

## PAX Global Technology Ltd

Slower growth but more stable service income

PAX Global Technologies (Pax) is the third-largest maker of electronic payment terminals (EPT) globally with a leading market share in China. Pax reported 2016 sales growth of 2% as regulatory changes hurt domestic equipment sales. Longer term, we expect new service revenues to provide more stable and potentially higher margin sales for Pax. Maintain OW with a lower Dec17 PT of HK\$7.5.

- 2016 results similar to expectations.** 2016 was a tough year of adjustment with a plunge in domestic equipment sales and higher development costs for the new launch of services. Sales in China were weak in 2016 (down 18% Y/Y and down 13% Y/Y in local currency). The weakness in China is understandable given that the government cut fees related to credit and debit card payments commencing Sept 2016. This has a knock-on effect of lowering demand for payment processing equipment (longer replacement period, lower prices machines). Overseas sales were in line with expectations with the strongest growth in US (up 68% Y/Y) and fairly solid 20%+ growth in EMEA and LATAM. On the positive side, service income (mainly in China) related to recently acquired Kasuo (credit card loyalty programs and other membership software and services) helped lift service income more than five-fold to HK\$157m (5% of total income) in 2016.
- Lowering sales and net profits est. on sluggish domestic market.** We are adjusting down our sales forecasts for 2017 and 2018 by 3-4% to reflect slower domestic equipment sales. We have also made small adjustments to 2017 and 2018 NP. After a tumultuous 2016, 2017 should be a less eventful year and we look for more service income and a stabilization of domestic equipment sales to lift sentiment during the year. Overseas sales continue to shine and new M&A could drive some excitement in 2017. We lowered our Dec17 PT to HK\$7.5 to reflect more conservative expectations on domestic equipment sales. Our revised EPS estimate is 9% lower than consensus for 2017 and 14% lower for 2018.
- Price, valuation and risks.** Our revised Dec17 PT implies a 12.4x CY18 PE. The key risks are slow growth in China and other developing markets due to deteriorating economic conditions.

### Overweight

0327.HK, 327 HK

Price: HK\$5.04

▼ **Price Target: HK\$7.50**  
 Previous: HK\$8.30

#### Hong Kong

#### SMID-Caps

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**Bloomberg** JPMA CHIK <GO>

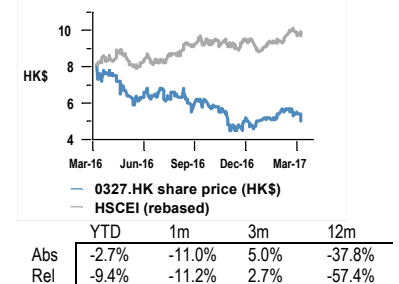
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#### Price Performance



#### PAX Global Technology Ltd (Reuters: 0327.HK, Bloomberg: 327 HK)

HK\$ in mn, year-end Dec	FY14A	FY15A	FY16A	FY17E	FY18E
Revenue (HK\$ mn)	2,373	2,870	2,913	3,319	3,720
Net Profit (HK\$ mn)	392	619	601	648	696
EPS (HK\$)	0.35	0.54	0.52	0.56	0.61
DPS (HK\$)	0.00	0.04	0.08	0.08	0.09
Revenue growth (%)	61.2%	20.9%	1.5%	13.9%	12.1%
EPS growth (%)	67.5%	52.0%	(2.9%)	7.8%	7.5%
ROCE	16.1%	21.3%	18.3%	16.9%	15.7%
ROE	16.9%	22.0%	18.4%	17.3%	16.1%
P/E (x)	14.2	9.3	9.6	8.9	8.3
P/BV (x)	2.2	1.8	1.7	1.5	1.3
EV/EBITDA (x)	7.7	5.2	4.4	3.6	2.8
Dividend Yield	0.0%	0.8%	1.5%	1.7%	1.8%

Source: Company data, Bloomberg, J.P. Morgan estimates.

#### Company Data

Shares O/S (mn)	1,108
Market Cap (HK\$ mn)	5,584
Market Cap (\$ mn)	719
Price (HK\$)	5.04
Date Of Price	09 Mar 17
Free Float(%)	-
3M - Avg daily vol (mn)	2.94
3M - Avg daily val (HK\$ mn)	15.31
3M - Avg daily val (\$ mn)	2.0
HSCEI	10,095.79
Exchange Rate	7.76
Price Target End Date	31-Dec-17

**See page 11 for analyst certification and important disclosures, including non-US analyst disclosures.**

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<p><b>Key catalysts for stock price:</b></p> <ul style="list-style-type: none"> <li>• Strong R&amp;D team helps PAX to lower product price and speed up product launch process to market</li> <li>• Leadership in the China and exciting new growth in US and EU</li> <li>• Intelligent intensive and light asset model to ensure product quality and innovation</li> </ul>	<p><b>Upside risks to our view:</b></p> <ul style="list-style-type: none"> <li>• Much higher-than-expected demand due to national project an adoption of second generation EMV IC system</li> <li>• Strong growth in mobile equipment and mobile payment as well as NFC products</li> <li>• More competitive advantages against peers</li> </ul>	<p><b>Downside risks to our view:</b></p> <ul style="list-style-type: none"> <li>• Slow growth in China and other developing market due to deteriorating economic conditions</li> <li>• Renminbi revaluation and cost inflation</li> <li>• Execution risk on providing service revenues.</li> </ul>
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Key financial metrics	FY15	FY16	FY17E	FY18E
Revenues (LC)	2,870	2,913	3,319	3,720
Revenue growth (%)	20.9%	1.5%	13.9%	12.1%
EBITDA (LC)	641	677	739	796
EBITDA margin (%)	22.3%	23.3%	22.3%	21.4%
Tax rate (%)	6%	13%	14%	14%
Net profit (LC)	619	601	648	696
EPS (LC)	0.55	0.52	0.56	0.61
EPS growth (%)	58%	-3%	8%	7%
DPS (LC)	0.040	0.080	0.086	0.093
BVPS (LC)	2.74	3.03	3.44	3.87
Operating cash flow (LC mn)	224	124	407	438
Free cash flow (LC mn)	222	120	402	434
Interest cover (X)	-32	na	na	na
Net margin (%)	21.6%	20.6%	19.5%	18.7%
Sales/assets (X)	0.70	0.66	0.65	0.64
Debt/equity (%)	32.0%	26.6%	26.0%	24.9%
Net debt/equity (%)	NC	NC	NC	NC
ROE (%)	22%	18%	17%	16%

Key model assumptions	FY17E	FY18E
Capacity	4827	5494
Units sold	3862	4396
ASP change	-3%	-4%

Source: Bloomberg, Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY17E	FY18E	FY17E	FY18E
1% chg in dom				
ASP	1.5%	1.4%	1.7%	1.6%
1% chg in exp ASP	2.7%	2.8%	3.1%	3.2%
1% inc in volume	2.6%	2.7%	3.0%	3.1%

Source: Bloomberg, Company and J.P. Morgan estimates.

**Peer valuation comparison**

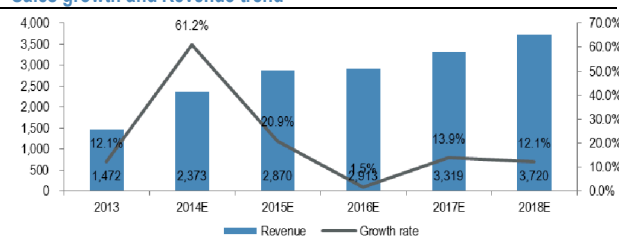
Company Name	Code	Price (TP) Local ccy	MCAP US\$m	Vol US\$m	3M Chg	16e PE (x)	17e PE (x)	ROE (%)	P/B (x)	Yld (%)
<b>Industrial peers</b>										
TECHTRONIC INDS*	669 HK	29.1	6,836.8	19.9	(0.5)	17.5	15.4	17.2	2.9	1.5
VTECH*	303 HK	86.5	2,783.9	6.9	(10.9)	17.3	13.9	34.0	5.7	3.8
REGINA MIRACLE*	2199 HK	5.9	918.2	1.2	(19.3)	25.8	17.3	23.3	2.3	1.0
<b>PAX GLOBAL*</b>	<b>327 HK</b>	<b>5.0</b>	<b>710.2</b>	<b>1.9</b>	<b>4.2</b>	<b>9.1</b>	<b>8.9</b>	<b>18.4</b>	<b>1.3</b>	<b>1.6</b>
SHENZHOU*	2313 HK	49.2	7,821.7	11.9	2.8	20.4	17.4	22.9	3.4	3.2
MAN WAH HOLDINGS	1999 HK	5.1	2,529.1	5.9	(7.4)	12.2	11.3	na	3.9	5.1
LI & FUNG LTD*	494 HK	3.6	3,901.2	23.1	5.0	13.2	12.5	10.1	1.6	6.7
MAKITA CORP*	6586 JP	7,810.0	9,491.9	29.1	3.3	23.8	21.3	9.0	2.1	1.4
<b>Average</b>					<b>(2.9)</b>	<b>17.4</b>	<b>14.7</b>	<b>19.3</b>	<b>2.9</b>	<b>3.0</b>

Source: Company data, Bloomberg, J.P. Morgan estimates (\*). Share prices are as of close price of 10 Mar.2017

**Valuation and price target basis**

Our price target is based upon DCF methodology. The nature of the industry leads us to apply a terminal growth of 4.0% (near the middle of the 3 to 6 percent growth rate used for SMID Caps).

**Sales growth and Revenue trend**



Source: Bloomberg, Company and J.P. Morgan estimates.

**JPM vs. consensus, change in estimates**

EPS	FY17E	FY18E
JPM old	0.580	0.621
JPM new	0.565	0.607
% chg	-2.6%	-2.3%
Consensus	0.607	0.688

Source: Bloomberg, Company and J.P. Morgan estimates.

## 2016 results similar to expectations

Sales in China were weak in 2016 (down 18% Y/Y and down 13% Y/Y in local currency). The sales drop for equipment only (excl. services) was probably down over 25% Y/Y. The weakness in China is understandable given that the government cut fees related to credit and debit card payments commencing Sept 2016. This has a knock-on effect of lowering demand for payment processing equipment (longer replacement period, lower prices machines) as merchants, banks and service providers adjust for the smaller pie (money available to pay for machines) after the changes in Sept. Overseas sales were in line with expectations with the strongest growth in US (up 68% Y/Y) and fairly solid 20% + growth in EMEA and LATAM. On the positive side, service income (mainly in China) related to recently acquired Kasuo (credit card loyalty programs and other membership software and services) helped lift service income more than five-fold to HK\$157m (5% of total income) in 2016. Management intends to focus more on service income which makes up 20% to 30% of global peers total revenues. Pax indicated that service income would have a much higher GPM compared to equipment sales in China (we believe 35% to 40%); but in the initial period, the net profit margin would be still quite low (<10%) until volume ramps up and operating leverage (on SGA expenses) kicks in.

Table 1: FY16 results review

FY results (HK\$m)	FY15A	FY16A	Y/Y	FY16E	Var.
Turnover*	2,870	2,914	1.5%	3,095	-5.8%
Gross profit	1,092	1,261	15.4%	1,222	3.2%
GPM*	38.1%	43.3%		39.5%	
EBIT	657	678	3.2%	694	-2.3%
EBITM	22.9%	23.3%		22.4%	
Net profit	621	601	-3.2%	612	-2%
NP Margin	21.6%	20.6%		19.8%	
EPS	0.551	0.535	(0.029)	0.533	0%

Source: Company data, J.P. Morgan estimates

## Lowering sales and net profits on sluggish domestic market

We are adjusting down our sales forecasts for 2017 and 2018 by 3-4% to reflect slower domestic equipment sales. We also made small adjustments to 2017 and 2018 NP. 2016 was a tough year of adjustment with a plunge in domestic equipment sales and higher development costs for new launch of services. 2017 should be a less eventful year and we look for more service income and a stabilization of domestic equipment sales to lift sentiment during the year. Overseas sales continue to shine (but no surprises to expectations) and new M&A could drive some excitement in 2017. We lowered our Dec17 PT to HK\$7.5 to reflect the more conservative expectations on domestic equipment sales. Our revised EPS is 9% lower than consensus for 2017 and 14% lower for 2018.

Table 2: Earnings estimate change

Year to Dec (HK\$ m)	----- New -----		----- Old -----		----- Chg -----	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Turnover	3,319	3,720	3,448	3,828	-3.7%	-2.8%
Gross profit	1,407	1,545	1,344	1,468	4.7%	5.3%
EBIT	735	793	750	805	-2.0%	-1.6%
Net profit	648	696	666	712	-2.6%	-2.3%
EPS	0.565	0.607	0.580	0.621	-2.6%	-2.3%
<b>Assumptions</b>						
Gross margin	42.4%	41.5%	39.0%	38.3%	3.4%	3.2%

Source: J.P. Morgan estimates

## Valuation and share price analysis

### DCF valuation

Our Dec-17 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.0. Accordingly, WACC is assumed at 10.2%. We have estimated free cash flow for PAX until 2020 and assume a terminal growth rate of 4%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6% depending on the nature of the industry and the level of maturity in China.

We also analyzed the DCF price sensitivity to WACC, and the terminal multiple.

Table 1: PAX – base-case DCF analysis

HK\$ in millions, year-end Dec	2013	2014	2015E	2016E	2017E	2018E	2019E	Terminal
<b>Cash flow estimates</b>								
Sales	1,472	2,373	2,870	2,913	3,319	3,720	4,116	4,532
EBIT	252	440	637	673	735	793	849	901
NOPAT	252	375	539	633	635	681	726	766
Capex, net	(1)	(2)	(2)	(3)	(3)	(3)	(4)	(4)
Depreciation	4	3	4	4	4	3	3	3
Change in working capital	76	(272)	(365)	(520)	(278)	(216)	(214)	(351)
<b>Free operating CF (FoCF)</b>	<b>330</b>	<b>103</b>	<b>175</b>	<b>116</b>	<b>360</b>	<b>468</b>	<b>516</b>	<b>420</b>
<b>DCF Parameters</b>								
Liabilities as a % of EV	0%	<b>Assumptions</b>		Terminal growth		4.0%		
WACC	10.2%	Risk-free rate		4.2%				
		Market risk		6.0%				
<b>Enterprise NPV (10-16E)</b>	<b>6,199</b>	Beta		1.0				
+ Net cash (debt), 14E	2,207	Cost of debt		4.0%				
- Minorities (Market value)	0	Implied exit P/E multiple (x)		9x				
+/- Other items	0							
<b>= Equity value</b>	<b>8,406</b>							
/ Number of shares	1,122							
<b>= Equity value per share (HK\$)</b>	<b>7.5</b>							

Source: Company data, J.P. Morgan estimates

Table 2: PAX – Sensitivity analysis based on WACC and perpetual terminal growth rate

		Terminal growth rate						
		2.5%	3%	3.5%	4.0%	4.5%	5.0%	5.5%
WACC	8.7%	7.7	8.1	8.6	9.2	10.0	11.0	12.3
	9.2%	7.3	7.6	8.0	8.5	9.2	9.9	10.9
	9.7%	6.9	7.2	7.6	8.0	8.5	9.1	9.8
	10.2%	6.6	6.8	7.1	7.5	7.9	8.4	9.0
	10.7%	6.3	6.5	6.8	7.1	7.4	7.8	8.3
	11.2%	6.1	6.3	6.5	6.7	7.0	7.4	7.8
	11.7%	5.8	6.0	6.2	6.4	6.7	7.0	7.3

Source: J.P. Morgan estimates

## Financial analysis

Table 3: PAX – Revenue mix

HK\$ MM, year-end 31Dec	2013	2014	2015	2016	2017E
Hardware sales	1,458	2,353	2,840	2,756	3,062
YoY	12.1%	61.4%	20.7%	-2.9%	11.1%
% of total	99%	99%	99%	95%	92%
Domestic	1,035	1,366	1,491	1,101	1,076
YoY	22.5%	32.0%	9.1%	-26.1%	-2.3%
% of total	70%	58%	52%	38%	32%
Service revenues	15	20	30	157	257
YoY		35.8%	50.0%	423.3%	63.6%
% of total	1%	1%	1%	5%	8%

Source: Company data, J.P. Morgan estimates

Table 4: PAX – P&L statement

Year-end 31Dec (HK\$MM)	2013	2014	2015	2016	2017E	2018E
<b>Total Revenues</b>	<b>1,472</b>	<b>2,373</b>	<b>2,870</b>	<b>2,913</b>	<b>3,319</b>	<b>3,720</b>
YoY change (%)	12.1%	61.2%	20.9%	1.5%	13.9%	12.1%
Cost of Goods Sold	(931)	(1,508)	(1,779)	(1,654)	(1,913)	(2,175)
YoY change (%)	9.7%	62.0%	17.9%	-7.0%	15.6%	13.7%
Gross Profit	541	865	1,091	1,259	1,407	1,545
YoY change (%)	16.6%	59.8%	26.2%	15.4%	11.7%	9.9%
Gross Margin	36.7%	36.4%	38.0%	43.2%	42.4%	41.5%
SGA	(325)	(472)	(544)	(644)	(734)	(823)
YoY change (%)	20.9%	45.3%	15.2%	18.5%	13.9%	12.1%
Other Income/(Expenses)	36	47	89	59	63	70
Operating profit	252	440	637	673	735	793
<b>EBITDA</b>	<b>256</b>	<b>443</b>	<b>641</b>	<b>677</b>	<b>739</b>	<b>796</b>
EBITDA margin	17.4%	18.7%	22.3%	23.3%	22.3%	21.4%
Depreciation & Amortization	(4)	(3)	(4)	(4)	(4)	(3)
YoY change (%)	10.5%	-17.0%	33.3%	1.4%	-11.1%	-5.9%
<b>EBIT</b>	<b>252</b>	<b>440</b>	<b>637</b>	<b>673</b>	<b>735</b>	<b>793</b>
EBIT margin	17.1%	16.5%	19.1%	21.1%	20.3%	19.4%
Net Interest Expense	0	23	20	4	20	23
Exceptional item	0	0	0	0	0	0
Associates	0	0	0	0	0	0
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	267	463	657	678	755	816
YoY change (%)	19.5%	73.4%	41.8%	3.2%	11.5%	8.0%
Tax	(40)	(71)	(38)	(74)	(105)	(118)
Effective Tax rate	14.8%	15.4%	5.7%	13.4%	13.9%	14.4%
Minority Interests	0	0	0	(3)	(2)	(2)
<b>Net Income</b>	<b>227</b>	<b>392</b>	<b>619</b>	<b>601</b>	<b>648</b>	<b>696</b>
YoY change (%)	23.8%	73.0%	58.0%	-2.9%	7.8%	7.5%
Net margin	15.4%	16.5%	21.6%	20.6%	19.5%	18.7%

Source: Company data, J.P. Morgan estimates

Table 5: PAX – Balance sheet

Year-end 31Dec (HK\$MM)	2013	2014	2015	2016	2017E	2018E
Cash and Cash Equivalents	1,698	1,919	2,144	2,207	2,542	2,904
Inventories	465	475	562	597	680	762
Accounts receivable	638	898	1,261	1,347	1,535	1,721
Other Current Assets	23	30	53	69	201	270
<b>Total Current Assets</b>	<b>2,824</b>	<b>3,323</b>	<b>4,021</b>	<b>4,220</b>	<b>4,957</b>	<b>5,657</b>
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	8	12	11	68	9	9
Other Assets	0	0	48	145	145	145
Non-Current assets	8	12	60	213	154	154
<b>Total Assets</b>	<b>2,833</b>	<b>3,334</b>	<b>4,080</b>	<b>4,433</b>	<b>5,111</b>	<b>5,810</b>
Accounts Payable	446	424	711	662	755	846
Other Accrued Expenses	300	285	231	227	227	227
Taxes Payable	0	78	46	36	67	80
ST and current LT debts	0	0	0	0	0	0
<b>Total Current Liabilities</b>	<b>746</b>	<b>786</b>	<b>988</b>	<b>925</b>	<b>1,049</b>	<b>1,153</b>
Long-term Debt	0	0	0	0	0	0
Other Noncurrent Liability	0	0	2	6	6	6
Noncurrent liabilities	0	0	2	6	6	6
<b>Total Liabilities</b>	<b>746</b>	<b>786</b>	<b>990</b>	<b>932</b>	<b>1,055</b>	<b>1,159</b>
Share capital	1,342	110	111	111	111	111
Reserves and Surplus	745	2,438	2,966	3,355	3,907	4,500
<b>Total Shareholders' Equity</b>	<b>2,087</b>	<b>2,548</b>	<b>3,078</b>	<b>3,466</b>	<b>4,018</b>	<b>4,611</b>
Minority Interest	0	0	13	36	38	40
<b>Total Shareholders' Equity</b>	<b>2,087</b>	<b>2,548</b>	<b>3,091</b>	<b>3,502</b>	<b>4,056</b>	<b>4,651</b>
<b>Total Liabilities and Equity</b>	<b>2,833</b>	<b>3,334</b>	<b>4,080</b>	<b>4,433</b>	<b>5,111</b>	<b>5,810</b>

Source: Company data, J.P. Morgan estimates

Table 6: PAX – Cash flow statement

Year-end 31Dec (HK\$ MM)	2013	2014	2015	2016	2017E	2018E
EBIT	252	440	637	673	735	793
Depreciation and Amortization	4	3	4	4	4	3
Working Capital Changes	76	(272)	(365)	(520)	(278)	(276)
Net Interest	0	23	20	4	20	23
Tax Paid	(40)	(40)	(71)	(38)	(74)	(105)
<b>Cash Flow From Operations</b>	<b>292</b>	<b>154</b>	<b>224</b>	<b>124</b>	<b>407</b>	<b>438</b>
Capital expenditures	(1)	(2)	(2)	(3)	(3)	(3)
Investments and others	10	0	0	0	0	0
<b>Cash Flow from Investing</b>	<b>9</b>	<b>16</b>	<b>(2)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>
<b>Free Cash Flow</b>	<b>300</b>	<b>171</b>	<b>222</b>	<b>120</b>	<b>402</b>	<b>434</b>
Dividends	0	0	(22)	(67)	(92)	(99)
Common issue	8	0	0	0	0	0
Other Financing	0	0	2	4	0	0
Contribution from owner	17	28	24	5	24	28
<b>Cash Flow from financing</b>	<b>25</b>	<b>74</b>	<b>4</b>	<b>(57)</b>	<b>(68)</b>	<b>(71)</b>
Change in cash	323	245	226	63	335	363
Cash beginning	1,358	1,698	1,919	2,144	2,207	2,542
Foreign exchange changes	17	(24)	0	0	0	0
<b>Cash at end</b>	<b>1,698</b>	<b>1,919</b>	<b>2,144</b>	<b>2,207</b>	<b>2,542</b>	<b>2,904</b>

Source: Company data, J.P. Morgan estimates

## Investment Thesis, Valuation and Risks

### **PAX Global Technology Ltd** (*Overweight; Price Target: HK\$7.50*)

#### **Investment Thesis**

Pax is the third-largest maker of electronic payment terminals (EPT) globally, with a leading market share in China and a top player in many developing markets. Its new product, which offers state-of-the-art security at a low cost, is key to strong growth in the next two to three years. Several drivers can stimulate the company's growth potential, including: (1) global demand for EPT is expected to grow as security and convenience outweigh the small cost of new equipment; (2) Pax has the largest market share in China and increasing recognition as a global innovation leader; (3) new products such as mobile EPT and near-field systems; (4) consolidation in the market leaves three global leaders further ahead of peers; and (5) exciting new growth in the U.S. and EU, as Pax is now seen as a service and innovative contender.

#### **Valuation**

Our Dec-17 PT is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We assume a beta of 1.0. Accordingly, we assume a WACC of 10.2%. We estimate free cash flow until 2020 and assume a terminal growth rate of 4.0%. The terminal growth is based on the annual growth rate expected in 2015 (the final year of the estimate period), subject to a minimum of 3% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China.

#### **Risks to Rating and Price Target**

Downside risks include slow growth in China and other developing markets due to deteriorating economic conditions, renminbi revaluation and cost inflation, as well as execution risk on providing service revenues.



## PAX Global Technology Ltd: Summary of Financials

Income Statement						Cash flow statement					
HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E	HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E
Revenues	2,373	2,870	2,913	3,319	3,720	EBIT	440	637	673	735	793
% change Y/Y	61.2%	20.9%	1.5%	13.9%	12.1%	Depr. & amortization	3	4	4	4	3
Gross Profit	865	1,091	1,259	1,407	1,545	Change in working capital	(272)	(365)	(520)	(278)	(276)
% change Y/Y	59.8%	26.2%	15.4%	11.7%	9.9%	Taxes	-	-	-	-	-
EBITDA	443	641	677	739	796	Cash flow from operations	154	224	124	407	438
% change Y/Y	73.2%	44.7%	5.7%	9.0%	7.8%	Capex	(2)	(2)	(3)	(3)	(3)
EBIT	440	637	673	735	793	Net Interest	23	20	4	20	23
% change Y/Y	74.6%	44.7%	5.7%	9.1%	7.9%	Other	18	0	(1)	(1)	(1)
EBIT Margin	18.5%	22.2%	23.1%	22.1%	21.3%	Free cash flow	133	203	118	386	415
Net Interest	23	20	4	20	23	Equity raised/(repaid)	0	0	0	0	0
Earnings before tax	463	657	678	755	816	Debt raised/(repaid)	0	0	0	0	0
% change Y/Y	73.4%	41.8%	3.2%	11.5%	8.0%	Other	74	26	9	24	28
Tax	(71)	(38)	(74)	(105)	(118)	Dividends paid	0	(22)	(67)	(92)	(99)
as % of EBT	15.4%	5.7%	10.9%	13.9%	14.4%	Beginning cash	1,698	1,919	2,144	2,207	2,542
Net income (reported)	392	619	601	648	696	Ending cash	1,919	2,144	2,207	2,542	2,904
% change Y/Y	72.2%	58.0%	(2.9%)	7.8%	7.5%	DPS	0.00	0.04	0.08	0.08	0.09
Shares outstanding	1,100	1,122	1,144	1,167	1,191						
EPS (reported)	0.35	0.54	0.52	0.56	0.61						
% change Y/Y	67.5%	52.0%	(2.9%)	7.8%	7.5%						
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E	HK\$ in millions, year end Dec	FY14	FY15	FY16E	FY17E	FY18E
Cash and cash equivalents	1,919	2,144	2,207	2,542	2,904	Gross margin	36.4%	38.0%	43.2%	42.4%	41.5%
Accounts receivable	898	1,261	1,347	1,535	1,721	EBITDA margin	18.7%	22.3%	23.3%	22.3%	21.4%
Inventories	475	562	597	680	762	Operating margin	18.5%	22.2%	23.1%	22.1%	21.3%
Others	30	53	69	201	270	Net margin	16.5%	21.6%	20.6%	19.5%	18.7%
Current assets	3,323	4,021	4,220	4,957	5,657	Sales per share growth	56.7%	16.4%	1.5%	13.9%	12.1%
LT investments	0	48	145	145	145	Sales growth	61.2%	20.9%	1.5%	13.9%	12.1%
Net fixed assets	12	11	68	9	9	Net profit growth	72.2%	58.0%	(2.9%)	7.8%	7.5%
Total Assets	3,334	4,080	4,433	5,111	5,810	EPS growth	67.5%	52.0%	(2.9%)	7.8%	7.5%
Liabilities						Interest coverage (x)	NM	NM	NM	NM	NM
Short-term loans	0	0	0	0	0	Net debt to equity	(75.3%)	(69.4%)	(63.0%)	(62.7%)	(62.4%)
Payables	424	711	662	755	846	Working Capital to Sales	1.1	1.1	1.1	1.2	1.2
Others	362	277	263	294	307	Sales/assets	0.8	0.8	0.7	0.7	0.7
Total current liabilities	786	988	925	1,049	1,153	Assets/equity	1.3	1.3	1.3	1.3	1.3
Long-term debt	0	0	0	0	0	ROE	16.9%	22.0%	18.4%	17.3%	16.1%
Other liabilities	0	2	6	6	6	ROCE	16.1%	21.3%	18.3%	16.9%	15.7%
Total Liabilities	786	990	932	1,055	1,159						
Shareholders' equity	2,548	3,078	3,466	4,018	4,611						
BVPS	2.32	2.74	3.03	3.44	3.87						

Source: Company reports and J.P. Morgan estimates.

**JPM Q-Profile**

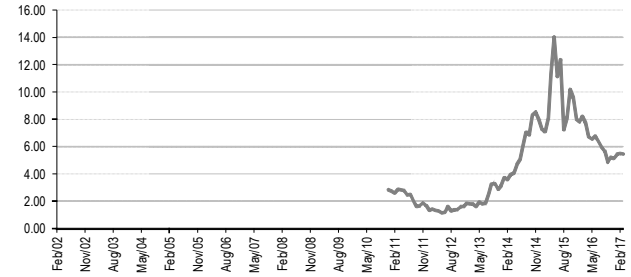
**PAX Global Technology Limited (HONG KONG / Information Technology)**

As Of: 03-Mar-2017

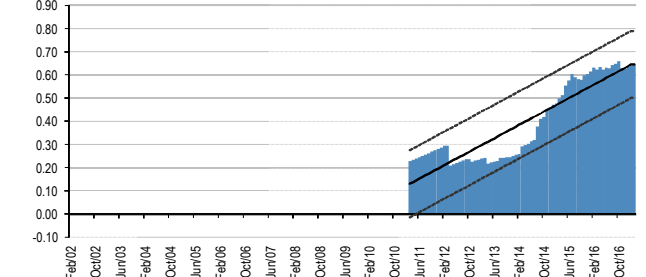
**Global Equity Quantitative Analysis**

Quant\_Strategy@jpmorgan.com

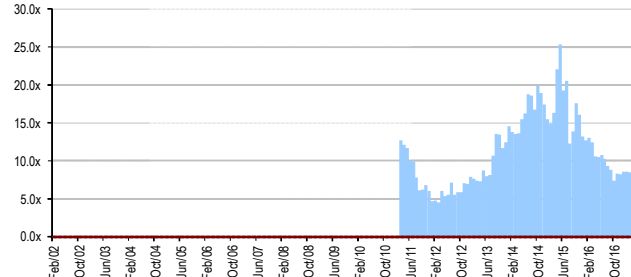
**Local Share Price** **Current: 5.46**



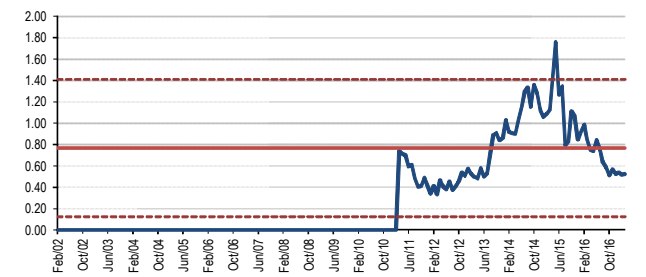
**12 Mth Forward EPS** **Current: 0.65**



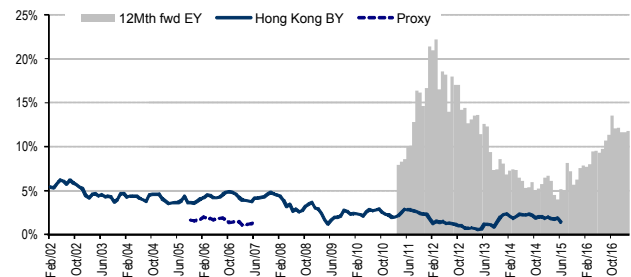
**PE (1Yr Forward)** **Current: 8.5x**



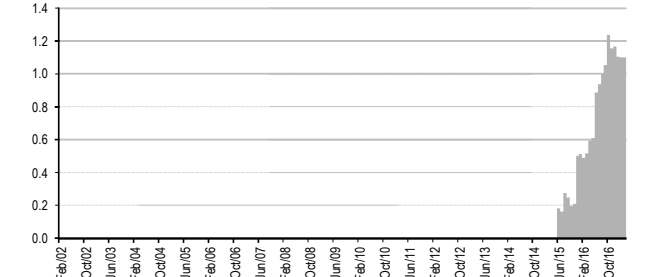
**P/E Relative to Hong Kong Index** **Current: 0.52**



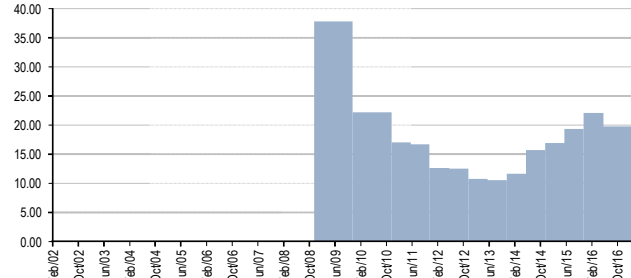
**Earnings Yield (& Local Bond Yield)** **Current: 11.81%**



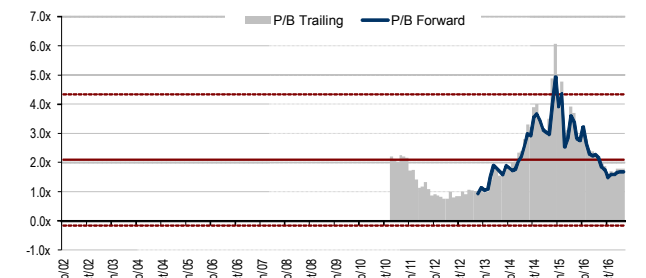
**Dividend Yield (Trailing)** **Current: 1.10**



**ROE (Trailing)** **Current: 19.83**



**Price/Book (Value)** **Current: 1.8x**



**Summary**

<b>PAX Global Technology Limited</b>		<b>TICKER 327 HK</b>		<b>As Of: 03-Mar-17</b>							
<b>HONG KONG</b>				<b>Local Price: 5.46</b>							
<b>Information Technology</b>				<b>EPS: 0.65</b>							
	<b>Latest</b>	<b>Min</b>	<b>Max</b>	<b>Median</b>	<b>Average</b>	<b>2 S.D.+</b>	<b>2 S.D. -</b>	<b>% to Min</b>	<b>% to Max</b>	<b>% to Med</b>	<b>% to Avg</b>
12mth Forward PE	<b>8.47x</b>										
P/BV (Trailing)	<b>1.79x</b>	0.74	6.07	1.83	2.09	4.34	-0.16	-58%	239%	2%	17%
Dividend Yield (Trailing)	<b>1.10</b>	0.00	1.24	0.00	0.20	0.95	-0.55	-100%	12%	-100%	-82%
ROE (Trailing)	<b>19.83</b>	10.54	37.76	17.01	19.12	34.98	3.27	-47%	90%	-14%	-4%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

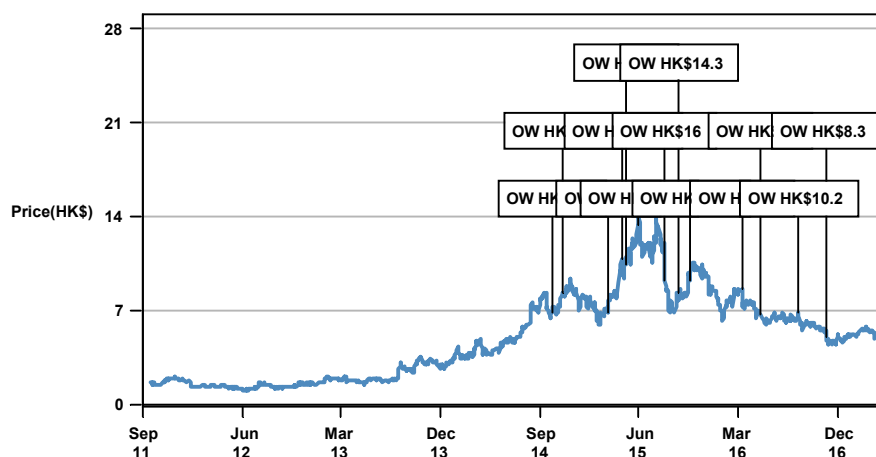
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PAX Global Technology Ltd (0327.HK, 327 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
03-Oct-14	OW	6.85	8.90
31-Oct-14	OW	8.32	10.50
06-Mar-15	OW	6.88	10.00
13-Apr-15	OW	10.88	11.80
27-Apr-15	OW	10.42	14.00
28-May-15	OW	13.38	16.50
10-Aug-15	OW	9.19	16.00
14-Sep-15	OW	8.27	14.30
20-Oct-15	OW	9.27	15.50
09-Mar-16	OW	8.68	13.00
29-Apr-16	OW	6.65	11.00
10-Aug-16	OW	6.78	10.20
27-Oct-16	OW	5.13	8.30

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 03, 2014.

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IB clients*	52%	48%	34%
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IB clients*	67%	61%	43%

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