



PLATINUM
Broking

Recommendation:

BUY

TP: HK\$2.42 (+29.4%)

Pico Far East Holdings Limited (752.HK)

09 January 2025

SECTOR: Other/Media

HSI: 19,279

PRICE: HK\$1.87

EARNINGS (reported in HK\$m)

KEY DATA

For the fiscal year ended	2021	2022	2023	2024E	2025E	Total number of outstanding shares (m)	1,241.9
Turnover	4,052	4,541	5,328	6,178	6,487	Market Cap (HKD m)	2,322
Operating Profit	157	183	301	336	356	Avg 52 Weeks Turnover (HKD m)	1.4
Net Profit	137	163	228	270	284	Avg. 52 Weeks Volume (m Shares)	0.7
EPS (HK\$)	0.11	0.13	0.18	0.22	0.23	52 Week High/Low (HKD)	1.43 / 2.0
% Change	144.5%	18.7%	40.2%	22.2%	4.5%	Net Gearing (%)	Net cash
DPS (HK\$)	0.05	0.06	0.09	0.12	0.12	NAV per Share (HKD)	1.83
Payout Ratio (%)	45.2%	45.7%	48.9%	54.5%	52.2%	Free Float (%)	62.77
PE Ratio (x)	11.66	8.15	7.44	8.36	8.00	Major Shareholder(s)	Pine Asset Management Limited (37.23%) FMR LLC (9.97%)

INTERIM RESULTS (HKD\$m)

For the fiscal year ended	1H23	1H24	% change
Turnover	2,493	2,942	18.0%
Operating Profit	157	254	24.1%
Net Profit	101	192	32.0%
EPS (HKD\$)	0.08	0.11	31.7%

Source: Company annual reports, Bloomberg, Platinum Securities.

Key takeaways

1. Unique business scope provides Pico an edge over its local competitors
2. Full resumption of business and good growth in all its key markets following the lifting of COVID restrictions
3. Good relationships with local event and exhibition officials may enhance the number of deals.
4. Saudi and USA markets are expected to be growth drivers.
5. The new EV market also provides growth support, through regular brand launches.

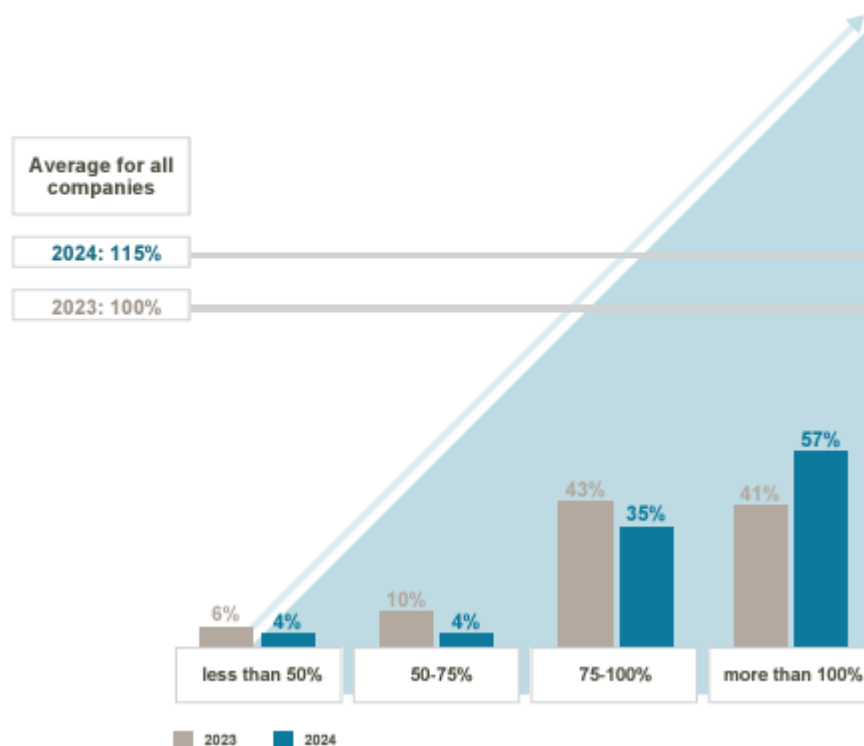
SECTION 1 BUSINESS OUTLOOK

Unique business scope provides Pico an edge over its local competitors. Pico's business segments include exhibition, event and brand activation; visual branding activation; and museum, themed environment, interior and retail. Pico is also offering Content, Community, Creative and Data strategy into cross-platform campaigns. We believe the wide range of offerings by Pico are unique in the market and allow Pico to provide "all-round" services to clients. This edge separates Pico from other competitors in the market.

Full resumption of business in all its key markets following lifting of COVID restrictions. In FY23, Pico only had 7 months of normal operation in the PRC, according to management, and FY24 is expected to be the first full year for Pico's business to return to normality. In 1H24, Pico saw growth in all the geographical segments. Other markets, including Southeast Asia and the USA, have also resumed normal operations. Revenue is therefore expected to exceed pre-COVID levels with normal operation in China in the coming year.

Revenue of exhibition companies compared to 2019

Revenue compared to 2019



Source: 32nd UFI Global Exhibition Barometer / January 2024

Good relationship with local event and exhibition officials may enhance the number of deals.

Pico is the official service provider for more than 3.5 million sq.m. exhibition space globally, and has completed various governmental projects in different regions including for tourism boards, mega sports events and United Nations conferences. Pico has also worked with the Saudi Arabian Tourism Board on the 'Saudi Vision 2030' programme and has delivered multiple projects for the NEOM city project, the Saudia Airlines rebrand, and Noor Riyadh, the world's largest light art festival. We expect the strong track record and close relationships with events & exhibition owners like the above examples will provide support to Pico's continuous growth.

Saudi and USA markets are expected to be growth drivers. The Saudi market will provide growth impetus for much of the Middle East, catered to by Pico's establishment of office and production facilities in Kingdom of Saudi Arabia.

Since 2017, Pico has acquired five companies focusing on digital and social marketing businesses in the US and UK. Their revenue generated from the US and UK markets increased by 13% in FY23, and we estimate the revenue from the acquired companies to grow further in FY24. Some of the companies were start-ups with low margins due to small business scale. In addition, these acquisitions incurred additional costs such as amortisation and change in consideration due to

profit guarantee. We expect these acquisition-related costs to decline gradually as contingent considerations are paid. We expect the margins of these acquired companies to improve in the next few years thanks to their strong growth and larger business scale. This will also support earnings growth in the medium term.

The new EV market also provides growth support, through regular brand launches. This segment has recorded growth since PRC's reopening and the resurgence of project planning and execution in the second half of last year. The new EV sector provided a new growth opportunity, with new EV experiential showrooms creating increasing demand for integrated solutions leveraging interactive digital tools and data analysis. A major achievement in this sector was Pico's appointment as exclusive service provider for the design and digitalisation of Kia's new EV showrooms across China. Pico also secured a contract to provide visual branding services for GAC Aion's premium brand 'Hyper' across a network of 150 retail outlets. We believe the keen competition in the new EV market and car manufacturers pushing their new EV models to the market will benefit Pico's growth as Pico continues to consolidate its market share by delivering visual branding projects for many prominent brands including Bentley, Changan Mazda, Dongfeng Nissan, GAC Aion, GAC Trumpchi, Lexus, Lincoln, Lotus, Mercedes-Benz, Polestar and SAIC General Motors.

SECTION 2 BUSINESS PERFORMANCE

2.1 FY23 Results Briefing

- 2.1.1. Pico's revenue surpassed pre-COVID levels to reach a new record high, despite geopolitical conflicts and tightening monetary conditions globally. Pico recorded total revenue of HK\$5,327.9 million (2022: HK\$4,541.0 million), representing a 17.3% increase YoY.
- 2.1.2. Exhibition, Event and Brand Activation business contributed HK\$4,413 million (2022: HK\$3,689 million) or 82.8% (2022: 81.3%) of Pico's total revenue. Profit in this segment was HK\$302.5 million (2022: HK\$181.9 million), up 66.3%.
- 2.1.3. Visual Branding Activation business accounted for HK\$383 million (2022: HK\$364 million) or 7.2% (2022: 8.0%) of total Group revenue. Segment profit was HK\$32.0 million (2022: HK\$11.9 million), up 168.9%.
- 2.1.4. Museum and Themed Entertainment business accounted for HK\$397 million (2022: HK\$395 million) or 7.5% (2022: 8.7%) of total Group revenue. Segment profit was HK\$38.7 million (2022: HK\$37.7 million), up 2.7%.
- 2.1.5. Profit from core operations was HK\$360.0 million (2022: HK\$208.9 million), a 72.3% increase compared to the same period last year.

By business segment	For the 12 months ended 31 October				
	2023		2022		Change in Revenue
	Revenue (HK\$' million)	% to Group's Revenue	Revenue (HK\$' million)	% to Group's Revenue	
Exhibition, Event and Brand Activation	4,413	82.8%	3,689	81.3%	+19.6%
Visual Branding Activation	383	7.2%	364	8.0%	+5.2%
Museum and Themed Entertainment	397	7.5%	395	8.7%	+0.5%
Meeting Architecture Activation	135	2.5%	93	2.0%	+45.2%

- 2.1.6. During FY23, major markets around the world were recovering from COVID at a varied pace. Pico's established market presence enabled it to build greater resilience and capture emerging demands. Though mainland China lifted its strict COVID measures in December 2022, business only began to return to normality by April 2023. Despite having only approximately seven months of 'normal' operational conditions, Pico's strong presence in the country and deep customer relationships enabled them to capitalise on the revived activities and promptly restore business to pre-COVID levels.

By geographical region	For the 12 months ended 31 October				
	2023		2022		Change in Revenue
	Revenue (HK\$' million)	% to Group's Revenue	Revenue (HK\$' million)	% to Group's Revenue	
Greater China (Mainland China, Hong Kong, Macau and Taiwan)	2,545	47.8%	2,060	45.3%	+23.5%
Southeast Asia (Malaysia, Singapore, the Philippines and Vietnam)	1,147	21.5%	953	20.9%	+20.4%
Middle East (Bahrain, Oman, Qatar, Saudi Arabia and the UAE)	615	11.5%	670	14.8%	-8.2%
UK and US	808	15.2%	715	15.8%	+13.0%
Others	213	4.0%	143	3.2%	+49.0%

2.1.7. In the Middle East, the slight drop in revenue is largely attributable to the completion of certain non-repeated mega projects in FY22, including Expo 2020 Dubai and the Oman Across Ages Museum. During FY23, Pico also secured and delivered major projects such as the opening and closing ceremonies of the Arabian Gulf Cup in Iraq and FIFA museum during FIFA World Cup Qatar.

2.2 1H24 Results Briefing

2.2.1. Pico's revenue for 1H24 was HK\$2,942.0 million (1H23: HK\$2,493.2 million), representing a 18% increase on a YoY basis.

2.2.2. Exhibition, Event and Brand Activation business contributed HK\$2,540 million (1H22: HK\$2,149 million) or 86.4% (1H23: 86.2%) of Pico's total revenue. Profit in this segment was HK\$195.5 million (1H23: HK\$143.2 million), up 36.5%.

2.2.3. Visual Branding Activation business accounted for HK\$160.1 million (1H23: HK\$159.9 million) or 5.4% (1H23: 6.4%) of total Group revenue. Segment profit was HK\$7.4 million (1H23: HK\$11.6 million), down by 36.2%.

2.2.4. Museum and Themed Entertainment business accounted for HK\$182.7 million (1H23: HK\$152.6 million) or 6.2% (1H23: 6.1%) of total Group revenue. Segment profit was HK\$15.4 million (1H23: HK\$10.9 million), up 41.3%.

2.2.5. Profit from core operations was HK\$191.7 million (1H23: HK\$101.1 million), an 89.6% increase compared to the same period last year.

By business segment	For the 6 months ended 30 April				
	2024		2023		Change in Revenue
	Revenue (HK\$' million)	% to Group's Revenue	Revenue (HK\$' million)	% to Group's Revenue	
Exhibition, Event and Brand Activation	2,540	86.4%	2,149	86.2%	+18%
Visual Branding Activation	160	5.4%	160	6.4%	-
Museum and Themed Entertainment	183	6.2%	152	6.1%	+20%
Meeting Architecture Activation	59	2.0%	32	1.3%	+84%

2.2.6. During 1H24, with demand for events and exhibitions steadily rebounding in some markets, the growth momentum in this segment remained strong, with revenue increasing by 18.2% compared with same period of last year.

By geographical region	For the 6 months ended 30 April				
	2024		2023		Change in Revenue
	Revenue (HK\$' million)	% to Group's Revenue	Revenue (HK\$' million)	% to Group's Revenue	
Greater China (Mainland China, Hong Kong, Macau and Taiwan)	1,346	45.8%	1,269	51.0%	+6%
Southeast Asia (Malaysia, Singapore, the Philippines and Vietnam)	683	23.2%	440	17.6%	+55%
Middle East (Bahrain, Oman, Qatar, Saudi Arabia and the UAE)	393	13.3%	317	12.7%	+24%
UK and US	408	13.9%	360	14.4%	+13%
Others	112	3.8%	107	4.3%	+5%

2.2.7. In During 1H24, demands from all the major markets around the world were strong. Pico's saw YoY growth in all the major markets. The Southeast Asia market saw a 55% growth in revenue during 1H24, due to more engagement with existing customers. The expansion in Middle East also gained Pico a 24% growth YoY in revenue in the region.

SECTION 3 ASSET LIABILITIES ANALYSIS

3.1 Balance sheet

Pico had a strong balance sheet with c.HK\$1.15 billion of net cash as of 1H24. Total borrowings were HK\$344 million as of 1H24 (FY23: HK\$390 million). Borrowings are mainly denominated in pound sterling, Hong Kong dollars, Korean won, New Taiwan dollars and United States dollars, and the interest is charged on fixed and floating rate basis. The decrease in borrowings, while maintaining a strong net cash position, indicates the strong liquidity of Pico. The current ratio was 1.46 times (2022: 1.48 times); the liquidity ratio was 1.48 times (FY22: 1.49 times). Pico has total shareholder equity of HK\$2.4 billion, which brings its debt-to-equity ratio to 14%. Pico Far East Holdings' EBIT is HK\$421.6 million, making its interest coverage ratio 20.3.

3.2 Dividend

Pico maintained a relatively high dividend payout ratio (40+%) even during year affected by COVID (FY19 – FY22). We expect the company to maintain a high dividend payout ratio of 40%+ supported by positive free cash inflow and net cash position. We believe Pico has the capability to raise its dividend payout ratio, supported by strong free cash flows and a net cash position of c.HK\$1.15 billion (which accounts for over 50% of its market capitalisation). In 1H24, Pico has declared an interim dividend of HK\$5.5 cents per share.

SECTION 4 Valuation

We have conducted relative valuation analysis based on the PE ratio metric. In selecting market comparables, we have selected companies engaging in both (1) event & exhibition management; and (2) media & marketing globally, with a minimum market cap of HK\$1 billion. The average PE ratio of the industry, excluding an outlier, is 18.69x, while the average PE ratio of the comparable companies in Hong Kong and China is 16.65x. Given that Pico is currently trading at a PE ratio of approx. 7.27x, which is considerably lower than both that of the global industry average and the Hong Kong & China industry average. We believe the share price of Pico is currently undervalued. Our target price of HK\$2.42 is based on 18.69x Hong Kong and China industry average PE (excluding outlier), which is in line with its long-term historical average. We lowered the target multiple to reflect the risk from the uncertain geopolitical environment and the slow recovery of Hong Kong and China market from the COVID outbreak which we expect to normalise.

Exhibit 1A: Trading information of Pico and its Comparables

	Name	Ticker	FY23 Total Assets (HK\$m)	Mkt cap (HK\$m)	EV (HK\$m)	Closing price (HK\$)	52-week High/Low (HK\$)	Average 6M Volume (m shrs)	Average 6M Turnover (HK\$m)
China & HK									
1	Pico Far East Holdings Ltd	752.HK	5,170	2,322	1,377	1.87	2 / 1.43	0.65	1.1
2	Mobvista Inc	1860.HK	5,818	12,215	12,737	7.76	11.28 / 1.13	21.47	136.8
3	Powerwin Tech Group Ltd	2405.HK	1,759	2,064	2,712	2.58	5.81 / 1.98	1.47	4.1
4	Activation Group Holdings	9919.HK	641	648	366	0.87	1.34 / 0.74	0.42	0.4
5	Focus Media Information Te-A	002027.CH	25,012	103,119	101,619	6.73	8.57 / 5.57	115.87	762.4
Japan									
1	Hakuhodo Dy Holdings Inc	2433.JP	50,829	22,222	21,978	1160.00	77.61 / 52.62	0.72	874.2
UK & US									
1	Omnicom Group	OMC	223,732	128,429	169,450	84.63	832.02 / 653.48	1.68	160.1
2	Interpublic Group Of Cos Inc	IPG	132,726	80,262	102,443	27.70	275.1 / 209.24	4.42	133.9
3	Informa PLC	INF.LN	113,979	101,060	121,394	784.80	89.17 / 71.38	0.07	57.1
4	WPP PLC	WPP.LN	254,826	79,389	137,387	760.20	89.66 / 67.53	0.08	67.1
France									
1	Publicis Groupe	PUB.FP	300,562	203,431	222,424	99.64	914.89 / 718.2	0.02	2.1
2	JCDecaux Se	DEC.FP	76,913	26,130	55,678	15.20	188.54 / 112.38	0.01	0.2

Source: Bloomberg, time sensitive data as of 8 January 2025

Exhibit 1B: Valuation Multiples of Pico and its Comparables

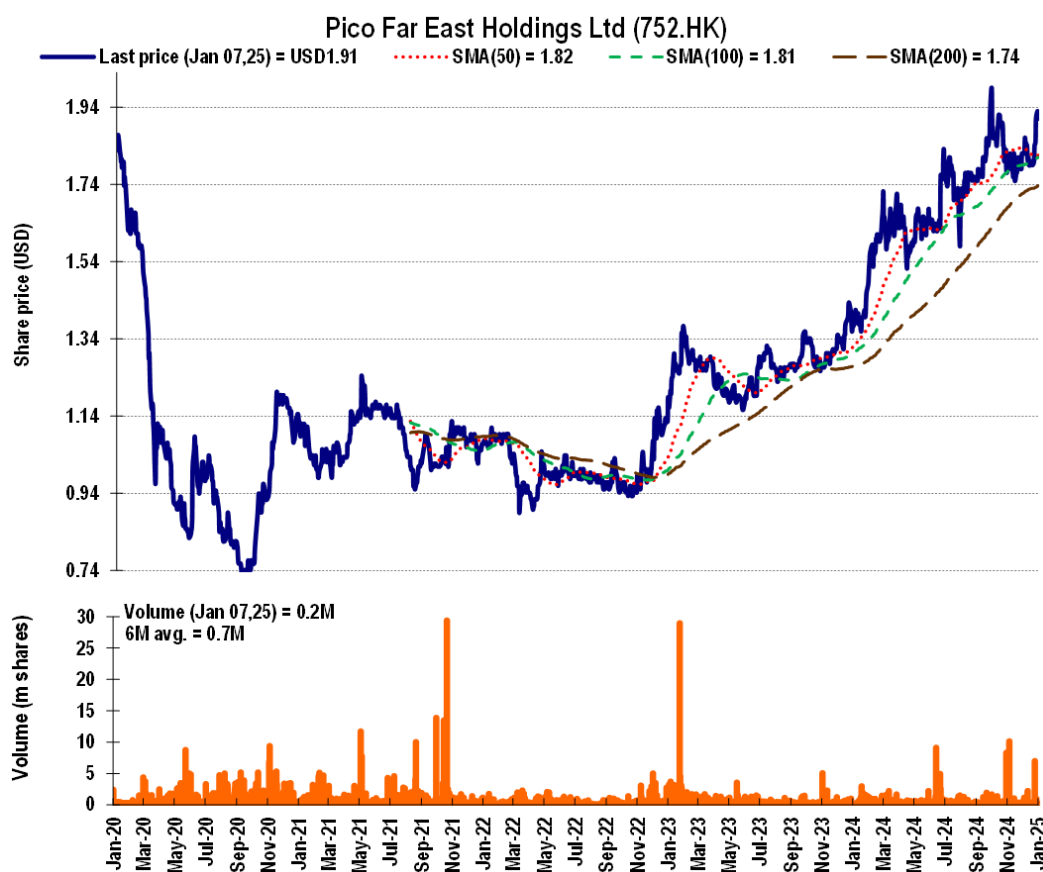
	Name	Ticker	FY23 Avg. P/E (x)	Current P/E (x)	FY24E P/E (x)	FY23 Avg. P/B (x)	Cur. P/B (x)	FY23 Avg. EV/EBIT DA (x)	Current EV/EBITDA (x)
China & HK									
1	Pico Far East Holdings Ltd	752.HK	7.44	7.27	-	0.75	0.97	2.32	3.12
2	Mobvista Inc	1860.HK	26.15	72.59	33.25	2.25	6.48	5.19	14.74
3	Powerwin Tech Group Ltd	2405.HK	70.82	34.55	-	18.43	8.99	42.33	21.92
4	Activation Group Holdings	9919.HK	6.57	6.08	4.56	2.13	2.00	2.69	2.35
5	Focus Media Information Te-A	002027.CH	18.91	18.72	16.70	5.16	6.15	10.21	10.21
Japan									
1	Hakuhodo Dy Holdings Inc	2433.JP	20.41	13.82	20.11	1.32	1.10	8.17	6.57
UK & US									
1	Omnicom Group	OMC	11.68	11.14	9.80	4.74	4.18	7.75	8.57
2	Interpublic Group Of Cos Inc	IPG	11.59	10.30	10.05	3.14	2.77	7.42	7.54
3	Informa PLC	INF.LN	25.95	34.31	13.63	1.58	1.62	13.42	13.50
4	WPP PLC	WPP.LN	73.11	40.11	8.79	2.55	2.48	4.87	4.82
France									
1	Publicis Groupe	PUB.FP	16.06	17.09	12.82	2.18	2.52	7.65	9.12
2	JCDecaux Se	DEC.FP	18.53	12.20	12.15	1.99	1.57	5.96	5.25
Average			25.60	23.18	14.19	3.85	3.40	9.83	8.98
Average (excl Mobvista)			25.55	18.69	12.07	4.00	3.12	10.25	8.45
Average (HK&China)			25.98	27.84	18.17	5.74	4.92	12.55	10.47
Average (HK&China; excl Mobvista)			25.94	16.65	10.63	6.62	4.53	14.39	9.40

Source: Bloomberg, time sensitive data as of 8 January 2025

SECTION 5 COMPANY BACKGROUND

Pico Far East Holdings Ltd. is engaged in the provision of total brand activation solutions. The company employs 2,000 full-time employees. Pico is a Total Brand Activation agency that deploys Content, Community, Creative & Data strategies to create an Integrated Brand Experience for all marketing events for clients. Integrated Brand Experience (IBE) is to create brand experience solutions that strategically integrated across platforms and consumer experiences that makes consumers feel empowered, meaningfully engaged, and interconnected. The firm mainly operates through four segments. Exhibition and Event Marketing Services segment is engaged in the provision of exhibition and event marketing services. Its services include the planning of exhibitions, campaign design and the production of video content, among others. Brand Signage and Visual Identity segment is engaged in the provision of visual identity solutions for car brands, catering brands and financial brands, among others. Museum, Themed Environment, Interior and Retail segment is mainly engaged in the design and decoration of showrooms and shops, among others. Conference and Show Management segment is engaged in the management of conferences and shows.

Pico: 5-year Price Chart



Source: Bloomberg

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