bloomberg, ABCI estimates

Valuation. FB's ROAE of 25.7% is higher than the sector average of 19.0% but is trading at core FY13/14E PE of 11.4/9.8x, lower than the sector average of 21.1/17.2x. We believe the counter may be subject to re-rating. Near-term catalyst may arise from the Group's 3Q13 results (possible earnings surprise due to low base) to be released in mid-Nov. Longer-term potential catalysts including increased contribution from expanded restaurant business and doubling that will be reflected in FY14 results.

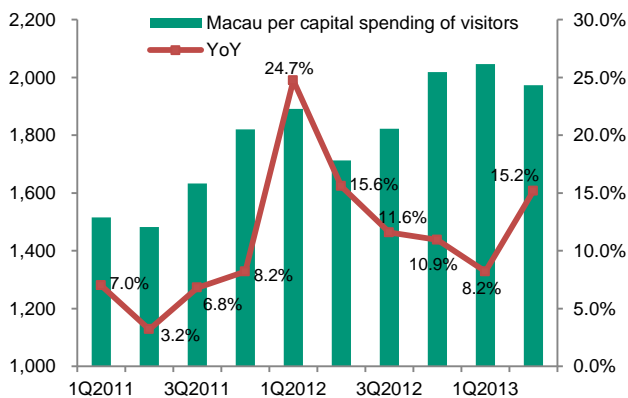
Risk factors: 1) Lower-than-expected tourist arrivals; 2) Increase in marketing costs, labor costs and rental expenses; 3) Business and asset concentration risk in Macau; 4) Execution risks of food souvenirs business 4) Earnings dilution in 2013 due to share placement (75mn shares, representing 11.9% of issued shares) in Nov 2012.

Exhibit 1: Macau visitor arrivals


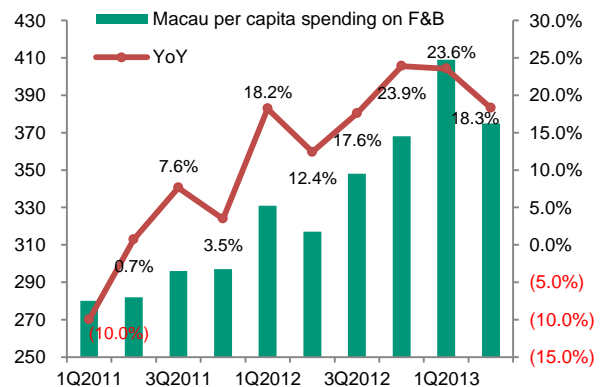
Source(s): Bloomberg; DSEC

Exhibit 2: Macau visitors from China


Source(s): Bloomberg; DSEC

Exhibit 3: Macau per capita spending of visitors


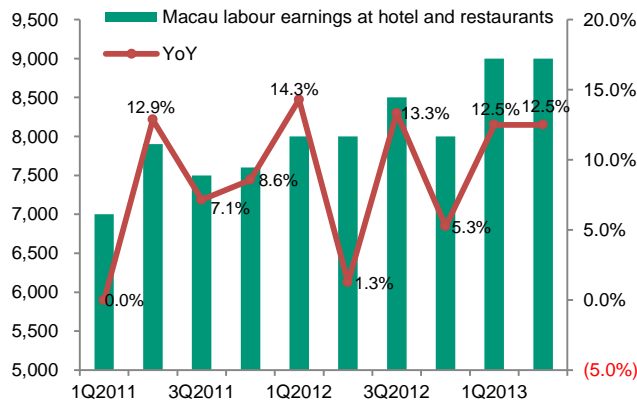
Source(s): Bloomberg; DSEC

Exhibit 4: Macau per capita spending of visitors on F&B


Source(s): Bloomberg; DSEC

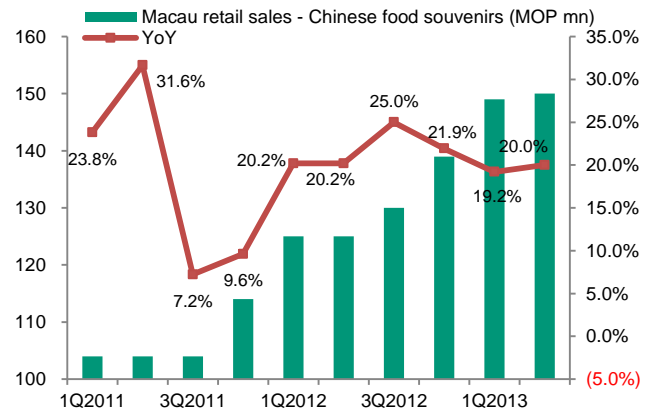


Exhibit 5: Macau labour costs at hotel/restaurants



Source(s): Bloomberg; DSEC

Exhibit 6: Macau retail sales – Chinese food souvenirs



Source(s): Bloomberg; DSEC

Exhibit 7: Hotel rooms to be built in Macau

Hotel	Land Sq. m.	No. of hotel rooms to be built
SJM	70,468	2,000
MGM	71,833	1,600
Wynn	6,000,000	2,000
Galaxy (First phase)	-	2,200
Melco Crown	-	2,200
Sands		
Venetian	-	3,000
Sands Cotai Central (Phase 2A)	-	5,800
Sands Cotai Central (Phase 3)	-	3,000
Macau Theme Park & Resort	200,000	6,000
Shun Tak - Jumeirah Hotel	185,000	
Total		27,800

Source: FB

Exhibit 8: Investment property value (HK\$ mn)

As at Jun 30	1H13			
Investment property value	420.0			
Minus outstanding mortgage loan*	(153.3)			
NAV	266.7			
Discount at	30%	40%	50%	60%
Discounted NAV	186.7	160.0	133.4	106.7
No. of shares	628.9	628.9	628.9	628.9
Discounted NAV per share	0.297	0.254	0.212	0.170

*Mortgage loan was interest bearing at 1M HIBOR + 2.75%pa, repayable within 15 yrs from 2011

Source: FB; ABCI Securities

Exhibit 9: Profitability comparison

	Code	FY end	Price HK\$	Mkt Cap HK\$ mn	GPM %	NPM %	ROAA %	ROAE %	FY 12 PER x	FY13 PER x	FY14 PER x	PB x
Cafe De Coral	341 HK	3	25.80	14,854.6	14.24	8.52	12.84	15.96	27.09	24.11	20.87	4.17
Ajisen China	538 HK	12	7.75	8,442.1	66.44	5.07	6.28	8.00	35.19	31.63	25.41	2.74
Tsui Wah	1314 HK	3	4.74	6,557.0	69.40	11.95	15.25	20.00	40.75	32.69	23.12	6.32
Tao Heung	573 HK	12	5.67	5,792.5	15.57	7.38	13.62	19.33	19.35	17.72	15.53	3.53
Fairwood	52 HK	3	16.16	2,028.4	13.67	7.23	16.72	27.33	14.47	14.56	13.69	3.89
Xiao Nan Guo	3666 HK	12	1.31	1,932.6	68.14	8.90	9.90	20.18	11.15	15.43	11.62	1.86
Future Bright	703 HK	12	2.50	1,572.3	36.70	37.50	12.62	25.72	5.47	11.42	9.80	2.42
Tang Palace	1181 HK	12	1.25	523.1	-	6.65	11.48	15.57	7.47	-	-	1.12
Sector average					40.59	11.65	12.34	19.01	20.12	21.08	17.15	3.26

Source: Bloomberg; ABCI Securities

*Peers are not directly comparable to Future Bright as their prime operating locations are not in Macau



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Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5(year average market return rate from 2007(2011

Time horizon of share price target: 12(month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180(day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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