

Future Bright Holdings [0703.HK]

Top-Up Placement

9.4% equity dilution. The offered price is HK\$4.30, representing a 6.5% discount to yesterday's closing price. Offering up to 65.4m shares, it will enlarge equity share capital by 9.4%. The funds raised, totaling approximately HK\$276m in net, are earmarked for financing of its Hengqin project, which is still subject to the approval from Hengqin Authority.

Re-cap on Hengqin project application. According to the announcement on Jan 14, 2014, Future Bright submitted its proposal to obtain land to build a food plaza on Hengqin Island, with land use rights of 40-70 years. The company proposed to build a complex with gross floor area (GFA) of 140,000m² to house up to 100 restaurants and food souvenir shops. The proposed land was set to be priced at RMB1,685-RMB3,057 per m² according to the authority, and is zoned for tourism and leisure. Given that residential properties in Hengqin were recently sold at prices ranging from RMB30,000-RMB35,000 per m², we believe the land approval will bring big upside for the company's intrinsic value. Assuming 1) commercial area is valued at a 50% premium to residential area; 2) construction cost of RMB6,000 per m²; and 3) 50% discount to NAV, the Hengqin project is estimated to aggregate HK\$5.70-HK\$5.90 per share, on top of our target price.

TP revised down to HK\$4.20 from HK\$4.60 due to the equity dilution. Maintain HOLD for possible positives on Hengqin land site. New target price (TP) is on the same target of 20x 2014E PER from our previous reports, but adjusted to reflect the dilution. As result, we expect the share price will suffer in the near term. In the longer term we believe it offers increased visibility on its application for the land. Re-rating catalysts for Future Bright are 1) Hengqin land approval in 2H14; 2) MOA with new Cotai properties opening in 2015 such as Galaxy Macau Phase 2 and/or the Studio City; and 3) more visibility in the food souvenir business.

HK\$m	2011	2012	2013E	2014E	2015E
Turnover	546	646	747	834	962
Net profit	90	242	247	145	176
Core net profit	77	91	109	145	176
Net margin	16.4%	37.5%	33.1%	17.4%	18.3%
Core net margin	14.0%	14.0%	14.6%	17.4%	18.3%
Basic/Diluted EPS (HK\$)	0.16	0.43	0.39	0.21	0.26
Core Basic/Diluted EPS (HK\$)	0.14	0.16	0.17	0.21	0.26
Core PER	33.2x	28.5x	26.5x	21.8x	18.0x
Yield	0.7%	1.3%	1.1%	1.4%	1.7%
PBR	8.6x	4.3x	3.6x	2.6x	2.4x

Source: Company, CGIHK Research

Macau F&B Sector

HOLD

Close: HK\$4.60 (Mar 04, 2014)

Target Price: HK\$4.20 (-9%)

Price Performance



Market Cap	US\$373m
Shares Outstanding	688m
Auditor	BDO
Free Float	58%
52W range	HK\$1.90-5.30
3M average daily T/O	US\$2.2m
Major Shareholding	Mr. Chan Chak Mo (41%)

Source: Company, Bloomberg

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Key Financials

Profit & loss (HK\$m)						Cash flow (HK\$m)					
	2011	2012	2013E	2014E	2015E		2011	2012	2013E	2014E	2015E
Revenue	546.5	646.1	746.5	834.1	962.0	Net Income	89.6	242.3	247.3	145.3	175.7
COGS	(162.1)	(185.5)	(205.4)	(215.8)	(247.0)	Depreciation and Amort.	28.0	30.2	24.0	33.1	37.0
Gross Profit	384.4	460.5	541.1	618.4	715.1	Change in Working Capital	4.6	(7.8)	7.3	6.6	9.3
Direct Operating Expenses	(185.5)	(223.5)	(269.3)	(317.0)	(371.4)	Other Operating Cashflow	31.1	(45.9)	-	-	-
Gross Operating Profit	198.8	237.1	271.8	301.4	343.7	Operating Cashflow	153.3	218.7	278.5	185.0	222.0
Other Revenue	13.5	13.5	13.5	13.5	13.5	CAPEX	(299.1)	(16.5)	(55.0)	(50.0)	(15.3)
Other Gains and Losses	12.9	151.7	138.0	-	-	Proceeds from Disposals	6.8	4.8	4.0	5.2	4.7
Administrative Expenses	(82.1)	(89.0)	(96.1)	(99.0)	(102.0)	Other Investing Cashflow	68.8	(203.4)	-	-	-
Operating Profit	143.2	313.3	327.2	215.9	255.3	Investing Cashflow	(223.5)	(215.1)	(51.0)	(44.8)	(10.6)
Financial Costs	(8.6)	(9.2)	(13.0)	(13.9)	(13.6)	Net Proceeds from Borrowings	145.3	138.7	44.8	30.2	(12.1)
Other Non-Operating Expenses	(4.9)	-	-	-	-	Share Issue	-	90.0	-	292.1	-
Profit before Tax	129.7	304.0	314.2	202.0	241.7	Dividend Paid	(8.3)	(24.9)	(41.3)	(30.1)	(46.3)
Tax Expenses	(16.5)	(36.3)	(37.7)	(24.2)	(29.0)	Other Financing Cashflow	(27.2)	(49.1)	-	-	-
Profit after Tax	113.2	267.8	276.5	177.8	212.7	Financing Cashflow	109.7	154.7	3.5	292.2	(58.4)
Minority interests	(23.6)	(25.5)	(29.2)	(32.4)	(37.0)	Foreign Exchange Rate Adj.	0.3	0.5	-	-	-
Net Profit	89.6	242.3	247.3	145.3	175.7	Net change in Cash	39.9	158.8	231.0	432.4	152.9
Core Net Profit	76.7	90.6	109.3	145.3	175.7	Free Cashflow	(145.8)	202.2	223.5	135.0	206.7
Basic EPS (HK\$)	0.16	0.43	0.39	0.21	0.26						
Diluted EPS (HK\$)	0.16	0.43	0.39	0.21	0.26						
Core Basic EPS (HK\$)	0.14	0.16	0.17	0.21	0.26						
Total DPS (HK\$)	0.03	0.06	0.05	0.06	0.08						
Balance sheet (HK\$m)						Key ratios					
	2011	2012	2013E	2014E	2015E		2011	2012	2013E	2014E	2015E
Cash and Cash Equivalents	161.5	320.3	551.3	983.7	1,136.6	Revenue Growth	45.4%	18.2%	15.5%	11.7%	15.3%
Inventories	19.3	27.6	32.0	35.5	40.7	Operating Profit Growth	92.3%	118.8%	4.4%	-34.0%	18.2%
Trade and Other Receivables	29.6	34.2	37.6	39.6	43.2	Net Profit Growth	119.8%	170.4%	2.1%	-41.2%	20.9%
Other Current Assets	37.8	24.9	16.7	16.7	16.7	Core Net Profit Growth	102.7%	18.2%	20.6%	33.0%	20.9%
Total Current Assets	248.1	407.0	637.7	1,075.6	1,237.3	Gross Margin	70.3%	71.3%	72.5%	74.1%	74.3%
Property, Plant and Equipment	89.5	71.0	98.1	109.8	83.4	Operating Margin	26.2%	48.5%	43.8%	25.9%	26.5%
Investment Properties	275.0	400.0	420.0	420.0	420.0	Net Margin	16.4%	37.5%	33.1%	17.4%	18.3%
Goodwill	81.8	81.8	81.8	81.8	81.8	Core Net Margin	14.0%	14.0%	14.6%	17.4%	18.3%
Other Non-Current Assets	-	204.9	211.1	211.1	211.1	Return on Asset	12.9%	20.8%	17.1%	7.7%	8.6%
Total Assets	694.4	1,164.7	1,448.6	1,898.2	2,033.6	Return on Equity	30.2%	40.3%	30.6%	12.0%	13.1%
ST Borrowings	44.9	20.7	20.7	20.7	20.7	Net Debt to Equity	31.0%	11.7%	Net Cash	Net Cash	Net Cash
Trade and Other Payables	88.8	95.3	110.4	122.5	140.6	Quick Ratio	1.1x	2x	2.9x	4.8x	5.3x
Other Current Liabilities	43.5	59.3	72.8	68.3	61.7	Current Ratio	1.4x	2.3x	3.1x	5.1x	5.5x
Total Current Liabilities	177.2	175.3	204.0	211.5	222.9	Interest Coverage Ratio	16.6x	33.9x	25.1x	15.5x	18.8x
LT Borrowings	204.5	368.9	413.7	443.9	431.8						
Non-interest Bearing Borrowings	4.2	1.0	1.0	1.0	1.0	Revenue Breakdown (HK\$m)					
Other Non-Current Liabilities	-	16.2	20.7	25.2	31.8		2011	2012	2013E	2014E	2015E
Total Liabilities	385.9	561.3	639.3	681.6	687.5	Japanese Restaurants	273.4	334.3	385.7	424.3	479.4
Common Stock - Par Value	55.4	62.9	62.9	68.8	68.8	Chinese Restaurants	123.8	138.8	165.6	190.4	215.2
Reserves	241.5	538.4	744.4	1,145.8	1,275.2	Western Restaurants	34.2	33.6	33.8	35.5	38.3
Shareholders Equity	296.9	601.3	807.3	1,214.6	1,344.0	Food Court Counters	63.0	65.0	62.2	68.4	80.7
Minority Interest	11.6	2.0	2.0	2.0	2.0	Industrial Catering	-	7.1	18.4	24.5	36.7
Total Equity & Liabilities	694.4	1,164.7	1,448.6	1,898.2	2,033.6	Food Wholesale	-	27.5	31.6	33.2	34.8
Basic BPS (HK\$)	0.54	1.07	1.28	1.77	1.95	Other F&B Sales	38.0	22.9	27.9	36.3	47.2
						Rental Income	14.1	14.1	14.1	21.6	29.7
						Total	546.5	643.3	739.3	834.1	962.0

Source: Company, CGIHK Research

List of Restaurants

Location	No	Branch	Type of cuisine	TFA (sqft)	Location	No	Branch	Type of cuisine	From	TFA (sqft)
Currently operating										
Hotel Lisboa	1	Edo Japanese Restaurant	Japanese restaurant	1,173	Macau International Airport	1	Macanese style restaurant	Chinese restaurant	2014	6,146
	2	Turtle Essence	Chinese tonic shop	603		2	Good Fortune Cantonese	Chinese restaurant	2014	1,991
	3	Shiki Hot Pot Restaurant	Chinese hot pot restaurant	5,490		3	Pacific Coffee	Coffee shop	n.a.	n.a.
	4	MADERA Portuguese Restaurant	Portuguese restaurant	4,091						
The Venetian	5	Edo Japanese Restaurant	Japanese restaurant	4,036	Opening in 1H14					
	6	Hundreds Taste Kitchen	Taiwanese food counter	1,733	1	Chinese restaurant	Chinese restaurant		10,889	
	7	Toei Delights	Japanese food counter	1,297	2	Western restaurant	Western restaurant		9,695	
	8	Vergnano Italian Restaurant	Italian restaurant	4,091	3	Pacific Coffee	Coffee shop		4,455	
Avenida De Horta E Costa NAPE (L'Arc Macau)	9	456 Modern Shanghai Cuisine	Chinese Shanghai restaurant	6,631	4	Student canteen	Student canteen		n.a.	
	10	Toei Delights	Japanese restaurant	3,308	5	Student canteen	Student canteen		n.a.	
	12	Shiki Hot Pot Restaurant	Chinese hot pot restaurant	7,424	6	Shiki Hot Pot Restaurant	Chinese hot pot restaurant		10,361	
	13	Edo Japanese Restaurant	Japanese restaurant	6,767	7	Macanese style restaurant	Macanese restaurant			
City of Dreams	14	Pacific Coffee	Coffee shop	1,652	8	Toei Delights	Japanese restaurant			
	11	Edo Japanese Restaurant	Japanese restaurant	4,597	9	Food court	Food court			
Guangzhou IFP	15	Edo Japanese Restaurant	Japanese restaurant	20,708	Total					
	16	Pacific Coffee	Coffee shop	1,421						43,537
Galaxy Macau Resort Sands Macao	17	Edo Japanese Restaurant	Japanese restaurant	4,672	Opened in 2014					
	18	Pacific Coffee	Coffee shop	589	1	Macanese style restaurant	Chinese restaurant			
The Residencia Macau	19	Royal Thai Kitchen	Thai restaurant	2,151	2	Good Fortune Cantonese	Chinese restaurant			
	20	Musashi	Japanese restaurant	727	3	Pacific Coffee	Coffee shop			
Sands Cotai Central	21	Edo Japanese Restaurant	Japanese restaurant	4,961	4	Student canteen	Student canteen			
	22	Pacific Coffee	Coffee shop	1,747	5	Student canteen	Student canteen			
Rio Hotel	23	Shiki Hot Pot Restaurant	Chinese hot pot restaurant	15,452	6	Shiki Hot Pot Restaurant	Chinese hot pot restaurant			
	24	Pacific Coffee	Coffee shop	175	7	Macanese style restaurant	Macanese restaurant			
University of Macau	25	Food Paradise	Student/staff canteen	6,695	8	Toei Delights	Japanese restaurant			
	26	Pacific Coffee	Coffee shop	150	9	Food court	Food court			
Macau University of Science and Technology	27	Chinese Restaurant	Chinese restaurant	2,800	Total					
	28	Pacific Coffee	Coffee shop	467						133,179
Macau WTC Business Executive Club	29	Student/staff canteen	Student/staff canteen	17,571						
	30	Cafeteria	Cafeteria	n.a.						
Kiang Wu Hospital										
University of Macau (New Campus in Hengqin)										
International School of Macau										

Source: Company data, CGHK Research

Analyst Certification

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Explanation on Equity Ratings

- BUY – share price will increase by >20% within 12 months in absolute terms
- SELL – share price will decrease by >20% within 12 months in absolute terms
- HOLD – no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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