

SMALL/MID CAP HIGHLIGHTS

Pax Global Technology (327 HK)

Leading E-payment Terminal Provider Expanding Into Emerging Markets

Pax Global is a leading e-payment terminal provider with a 10-15% global market share and over 80m accumulative shipments in more than 120 countries as of 2023. It focuses on emerging markets expansion and enhancing customer stickiness through hardware innovation and software development. The company is guiding a 10% revenue growth in 2024 and targets to maintain a 40% dividend payout in the future on the back of a strong net cash position.

WHAT'S NEW

- Leading e-payment terminal provider with global footprint.** Pax Global Technology (Pax Global) is a leading supplier of secure e-payment terminal with a 10-15% global market share and established footprint in over 120 countries. Latin America is its largest market, followed by Europe, Asia and the US that contributed to 35%/33%/16%/16% of its 2023 revenue respectively. About 95% of Pax Global's revenue is driven by hardware sales while services such as maintenance, installation and industry applications account for 5% of its revenue.
- Stringent security certification remains the key entry barrier.** E-payment terminal providers need to invest in R&D and obtain payment security certifications, which have an expiry period of 3-5 years. Therefore, obtaining payment security certifications remains an entry barrier for new entrants while creating replacement demand for existing players every 3-5 years. Pax Global targets to maintain its market leadership through diversified portfolio of products and services as well as its growing global network.
- Extensive product portfolio and integrated solutions enhance customer stickiness.** Pax Global focuses on hardware innovation, software development and payment security certifications. It offers a wide range of products with over 30 terminal models, including smart, traditional and mobile point-of-sale (POS) terminals that cater to its customers' demand and preferences. In addition, it launched Maxstone, a software service management platform that enhances inventory management, customer relationship management and data analysis for merchants such as convenient stores and gasoline stations. Its products and integrated solutions enable smooth product adaptation, and enhance switching cost and customer stickiness.

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2019	2020	2021	2022	2023
Net turnover	4,926	5,651	7,196	8,063	6,709
Gross Profit	1,945	2,337	2,827	3,306	2,994
Operating Profit	742	1,073	1,243	1,482	1,257
Net Profit	624	900	1,084	1,265	1,155
EPS (cent)	57	83	99	117	108
P/E (x)	10.1	7.0	5.8	5.0	5.4
Book value per share	4.3	5.1	5.9	6.4	7.0
P/BV (x)	1.4	1.1	1.0	0.9	0.8
EBITDA	794	1,133	1,311	1,545	1,322
EV/EBITDA (x)	4.4	3.1	2.7	2.3	2.6
DPS (cent)	10	17	27	36	44
Dividend yield (%)	1.7	2.9	4.6	6.1	7.5
Net margin (%)	12.7	15.9	15.1	15.7	17.2
Net debt to equity (%)	(61)	(66)	(53)	(45)	(38)
Interest cover (x)	178	144	187	262	234
ROE (%)	13.9	17.4	17.9	18.8	16.1

Source: Pax Global Technology, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	HK\$5.86
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

Pax Global Technology is a leading provider of electronic payment terminal solutions and related service. The company manufactures comprehensive range of payment terminals, covering countertop, handheld, mobile and PIN pad devices.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	327 HK
Shares issued (m):	1,072
Market cap (HK\$m):	6,280
Market cap (US\$m):	816
3-mth avg daily t'over (US\$m):	0.6

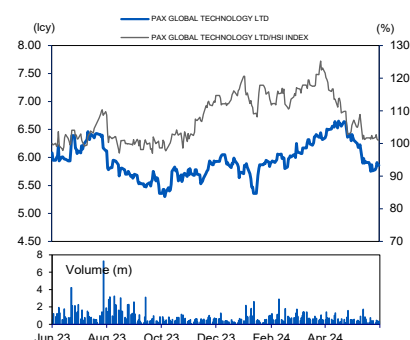
Price Performance (%)

52-week high/low	HK\$6.94/HK\$5.21			
1mth	3mth	6mth	1yr	YTD
(8.6)	(2.3)	(1.3)	(5.2)	(3.1)

Major Shareholders

	%
Hi Sun Tech China Ltd	33.96
FY23 NAV/Share (HK\$)	6.96
FY23 Net Debt/Share (HK\$)	-2.63

PRICE CHART



Source: Bloomberg

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- **Robust cash reserve.** Pax Global's revenue increased eightfold since its listing in 2010, driven by overseas expansion and continuous product innovation. Meanwhile, it also improved its gross margin from 37% in 2018 to 45% in 2023, thanks to effective cost control and improving sales mix. The company has a strong free cash flow generating capability and a strong net cash position, with a 53%/45%/38% net cash to equity ratio in 2021-23 respectively.
- **Continued emerging markets expansion.** Pax Global recorded notable sales in Latin America, Middle East and Africa, and will continue to pursue new opportunities in new markets such as Saudi Arabia and Egypt, thanks to: a) the irreversible trend of cashless payment, b) continuous product innovation and software development that enhance product adaptation and customer stickiness, and c) replacement demand.
- **2024 guidance.** Pax Global guides for a 10% revenue growth in 2024, as it believes the destocking cycle in 2023 has come to an end (which resulted in a 16.8% yoy revenue decline in 2023). Pax Global has been raising its dividend payout ratio from 18% in 2019 to 41% in 2023 and targets to maintain a 40% dividend payout going forward. The trailing 12-month dividend yield was about 7.5%.

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2020	2021	2022	2023
Net turnover	5,651	7,196	8,063	6,709
EBITDA	1,133	1,311	1,545	1,322
Deprec. & amort.	(60)	(68)	(63)	(66)
EBIT	1,073	1,243	1,482	1,257
Total other non-operating income	14	(28)	58	8
Associate contributions	6	(3)	(7)	(5)
Net interest income/(expense)	0	0	-	-
Pre-tax profit	1,053	1,274	1,431	1,254
Tax	149	182	163	89
Minorities	4	8	4	10
Net profit	900	1,084	1,265	1,155
Net profit (recurrent)	900	1,084	1,265	1,155

CASH FLOW

Year to 31 Dec (HK\$m)	2020	2021	2022	2023
Operating	774	386	677	527
Pre-tax profit	1,053	1,274	1,431	1,254
Tax	(149)	(182)	(163)	(89)
Deprec. & amort.	(60)	(68)	(63)	(66)
Associates	6	(3)	(7)	(5)
Working capital changes	680	526	137	401
Non-cash items	180	(20)	(6)	(124)
Other operating cashflows	(935)	(1,141)	(652)	(845)
Investing	(152)	(273)	(329)	(209)
Capex (growth)	(118)	(348)	(331)	(213)
Investments	0	0	0	0
Proceeds from sale of assets	0	53	0	0
Others	(34)	75	2	4
Financing	(49)	(383)	(721)	(614)
Dividend payments	(141)	(351)	(345)	(430)
Issue of shares	46	35	5	14
Proceeds from borrowings	n.a.	n.a.	n.a.	n.a.
Loan repayment	(30)	(34)	(32)	(25)
Others/interest paid	76	(33)	(349)	(173)
Net cash inflow (outflow)	573	(270)	(373)	(297)
Beginning cash & cash equivalent	3,230	3,803	3,533	3,160
Changes due to forex impact	158	65	(272)	(89)
Ending cash & cash equivalent	3,803	3,533	3,160	2,864

BALANCE SHEET

Year to 31 Dec (HK\$m)	2020	2021	2022	2023
Fixed assets	420	768	1,000	1,190
Other LT assets	102	115	180	200
Cash/ST investment	3,803	3,533	3,160	2,864
Other current assets	3,152	4,257	5,013	4,690
Total assets	7,637	8,821	9,490	9,075
ST debt	29	32	20	24
Other current liabilities	1,925	2,232	2,490	1,465
LT debt	94	85	66	84
Other LT liabilities	15	17	9	16
Shareholders' equity	5,602	6,487	6,935	7,458
Minority interest	(28)	(31)	(29)	28
Total liabilities & equity	7,637	8,821	9,490	9,075

KEY METRICS

Year to 31 Dec (%)	2020	2021	2022	2023
Profitability				
Gross margin	41.4	39.3	41.0	44.6
Pre-tax margin	18.6	17.7	17.7	18.7
Net margin	15.9	15.1	15.7	15.7
ROA	12.5	13.2	13.8	12.4
ROE	17.4	17.9	18.8	16.1
Growth				
Turnover	14.7	27.3	12.0	(16.8)
EBITDA	42.7	15.7	17.9	(14.4)
Pre-tax profit	39.5	21.0	12.3	(12.4)
Net profit	44.3	20.4	16.7	(8.7)
Net profit (adj.)	44.3	20.4	16.7	(8.7)
EPS	46.0	19.4	18.3	(8.1)
Leverage				
Debt to total capital	2.2	1.8	1.2	1.4
Debt to equity	2.2	1.8	1.2	1.4
Net debt/(cash) to equity	(66.5)	(53.2)	(45.0)	(37.6)
Interest cover (x)	144	187	262	234

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