

Rentian Tech (885.HK) Meeting Summary

IoT Player in HK Market

Hong Kong | IoT | Company report

We met with Rentian Tech's management on 19 May 2017 to conduct research on the company. The following is the meeting summary.

Company Business

Through its subsidiaries and associated company, the company is principally engaged in (i) the provision of integrated smart Internet-of-things solutions to enterprise customers; (ii) Human-machine Interactive Devices business; (iii) securities investment; and (iv) money lending business.

The structure of IoT includes sensing, network and application. The company is the provider of IoT solutions covering "Cloud", "Pipeline" and "Endpoint" businesses. The following table shows the meanings of "Cloud", "Pipeline" and "Endpoint" and their main functions.

	Meaning	Main Function
Cloud	Industry applications and big data	Integration of IoT and industry technology; Make the industries intelligentized; Data analysis, processing and presentation functions
Pipeline	Core network transmission	Effectively transmit and process the information obtained by the sensing layer
Endpoint	Intelligent acquisition equipments and industry terminals	Mainly used for the perception of objects, identifying objects and collecting information; Including identity identification, physical information (such as temperature, speed, pressure, location, etc.), chemical information and image data

Source: Company, Phillip Securities (HK) Research

Business Transformation

The company was called Forefront Group before, and was a securities investment holding company. After a series of M&As, the company became an IoT player and changed its name to Rentian Tech on 14 July 2015. On 3 August 2015 the company announced that its new businesses are principally engaged in the provision of total IoT and industry 4.0 solutions for the comprehensive development, such as information flow, logistics flow and cash flow, of IoT.

The Company's FY2016 Results

In FY2016 the Group's revenue increased by 33.12% YoY to approximately HK\$1,203.58 million. Integrated Smart IoT solutions business generated revenue of approximately HK\$511.47 million with an increase of 731.93%. Revenue from Human-Machine Interactive Device business amounted to approximately HK\$657.77 million, which represented a decrease of 12.21%. Revenue from the securities and other investment business decreased by 71.93% to approximately HK\$25.64 million.

Integrated Smart IoT solutions business and Human-Machine Interactive Device business both belong to IoT business. And IoT business contributed about 97% of total revenue in FY2016.

Customers and R&D

The customers of Rentian Tech are from diversified industries. Their industries include bank, insurance, securities, telecommunication, government, cosmetics, retail, catering, apparel, E-commerce, logistics and so on.

The subsidiaries of the Group are “High and New Technology Enterprises”. And the Group has 101 patents, 104 copyright registrations and more than 100 full-time R&D employees.

Specific Businesses for Different Industries

For big data business, the company helps financial, insurance and other customers with data maintenance, management and analysis, and also provide data-based value-added services. For transmission business, the company provides efficient data transmission software and hardware solutions including optical fibers, cables and wired and wireless transmission. For pharmaceutical, catering and apparel industry logistics solutions business, the company provides intelligent logistics containers for the customers to achieve cost savings from the change from disposable packages to recyclable packages and monitor the logistics information to achieve the goods tracking, transportation route optimization and other value-added functions. For the intelligent robot logistics sorting and transmission business, the company helps customers with planning, designing, equipment procurement, installation and after sales service. For the express delivery industry, the company provides intelligent terminal scanning equipments and logistics background management system. The company also takes the future development of VR and AI into consideration.

Industry Prospect

According to the latest research report issued by Machina Research, a renowned international IoT research institute, in August 2016, it is expected that by 2025, the total number of connected IoT devices across the world will increase from 6 billion for 2015 to 27 billion, representing a compound annual growth rate (CAGR) of 16%, and China, the United States and Japan will top the list with rates of 21%, 20% and 7% respectively. Revenue from operations relating to IoT will grow from US\$750 billion for 2015 to US\$3,000 billion. Volume of data relating to IoT will also reach 2 billion TB.

Results Outlook

As at the end of December 2016 the market value of the portfolio the company held was about 2.88 billion, while the Group’s market cap as of 24 May 2017 was about HK\$4.06 billion. The market demands and industry prospect of the company’s main business IoT business are good and the company’s FY2017 and future earnings outlook is worth anticipating.

The company hopes to achieve sales synergy effects of “Cloud”, “Pipeline” and “Endpoint” businesses and make the main business revenue exceed the market average growth. The company’s guidance for future revenue growth is 30% YoY. The company will explore the synergy effects in the future to make the main business profits exceed the revenue growth.

Risk

Security risk of IoT;
Integration risk after M&A.

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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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