



Date	Industry
2013/09/05	Retail-Restaurants

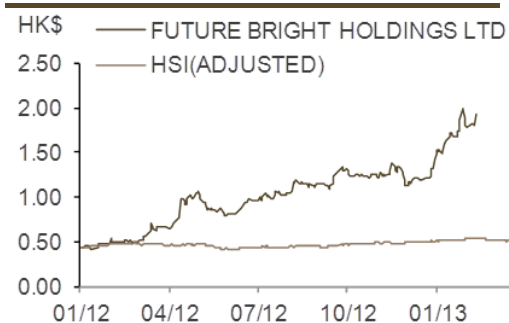
Closing Price	Target Price
HK\$2.45	HK\$3.38

Share Information

Stock Code	703
Outstanding Shares (mn)	628.90
Market Cap (HK\$m)	1541
6-mth Avg Daily Turnover (HK\$m)	1,034 2.76/1.05
12-mth High/Low (HK\$)	3
CFPS (HK\$)	0.3
BVPS (HK\$)	1.0
P/E (x)	13.2
P/B (x)	2.4
ROA (%)	20.8
ROE (%)	40.2
Net Debt/Equity (%)	Net Cash
Div. Yield (%)	3.1

Source : Bloomberg, Emperor Securities Research

Price Performance



	1-mth	3-mth	6-mth	12-mth
Change (%)	16.1	-3.9	6.3	122.2
Rel. to HSI (%)	14.2	-6.2	6.1	88.2

Source : Bloomberg, Emperor Securities Research

Emperor Securities Limited

Research Department

Tel : (852) 2836 2763
 Fax : (852) 2831 8089
 Email : esl.research@emperorgroup.com

Future Bright Holdings Limited (703.HK)

Buy

1H13 Results Beat on Other Income and Gains, Reiterate Buy on Low Relative Valuation

1H13 results on track to meet our full year estimate: 1H13 sales was up 4.4% HoH and 9.3% YoY to HK\$345mn (HK\$ hereafter), representing 45% of our FY13 estimate of \$772mn (see figure 1). We believe FBH is on track to reach our full year estimate as 1H accounts for 45%-48% of the sales in the last two full years. Net profit increased by 42.6% to \$86.5mn, whereas EPS rose by merely 25.6% due to a placement at the end of last year. Interim dividend per share was 2.5 cents, an increase from 1.5cents last year. Stripping out other revenue and income, normalized operating margin deteriorated to 22.8% from 24.21% last year but up from 21.69% in 2H last year.

With a new wave of casinos openings, the 2015-2017 shall be another rapid expansion period for FBH: An increase of ~21,000 rooms to over 50,000 in Macau by 2017 is expected. A rise in hotel supply and entertainments could lead to an increase in overnight stays, bolstering demand for FBH's catering services. Moreover, FBH shall see an increase in restaurants openings in casinos, where ramp up is faster than locations outside casinos. Infrastructure improvements in the coming years should also drive visitations and demand for food services.

Valuation still below sector average. FBH is trading at 13.2x FY13 core EPS, well below the sector average of 21.1x(see figure 2). Based on our target price of \$3.38, FBH is valued at 13.0~x FY13 core EPS of 0.261, representing 38% discount to sector average. Future catalysts include the completion of the central kitchen, execution of the new casino staff catering and food souvenir businesses. Reiterate Buy.

Financial Information

Year Ended 31 Dec.	FY10	FY11	FY12	FY13E	FY14E
Revenue (HK\$m)	376	546	646	772	897
Growth	60%	45%	18%	20%	16%
Net Profit (HK\$m)	41	90	242	184	187
Growth	128%	120%	170%	-24%	2%
EPS (HK\$)	0.0861	0.1618	0.4318	0.2928	0.2981
Growth	123%	88%	167%	-32%	2%
P/E (x)	28.4	17.0	13.2	9.4	8.2
DPS (HK cents)	N/A	N/A	0.0748	0.0556	0.0566
Dividend Yield	0.60%	1.22%	3.05%	2.27%	2.31%

*The drop is due to a high base with a revaluation gain of \$125m recognized in FY12
 **EPS dilution as a result of a placement of 75,000,000 shares completed in Nov 2012 results in

Source : Bloomberg, Emperor Securities Research

1H13 results

On track to meet our full year estimate: 1H13 sales was up 4.4% HoH and 9.3% YoY to HK\$345mn, representing 45% of our FY13 estimate of \$772mn. A slowdown in revenue growth was due to slower ramp up for openings of restaurants outside casinos. We believe a new wave of casinos openings in 2015-17 shall be another rapid expansion period for FBH. We believe the company is on track to reach our full year estimate as 1H accounts for 45%-48% of the sales in the last two full years.

Net profit increased by 42.6% to \$86.5mn, whereas EPS rose by merely 25.6% due to a placement at the end of last year. FY 13 interim dividend per share was 2.5 cents, an increase from 1.5cents last year. Dividend payout ratio was 18.2%.

Gross margin remained stable at 72%. Gross operating profit margin was 35.32% vs 37.94% in 1H12 and 35.51% in 2H12. Other revenue and net income saw a 147% rise to \$38.68mn, contributing to the 8.98 ppt increase in operating margin. Stripping out other revenue and income, normalized operating margin deteriorated to 22.8% from 24.21% last year but up from 21.69% in 2H last year. Net gearing is at 4% vs 11% last year end. Cash inflow from operations improved from \$84.3m in 1H12 to \$94.8mn.

Valuation

Valuation still below sector average. FBH is trading at 13.2x FY13 core EPS, well below the sector average of 21.1x(see figure 2).Based on our target price of \$3.38, FBH is valued at 13.0~x FY13 core EPS of 0.261, representing 38% discount to sector average. Future catalysts include the completion of the central kitchen, execution of the new casino staff catering and food souvenir businesses. Reiterate Buy.

Downside Risk

- An increase in anti-Japanese Sentiment among Chinese hurting the Japanese restaurant business
- Delay in the completion of the central food processing centre and execution in industrial catering and food souvenir business
- Decline in tourists arrivals and spending

Upside Risk

- Casinos operators formally agree to outsource their staff catering services to FBH
- Stronger than expected visitor arrivals and visitors' per capita spending on F&B

Figure 1 : 1H13 Results

(HK\$ mn)	1H2012	2H2012	1H2013	HoH (%)	YoY (%)
Sales	315.7	330.4	345.1	4.4	9.3
Cost of Sales	-90.5	-95.0	-96.6	1.7	6.7
Direct Operating Expense	-105.4	-118.1	-126.6	7.2	20.1
Gross Profit	119.7	117.3	121.9	3.9	1.8
Other revenue and net income	15.6	-2.1	18.7	-986.7	19.4
Other gain and loss	0.0	13.1	0.0	-100.0	N/A
Gain on termination of lease	0.0	13.5	0.0	-100.0	N/A
Administrative expenses	-43.3	-45.7	-43.2	-5.4	-0.3
OP before fair value of IP change*	92.1	96.2	97.3	1.2	5.7
Change in fair value of IP	0.0	125.0	20.0	-84.0	N/A
OP after fair value of IP change	92.1	221.2	117.3	-47.0	27.5
Finance costs	-3.8	-5.5	-5.6	3.1	49.8
Share of results of an associate	-2.6	2.6	0.0	-100.0	-100.0
Profit before tax	85.7	218.4	111.7	-48.9	30.4
Income tax expense	-11.6	-24.6	-13.0	-47.1	12.1
Profit	74.0	193.8	98.7	-49.1	33.3
Minority interest	-13.3	-12.2	-12.1	-0.4	-9.1
Net profit	60.7	181.6	86.5	-52.4	42.6
Core profit	60.7	56.6	66.5	17.6	9.6

Source: Future Bright Holdings, Emperor Securities Research

Figure 2 : Peers Comparison

Company	Ticker	Close	Mkt Cap	PE(x)			ROE(x)			Div Yield (%)		
				(before extraordinary items)								
	(HK\$)	(HK\$)	(HK\$m)	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E
Future Bright	703	2.45	1,541	13.2	9.4	8.2	40.2	24.0	20.4	3.1	2.3	2.3
Fairwood	52	16.64	2,087	12.1	15.0	14.5	26.9	27.3	N/A	3.6	3.7	N/A
Tao Heung	573	5.82	5,946	15.3	18.2	15.9	20.4	17.6	21.6	2.2	2.9	3.4
Café De Coral	341	25.05	14,422	25.6	25.9	23.0	15.0	16.5	17.2	2.5	2.9	3.3
Ajisen	538	8.57	9,333	51.5	36.3	29.7	5.2	8.2	9.6	0.4	1.5	1.8
Xiao Nan Guo	3666	1.32	1,947	11.6	14.1	11.0	20.2	12.2	16.1	2.2	2.4	3.5
Tsui Wah	1314	4.89	6,765	N/A	34.2	34.2	47.3	20.0	16.7	0.0	1.0	1.4
Average				19.8	21.1	19.0	20.6	16.0	15.3	3.7	4.3	5.0

Source: Future Bright Holdings, Emperor Securities Research, Bloomberg

Sector Outlook – What's New

Low Penetration Rate: According to China Statistical Yearbook, the total population in mainland China in 2011 was 1,347,350,000. Excluding Taiwan and HKSAR, the penetration rate (visitor arrivals from mainland China/total population in China) in 2012 remained low at 1.25%, well below Las Vegas's penetration rate of 10.50%. FBH's expansion and profit level will likely ride on the increasing penetration.

Large-scale Casinos and Hotels Project in the Pipeline: Macau is a supply-driven market, the more the attractions, the higher the visitors arrivals. There were 100 hotels and 28,785 hotel rooms in June 2013. In the next 4 years, number of hotel rooms is expected to reach 50,000, according to Tourist Office director João Manuel Costa Antunes (see the figure 3). Occupancy of hotel rooms as of June was about 86.3%, but during busy times like weekends, hotel rooms are all occupied. Average length of stay in July is 1.0 while visitor arrivals growth from January to June is about 4.2% YoY. We expect an increase in visitor arrivals and overnight stays to be followed by a rise in hotel supply and entertainment, which will in turn lead to higher demand for catering services.

FBH has a strong track record in providing catering services in various casinos such as Sands, City of Dreams, Lisboa, Galaxy etc, thus should have advantages in expanding its restaurants and potential hotel staff catering businesses in these new projects. As a leader with 37 restaurants and 129,531 sq.ft of restaurants floor area, FBH is set to reap the benefits.

Major Infrastructure Improvement: Macau's tourism and visitation are slated to benefit from the following infrastructure enhancement.

Hong Kong-Zhuhai-Macau bridge, scheduled for opening in 2016, will create a direct land transport linking Macau with Hong Kong, Guangzhou and Shenzhen. The six lanes of traffic will pass across the bridge at a maximum speed of 100kmph, travel time will be cut to 30 minutes between Hong Kong and Macau and by 60/80% to 75/45 minutes between Hong Kong Kwai Chung Container Port/Hong Kong International Airport and Zhuhai.

The Guangzhou-Zhuhai Intercity Railway connects the Border Gate (or Gongbei Port on the Zhuhai side) to Guangzhou, where passengers can transit to the Beijing-Guangzhou high-speed railway. For non stop services, travelling can take as short as ~45 minutes whilst extra 30 minutes will be needed for all stops. An one-way Intercity Railway ticket costs RMB90/70 for first/second class, whereas coaches between Guangzhou and Zhuhai are operating at around RMB60-80 with travelling time of about 120 minutes. Border Gate is only 5 minutes away from Zhuhai station. The intercity Railway already commenced operations at the year end of last year.

The construction of an extension from Zhuhai's station at Gongbei will link the Guangzhou-Zhuhai Intercity Railway with Hengqin. A 2 to 3 years of timeframe is expected for the completion. With a Light Rail Transit station at the Hengqin/Cotai border connecting to the Guangzhou-Zhuhai Intercity Railway, passengers can travel from Guangzhou to the Macau border in an hour.

Macau is building its Light Rail Transit system, which is scheduled to complete in 2015. The system should be able to solve Macau's local transport problems and provide a comfortable and effective means of transport to visitors.

To cut waiting time at the border, the Gongbei Customs will be expanded to handling 500,000 travelers per day from the current level of 350,000. He Ningka, the mayor of Zhuhai indicated in mid-Feb that the construction would be ready in the next few months, which could serve as a near-term catalyst for the Macau's visitor arrivals.

An extension of the operating hours and implementation of an unilateral clearance system at the Hengqin border-crossing point (or the Lotus Checkpoint in Macau) will shorten travelers' waiting time. Travelers will no longer have to have their travel documents checked by immigration departments on both sides of the border.

Hengqin Island's development could have a spillover effects on Macau:

Hengqin, one of the three new Special Economic Zones in Guangdong designated in the 12th Five-Year-Plan, is adjacent to the west of Macau, and is connected to Macau's Cotai via the Lotus Bridge.

A catalogue approved by the National Development and Reform Commission stipulates 200 industries the central government would like to build on the island by offering incentives. The seven main categories contain tourism, cultural and creative, logistics and trade, financial services, scientific research and development, medical, and new high-technology services. Food and retailing industries are included in the catalogue, and should fit Macau's ambitions to become a city of tourism.

Chimelong International Ocean Resort is expected to be operational this year. It is expected to feature a 1,888-room ocean-themed luxury hotel, a man-made beach with a wave pool, and various MICE facilities including a 3,000sqm grand ballroom, a 1,300sqm ballroom and 24 smaller function rooms. This could be a near-term drive of visitations to the neighboring Macau.

Income Statement

Yr Ended Dec (HK\$m)	2010	2011	2012	2013E	2014E
Revenue	375.8	546.5	646.1	772.5	896.6
Cost of Sales	-113.8	-162.1	-185.5	-222.5	-258.2
Operating Exp.	-133.2	-185.5	-223.5	-268.1	-311.1
Gross Profit	128.8	198.8	237.1	282.0	327.3
Other revenue	11.5	13.5	13.5	13.5	13.5
Admin. Expenses	-68.7	-82.1	-89.0	-100.4	-116.6
Other gain and lose	2.9	2.9	13.1	0.0	0.0
Operation Profit	74.5	133.2	188.3	195.1	224.3
Property Revaluation	0.0	10.0	125.0	20.0	0.0
Finance costs	-1.5	-8.6	-9.2	11.0	11.0
Share of an associate	-6.0	-4.9	0.0	0.0	0.0
Profit before tax	67.0	129.7	304.0	226.1	235.3
Income tax expense	-8.0	-16.5	-36.3	-24.6	-28.1
Minority interest	-18.2	-23.6	-25.5	-17.4	-19.7
Net profit	40.8	89.6	242.3	184.1	187.5
EPS(cents)	0.1	0.2	0.4	0.3	0.3
DPS(cents)	N/A	N/A	0.1	0.1	0.1

Source: Emperor Securities Research

IP= Investment Property

Balance Sheet

As at 31 December (HK\$m)	2010	2011	2012	2013E	2014E
Cash & CE	121.6	161.5	320.3	470.7	578.7
Trade & Other Rec.	21.4	29.6	34.2	40.8	47.4
Inventories	15.1	19.3	27.6	33.1	38.4
Others	99.2	37.8	24.9	23.9	23.9
Current assets	257.3	248.1	407.0	568.5	688.5
PPE	90.1	89.5	71.0	76.9	138.9
Investment property	0.0	275.0	400.0	420.0	420.0
Goodwill	81.8	81.8	81.8	81.8	81.8
Others	0.0	0.0	204.9	204.9	204.9
Total assets	429.2	694.4	1164.7	1352.1	1534.0
Bank loans	20.1	44.9	20.7	20.7	20.7
Trade & other pay.	68.8	88.8	95.3	111.8	129.2
Current tax liabilities	29.2	43.5	59.3	63.9	73.0
Others	2.0	0.0	0.0	0.0	0.0
Current liabilities	120.1	177.2	175.3	196.5	222.8
Unsecured Bank loans	79.1	204.5	368.9	368.9	368.9
Other borrowings	9.1	4.2	1.0	1.0	1.0
Others	0.0	0.0	16.2	18.0	20.0
Non current liabilities	88.2	208.7	386.1	387.9	389.9
Total Liability	208.3	385.9	561.3	584.3	612.7
Total Equity	220.9	308.5	603.4	767.7	921.3

Source: Emperor Securities Research

Cash Flow Statement

Yr Ended Dec (HK\$m)	2010	2011	2012	2013E	2014E
Cash flow operating	107.7	155.9	223.0	257.5	266.7
Cash flow investing	-147.0	-223.5	-215.1	-55.0	-105.0
Cash flow financing	103.8	109.7	154.7	-49.3	-50.4
Cash & CE at BY	57.7	121.7	161.6	320.4	470.7
Net Cash Change	64.1	39.5	158.3	150.2	108.0
Effect of ER Change	0.0	0.3	0.5	0.0	0.0
Cash & CE at EY	121.7	161.6	320.4	470.7	578.7

Source: Emperor Securities Research

Financial Ratio

Yr Ended Dec (HK\$m)	2010	2011	2012	2013E	2014E
Profitability(%)					
Gross margin	34.3	36.4	36.7	36.5	36.5
EBITDA	25.6	29.5	33.8	29.9	29.8
Operating margin	19.8	24.4	29.1	25.3	25.0
Profit bef. tax margin	17.8	23.7	47.1	29.3	26.2
Net profit margin	10.8	16.4	37.5	23.8	20.9
Growth (%)					
Revenue	59.8	45.4	18.2	19.6	16.1
EBITDA	93.2	67.7	35.6	5.7	15.7
Operating income	110.9	78.9	41.4	3.6	15.0
Net profit	128.1	119.8	170.4	-24.0	1.8
EPS	122.5	87.8	166.9	-32.2	1.8
Operating Performance					
Current ratio (x)	2.1	1.4	2.3	2.9	3.1
Quick ratio (x)	2.0	1.3	2.2	2.7	2.9
Admin Exp/ Sales(%)	18.3	15.0	13.8	13.0	13.0
Dividend Payout (%)	17.2	18.5	19.0	19.0	19.0
Inventory Turnover	48.4	43.4	54.3	54.3	54.3
AP turnover (day)	220.8	199.9	187.4	183.5	182.6
AR turnover (day)	20.8	19.7	19.3	19.3	19.3
Other Ratio					
Int coverage ratio (x)	49.0	15.4	17.1	17.7	20.3
Net debt to equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Sales/assets (x)	0.9	0.8	0.6	0.6	0.6
Assets/equity (x)	1.9	2.3	1.9	1.8	1.7
ROA (%)	9.5	12.9	20.8	13.6	12.2
ROE (%)	18.5	29.1	40.2	24.0	20.4

Source: Emperor Securities Research

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Emperor Securities Limited, Research Department

Mr. Stanley Chan

Associate Director

Tel : (852) 2836 2733

Email : stanleychan@emperorgroup.com

Mr. David Yuen

Senior Research Analyst

Tel : (852) 2836 2797

Email : davidyuen@emperorgroup.com

Ms. Chelsey Tam

Research Analyst

Tel : (852) 2836 2763

Email : chelseytam@emperorgroup.com

Mr. Frankie Chan

Research Analyst

Tel : (852) 2836 2566

Email : frankiechan@emperorgroup.com

Contact Us

Emperor Securities Limited

Headquarter

23-24/F, Emperor Group Centre, 288 Hennessy Road, Wan Chai, HK

Tel : Hong Kong Hotline (852) 2919 2919
Northern China Toll-free Hotline 10800 852 1674
Southern China Toll-free Hotline 10800 152 1674

Fax : Hong Kong Fax (852) 2893 1540
Northern China Toll-free Fax 10800 852 1673
Southern China Toll-free Fax 10800 152 1673

New Territories

16/F, Hang Seng Tsuen Wan Building, No.289 Sha Tsui Road, Tsuen Wan

Tel : (852) 2838 2939
Fax: (852) 2412 0249

Shop 2, G/F Kam Wo Bu & Kam Hing Building, No. 3 -15 Shun Lung Street Sha Tau Kok

Tel : (852) 2659 7668
Fax : (852) 2659 7381

G/F, 19 Tai Wai Road, Tai Wai

Tel : (852) 2699 8226
Fax : (852) 2699 8749

Shop B7, G/F, Kar Ho Building, 27-31 Hong Lok Road, Yuen Long

Tel : (852) 2479 9820
Fax: (852) 2470 5280

Emperor Financial Services Centre

Shops 2-6, G/F, East Ocean Court, 525 Shanghai Street, Mongkok, Kowloon

Tel : Hong Kong Hotline (852) 3966 0668
Northern China Toll-free Hotline 10800 852 1805
Southern China Toll-free Hotline 10800 152 1805

Fax : Hong Kong Fax (852) 2919 2938
Northern China Toll-free Fax 10800 852 1804

Hong Kong Island

Shop 1, 1/F, Tung Che Commercial Centre, No.246, Des Voeux West

Tel : (852) 2818 7278
Fax : (852) 2819 3990

Shop 67, G/F, Fortuna Building, 63-69 Wellington Street, Central

Tel : (852) 2522 1181
Fax : (852) 2522 2919

Room 705-6, Tai Yau Building, 181 Johnston Road, Wanchai

Tel : (852) 2891 2211
Fax : (852) 2838 8368

Shop E, G/F 983-987A King's Road, Quarry Bay

Tel : (852) 2911 0778
Fax : (852) 2911 0378

Kowloon

Shop C, G/F, No. 53-59 Wuhu Street, Hung Hom

Tel : (852) 2364 9213
Fax : (852) 2765 8425

G/F, Full Art Court, 149 Kweilin Street, Sham Shui Po

Tel : (852) 2725 7883
Fax : (852) 2728 6257

Shop 4, G/F, No.132-134 Nga Tsin Wai Road, Kowloon City

Tel : (852) 2383 2262
Fax : (852) 2383 2246

Shop A, G/F, 150-152, Prince Edward Road West, Prince Edward

Tel : (852) 2827 1188
Fax : (852) 2838 2319

Mainland Information Centres

Shanghai

2202, City Gateway, 398 Caoxi Road (North), Shanghai

Tel : (86) 21 5396 6228 / (86) 21 5396 6218
Fax : (86) 21 6386 6280

Beijing

Room 607, Block A, Jian Wai Soho Building, No. 39 East 3rd-Ring Middle Road, Chao Yang District, Beijing

Tel : (86) 10 5900 9712
Fax : (86) 10 5900 3304

Emperor Wealth Management Limited

Shops 2-6, G/F, East Ocean Court, 525 Shanghai Street, Mongkok, Kowloon

Tel : (852) 2919 2913
Fax : (852) 2919 2930

Emperor Securities Research

Tel : (852) 2836 2763

Fax : (852) 2831 8089

Email : esl.research@emperorgroup.com

Email Us

Emperor Securities Limited

esl.cs@emperorgroup.com

Emperor Futures Limited

efl.cs@emperorgroup.com

Emperor Wealth Management Limited

wealthmanagement@emperorgroup.com