



Scud (1399 HK)

Buy (maintained)

Target price: HK\$1.57



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Positive profit alert on robust customer demand

What's new? The company issued a positive profit alert, previewing a 220%-247% YoY increase in 2014 net profit to Rmb122m-132m. Its share price surged 18% on Feb 11.

Above consensus The previewed net profit is higher than our estimate of Rmb105m and Bloomberg consensus of Rmb109m. Significant growth in the group's ODM battery business (75% of sales in 1H14) was a key earnings growth driver in 2014, according to management. Growth in ODM batteries was mainly driven by demand from **Huawei** and **Xiaomi**, Scud's two largest customers, which accounted for almost two-thirds of its ODM battery business in 1H14.

Positive outlook for 2015 We believe the outlook for underlying demand remains strong in 2015 given robust shipment forecasts for Scud's key customers. For instance, Xiaomi targets over a 60%YoY increase in smartphone shipments to 100m units in 2015, up from 61m in 2014. Meanwhile, Huawei targets a 33% YoY increase in smartphone shipment to 100m units in 2015, up from 75m units in 2014. In our view, Scud is well positioned to capture this rise in demand given its 50% capacity expansion plan in 2015. Scud's annual battery production capacity will reach 150m units by end of 1Q15, up from 100m units in 2014.

Upward earnings revisions We raise our 2014 earnings estimate by 20% to Rmb125m, up from Rmb105m based on the earnings guidance. We also revise up our 2015 and 2016 earnings estimates by about 10%, taking into account the increased earnings base in 2014. We now forecast **at least 30% YoY earnings growth in 2015** underpinned by positive demand from key customers and capacity expansion.

Valuation remains undemanding; reiterate Buy rating Its valuation remains undemanding despite the surge in share price. The stock is trading at 6.0x 2015E P/E and 0.7x 2015E P/B. We reiterate our Buy rating and set a new 12-month target price of HK\$1.57 (37% upside), up from HK\$1.42, based on our revised EPS estimate of Rmb0.16 and an unchanged 2015 target P/E of 8x.

Risks Key risks include a slowdown in the smartphone market in China, disruptions in bare battery cell supply from key upstream vendors (LG Chemicals, Samsung SDI, etc), and handset battery quality issues (e.g. explosions of batteries supplied by Scud).

Stock performance



Source: Bloomberg

Stock valuation

Key data

Feb 11 close (HK\$)	1.15
Share in issue (m)	1,090
Major shareholder	Fang Jin (49.5%)
Market cap (HK\$b)	1.3
3M avg. vol. (m)	3.4
52W high/low (HK\$)	1.46 / 0.49

Source: Bloomberg

	Turnover (Rmb m)	YoY chg (%)	Net profit (Rmb m)	EPS (Rmb)	YoY chg (%)	P/E (x)	P/B (x)	Dividend Yield (%)	ROE (%)	Net gearing (%)
2012	1,822	10	(163)	(0.16)	N.A.	N.A.	0.9	-	(11.0)	cash
2013	2,393	31	38	0.04	N.A.	25.2	0.9	1.1	3.4	cash
2014E	3,433	43	124	0.12	224	7.8	0.8	3.2	10.6	cash
2015E	4,355	27	161	0.16	30	6.0	0.7	4.2	12.6	cash
2016E	5,212	20	193	0.19	19	5.0	0.6	5.0	13.5	cash

Sources: Company data, GF Securities (HK)

Note: Calculated based on diluted shares.

Figure 1: Revenue mix projections

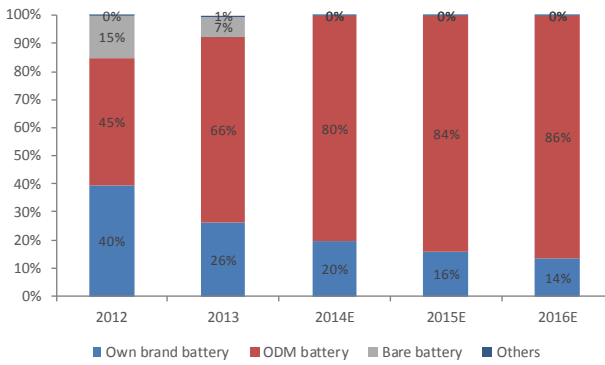
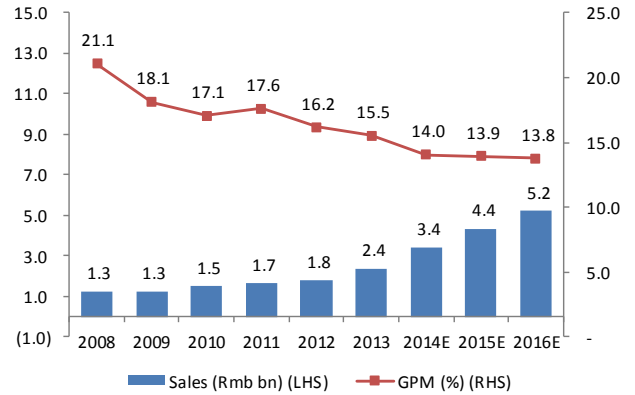


Figure 2: Sales and margin forecasts

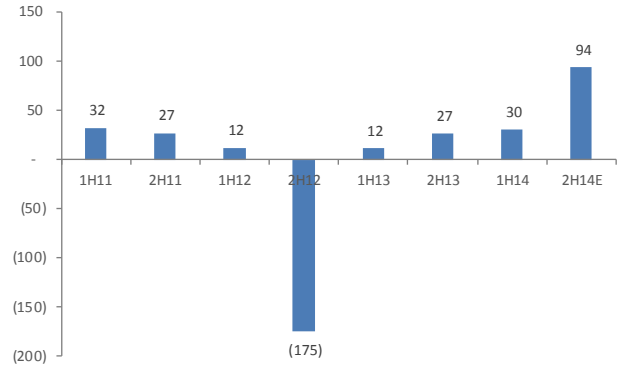


Sources: Company data, GF Securities (HK)

Figure 3: Earnings projections (2014E-16E) (Rmb m)



Figure 4: Half-yearly earnings projections (Rmb m)



Sources: Company data, GF Securities (HK)

Figure 5: Sales mix by product (1H14)

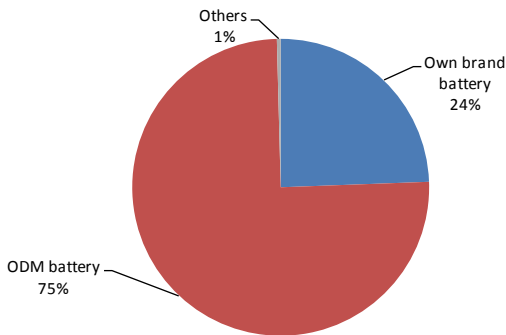
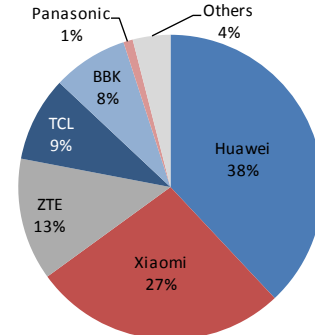


Figure 6: Sales mix for ODM batteries (1H14)



Sources: Company data

Figure 7: Financial statements

Income Statement						Balance Sheet					
Year end Dec (Rmb m)	2012	2013	2014E	2015E	2016E	Year end Dec (Rmb m)	2012	2013	2014E	2015E	2016E
Own brand battery	722	631	678	691	705	Cash/ST Investments	421	592	665	788	954
ODM battery	820	1,575	2,744	3,650	4,490	Account receivables	637	576	846	1,074	1,285
Bare battery	274	175	-	-	-	Inventory	460	424	566	719	862
Others	6	12	11	14	17	Other Current Assets	155	322	322	322	322
Turnover	1,822	2,393	3,433	4,355	5,212	Total current assets	1,673	1,914	2,400	2,903	3,423
Gross profit	294	372	482	606	718	Property, plant and eqpt	358	359	329	259	179
Other income/gains	11	32	15	5	5	Intangible assets	44	31	31	31	31
Selling & distribution exp.	(60)	(58)	(63)	(87)	(104)	Other LT Assets	39	19	19	19	19
R&D	-	-	-	-	-	Total Assets	2,114	2,323	2,779	3,213	3,652
Admin exp.	(289)	(259)	(203)	(257)	(313)	ST Debt	289	321	321	321	321
Other expenses	(159)	(14)	(18)	(10)	(10)	Trade payables	465	720	1,051	1,335	1,601
Operating profit	(201)	73	212	257	296	Other Current Liabilities	192	107	107	107	107
Finance costs	(14)	(26)	(28)	(30)	(30)	Total current liabilities	946	1,148	1,479	1,763	2,029
Share of profits	-	(0)	(0)	-	-	LT Debt	0	0	0	0	0
Pre-tax income	(215)	47	184	227	266	Other LT Liab	3	5	5	5	5
Taxation	22	(20)	(35)	(45)	(53)	Minority Interests	61	48	73	93	113
Minority interests	30	11	(25)	(20)	(20)	Shareholders' Equity	1,103	1,122	1,221	1,351	1,505
Net profit	(163)	38	124	161	193	Total Equity & Liabilities	2,114	2,323	2,779	3,213	3,652

Cash Flow Statement						Financial Ratio					
Year end Dec (Rmb m)	2012	2013	2014E	2015E	2016E		2012	2013	2014E	2015E	2016E
Pretax profit	(215)	47	184	227	266	Margins					
Tax Paid	22	(20)	(35)	(45)	(53)	Gross margin (%)	16.2	15.5	14.0	13.9	13.8
Depr/Amort	75	63	90	120	130	EBITDA margin (%)	(6.9)	5.7	8.8	8.7	8.2
Change in working capital	488	352	(81)	(96)	(89)	Operating profit margin (%)	(11.0)	3.1	6.2	5.9	5.7
Others	(547)	(251)	-	-	-	Net margin (%)	(8.9)	1.6	3.6	3.7	3.7
Operational cash flow	(177)	191	158	205	254	Return/Profitability					
Capex	(47)	(66)	(60)	(50)	(50)	ROA (%)	(5.6)	1.7	4.9	5.4	5.6
Assoc, MI, Invsmt	(10)	(79)	-	-	-	ROE (%)	(11.0)	3.4	10.6	12.6	13.5
Investment cash flow	(57)	(145)	(60)	(50)	(50)	Balance sheet					
Net Change in Debt	(350)	32	0	0	0	Net gearing (%)	cash	cash	cash	cash	cash
New Capital	-	-	-	-	-	Current ratio (x)	1.8	1.7	1.6	1.6	1.7
Dividend	(85)	(102)	(25)	(32)	(39)	Working capital					
Others	572	99	-	-	-	Days receivable	128	88	90	90	90
Financing cash flow	137	29	(25)	(32)	(39)	Days inventory	110	77	70	70	70
FX and others	120	96	-	-	-	Days payable	111	130	130	130	130
Chg in Cash	23	171	73	123	165	Others					
Beginning cash	398	421	592	665	788	Effective tax (%)	10.4	41.7	18.8	20.0	20.0
Ending cash	421	592	665	788	954	Dividend payout ratio (%)	-	21.6	20.0	20.0	20.0

Sources: Company data, GF Securities (HK)

Rating definitions

Benchmark: Hong Kong Hang Seng Index

Time horizon: 12 months

Company ratings

Buy	Stock expected to outperform benchmark by more than 15%
Accumulate	Stock expected to outperform benchmark by more than 5% but not more than 15%
Hold	Expected stock relative performance ranges between -5% and 5%
Underperform	Stock expected to underperform benchmark by more than 5%

Sector ratings

Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

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