

23 October 2014

Peace Map Holding (402.HK)

Performance will burst out with prominent advantages

HONG KONG | TMT | COMPANY REPORT

Rating :

Buy

- The accumulated asset loss of its mine in the past four years amounted to HKD2.373 billion, so in the coming next quarters, the company will continue to loss asset, though it will pose negative effects on performance in the short-term, yet little impact on cash flow and future performance. After the huge asset losses, the company will become a pure geographic information provider and will travel light in the future.
- The company is one of the few consolidated space and information service providers in the inspection of geographical information industry, its products range from equipment collection in the upper stream (unmanned aerial vehicle, data inspection vans) to data collection and management in the midstream to data service and platform integration in the downstream.
- The company boasts of various qualifications, advanced technologies. It possesses six A-Class surveying and mapping qualification certificates. The company is also the only one pilot unit in the country for "Urban High Resolution Remote Sensing Image Database", and the only one to own aviation data approved by the government. We also welcome the possibility of integrating BAT business in the future.
- The annual growth speed of the geographical information industry will be over 20%. The wide application of Peace Map's downstream products will benefit from the golden development period of this industry. We believe the company will continue to develop rapidly with the development of rural land ownerships and the construction of smart cities.
- The company announced on the September 26th that it will issue stock rights worth of 591 million to directors and others, and the executive price will be HKD 0.26. We believe that the stock right is a kind of proper incentive and it is expected to drive the creativity of core management personnel, so it will promote the company's rapid development.

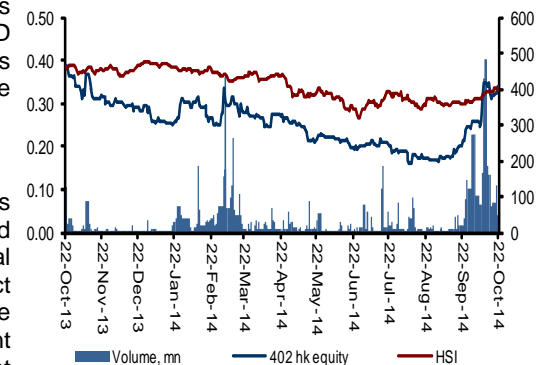
Target Price (HKD)	0.47
Forecast Dividend (RMB)	0.00
Closing Price (HKD)	0.34
Potential Upside	38.2%

Company Description

Founded in July, 2006 by stakeholders in Four Dimension Aviation Remote Controlling Co., Ltd. under Four Dimension Group, Peace Map Co., Ltd. mainly provides space and information combination services, GIS data collection, production and selling of unmanned/ inspection vans. By acquired the MONGOLIA INV through reverse acquisition, the company completed back door listing in August 2013, and it changed its name into Peace Map Holding on the September 4th, 2013.

Company Data

Market Cap. (HKD mn)	2,278
Enterprise Value (HKD mn)	3,721
52 week range (HKD)	0.156 - 0.4
Closing Price in 52 week range	



Investment Action

The company's mineral business is expected to impairment in 2014, so the business performance will continue to be in the red, but after that the company will gain rapid development. The company has good performance in operating geographical information business and orders from governments are steadily increasing. We expect that the company will receive more orders and achieve great results with the geographical information industry in the mainland entering a golden development stage, and there is a great chance that the performance will exceed market expectation.

At present, the mainland geographic information providers are traded at around 40X 2015EPS. In Hong Kong market, the valuations of mid and small-cap stocks generally have discounted of 40%-50% compared with A stock. But as a sole object of Hong Kong geographic information industry, we grant Peace Map 22X 2015EPS, with the target price of HKD0.47, nearly 38% higher than the current close. We initially grant it "Buy" rating.

Major Shareholders

1. Aviation Industry Corporation of China	25.86%
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Valuation Method

P/E

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Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Turnover (HKD mn)	-	210	474	970
Net Profit, adj. (HKD mn)	-300	-271	-119	148
EPS, adj. (HKD)	-0.16	-0.07	-0.02	0.02
P/E (X)	-	-	-	16.0
BV/PS (HKD)	0.02	0.14	0.13	0.16
P/B (X)	14.90	2.50	2.60	2.20
DPS (HKD)	-	-	-	-
Div. Yield	-	-	-	-

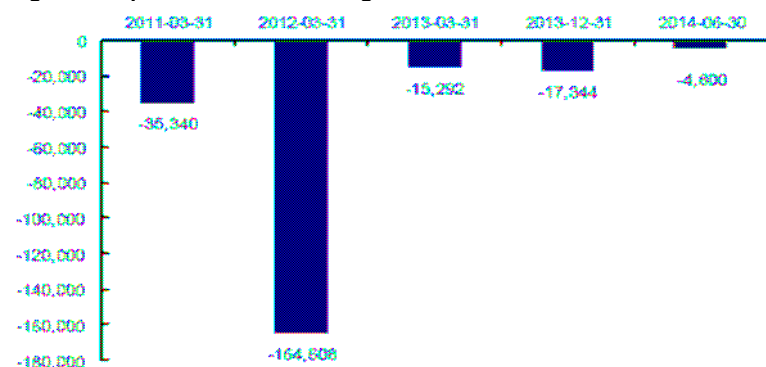
Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

To transform into a pure geographic information provider

In 2013, Peace Map Holding realized its backdoor listing in virtue of Mongolia Investment. After going public, the share price of company kept in downturn, which in our opinion, mainly resulted from the constant impairment in the mineral asset of Mongolia Investment Group Limited. However, tracing the statistics, the previously successive impairment of the asset for more than four years totally had reduced an accrual of HKD2.373 billion. By June 30th, 2014, the book value of this mining license was only HKD85.21 million. We expect that in several subsequent quarters, the company will continue accrual losses, which will still have an adverse impact on the performance in a short term while having almost no influence on cash flow and future performance.

Figure 1. Impairment loss of mining licenses



Source: Company reports, PSR

At the same time, we will also not exclude the company completely strip mineral business. In a word, after finishing the accrual of huge impairment loss, the company will lighten its load and then become a pure geographic information provider.

In the aspect of shareholding structure, Aviation Industry Corporation of China (AVIC) currently holds 25.86% of the equities of Peace Map Holding and a group of convertible bonds with the conversion price of 0.25 Yuan. In the future, if the convertible bonds are all exchanged, AVIC may sharply increase company equity holdings to consolidate its status as a major stockholder.

Layout of the whole industry chain with prominent advantages

Peace Map Holding is one of the few integrated space and information service providers with the business covering the whole industry chain in the geographic information surveying and mapping industry. Its products range from equipment collection in the upstream (unmanned aerial vehicles, data monitoring cars) to data collection and management in the midstream and to data service and platform integration in the downstream. The company provides a variety of remote sensing data source products as well as integrated spatial and geographic information.

Specifically, the company has complete qualifications and leading technologies. It possesses six national Class A surveying and mapping qualification certificates including Class A Photogrammetry and Remote Sensing, Class A Geographic Information System, Class A Surveying and Mapping Aerial Photography and Class A Internet Map Service and so on. In addition, it has passed the national military secrecy qualification authentication and has gained the confidential qualification certificate of Armament Research and Production Unit.

Furthermore, as the only national construction pilot unit of the "Urban High Resolution Remote Sensing Image Database", through a three-year period of construction, the company has built up the national biggest aerial remote sensing center, the largest unmanned aerial vehicle remote sensing center as well as the world's greatest pixel factory automatic data processing center. The company has three sets of "Pixel Factory (PF)" and the strongest ability of processing aerial photographic image data, with its market share of aerial image data processing exceeding 30%. It also owns 2D/3D GIS (Geographic Information System) bottom product platform, and the market share of 3D GIS exceeds 20% especially in the domestic market. The company has undertaken the national basic aerial photography projects and the national key project aerial photography projects for many times, the total flying area exceeds 5.3 million square kilometers, which is larger than the one half of the total national territory, and the quantity of tasks for the national basic aerial photography and the aerial photography of destitute areas ranks number one in the industry.

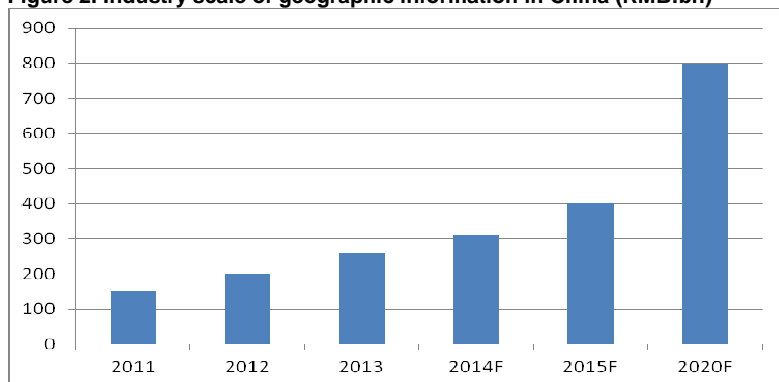
It's also worth mentioning that, the company is the only enterprise that has been approved by the state to have the ownership of aeronautical data, while for all other companies the ownership of aeronautical data is owned by the country; and the company can use the data to expand to other industries and mobile internet market, and is expected to achieve differentiated leading advantages, which has strong attraction to public customers including internet customers such as BAT, and we don't rule out the possibility to have business cooperation with BAT.

Besides, the company's peace map database is an integrated geographic information resource database which takes the aerial images with high resolution of 5 centimeters to 40 centimeters as the core supplemented by high and medium resolution satellite images and electronic map data. The latest archived data has covered 95% of the national territory area and more than 600 cities, and remains at constant updating, which highlights the abundance of the company's data resource.

Widespread application and outstanding growth

According to the statistics of CCID, since 2009 China's geographic information industry has recorded an almost 25% annual growth rate in output value. By the end of 2013, the output value had already approximated 260 billion Yuan. In January, 2014, the geographic information industry was officially designated as the national strategic emerging industry by the State Council. We expect that, the industry will maintain an average annual growth rate of more than 20% for mid-and-long term, and the total output value is expected to exceed 800 billion Yuan in 2020.

Figure 2. Industry scale of geographic information in China (RMB:bn)

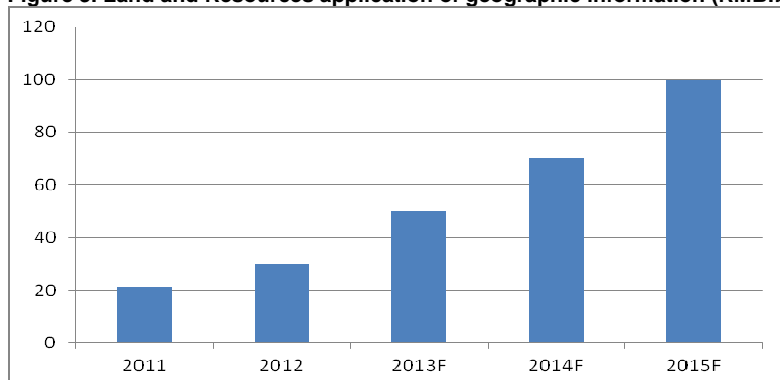


Source: ccidconsulting, PSR

Peace Map Holding Limited has advantages in all such fields as data acquisition, data processing, and data application(territory, agriculture, water conservation, electric power, petroleum and natural gas, and other industries), and the customer structure is also diversified which shows the extensive downstream application, including governments(the Ministry of Housing and Urban-Rural Development, the Ministry of Agriculture, and the State Forestry Administration) accounting for 50%, enterprises (power, petroleum and natural gas enterprises) accounting for 30%, and the public (cooperation with BAT in the role of data provider and service provider) accounting for 20%.

In the first half of 2014, benefiting from the implementation of rural land rights confirmation project, contract increase, higher contract amount and other factors, the company's data processing, software application, and cameras and unmanned aerial vehicles business respectively increased by 45.5%, 1177%, and 421.7% compared with the period from April to September, 2013, which showed that the company was benefiting from the golden development period of geographic information industry. We also believe the trend will continue.

Figure 3. Land and Resources application of geographic information (RMB:bn)



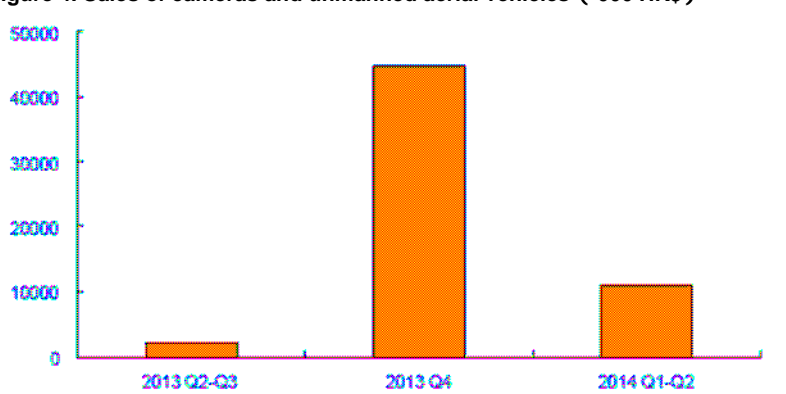
Source: MLR, Analysys International, PSR

Recently, the pilot program for the farmers' joint stock partnership and the reform of rural collective asset share has been deliberated and passed by the central government, which demonstrates that China's layout of the pilot project of property right of rural collective asset is going to be carried out in full swing. Among which as for land and other resource asset, the key point is to implement and put emphasis on registration and issuing work for contractual right of land. The competitiveness of Peace Map Holding in that field lies in its acquisition of accurate image information. The company could make them as precise coordinates with error only in centimeter level through data processing, so as to benefit the implementation of land circulation reform. At present, the country has launched the reform in Sichuan and Shandong. The company occupied a half of the market in Sichuan. Therefore, we believe that depending on resource and technology advantages the company would burst out in that field.

Furthermore, smart city construction is believed to bring big developing opportunities for the company as well. National Geographic Information Bureau of Surveying and Mapping has launched geographic framework construction of digital city in 2006. Now, there are 321 prefecture-level cities have adopted digital city construction, among which 190 have completed and come into use, and advancing towards smart city construction. Ministry of Housing and Urban-Rural Development of the People's Republic of China has issued the list for national pilot smart city in 2013, which totaled as 103. It is believed that market of that field will be in a fast-growing period.

As for unmanned aerial vehicle business, the output of Beijing's manufacturing base was 33 in 2013. While the semi-annual report of 2014 announced that the sales volume of that period was 6 unmanned aerial vehicles and 1 video camera with the sales revenue of HKD 11 million, increasing 421.7% compared with that of six months up to September 2013. Reviewing the whole trace, this business is an obviously seasonal one. We predict that the increase of its revenue will be optimistic in the next half year.

Figure 4. Sales of cameras and unmanned aerial vehicles ('000 HK\$)



Source: Company reports, PSR

Stock option incentive contributes to rapid development

The company issued an announcement in September 26, declaring to provide stock options totaled as 591 million to its board directors (Guan Hongliang, Zhang Chuanjun, Zhu Dong, Feng Tao, Wang Zheng) and other personnel. The stock options accounted for 8.83% of its whole company share with executive price of HKD 0.26. Among which the above-mentioned 5 directors will have an average of 65 million shares respectively, totaled as 325 million options. These options are valid till December 31, 2017. Among

which the valid dates for 60%/20%/20% executing right are 0/6/12 months. We believe that this stock option incentive is enough to stimulate innovation of its core management. And it is beneficial for the rapid development of the company.

Catalyst

Mine field stripping failed to meet expectation;
Contract orders including land approval developed beyond expectation.

Risk

Profitability decreased beyond expectation.

FYE	2012	2013	2014F	2015F
Valuation Ratios				
Price Earnings	-	-	-	16.0x
Price to Book	14.9x	2.5x	2.6x	2.2x
Dividend Yield	-	-	-	-
Per share data(HK\$)				
EPS Adjusted	-0.16	-0.07	-0.02	0.02
Book Value Per Share	0.02	0.14	0.13	0.16
Dividends Per Share	-	-	-	-
Growth & Margin				
Revenue growth	-	-	125.6%	104.8%
Gross Profit growth	-	-	43.6%	138.9%
Net Profit growth	-	-9.7%	-56.2%	124.4%
Profitability Ratios				
Gross Margin	-	47.1%	30.0%	35.0%
Net Profit Margin	-	-129.0%	-25.0%	15.3%
Dividend Payout Ratio %	0.0%	0.0%	0.0%	0.0%
Key Ratios				
Return on Assets	-	-16.6%	-5.7%	6.1%
Return on Equity	-	-66.3%	-14.1%	14.8%
Effective Tax Rate	11.6%	16.2%	13.8%	15.0%
Liability ratio	97.3%	61.8%	58.0%	60.0%
Income Statement(HK\$: mn)				
Revenue	-	210	474	970
- Cost of Goods Sold	-	111	332	631
Gross Income	-	99	142	340
- Selling, General & Admin Expenses	50	87	115	138
- Impairment loss of mining licences	153	173	100	0
Operating Income	-235	-213	-65	214
- Interest Expense	-93	-90	-80	-30
Pretax Income	-328	-303	-145	184
- Income Tax Expense	-38	-49	-20	28
Income Before XO Items	-290	-254	-125	156
- Minority Interests	10	17	-6	8
Net Profit	-300	-271	-119	148



PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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