

Company Report

PAX Global (327 HK)

Results beat; positioned to weather COVID-19 impact

- FY19 results beat as strong EMEA/APAC growth offset LACIS/China weakness; guidance suggests muted growth for 2020
- Valuation undemanding; long-term opportunities remain as PAX further penetrate emerging markets

2019 results beat on overseas growth, favorable FX

PAX reported FY19 results ahead of our expectation and the company's original flattish guidance. Revenue rose 12% in 2019 to HKD4.9bn (+1% in 2H19), as strong growth in EMEA (+36%) and APAC (+94%) offset the slowdown in LACIS (+4% in FY19, but -22% in 2H) and decline in China (-42%). GM rose 2.6ppt to 39.5% in 2019, helped by RMB depreciation and improved efficiency. Net profit grew 19% (EPS HKD0.57). PAX plans for a final dividend of HKD0.06/share (total 18% payout for FY19).

Soft 2020 guidance given COVID-19 uncertainties

Management gave prudent guidance for 2020, expecting flattish revenue growth and stable GM (above 39%) and OM (above 15%), as COVID-19 uncertainties may impact customer demand near-term. There was a one-month shipments delay, but now over 90% capacity has recovered at its EMS and suppliers. The company believes it should weather the impact better than its competitors, as PAX has comprehensive product offering to meet customer demand (e.g. mPOS, smart POS for food delivery). It had HKD3.2bn net cash, adequate for working capital and investment.

Long-term growth opportunities remain

PAX remain optimistic for its outlook, viewing the COVID-19 impact to be temporary, and expecting recovery 2021-22 (low-teens ppt annual growth in revenue, over 15% OM). Long-term market trend is positive, as POS penetration should continue to rise in emerging countries. Management expects to gain market share from Ingenico (ING FP) after its acquisition by Worldline (WLN EU), while maintaining advantage (brand recognition, market position) over other Chinese POS peers in overseas markets.

Valuation undemanding; maintained BUY

PAX shares now trade at 5x 2020E P/E (trough valuation), undemanding in our view. HKD3.2bn net cash is 80% of its market cap. We lower our 2020-21 estimates given the weaker revenue outlook. Maintain BUY and HKD4.0 TP as we roll over to 2020 valuation (still based on 7x P/E).

Financials

HKD mn	2017	2018	2019	2020E	2021E
Revenue	3,591	4,415	4,926	5,001	5,600
yoy	23.2%	23.0%	11.6%	1.5%	12.0%
Net profit	408	522	624	636	734
yoy	-32.2%	28.2%	19.4%	2.0%	15.4%
EPS (HKD)	0.37	0.47	0.57	0.58	0.67
Div. yield	2.3%	2.8%	2.7%	3.4%	4.7%
P/E (x)	9.5	6.0	6.4	5.0	4.4
P/B (x)	1.0	0.7	0.8	0.6	0.5
ROE	11.0%	12.8%	13.9%	12.7%	13.1%

Sources: Company data, CMS (HK) estimates; share price as of Mar 31, 2020

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WHAT'S NEW

FY19 results, estimates change

BUY

Previous	BUY
Price (Mar 31, 2020)	HKD2.92
12-month Target Price (Potential up/downside)	HKD4.00 (+37%)
Previous	HKD4.00

Price Performance



Source: Bigdata; as of Mar 31, 2020

%	1m	6m	12m
327 HK	(24.2)	(17.5)	(17.9)
HSI	(10.2)	(9.0)	(21.2)

Sector: Hardware Technology

Hang Seng Index (Mar 31, 2020)	23,603
HSCEI (Mar 31, 2020)	9,595

Key Data

52-week range (HKD)	2.46 - 4.20
Market cap (HKD mn)	3,176
Avg. daily volume (mn)	2.26
BVPS (HKD)	4.11

Shareholding Structure

Hi Sun Technology Ltd	33.09%
No. of shares outstanding (mn)	1,100
Free float	66.91%

Source: Company data

Related Research

1. PAX Global (327 HK) - 1H19 results beat; long term potentials remain (BUY) (Aug 14, 2019)
2. PAX Global (327 HK) - 2019 Worldwide Partner Conference takeaway (BUY) (Apr 10, 2019)
3. PAX Global (327 HK) - Potentials and challenges remain (BUY) (Mar 7, 2019)
4. PAX Global (327 HK) - Positioned to regain solid growth momentum; initiate with BUY and TP of HKD4.5 (BUY) (Dec 11, 2018)

Figure 1: Results comparison (actual vs. forecast)

(HKD mn)	Actual			Forecast 2019			
	2018	2019	yoy	Street	Diff	CMS	Diff
Revenue	4,415	4,926	11.6%	4,641	6%	4,625	7%
Gross profit	1,627	1,945	19.6%	n.a.	n.a.	1,723	13%
Operating profit	639	762	19.1%	n.a.	n.a.	678	12%
Pretax income	633	755	19.3%	n.a.	n.a.	673	12%
Net income	522	624	19.4%	574	9%	585	7%
EPS (HKD)	0.47	0.57	19.4%	0.52	8%	0.53	7%
Gross margin	36.8%	39.5%	2.6 ppt	n.a.	n.a.	37.3%	2.2 ppt
Operating margin	14.5%	15.5%	1.0 ppt	n.a.	n.a.	14.7%	0.8 ppt
Pretax margin	14.3%	15.3%	1.0 ppt	n.a.	n.a.	14.5%	0.8 ppt
Net margin	11.8%	12.7%	0.8 ppt	12.4%	0.3 ppt	12.7%	0.0 ppt

Sources: Company data, Bloomberg consensus (as of Mar 29, 2020), CMS (HK) estimates

Results overview

In 2019, PAX Global's revenue increased by 12% yoy, of which revenue from overseas market surged by 21% yoy (mainly due to strong growth in EMEA and APAC). Revenue from China market further declined 42% from intense competition. GM increased 2.6ppt yoy to 39.5% (from 36.8% in 2018). Operating profit surged 19% yoy (OPM of 15.5%). Net income increased 19% yoy, with net margin up by 0.8ppt to 13.8%.

LACIS

In Latin America & CIS area, revenue increased 4% yoy. According to the Nilson Report, PAX ranks first in Latin America in terms of shipments. In Brazil, which remains PAX's most significant market, the acquiring business of local merchant acquirers keeps going, and PAX has entered into strategic partnerships with an even larger number of acquiring organization. The company's brand recognition in Brazil is generating positive knock-on effects in other key countries, such as Mexico and Argentina.

EMEA

Revenue from EMEA area increased 36% yoy. In Europe, PAX achieved robust growth with a significant growth of terminal volume deployed in Italy, UK, Germany, etc. In 2019, PAX achieved two more important European certifications including the ITSO certification granted by the Integrated Transport Smartcard Organization in the US, and the ATEX certification of the European Union's directive to ensure the safety of products in explosive environments. In North and West Africa, PAX also continued to achieve large-volume sales.

APAC

In Asia Pacific region, revenue surged 94% yoy. According to the company, driven by Reserve Bank of India's national vision for a cashless society and wider smartphone penetration, India's electronic payments market has been growing at a rapid pace, with a compound annual growth rate of 12.7% for non-cash transactions. In 2019, PAX's sales in India achieved a high growth momentum, with annual shipments exceeding 600,000 units. As Japan prepares for the upcoming Tokyo Olympics and the 2025 Osaka World Expo, electronic payments are expected to grow further while the Japanese government expects to boost the cashless payment ratio to 40% by 2025.

USCA

In US and Canada, revenue increased 32% yoy. In 2019, PAX devoted more resources to accelerate product R&D in the North American region and obtained important certifications with Verizon and AT&T., spurring a strong growth momentum for PAX's expansion.

China

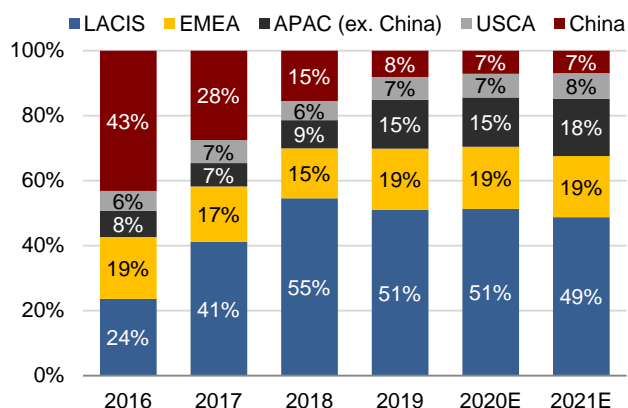
Revenue from China market further declined 42% yoy (-31% in 2018), mainly due to market competition. In view of economic uncertainties in China, intensifying market competition and increasing credit risk of certain customer segments, PAX adjusted strategic and structural approach in the China market in 2019 through operating costs optimization and focusing on serving more reputable customers. This, according to the company, would benefit the in the long run, with ~HKD20mn expected annual savings.

Figure 2: PAX earnings revision (2019, 2020E, 2021E)

(HKD mn)	2019				2020E				2021E			
	Old	Actual	Diff	Δ %	Old	New	Diff	Δ %	Old	New	Diff	Δ %
Revenue	4,625	4,926	301	7%	5,158	5,001	(157)	-3%	5,691	5,600	(91)	-2%
Gross profit	1,723	1,945	222	13%	1,952	1,958	6	0%	2,159	2,206	47	2%
Op profit	678	762	84	12%	814	777	(37)	-5%	904	894	(10)	-1%
Pretax income	673	755	82	12%	811	771	(40)	-5%	901	888	(12)	-1%
Net income	585	624	39	7%	689	636	(53)	-8%	765	734	(31)	-4%
EPS (HKD)	0.53	0.57	0.04	7%	0.63	0.58	(0.05)	-8%	0.70	0.67	(0.03)	-4%
Gross margin	37.3%	39.5%	2.2 ppt		37.8%	39.2%	1.3 ppt		37.9%	39.4%	1.5 ppt	
Op margin	14.7%	15.5%	0.8 ppt		15.8%	15.5%	-0.3 ppt		15.9%	16.0%	0.1 ppt	
Pretax margin	14.5%	15.3%	0.8 ppt		15.7%	15.4%	-0.3 ppt		15.8%	15.9%	0.0 ppt	
Net margin	12.7%	12.7%	0.0 ppt		13.4%	12.7%	-0.6 ppt		13.5%	13.1%	-0.3 ppt	

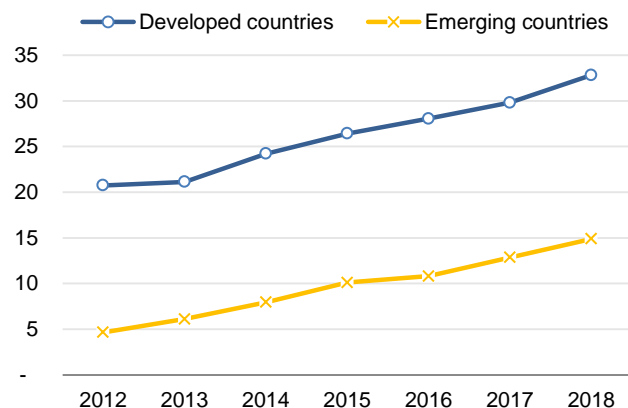
Sources: Company data, CMS (HK) estimates

Figure 3: PAX revenue breakdown by region



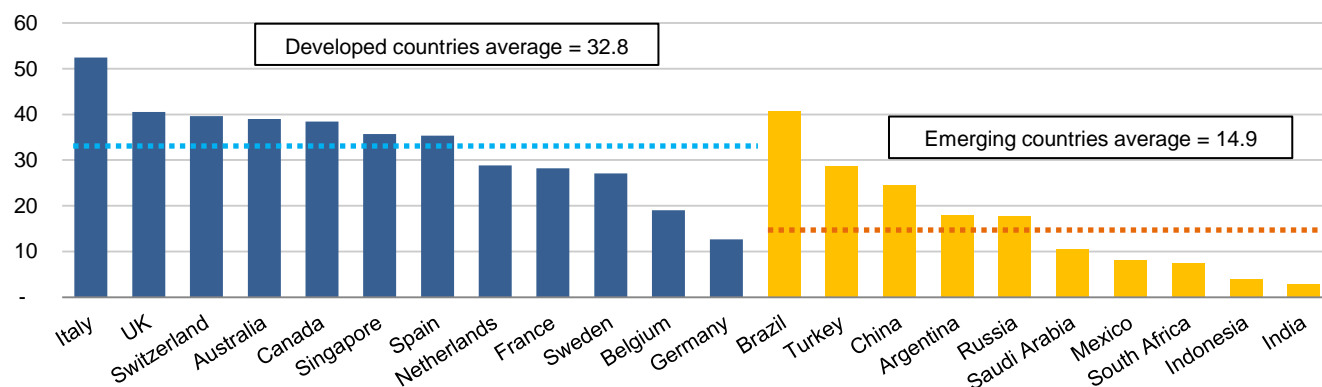
Sources: Company data, CMS (HK) estimates

Figure 4: Number of POS per thousand population



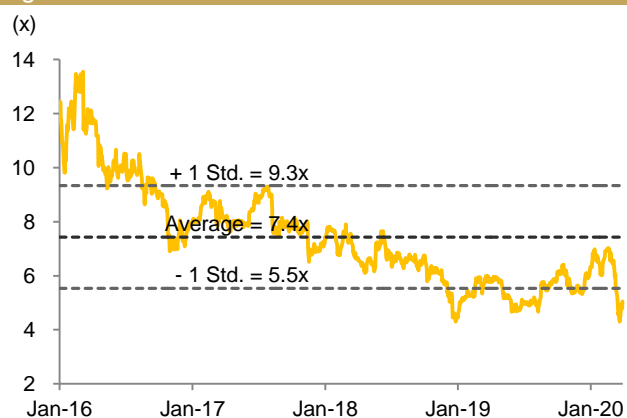
Sources: Bank of International Settlements, CMS (HK)

Figure 5: Number of POS per thousand population comparison (2018)



Sources: Bank of International Settlements, CMS (HK)

Figure 6: PAX forward P/E trend



Sources: Bloomberg, CMS (HK); as of Mar 31, 2020

Figure 7: PAX forward P/E band



Sources: Bloomberg, CMS (HK); as of Mar 31, 2020

Figure 8: Valuation comparison

Company	Ticker	Price Crncy	Share Price	Market Cap (USD bn)	P/E		P/B		EV/EBITDA		ROE		Div. yield		Net
					(x)	(x)	(x)	(%)	(%)	(%)	D/E				
					2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2019
E-payment terminals															
PAX Global	2018 HK	HKD	2.92	0.4	5.0	4.4	0.6	0.5	n.m.	n.m.	13	13	3.4	4.7	-68%
Ingenico	ING FP	EUR	96.38	6.8	18.6	16.5	2.6	2.4	12.6	11.5	14	14	1.5	1.7	82%
Newland	000997 CH	CNY	15.81	2.3	16.6	13.4	2.5	2.1	13.3	9.9	15	16	n.a.	n.a.	-42%
Nexgo	300130 CH	CNY	13.55	0.9	12.7	9.6	2.2	1.9	8.9	6.9	18	20	n.a.	n.a.	19%
Average					13.2	11.0	2.0	1.7	11.6	9.4	15	16	2.4	3.2	-2%

Note: Stocks above are non-rated by CMS (HK) except PAX Global (327 HK, BUY, TP: HKD4.0); forecasts are based on Bloomberg consensus (except PAX Global)

Sources: Company data, Bloomberg, CMS (HK) estimates; share prices as of Mar 31, 2020

PAX Global earnings forecast

Figure 9: PAX Global earnings forecast

(HKD mn)	1H17	2H17	1H18	2H18	1H19	2H19	1H20E	2H20E	1H21E	2H21E	2019E
Revenue	1,606	1,985	1,876	2,540	2,366	2,559	2,340	2,660	2,640	2,960	2,915
yoy	20%	25%	17%	28%	26%	1%	-1%	4%	13%	11%	2%
Gross profit	670	788	722	904	914	1,030	894	1,064	1,016	1,190	1,262
Opex	(405)	(520)	(455)	(573)	(584)	(625)	(566)	(662)	(628)	(740)	(644)
Operating profit	292	136	303	337	371	391	351	426	414	479	689
Non-Op Gain/Loss	(1)	(2)	(5)	(2)	(3)	(4)	(3)	(3)	(3)	(3)	(11)
Pretax Income	291	134	298	335	367	387	348	423	412	477	678
Tax Expense	(37)	(51)	(44)	(74)	(42)	(88)	(42)	(93)	(49)	(105)	(75)
Minority interest	11	60	4	3	0	(1)	0	0	0	0	(3)
Net Income (after minority)	265	143	258	264	325	298	307	330	362	372	601
yoy	-15%	-51%	-2%	85%	26%	13%	-6%	10%	18%	13%	-3%
Diluted EPS (HKD)	0.24	0.13	0.23	0.24	0.30	0.27	0.28	0.30	0.33	0.34	0.54
Margins											
Gross Margin	41.7%	39.7%	38.5%	35.6%	38.6%	40.3%	38.2%	40.0%	38.5%	40.2%	43.3%
Operating Margin	18.2%	6.8%	16.1%	13.3%	15.7%	15.3%	15.0%	16.0%	15.7%	16.2%	23.6%
Opex Ratio	25.2%	26.2%	24.3%	22.6%	24.7%	24.4%	24.2%	24.9%	23.8%	25.0%	22.1%
Pretax margin	18.1%	6.7%	15.9%	13.2%	15.5%	15.1%	14.9%	15.9%	15.6%	16.1%	23.3%
Net Margin	16.5%	7.2%	13.8%	10.4%	13.8%	11.7%	13.1%	12.4%	13.7%	12.6%	20.6%
Revenue split											
Overseas	68%	76%	85%	84%	93%	91%	94%	92%	95%	92%	57%
LACIS	35%	46%	48%	60%	57%	46%	54%	49%	51%	47%	24%
EMEA	16%	17%	21%	11%	20%	18%	19%	19%	18%	19%	19%
APAC (exclude China)	7%	8%	8%	9%	10%	20%	13%	17%	18%	18%	8%
USCA	9%	5%	8%	4%	7%	7%	8%	7%	8%	8%	6%
China	32%	24%	15%	16%	7%	9%	6%	8%	5%	8%	43%
Gross margins											
Overall	41.7%	39.7%	38.5%	35.6%	38.6%	40.3%	38.2%	40.0%	38.5%	40.2%	43.3%
Overseas	52.0%	48.0%	43.5%	40.0%	40.5%	43.0%	39.8%	42.5%	40.0%	42.7%	56.1%
China	20.2%	12.8%	10.7%	12.0%	13.0%	13.5%	12.2%	12.4%	12.7%	12.3%	26.4%

Sources: Company data, CMS (HK) estimates

Financial Summary

Balance Sheet

HKD mn	2017	2018	2019	2020E	2021E
Current assets	4,839	5,344	6,197	6,722	7,497
Cash & equivalents	2,165	2,160	3,230	3,454	3,871
S/T investments	0	0	0	0	0
Accounts receivable	1,703	1,919	1,513	1,775	1,969
Inventories	918	1,182	1,301	1,333	1,494
Other current assets	52	82	152	161	163
Non-current assets	393	432	523	551	555
PP&E	52	72	70	71	73
Land use rights	84	76	221	232	231
Intangible assets	90	82	56	56	56
Equity investments	21	18	16	16	16
Financial assets	75	106	115	114	114
Other non-current assets	72	78	45	61	65
Total assets	5,232	5,776	6,719	7,273	8,052
Current liabilities	1,317	1,541	1,876	1,919	2,078
S/T debt	14	8	0	0	0
Accounts payable	953	1,190	1,382	1,452	1,616
Taxes payable	282	259	299	294	292
Other current liabilities	68	83	194	174	169
Non-current liabilities	18	22	104	88	84
L/T debt	0	0	2	2	2
Others	18	22	102	86	82
Total liabilities	1,335	1,563	1,980	2,008	2,162
Issued capital	110	110	110	110	110
Total reserves	3,813	4,132	4,656	5,182	5,806
Treasury stock	0	0	0	0	0
Capital adjusted	0	0	0	0	0
Minorities	(26)	(29)	(27)	(27)	(27)
Total equity and liabilities	5,232	5,776	6,719	7,273	8,052

Cashflow Statement

HKD mn	2017	2018	2019	2020E	2021E
CF from operating activities	214	198	1,207	431	590
Net income	425	515	625	636	734
D&A	31	20	52	53	54
Changes of W/C	(327)	(358)	479	(223)	(190)
Investment income	176	4	0	0	0
Others	(91)	17	51	(35)	(9)
CF from investing activities	(216)	(58)	(73)	(82)	(58)
Capital expenditure	(101)	(37)	(15)	(15)	(15)
Other investments	(115)	(21)	(58)	(67)	(43)
CF from financing activities	(131)	(94)	(33)	(126)	(114)
Dividends paid	(89)	(88)	(88)	(110)	(110)
Shares issued	(26)	0	0	0	0
Debt issued	(16)	(6)	2	0	0
Others	0	0	54	(16)	(4)
Net cash flow	(42)	(5)	1,070	224	417

Profit & Loss Statement

HKD mn	2017	2018	2019	2020E	2021E
Revenue	3,591	4,415	4,926	5,001	5,600
Cost of sales	(2,133)	(2,789)	(2,981)	(3,043)	(3,394)
Gross profit	1,458	1,627	1,945	1,958	2,206
R&D expense	(287)	(332)	(399)	(405)	(442)
S&M expense	(426)	(438)	(466)	(474)	(532)
Admin & others	(212)	(259)	(345)	(349)	(394)
Other gain/loss	(104)	41	26	47	56
Operating profit	428	639	762	777	894
Finance costs	(4)	(5)	(5)	(6)	(6)
Other non-op	0	(2)	(2)	0	0
Pretax Income	425	633	755	771	888
Tax expense	(88)	(117)	(130)	(135)	(154)
Net income (bef Min)	337	515	625	636	734
Minority interest	71	7	(1)	0	0
Net income (aft Min)	408	522	624	636	734
Diluted EPS (HKD)	0.37	0.47	0.57	0.58	0.67

Financial Ratios

	2017	2018	2019	2020E	2021E
yoy growth rate					
Revenue	23.2%	23.0%	11.6%	1.5%	12.0%
Op profit	-37.9%	49.4%	19.1%	2.0%	15.1%
Net profit	-32.2%	28.2%	19.4%	2.0%	15.4%
Profitability					
Gross margin	40.6%	36.8%	39.5%	39.2%	39.4%
Op margin	11.9%	14.5%	15.5%	15.5%	16.0%
Net margin	11.3%	11.8%	12.7%	12.7%	13.1%
ROE	11.0%	12.8%	13.9%	12.7%	13.1%
Liquidity					
Debt to equity	0.4%	0.2%	0.0%	0.0%	0.0%
Net debt to equity	-55.2%	-51.1%	-68.1%	-65.5%	-65.7%
Current ratio	3.7	3.5	3.3	3.5	3.6
Quick ratio	3.0	2.7	2.6	2.8	2.9
Operating efficiency					
Asset turnover	0.7	0.8	0.8	0.7	0.7
Inventory turnover	2.8	2.7	2.4	2.3	2.4
AR turnover	2.4	2.4	2.9	3.0	3.0
AP turnover	2.6	2.6	2.3	2.1	2.2
Per share ratios (HKD)					
EPS	0.37	0.47	0.57	0.58	0.67
Net cash PS	1.94	1.96	2.93	3.14	3.52
FCF PS	0.10	0.15	1.08	0.38	0.52
EBITDA PS	0.41	0.60	0.74	0.75	0.86
Valuation ratios					
P/E	9.5	6.0	6.4	5.0	4.4
P/B	1.0	0.7	0.8	0.6	0.5
EV/EBITDA	3.7	1.4	0.9	n.m.	n.m.

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

Analyst Disclosure

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