

Ju Teng (3336 HK)

Overweight (V)

Target price (HKD)	6.90
Share price (HKD)	4.73
Forecast dividend yield (%)	3.5
Potential return (%)	49.4

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Dec	2013 a	2014 e	2015 e
HSBC EPS	0.67	0.63	0.78
HSBC PE	7.1	7.5	6.1
Performance	1M	3M	12M
Absolute (%)	14.3	19.1	-23.6
Relative ^a (%)	18.5	16.4	-30.1

Note: (V) = volatile (please see disclosure appendix)

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Upgrade to OW(V): Favourable industry trend and improving margins

- **1H15 likely to be stronger than historical seasonal pattern backed by higher metal casing contribution**
- **Industry-wide capacity scale down and rising direct purchase from PC brands to help stabilize and improve margins**
- **Upgrade to OW(V) from N(V) with new TP of HKD6.9 (from HKD4.85), based on 9x (was 8x) FY15e earnings**

1H15 likely to be stronger than historical seasonal pattern. Ju Teng is due to report 2H14 results on 17 Mar and we expect earnings to be in-line with HSBCe. We forecast sales/net profit to decline by 1%/17% y-o-y, respectively, with GPM/OPM at 19.4%/11.9% levels vs 21.8%/14.1% a year ago. Outlook for 1H15 is likely to be stronger than normal seasonality, backed by higher metal casing contribution. Ju Teng has been working on Surface Pro 3 casing as the sole source since 2H14 and started shipping another new model recently. Despite smaller volume, the productivity experience offered by Surface is gaining traction in commercial market. This positive momentum (c20% growth in FY14) should benefit Ju Teng. We forecast metal casing to account for 32% of sales in 1H15 vs 27% in 2H14; 1H15 margins could only be down slightly vs 2H14 as stronger metal casing sales offset weaker plastics.

Favourable industry trend to help stabilize and improve margins. Overcapacity has been a key drag for plastic casing's margin as consumer NB declined and tablet sales slowed. We believe Ju Teng, Zhan Yun (Quanta's in-house plastic casing arm) and Huan Hsin are in the process of scaling down their capacity and phase out old/inefficient equipment. With an estimated 20% cut in capacity supply as well as supply chain consolidation, we expect margin for plastic casing to stabilize from 2H. On top of market share gains in commercial NB casings (c30% in FY15e vs 20% in FY14e), we think rising direct purchase (c20% in FY15e vs <10% in FY14e) from PC brands such as HP and Dell, instead of going through NB ODMs, would also be positive for Ju Teng's margins. We forecast FY15e GPM/OPM at 20.2%/12.5% levels, up from 18.6%/10.7% in FY14e with metal casing account for 33% of total sales.

Upgrade to OW(V) from N(V) with new TP of HKD6.9. We keep our FY14 earnings estimates largely unchanged but raise FY15e by 27% to reflect a stronger 1H15 and better margin outlook brought about by favourable industry trend. Our TP is now set at HKD6.9 (was HKD4.85), based on 9x (was 8x) FY15e earnings. We lift our target multiple as we now expect Ju Teng to grow its earnings by 23%/16% in FY15/16Ee vs our previous expectation of flat to mild decline. With stronger earnings growth profile, we believe a higher target multiple can be justified. At 6.1x FY15e earnings, we view the current valuation as attractive and expect positive guidance for growth outlook to catalyse share price.

^a Index	Hang Seng Index
Index level	23,798
RIC	3336.HK
Bloomberg	3336 HK

Source: HSBC

Enterprise value (HKDm)	8,060
Free float (%)	60
Market cap (USDm)	701
Market cap (HKDm)	5,447

Source: HSBC

Financials & valuation

Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Profit & loss summary (HKDm)				
Revenue	9,257	9,284	9,781	10,229
EBITDA	1,919	1,808	2,105	2,352
Depreciation & amortisation	-729	-817	-882	-952
Operating profit/EBIT	1,190	991	1,223	1,399
Net interest	-62	-91	-83	-76
PBT	1,132	994	1,194	1,384
HSBC PBT	1,132	994	1,194	1,384
Taxation	-255	-190	-227	-263
Net profit	762	727	899	1,050
HSBC net profit	762	727	899	1,050

Cash flow summary (HKDm)

Cash flow from operations	257	1,662	618	1,665
Capex	-1,066	-843	-622	-674
Cash flow from investment	-866	-843	-622	-674
Dividends	-175	-191	-175	-216
Change in net debt	322	-628	179	-775
FCF equity	536	684	1,173	1,338

Balance sheet summary (HKDm)

Intangible fixed assets	40	40	40	40
Tangible fixed assets	7,662	9,059	9,011	10,544
Current assets	7,016	6,319	7,434	6,975
Cash & others	1,061	1,393	1,234	1,727
Total assets	14,718	15,417	16,485	17,560
Operating liabilities	2,777	2,891	2,868	2,990
Gross debt	4,302	4,005	4,026	3,743
Net debt	3,241	2,613	2,791	2,016
Shareholders funds	6,236	6,979	7,894	8,961
Invested capital	10,880	11,134	12,383	12,843

Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Y-o-y % change				
Revenue	0.6	0.3	5.4	4.6
EBITDA	37.5	-5.8	16.4	11.7
Operating profit	53.2	-16.7	23.4	14.4
PBT	43.6	-12.2	20.1	15.9
HSBC EPS	25.7	-5.4	22.7	15.9

Ratios (%)

Revenue/IC (x)	0.9	0.8	0.8	0.8
ROIC	9.0	7.3	8.4	9.0
ROE	13.1	11.0	12.1	12.5
ROA	6.6	5.8	6.5	7.0
EBITDA margin	20.7	19.5	21.5	23.0
Operating profit margin	12.9	10.7	12.5	13.7
EBITDA/net interest (x)	31.0	19.9	25.4	30.8
Net debt/equity	42.5	30.7	29.1	18.6
Net debt/EBITDA (x)	1.7	1.4	1.3	0.9
CF from operations/net debt	7.9	63.6	22.1	82.6

Per share data (HKD)

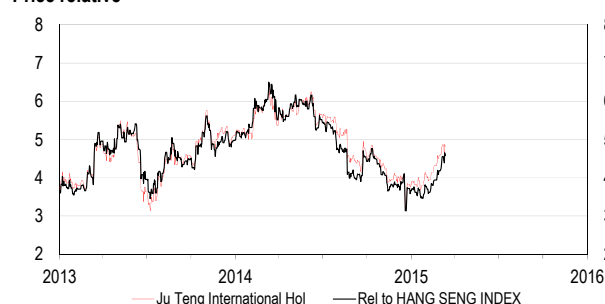
EPS reported (fully diluted)	0.67	0.63	0.78	0.90
HSBC EPS (fully diluted)	0.67	0.63	0.78	0.90
DPS	0.15	0.17	0.15	0.18
Book value	5.47	6.07	6.81	7.68

Valuation data

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EV/sales	0.9	0.9	0.8	0.7
EV/EBITDA	4.5	4.5	3.9	3.2
EV/IC	0.8	0.7	0.7	0.6
PE*	7.1	7.5	6.1	5.3
P/Book value	0.9	0.8	0.7	0.6
FCF yield (%)	9.8	12.5	21.5	24.6
Dividend yield (%)	3.2	3.5	3.2	3.9

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 13 Mar 2015

Ju Teng: valuation summary

HKDm/HKD	Revenue	Cons Rev	EPS	Cons EPS	P/E (x)	P/B (x)	ROE (%)
2013	9,257		0.67		7.1	0.9	13.1
2014e	9,284	9,498	0.63	0.65	7.5	0.8	11.0
2015e	9,781	10,100	0.78	0.75	6.1	0.7	12.1

Source: Company data, HSBCe and I/B/E/S consensus.

Ju Teng: HSBC 2H14 estimates versus consensus

HKDmn	2H14e		Diff. 2H14 vs Con.
	HSBCe	Con.	
Revenue	4,886	5,134	-5%
Gross Profit	949	1,043	-9%
Operating Profit	582	655	-11%
Pre Tax Profit	563	638	-12%
Net Profit	417	460	-9%

Source: HSBC estimates, Bloomberg consensus

Ju Teng: earnings estimates revision

HKDmn	Revised		Previous		Change	
	2014e	2015e	2014e	2015e	2014e	2015e
Revenue	9,284	9,781	9,295	9,141	0%	7%
Gross Profit	1,723	1,971	1,724	1,676	0%	18%
Gross Margin	18.6%	20.2%	18.5%	18.3%	1 bps	182 bps
Operating Profit	991	1,223	992	980	0%	25%
Op Margin	10.7%	12.5%	10.7%	10.7%	1 bps	178 bps
Net Profit	727	899	728	708	0%	27%
EPS (HK\$)	0.63	0.78	0.63	0.61	0%	27%

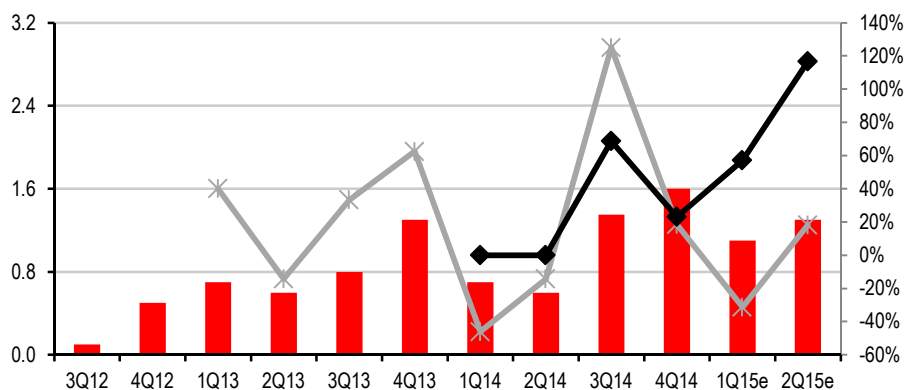
Source: HSBC estimates.

Ju Teng: semi-annual forecast

HKDm	2013		2014e		2015e		2013	2014e	2015e
	1H	2H	1H	2He	1He	2He			
Revenue	4,299	4,958	4,399	4,886	4,563	5,219	9,257	9,284	9,781
Gross Profit	793	1,080	774	949	881	1,091	1,873	1,723	1,971
EBIT	490	700	409	582	534	689	1,190	991	1,223
Pre Tax Profit	463	669	431	563	516	679	1,132	994	1,194
Net Profit	260	502	311	417	386	513	762	727	899
EPS	0.23	0.44	0.27	0.36	0.33	0.44	0.67	0.63	0.78
Product Mix (%)									
Plastic	68%	58%	62%	63%	58%	56%	63%	62%	57%
Metal/Composite	23%	32%	29%	27%	32%	34%	28%	28%	33%
Others	9%	9%	9%	10%	10%	10%	9%	10%	10%
Margins (%)									
Gross Margin	18.4	21.8	17.6	19.4	19.3	20.9	20.2	18.6	20.2
Operating Margin	11.4	14.1	9.3	11.9	11.7	13.2	12.9	10.7	12.5
Net Margin	6.1	10.1	7.1	8.5	8.5	9.8	8.2	7.8	9.2
Sequential Growth (%)									
Revenue	-12	15	-11	11	-7	14			
EPS	-28	93	-39	34	-7	33			
Y/Y Growth (%)									
Revenue	0	1	2	-1	4	7	1	0	5
EPS	5	38	18	-18	24	23	25	-6	23

Source: Company data and HSC estimates.

MSFT Surface shipment growth (unit in mn)



Source: Company data an HSBCe.

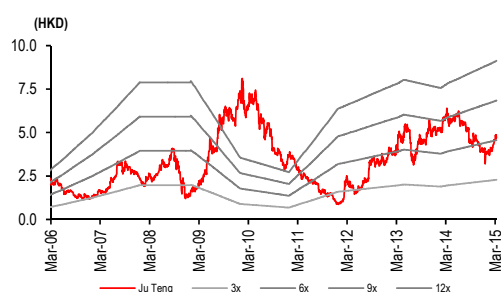
Valuation and risks

We keep our FY14 earnings estimates largely unchanged but raise FY15e by 27% to reflect a stronger 1H and better margin outlook brought about by favourable industry trend. Our TP is now set at HKD6.9 (was HKD4.85), based on 9x (was 8x) FY15e EPS of HKD0.78. We lift our target multiple as we now expect Ju Teng to grow its earnings by 23%/16% in FY15/16Ee vs our previous expectation of flat to mild decline. With stronger earnings growth profile, we believe a higher target multiple can be justified.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10 percentage points above and below the hurdle rate for Hong Kong stocks of 8.5%. Our target price implies a potential return of 49.4% (including the forecast dividend yield of 3.5%), which is above the Neutral band; therefore, we upgrade to Overweight (V) from Neutral (V) rating on the shares. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Key **downside risks** are a slower-than-expected improvement on margins, lower-than-expected contribution from light metal casings and intensified pricing competition.

Ju Teng: Forward P/E band



Source: Company data an HSBCe.

Ju Teng: Forward P/B band



Source: Company data an HSBCe.

Disclosure appendix

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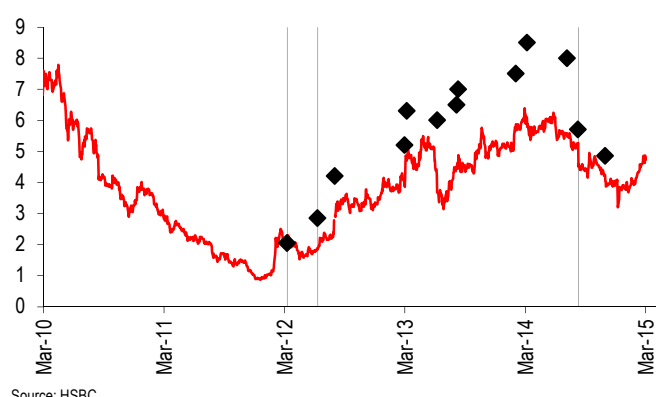
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Neutral (Hold)	40%	(28% of these provided with Investment Banking Services)
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Share price and rating changes for long-term investment opportunities

Ju Teng International Hol (3336.HK) Share Price performance HKD Vs HSBC

rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Underweight (V)	Neutral (V)	20 March 2012
Neutral (V)	Overweight (V)	21 June 2012
Overweight (V)	Neutral (V)	20 August 2014
Target Price	Value	Date
Price 1	2.05	20 March 2012
Price 2	2.85	21 June 2012
Price 3	4.20	12 August 2012
Price 4	5.20	12 March 2013
Price 5	6.30	19 March 2013
Price 6	6.00	19 June 2013
Price 7	6.50	16 August 2013
Price 8	7.00	21 August 2013
Price 9	7.50	12 February 2014
Price 10	8.50	18 March 2014
Price 11	8.00	18 July 2014
Price 12	5.70	20 August 2014
Price 13	4.85	10 November 2014

Source: HSBC

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