



Interim Result Report

PanAsialum (2078 HK)

May 27, 2013

Rating: Buy
TP: HK\$4.30

Key data

Share price (May 24, 2013)	HK\$3.11
12 mth target price	HK\$4.30
Upside/downside	38.2%
Issued shares	1,200.00mn
Mkt cap	HK\$3,732mn
Free-float	25%
20-day avg. shares volume	4.21mn
Listing date	5-Feb-13
IPO price	HK\$4.13
Major shareholder:	The Pan Family Trust (75%)
Chairman and founder:	Mr. Marcus Pan
Auditors:	PricewaterhouseCoopers

Source: The Company, ABCI Securities

1H FY13 revenue breakdown (%)

	Prop	YoYChg
By products:		
Electronic parts	52.5	30.6
Branded OPLV products	10.4	41.4
Construction & industrial products	37.1	-15.7
Total	100.0	9.2
By geographic:		
The PRC (excl HK)	65.2	21.1
Australia	30.3	0.3
N America	1.1	-38.9
HK	2.5	-20.5
Others	0.9	-66.1
Total	100.0	9.2

Source: Company

1H FY13 gross profit breakdown (%)

	Prop	YoYChg
By products:		
Electronic parts	57.9	82.4
Branded OPLV products	9.0	75.8
Construction & industrial products	33.1	-15.2
Total	100.0	31.7

Source: Company

Analysts

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Previous report: Issued on Mar 12, 2013

High interim dividend to lure investors

The stock reacts positively on high interim dividend, but we believe generous payout is not sustainable in view of huge capex plan ahead. Gross profit grew by 31.7%YoY but pre-tax profit growth was flat due to sharp jump of staff cost. Half-year net profit surged 29%YoY to HK\$248.95mn (or FD EPS HK\$0.207) due to written back of over-provision tax. Excluding tax gain, adj. ROAE was 14.9% in 1HFY13. Interim DPS of HK\$0.20 translates to ~6.4% yield.

Positive shock to market - The stock surged 30% the day after it declared interim DPS of HK\$0.20, which was unexpected by the market as the group completed IPO in Feb and indicated 30% payout in the prospectus. The generous payout ratio is unsustainable as the group plans to build a new plant in Chengdu with budget capex of Rmb1.8bn. As the stock tumbled significantly after IPO, the interim DPS helps to lure investors.

Unexcited results - Although half-year net profit is 6.9% higher than prospectus's forecast, we are disappointed on weak top line growth and flat pre-tax profit growth. Boosted by one-off tax written back, interim net profit surged 29.0%YoY to HK\$248.95mn which equals to 48.3% of est. annual profit.

Favorable change of product mix - Gross profit surged 31.7%YoY against 9.2%YoY of top line growth, thanks to increasing sales of high margin CNC products in electronic parts division for which its gross profit margin improved to 33.1% in 1HFY13 (vs 23.7% in 1HFY12 & 31.2% in 2HFY12). Group's gross profit margin edged up to 30.0% in 1HFY13 (vs 24.9% in 1H FY12 & 25.5% in 2HFY12).

Surging staff cost - Total staff cost surged 91%YoY or 30%HoH, accounting for 12.1% of revenue in 1HFY13 vs 6.9% in 1HFY12. Although gross profit surged 31.7%YoY, pre-tax profit inched up by 2.3%YoY.

Valuation - Excluding tax written back, adj. ROAA and ROAE were 9.2% and 14.9% for 1HFY13 respectively. NBV and net cash were HK\$1.721/sh and HK\$0.642/sh as at 31/3/2013 respectively. We maintain our TP at HK\$4.30, which represents FD FY13 PER of 10x or P/B of 2.43x in view of its profitability and financial status.

Risks- Potential huge capex in new plant bringing in new business but also financial risks and constraining future dividend payments; weak performance on sales of construction & industrial products; high customer concentration risk; potential cash call to finance new plant

Results and valuation

	FY ended Sep 30	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (HK\$ mn)	1,366.9	2,090.6	2,437.0	2,836.1	3,363.1	
Chg (%YoY)	-	52.9	16.6	16.4	18.6	
Net profit (HK\$ mn)	86.7	260.3	357.1	515.9	627.7	
Chg (%YoY)	-	200.3	37.2	44.5	21.7	
FD EPS (HK\$)#	0.096	0.289	0.397	0.430	0.523	
FD PER (x)	-	-	7.84	7.23	5.95	
NBV (HK\$)	0.487	0.709	0.818	1.767	2.090	
P/B (x)	-	-	3.80	1.76	1.49	
Post-listing DPS (HK\$),	-	-	-	0.200	0.157	
Gross yield (%)	-	-	-	6.43	5.05	
ROAE (%)	-	48.3	52.0	36.1	27.1	
Equity/Assets (%)	49.7	55.8	42.5	74.7	79.6	

Note#: EPS in FY13-14 are based on 1,200mn issued shares

Source: the company, ABCI Securities estimate

Interim Result Comment

Total revenue grew by 9.2%YoY or 3.1%HoH to HK\$1,293mn for the six mths ended Mar 31, 2013. Top line growth was mainly driven by rising sales of CNC products (mainly aluminum chassis unibody of iPad and iPad mini) in electronic parts division and self-brand OPLV furnishing products, but growth momentum was dragged by the decreased sales in construction & industrial products.

Total gross profit soared by 31.7%YoY or 21.3%HoH to HK\$388.39mn in 1HFY13 thanks to favorable change of product mix and improvement of gross profit margin of electronic parts division.

However, the increase in staff costs eroded most of the additional gross profit. Total staff cost surged 91%YoY or 30%HoH, accounting for 12.1% of revenue in 1HFY13 vs 6.9% in 1HFY12. Subsequently, pre-tax profit inched up slightly by 2.3%YoY.

Net profit was boosted up by the written back of over-provision tax in 1HFY13. Net profit surged 29.0%YoY or 51.6%HoH to HK\$248.95mn (FD EPS of HK\$0.207, based on 1,200mn issued shares) in 1HFY13. The company declares interim dividend of HK\$0.20/share which represents 96.6% of half-year FD EPS. The generous interim dividend payment is out of our expectation or market expectations, as the group indicated payout ratio of 30% in the listing prospectus.

As expected, the financial position of the group improved significantly. NBV edged up to HK\$1.721/share as of 31/3/2013 after it raised approx. HK\$1.1bn in Feb IPO. Net cash per share was HK\$0.642/share as of 31/3/2013. Working capital position also improved. Trade receivable and inventory as of 31/3/2013 were down 4.7% and 8.0% respectively, compared with corresponding values at FY ended 30/9/2012.

Half-year results

(HK\$ mn)	1H FY12	2H FY12	1H FY13	Chg (YoY)	Chg (HoH)
Revenue breakdown:					
Electronics parts	520.05	623.48	679.08	30.6%	8.9%
Branded OPLV products	95.06	163.14	134.40	41.4%	-17.6%
Construction & industrial products	568.16	467.11	479.18	-15.7%	2.6%
Total revenue	1,183.28	1,253.72	1,292.66	9.2%	3.1%
Cost of sales	(888.46)	(933.65)	(904.27)	1.8%	-3.1%
Gross profit breakdown:					
Electronics parts	123.24	194.32	224.80	82.4%	15.7%
Branded OPLV products	19.93	38.63	35.05	75.8%	-9.3%
Construction & industrial products	151.63	87.12	128.54	-15.2%	47.5%
Total gross profit	294.81	320.07	388.39	31.7%	21.3%
D&S expenses	(46.88)	(55.75)	(52.43)	11.8%	-6.0%
Admin expenses	(56.03)	(82.66)	(107.59)	92.0%	30.2%
Other income	1.59	2.43	1.14	-28.5%	-53.2%
Other gains (losses)	22.36	4.87	(7.39)	-133.1%	-
Operating profit	215.85	188.96	222.11	2.9%	17.5%
Net finance costs	(11.85)	(13.63)	(13.50)	13.9%	-0.9%
Pre-tax profit	204.00	175.33	208.61	2.3%	19.0%
Income tax	(11.07)	(11.16)	40.34	-464.4%	-
Net profit	192.93	164.17	248.95	29.0%	51.6%
EBIT	215.85	188.96	222.11	2.9%	17.5%
EBITDA	236.96	217.89	246.70	4.1%	13.2%
Pro-forma FD EPS (HK\$)	0.214	0.182	0.207	-3.2%	13.7%
Issued shares, end (mn)	900.00	900.00	1,200.00	33.3%	33.3%
Post-listing DPS (HK\$)	-	-	0.20		

Note: 1H ended on Mar 31; 2H ended on Sep 30

Source: the company, ABCI Securities

Revenue & gross profit breakdown by regions

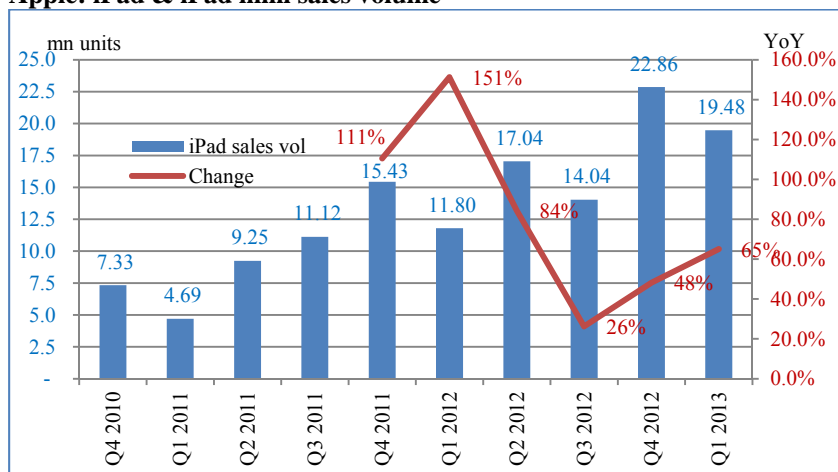
(HK\$ mn)	1H FY12	2H FY12	1H FY13	Chg (YoY)	Chg (HoH)
Revenue breakdown:					
The PRC (excl HK)	696.26	833.84	843.34	21.1%	1.1%
Australia	390.58	342.25	391.91	0.3%	14.5%
N America	23.98	26.51	14.65	-38.9%	-44.7%
HK	39.93	31.17	31.75	-20.5%	1.9%
Others	32.52	19.96	11.02	-66.1%	-44.8%
Total revenue	1,183.28	1,253.72	1,292.66	9.2%	3.1%
Gross profit breakdown:					
The PRC (excl HK)	152.09	234.13	264.22	73.7%	12.9%
Australia	128.10	79.01	115.50	-9.8%	46.2%
N America	3.12	(0.01)	2.64	-15.4%	-
HK	10.10	6.49	5.32	-47.3%	-18.0%
Others	1.42	0.45	0.71	-49.8%	58.2%
Total gross profit	294.81	320.07	388.39	31.7%	21.3%

Source: the company, ABCI Securities

Optimistic View on Electronic Parts Division

We are optimistic on this division in view of increasing sales of high margin products. The sales of electronic parts surged 30.6%YoY or 8.9%HoH thanks to the increased orders of aluminum chassis unibody of tablets (i.e. iPad & iPad mini) from the Foxconn Technology group, which is the largest customer of the group and contributed 51.7% of total revenue or 98.3% of total sales of electronic parts division. Total sales to the Foxconn Technology group surged by 31.1%YoY or 10.6%HoH in 1HFY13. Gross profit margin of this division improved to 33.1% in 1HFY13 from 23.7% in 1HFY12 and 31.2% in 2HFY12. Gross profit of this division grew by 82.4%YoY to HK\$224.8mn in 1HFY13, contributing 57.9% of the group's gross profit.

Apple: iPad & iPad mini sales volume



Source: Apple Inc

Positive View on Branded OPLV Products Division

We also have positive view on this division, but the proportion of contribution to the group is small. Revenue and gross profit of this furnishing products division surged by 41.4%YoY and 75.8%YoY in 1HFY13 respectively due to increase in number of distributors, increase in sales per distributor and improvement in gross profit margin. Number of distributors

increased to 584 as at 31/3/2013 from 577 as at 30/9/2012. The group keeps monitoring the performance of distributor and terminating some non-performing distributors. Moreover, the group reduces the sales discount to distributors to enhance margin. Gross profit margin of this division edged up to 26.1% in 1HFY13 from 21.0% in 1HF12 and 23.7% in 2HFY12. Management expects the growth momentum of this division to sustain and gross profit margin to maintain. According to NBSC, total retail sales value of furnishing & decoration products grew by 18.8%YoY and 18.9%YoY in April and first four months this year respectively. In view of favorable retail sales growth trend and proven market development strategy, our outlook for this division is positive. Revenue and gross profit of this division accounted for 10.4% and 9.0% of total revenue and total gross profit of the group in 1HFY13 respectively.

Cautious View on Construction & Industrial Products Division

We remain cautious on the outlook of this division due to weak export markets. Revenue and gross profit of this division declined by 15.7%YoY and 15.2%YoY in 1HFY13 as the group reduced resources allocated in this division. The group also turned down some of the low margin orders from the domestic market. The group persuaded Australia's customers to place orders on finished goods or semi-finished goods to avoid from paying anti-dumping duties. Subsequently, gross profit margin stabilized at 26.8% in 1HFY13 vs 26.7% in 1HFY12. However, customer concentration risk is also our primary concern in this division. Sales to P&O, the second largest customer of the group, accounted for 25.2% of the group's revenue or 67.9% of the division revenue. This customer concentration risk will remain as long as the group relies on P&O to sell its products to Australia which contributed 30.3% of the group's revenue in 1HFY13.

Revenue & gross profit composition

	Revenue			Gross Profit		
	1H FY12	2H FY12	1H FY13	1H FY12	2H FY12	1H FY13
By products						
Electronics parts	44.0%	49.7%	52.5%	41.8%	60.7%	57.9%
Branded OPLV products	8.0%	13.0%	10.4%	6.8%	12.1%	9.0%
Construction & industrial products	48.0%	37.3%	37.1%	51.4%	27.2%	33.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
By regions						
The PRC (excl HK)	58.8%	66.5%	65.2%	51.6%	73.1%	68.0%
Australia	33.0%	27.3%	30.3%	43.5%	24.7%	29.7%
N America	2.0%	2.1%	1.1%	1.1%	0.0%	0.7%
HK	3.4%	2.5%	2.5%	3.4%	2.0%	1.4%
Others	2.7%	1.6%	0.9%	0.5%	0.1%	0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: the company, ABCI Securities

Improving Financial Position

NBV edged up to HK\$1.721/share as of 31/3/2013 after it raised approx. net proceeds of HK\$1.1bn in Feb IPO. Net cash (total cash minus total loans) was HK\$770mn (or HK\$0.642/share) as of 31/3/2013. Equity /assets ratio increased to 74% at 31/3/2013 from 42% at 30/9/2012.

Working capital position also improved. Trade receivable and inventory as of 31/3/2013 were down 4.7% and 8.0% compared with corresponding values at FY ended 30/9/2012.

The group declared interim dividend of HK\$240mn (or HK\$0.20/share) and the payment date is late June. We estimate NBV will reach HK\$1.767/share at end of FY9/2013.

Potential Cash Call to Finance New Investment Plan

The group plans to set up a new aluminum alloy production plant in Chengdu, Sichuan Province with budget cost of Rmb1.8bn (or HK\$2,275mn). The products of this plant are to meet the sales in electronic products division. The group will finalize the investment plan in coming three months.

As the investment budget is approx. 4.6x of existing amount of fixed assets, the new plant will no doubt bring in significant business but also financial risks to the group in coming years.

In view of the current financial position, the new investment may constrain future dividend payment and will leverage up the balance sheet. We will not be surprised to see the group to have cash call in either the equity or debt market later this year or earlier next year to secure long-term funding sources for this project.

Foxconn Technology group, the largest customer of the group's electronic parts division, has an industrial park in Chengdu. Most of Apple's iPad produced by Foxconn Technology are from its Chengdu plant. Besides, Foxconn Technology group also has huge investment in display business in Chengdu. We believe PanAsialum's new plant in Chengdu is to match the business development plan of its major customer Foxconn Technology there.

At this stage, we have not factored in this new project into our earnings model.

Tablet and notebook casing producers

		Price (local)	FY	PER	FY	PER	FY	PER
2078 HK	PANASIALUM	3.11	9/12	7.84	9/13	7.23	9/14	5.95
3336 HK	JU TENG	5.13	12/12	9.64	12/13	7.80	12/14	6.51
822 HK	KA SHUI	2.68	12/12	19.01	12/13	14.11	12/14	11.17
698 HK	TONGDA GROUP	0.57	12/12	9.02	12/13	7.31	12/14	6.20
2474 TT	CATCHER TECH	158.50	12/12	10.92	12/13	9.77	12/14	9.97
5264 TT	CASETEK	164.00	12/12	29.63	12/13	18.12	12/14	11.42
	Average			14.34		10.72		8.53

Source: Bloomberg, the company, ABCI Securities



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Definition of equity rating

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

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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