



REXLot Holdings (HK : 0555)

CURRENT PRICE : HK\$0.61

TARGET PRICE : HK\$0.94

UPSIDE: 54.1%

52 WEEK RANGE: HK\$0.59 - HK\$1.29

MARKET CAP : HK\$6.1BN

Initiate with “Buy”

- Shift in business reliance to high growth segments
- Favorable industry tailwinds
- Superior profitability and strong balance sheet

Company overview

- Largest lottery company in China
- Operates in both the upstream and downstream segments of lottery value chain
- Welfare CTG segment (Upstream) has >50% market share in China
- Owns Okooo.com (12 - 15% market share in online lottery market)
- Belt of track records, well established vertically integrated lottery placement systems with provinces
- Consistent earnings and revenue growth over past 5 years (CAGR Revenue : 13.3%, Earnings : 26.6%)

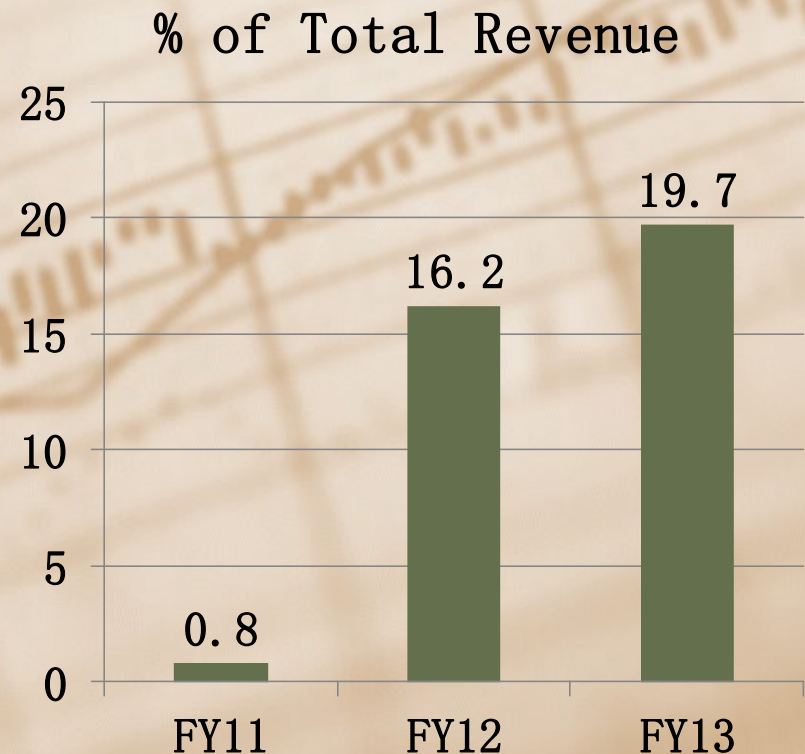
Management

- Run by the same board since 2008
- Proven synergistic acquisitions that have helped REXLot grow
- On the ground management with solid lottery value chain landscape experience (10 - 20 years)
- Executive director Victor Chan largest shareholder with approximately 15% stake

Twin growth drivers, new game changers

Internet segment

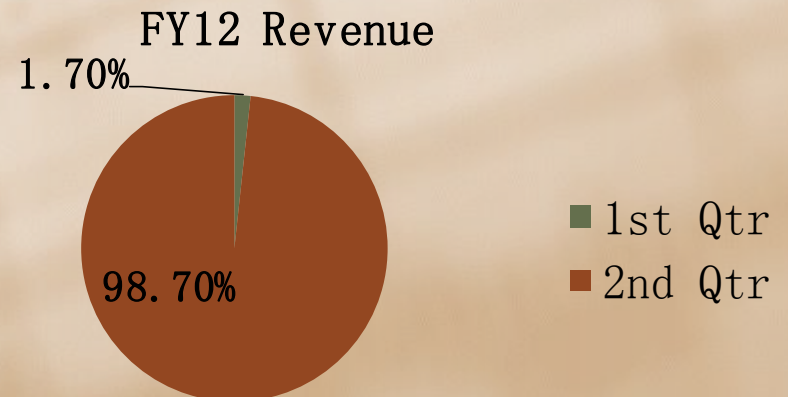
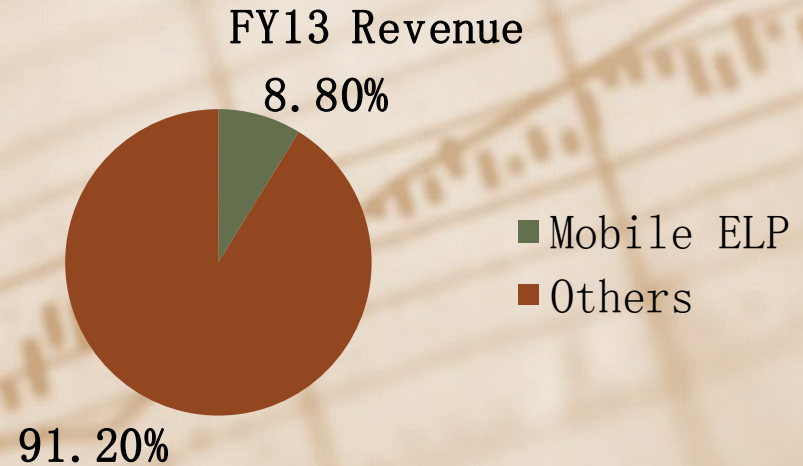
- Currently owns Okooo.com
- One of the top 3 “Specialised lottery platforms” in PRC
- 12 - 15% market share in online lottery market
- Vertically integrated placement system
- Established cooperation relationships with provincial centres
- JV relationship with people.cn (state owned), likelihood to be awarded license by MOF



Twin growth drivers, new game changers

Mobile Electronic Lottery Platform (ELP)

- Starting to see traction
- Total coverage of 9 provinces
- High possibility of winning more provincial contracts
- Revenue performance leapfrog
- Starting to contribute more to overall revenue



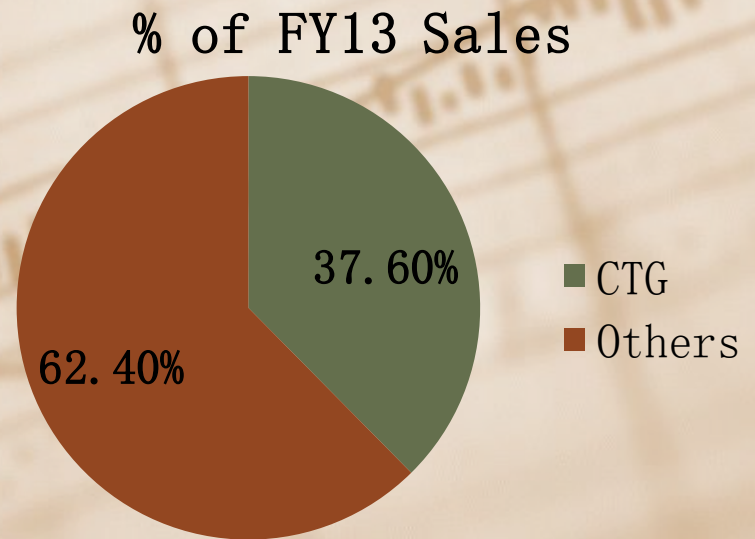
Consolidated weight of twin growth engines

% of total revenue

	FY11	FY12	FY13
Welfare CTG	37.4%	33%	37.6%
Scratch Card Distribution	21.1%	20.2%	15.1%
Internet Platform	0.8%	16.2%	19.7%
Mobile ELP	NIL	1.7%	8.8%
Mobile SMS Platform	14.7%	12.5%	6.5%
Others	25.8%	16.4%	12.3%

Welfare CTG still cash cow

- Market leader in CTG market (>50% market share)
- CTG has been REXLot's major contributor for more than 5 years
- Potential renewal of contracts at lower rate still won't hurt overall business
- Cash cow provider
- Track record of successful renewals



Industry tailwinds

- Industry saw a CAGR of 24% from 2010 - 2013
- China's lottery growth (expected CAGR 20% over next 3 years) to outpace US to become largest lottery market worldwide
- Lottery sales, fund raising mechanism of the government
- Government has incentives to curb illegal lotto betting (2 -3 times bigger than official channels)
- Surge in expected online lottery sales due to mobile internet & smartphone penetration
- Online lottery sales estimated by iResearch to grow at 41.3% CAGR in the next 3 years to RMB41.3bn

Standing out from its peers

- Most comprehensive value chain among peers
- First mover advantage in mobile ELP, track records make it harder for competitors to outshine

	REXLot (555 hk)	LotSynergy (1371 hk)	AGTech (8279 hk)	CVG (8156 hk)	VODone (82 hk)
Upstream					
Game design			✓		
Welfare CTG terminals	✓	✓		✓	
Sports CTG/SMG terminals	✓	✓			
VLT terminals		✓			
Self-service lottery system				✓	
SC validation and printing	✓				
Downstream					
SC distribution	✓				
Store operation or mangement	✓		✓	✓	
Internet Platform	✓	✓			✓
Mobile Platform	✓	✓			✓

Lowest PE among peers, highest operating margin

Company	Share Price (HK\$)	Mkt Cap (HK\$b)	Trailing P/E	Fwd P/E	P/B	D/E	EV/EBITDA	Net profit margin	Operating Margin	ROE	ROA
REXLot	HK\$0.61	6.1	5.7	6.5	0.8	0.2%	7.9	40.1%	50.4%	15.6%	11.9%
China LotSynergy	HK\$0.59	5	49.6	29.5	3.8	-3.7%	9	11.9%	47.7%	7.8%	4%
V1 Group (VOdone)	HK\$0.59	1.9	N.A	N.A	0.6	-	N.A	-26.9%	-32%	-5.8%	-4.8%
AGTech	HK\$0.87	3.9	N.A	N.A.	N.A	-	N.A	-39.8%	-13.2%	-7.2%	-6.7%
China Vanguard	HK\$1.17	3.7	143.6	N.A.	N.A.	-	107.2	15.5%	22.3%	8.7%	4.7%

HK listed peers

Company	Share Price (US\$)	Mkt Cap (US\$)	Trailing P/E	Fwd P/E	P/B	D/E	EV/EBITDA	Net profit margin	Operating Margin	ROE	ROA
500.com	\$17.80	621	NIL	14.9	0.8	0.2%	13.9	40.7%	16.4%	25.9%	15.8%

US listed competitor, but operates in China

Average

66.3 16.7

34.5

Valuation

- Current PE of 5.7x near lower end of historical range (4.1x - 28.9x)

	Assumed growth
CTG Segment	10%
Internet	50%
Mobile ELP	60%

Forward EPS HK\$0.094

Using PE of 10x, TP = HK\$0.94 (54.1% upside)

Valuation (Base case)

	Assumed growth
CTG Segment	6%
Internet	30%
Mobile ELP	30%

Forward EPS HK\$0.086

Using PE of 6x, TP = HK\$0.516 (15.4% Downside)

Risks to valuation

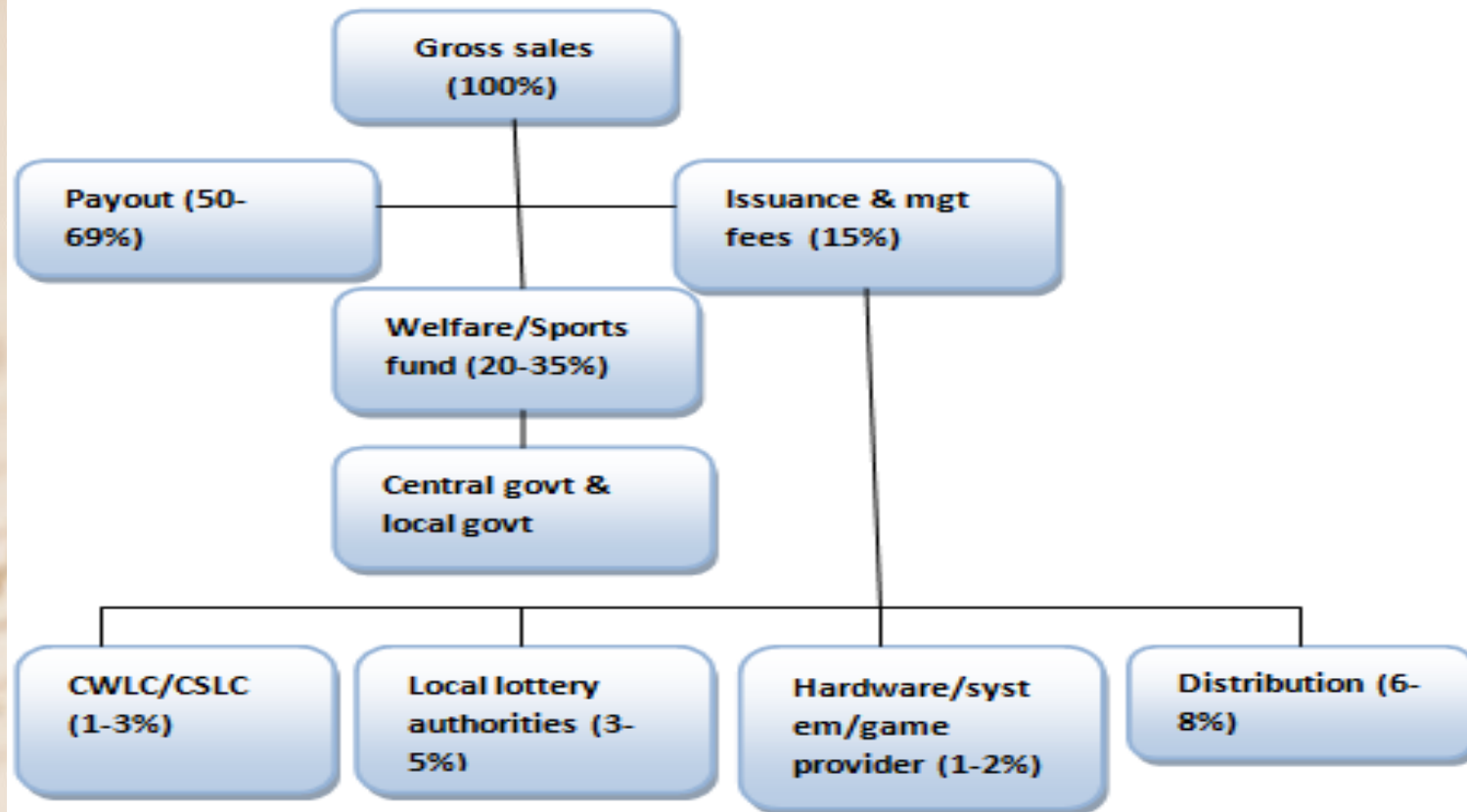
- Renewal of CTG contracts at lower rate
- Risk of non approval from MOF for Internet license
- Issuance of convertible bonds diluting EPS



Q&A

Appendix

Gross lottery sales allocation

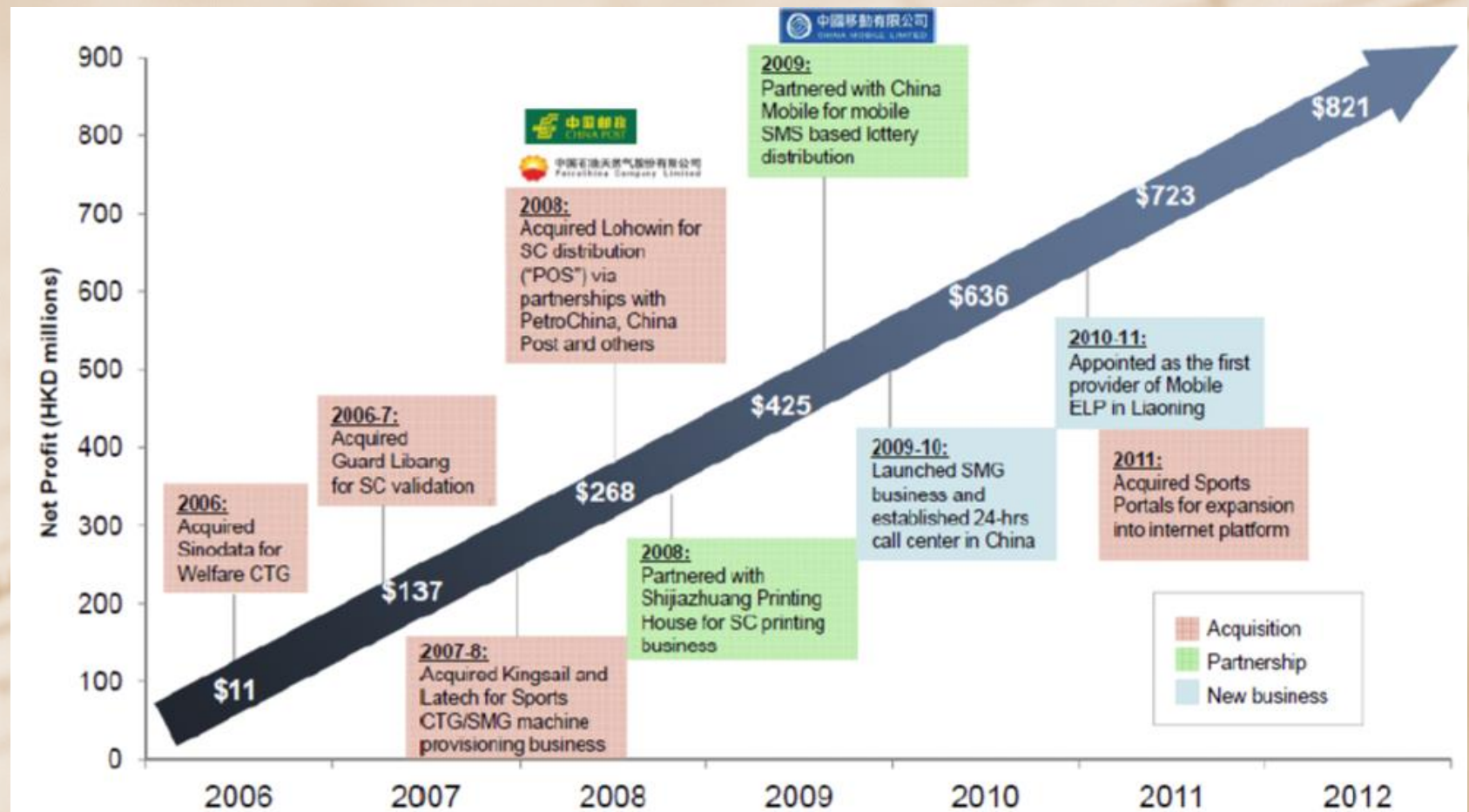


Source: Company

Authorised lottery regulators



Acquisitions made by management



Payout ratios

Description	Lotto		Scratch	Sports betting	VLTs/Keno
	Traditional lotto	HFGs			
Description	Weekly / daily draw	Multiple draws per day	Instant win	Football, basketball, etc. (both live and virtual games)	Video lottery terminals and games
Payout ratio	≤59%	≤59%	≤65%	≤69%	≤65%
Market share	69% combined		12%	10%	9%
Offered by Welfare Lottery?	Yes	Yes	Yes	NO	Yes
Offered by Sports Lottery?	Yes	Yes	Yes	Yes	NO