

Kingboard Laminates

Reducing PT to HK\$4.5 - Downward revision in GPM

Kingboard Laminates (KBL) is the largest producer of copper clad laminates in China, used in printed circuit boards (PCB). The company reported 3.8% y/y growth in FY14 sales revenue but NP dropped by 7.1% y/y. We maintain our OW rating but trim down our PT to HK\$4.5.

- Down but not out.** We believe that the negative reaction to KBL's results is not warranted, particularly when compared to other heavy industrial companies that have suffered sluggish demand and inventory write downs during 2014. We expect a recovery in demand for laminates driven by exports and new applications such as LED. Cost of copper (34-40% of costs) and chemicals (20-25% of costs) is stabilizing at a low level in 1H15, which should result in a margin improvement, in our view.
- Earnings and PT adjustment.** We lower our NP forecast by 12% and 7% for FY15E and FY16E respectively. We note that due to the actual GPM being 15% (lower than expected), we lower our assumption of a recovery in GPM for 2015 to 17.3% now. We do believe that the disappointment in 2014 was mainly due material costs falling too late in the year to make a positive impact and inventory adjustment might have depressed GPM in 2H14. If that is the case, perhaps the improvement in 2015 would be more dramatic than the 2.3% that we are now estimating. Our NP forecast is revised down due to the downward revision in GPM. We revise down our Dec 15 PT to HK\$4.5 (prev. HK\$4.8)
- KBL trades at 5.9x FY15E P/E.** Our new DCF-based price target (Dec-15) of HK\$4.5 (WACC 12%, terminal growth 3%) implies a CY16E P/E of 8.0x. The key downside risks to our PT are sharp fluctuations in the cost of copper and oil based chemicals and a fall in demand from electronics exporters. The key upside risk is a pick up in China's domestic demand for appliances and electronic products.

Overweight

1888.HK, 1888 HK

Price: HK\$3.12

▼ **Price Target: HK\$4.50**
Previous: HK\$4.80

China

SMID-Caps

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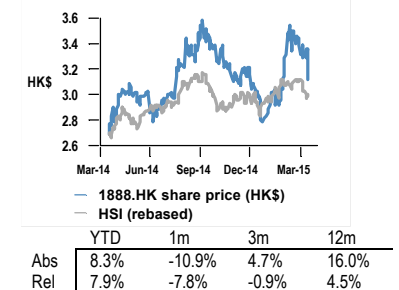
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Price Performance



Kingboard Laminates (Reuters: 1888.HK, Bloomberg: 1888 HK)

HK\$ in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (HK\$ mn)	12,483	12,798	13,283	13,372	14,228
Net Profit (HK\$ mn)	1,164	1,207	1,122	1,576	1,677
EPS (HK\$)	0.39	0.40	0.37	0.53	0.56
DPS (HK\$)	0.12	0.17	0.17	0.27	0.29
Revenue growth (%)	(5.5%)	2.5%	3.8%	0.7%	6.4%
EPS growth (%)	(12.2%)	3.7%	(7.1%)	40.5%	6.4%
ROCE	7.5%	7.2%	6.5%	8.7%	8.9%
ROE	10.3%	9.8%	8.6%	11.5%	11.6%
P/E (x)	8.0	7.8	8.3	5.9	5.6
P/BV (x)	0.8	0.7	0.7	0.7	0.6
EV/EBITDA (x)	6.4	6.3	6.2	4.3	3.6
Dividend Yield	3.7%	5.4%	5.6%	8.6%	9.2%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	3,000
Market Cap (HK\$ mn)	9,360
Market Cap (\$ mn)	1,205
Price (HK\$)	3.12
Date Of Price	16 Mar 15
Free Float(%)	0.0%
3M - Avg daily vol (mn)	2.46
3M - Avg daily val (HK\$ mn)	7.73
3M - Avg daily val (\$ mn)	1.0
HSI	2,3949.55
Exchange Rate	7.77
Price Target End Date	31-Dec-15

See page 11 for analyst certification and important disclosures, including non-US analyst disclosures.

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<p>Key catalysts for the stock price:</p> <ul style="list-style-type: none"> Falling Rmb can spur exports Higher margins from laminate products in 2014 as demand rises 	<p>Upside risks to our view:</p> <ul style="list-style-type: none"> Stronger than expected demand from Europe Improving domestic appliance sector in China spurs demand More income from property rentals 	<p>Downside risks to our view:</p> <ul style="list-style-type: none"> Higher cost of copper lowers margins Slowdown in electronic exports Rising labor costs in China and the appreciation of the Rmb
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Key financial metrics	FY13E	FY14E	FY15E	FY16E
Revenues (LC)	12,798	13,283	13,372	14,228
Revenue growth (%)	2.5%	3.8%	0.7%	6.4%
EBITDA (LC)	2,262	2,215	2,759	2,880
EBITDA margin (%)	17.7%	16.7%	20.6%	20.2%
Tax rate (%)	13%	14%	15%	16%
Net profit (LC)	1,207	1,122	1,576	1,677
EPS (LC)	0.402	0.374	0.525	0.559
EPS growth (%)	3.7%	-7.1%	40.5%	6.4%
DPS (LC)	0.17	0.17	0.27	0.29
BVPS (LC)	4.31	4.43	4.69	4.96
Operating cash flow (LC mn)	1,162	1,317	2,693	2,252
Free cash flow (LC mn)	(1,267)	1,075	2,795	2,650
Interest cover (x)	18	22	27	28
Net margin (%)	9.4%	8.4%	11.8%	11.8%
Sales/assets (X)	0.62	0.59	0.57	0.59
Debt/equity (%)	38.4%	35.0%	33.2%	31.4%
Net debt/equity (%)	21.1%	18.0%	4.9%	-5.6%
ROE (%)	10%	9%	12%	12%

Key model assumptions	FY13E	FY14E	FY15E	FY16E
Capacity (Glass)*	5.86	6.00	6.17	6.34
Capacity (Paper)*	3.93	3.93	3.93	3.93
Glass laminates utilization (%)	84%	90%	90%	90%

Source: Company and J.P. Morgan estimates.

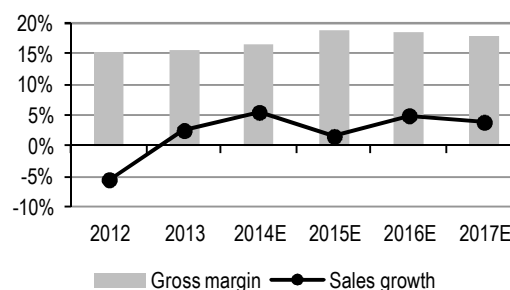
Sensitivity analysis	EBITDA		EPS	
	FY15E	FY16E	FY15E	FY16E
Copper increase by 5%	-3%	-3%	-4.9%	-4.9%
Change in price 1%	3%	3%	4.8%	4.9%
1% chg in utilization	1%	1%	1.4%	1.4%
1% chg in GPM	5%	6%	8.9%	9.6%

Source: J.P. Morgan estimates.

Valuation and price target basis

Our price target is based upon DCF methodology. The nature of the industry leads us to apply a terminal growth of 3% (the low end of the 3 to 6 percent growth rate used for SMID Caps).

Sales growth and gross profit margin trends



Source: Company, J.P. Morgan estimates.

JPM vs. consensus, change in estimates

EPS (LC)	FY15E	FY16E
JPM old	0.60	0.60
JPM new	0.53	0.56
% chg	-12%	-7%
Consensus	0.49	0.52

Source: Bloomberg, J.P. Morgan estimates.

Peer Comparisons

Company Name	Code	Price (TP) Local ccy	MCAP US\$MM	Vol US\$m	1W Chg	3M Chg	14 PE(x)	15e PE(x)	15E EV/ EBITDA	ROE (%)	P/B (x)	Yld (%)
Industrial peers												
XINYI GLASS HOLD (OW)*	868 HK	4.49 (6.1)	2,267	7.9	(4.1)	14.8	13.0	8.0	6.2	11.1	1.4	3.3
KINGBOARD CHEM (OW)*	148 HK	12.48 (21)	1,648	2.5	(4.0)	(5.5)	5.7	6.9	4.8	6.7	0.4	4.4
KB LAM (OW)*	1888 HK	3.12 (4.5)	1,205	1.0	(5.5)	4.7	8.3	5.9	4.3	8.6	0.7	5.1
SHENZHO (OW)*	2313 HK	30.3 (38)	5,459	5.9	(2.3)	19.5	17.8	14.5	12.0	17.9	2.8	3.2
LM PAPER (OW)*	2314 HK	3.71 (6)	2,231	1.9	(5.1)	(14.7)	9.1	7.7	8.7	12.6	1.1	3.9
TECHTRONIC INDS (OW)*	669 HK	26.4 (36)	6,226	11.7	(3.1)	1.3	20.4	16.6	12.1	16.7	2.9	1.2
ND PAPER (OW)*	2689 HK	4.92 (8.2)	2,956	7.7	(1.6)	(29.0)	6.7	6.8	7.9	7.5	0.9	2.0
HAITIAN (OW)*	1882 HK	15.74 (22)	3,235	2.5	(2.6)	2.1	15.9	13.4	12.8	19.2	3.4	1.3
Average							11.7	9.8	8.4	13.2	1.6	3.1

Source: Company data, Bloomberg, J.P. Morgan estimates (*). Share prices are as of Mar 16, 2015

Highlights from analysts briefing

- **No new capacity increase in core products.** KBL has spent heavily in 2013 and 2014 in building up capacity in laminates and glass yarn (a key component for laminates). We expect KBL to enjoy the benefits of higher capacity in 2015 and expand sales with little new investment. The major new expansion is in the production of poly vinyl butyl where the company will lift capacity by 30% to 1800 tons per month. Company targets sales of PVB to be around HK\$600m. Overall capex would fall from about 900m in 2014 to around 650m for 2015 (mostly in plant relocations and investments).
- **Prices for laminates are stable even in low season.** The company mentioned that pricing for laminates has been stable for a number of months. This is quite positive given that material costs have fallen for a number of months and the low cost inventory should be making a positive impact on margins in early 2015. The company attributes this to strong underlying demand. The negative impact of the higher cost inventory has already been reflected in 2014 and there shouldn't be any impact of inventory adjustment in 2015.

Review of FY14 results

FY14 Results (HKD m)

Year to Dec (HKDm)	FY13A	FY14A	Growth	FY14E	Variance
Turnover	12,798	13,282	3.8%	13,502	-1.6%
Gross profit	1,991	1,997	0.3%	2,223	-10.1%
GPM	17.7%	15.0%		16.5%	
EBIT	1518	1431	-5.7%	1650	-13.3%
Net profit	1207	1122	-7.1%	1331	-15.7%
EPS (HKD)	0.40	0.37	-6.5%	0.44	-15.0%

Source: J.P. Morgan estimates; Company

The disappointing result was mostly due to lower than expected GPM of 15% compared to 17.7% in 2013 and our estimate of 16.5% for 2014. Our EPS estimate for 2014 was in line with expectations so it is likely that the performance was also disappointing compared to consensus. We believe that the key reason for the lower than expected margins is that: 1) the fall in cost of materials came too late in the year to make a positive impact on GPM in 2014. This is especially true for copper where the prices fell significantly only after Oct 2014. 2) There may have been the need to mark down some raw material and finished goods inventory as at Dec 2014 due to the drop in material prices in the last 2 months of the year. For example, a lower price of copper as at Dec 31 compared to inventory purchased in Sept or October would result in a year end adjustment that lifts cost of goods sold and depresses margins.

On a positive note, we see raw material (copper and petrochemicals) prices stabilize at a low level in 1H15 and combined with fairly strong demand for laminates from electronic exports and new applications (LEDs), should lead to better margins in 2015.

Net profit estimates revised down by 12% for FY15 and 7% for FY16

Year to Dec (HKDm)	----- New -----		----- Old -----		----- Change -----	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Turnover	13,372	14,228	13,714	14,392	-2.5%	-1.1%
Gross profit	2,317	2,503	2,575	2,637	-10.0%	-5.1%
EBIT	1,924	2,068	2,213	2,246	-13.1%	-7.9%
Net profit	1,576	1,677	1,792	1,799	-12.1%	-6.8%
EPS (HKD)	0.53	0.56	0.597	0.60	-12.1%	-6.8%
Assumptions						
Gross margin	17.3%	17.6%	18.8%	18.3%	-1.4%	-0.7%

Source: J.P. Morgan estimates.

We made minor changes in sales forecasts for 2015 and 2016 as the actual 2014 sales was fairly close to our expectations. However, we note that due to the actual GPM being 15% (lower than expected), we lower our assumption of a recovery in GPM for 2015 to 17.3% now. We do believe that the disappointment in 2014 was mainly due to the fact that material costs fell too late in the year to make a positive impact and inventory adjustment may have depressed GPM in 2H14. If that is the case, perhaps the improvement in 2015 would be more dramatic than the 2.3% that we are now estimating. Our NP forecast is revised down due to the downward revision in GPM. We revise down our Dec 15 PT to HK\$4.5 (prev. HK\$4.8)

Valuation and share price analysis

DCF Valuation

Our Dec-15 price target is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.3. WACC is assumed at 12%. We have estimated free cash flow for KBL until 2020 and assume a terminal growth rate of 3.0%. The terminal growth is based on the annual growth rate expected in 2020 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China. We also analyzed the DCF price sensitivity to WACC and the terminal multiple.

Table 1: KBL - Base-case DCF analysis

	2013	2014	2015E	2016E	2017E	2018E	2019E	Terminal
Cash flow estimates								
Sales	12,798	13,283	13,372	14,228	14,770	15,343	15,950	16,592
EBIT	1,434	1,387	1,924	2,068	2,082	1,887	1,902	1,917
NOPAT	1,243	1,204	1,651	1,754	1,746	1,563	1,557	1,627
Capex, net	(512)	(803)	(614)	(738)	(969)	(1,008)	(1,051)	(1,057)
Depreciation	828	828	836	813	819	843	870	899
Change in working capital	(921)	(714)	126	(343)	(371)	(240)	(255)	(271)
Free OP CF (excl. property)	638	515	1,999	1,487	1,225	1,158	1,121	1,198
DCF Parameters								
Liabilities as a % of EV	0%			Assumptions				
WACC	12.0%			Terminal growth	3.0%			
				Risk-free rate	4.2%			
				Market risk	6.0%			
Enterprise NPV (10E-16E)	14,038			Beta	1.30			
+ Net cash (debt), current	(741)			Cost of debt	6.2%			
- Minorities (Market value)	(1,203)			Implied exit P/E multiple (x)	5.0x			
+/- Other items	1,496							
= Equity value	13,589							
/ Number of shares	3,000							
= Equity value per share (HK\$)	4.5							

Source: Company data, J.P. Morgan estimates.

Table 2: KBL- Sensitivity analysis based on WACC and perpetual terminal growth rate

		Terminal growth rate						
		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
WACC	10.5%	4.7	4.9	5.1	5.3	5.5	5.8	6.1
	11.0%	4.5	4.7	4.8	5	5.2	5.5	5.7
	11.5%	4.3	4.5	4.6	4.8	4.9	5.1	5.4
	12.0%	4.1	4.3	4.4	4.5	4.7	4.9	5.1
	12.5%	4	4.1	4.2	4.3	4.5	4.6	4.8
	13.0%	3.8	3.9	4	4.1	4.3	4.4	4.6
	13.5%	3.7	3.8	3.9	4	4.1	4.2	4.3

Source: Company data, J.P. Morgan estimates.

Financial Analysis

Table 3: KBL - Revenue Mix

HK\$ MM	2011	2012	2013	2014	2015E	2016E
Glass epoxy laminates	7,808	7,186	7,539	7,977	7,796	8,247
YoY	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
% of sales	59.1%	57.6%	58.9%	60.1%	58.3%	58.0%
Paper laminates	2,662	2,487	2,514	2,586	2,510	2,585
YoY	25.0%	20.0%	20.0%	20.0%	20.0%	20.0%
% of sales	20.2%	19.9%	19.6%	19.5%	18.8%	18.2%
Others	2,735	2,809	2,617	2,720	3,066	3,396
YoY	2.2%	2.7%	-6.8%	3.9%	12.7%	10.8%
% of sales	20.7%	22.5%	20.4%	20.5%	22.9%	23.9%
Total revenue	13,205	12,482	12,670	13,283	13,372	14,228

Source: Company data, J.P. Morgan estimates.

Table 4: KBL - P&L statement

Year to Dec (HK\$ MM)	2011	2012	2013	2014	2015E	2016E
Total Revenues	13,205	12,483	12,798	13,283	13,372	14,228
YoY change (%)	1.1%	-5.5%	2.5%	3.8%	0.7%	6.4%
Cost of Goods Sold	(10,945)	(10,565)	(10,807)	(11,285)	(11,055)	(11,725)
YoY change (%)	10.8%	-3.5%	2.3%	4.4%	-2.0%	6.1%
Gross Profit	2,260	1,918	1,991	1,997	2,317	2,503
YoY change (%)	-28.9%	-15.1%	3.8%	0.3%	16.0%	8.0%
Gross Margin	17.1%	15.4%	15.6%	15.0%	17.3%	17.6%
SGA	(690)	(696)	(716)	(753)	(753)	(803)
YoY change (%)	-4.3%	0.9%	2.9%	5.2%	0.0%	6.6%
Other Income/(Expenses)	134	127	159	143	360	367
Operating profit	1,704	1,349	1,434	1,387	1,924	2,068
EBITDA	2,587	2,058	2,262	2,215	2,759	2,880
EBITDA margin	19.6%	16.5%	17.7%	16.7%	20.6%	20.2%
Depreciation & Amortization	(883)	(709)	(828)	(828)	(836)	(813)
YoY change (%)	6.1%	-19.7%	16.8%	0.0%	1.0%	-2.8%
EBIT	1,704	1,349	1,434	1,387	1,924	2,068
EBIT margin	12.9%	10.8%	11.2%	10.4%	14.4%	14.5%
Net Interest Expense	(94)	(94)	(125)	(102)	(102)	(102)
Exceptional item	(71)	88	83	43	60	60
Associates	(5)	2	0	0	0	0
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	1,534	1,345	1,393	1,328	1,882	2,026
YoY change (%)	-41.8%	-12.3%	3.6%	-4.7%	41.7%	7.7%
Tax	(177)	(180)	(183)	(192)	(285)	(327)
Effective Tax rate	11.5%	13.3%	13.2%	14.2%	15.2%	16.2%
Minority Interests	(33)	(2)	(3)	(14)	(20)	(22)
Net Income	1,325	1,164	1,207	1,122	1,576	1,677
YoY change (%)	-41.9%	-12.2%	3.7%	-7.1%	40.5%	6.4%
Net margin	10.0%	9.3%	9.4%	8.4%	11.8%	11.8%

Source: Company data, J.P. Morgan estimates.

Table 5: Interim estimates

Year to Dec (HK\$ MM)	1H13	2H13	1H14	2H14	1H15E	2H15E
Total Revenues	6,311	6,487	6,432	6,851	6,708	6,664
Gross Profit	1,012	980	1,037	961	1,173	1,144
EBIT	721	713	740	647	1,064	860
Net Income Before Taxes	656	737	690	639	1,040	841
Net Income	570	637	591	531	872	705
Diluted EPS (HK\$)	0.19	0.21	0.20	0.18	0.29	0.23
Ratios						
Revenue split	49.3%	50.7%	48.4%	51.6%	50.2%	49.8%
GPM	16.0%	15.1%	16.1%	14.0%	17.5%	17.2%
EBIT margin	11.4%	11.0%	11.5%	9.4%	15.9%	12.9%
NPM	9.0%	9.8%	9.2%	7.7%	13.0%	10.6%
YoY						
Revenue	5.6%	-0.3%	1.9%	5.6%	4.3%	-2.7%
GP	-0.7%	8.9%	2.5%	-1.9%	13.2%	19.0%
EBIT	2.7%	10.2%	2.6%	-9.3%	43.7%	33.0%
NP	0.6%	6.7%	3.7%	-16.7%	47.5%	32.8%

Source: Company data, J.P. Morgan estimates.

Table 6: KBL - Balance sheet

Year to Dec (HK\$ MM)	2011	2012	2013	2014	2015E	2016E
Cash and Cash Equivalents	2,603	2,328	2,428	2,448	4,293	5,925
Inventories	1,391	1,259	1,289	1,464	1,473	1,568
Accounts receivable	3,838	4,639	4,296	4,554	4,585	4,879
Other Current Assets	2,237	2,995	4,014	4,847	4,583	4,709
Total Current Assets	10,069	11,221	12,027	13,312	14,935	17,080
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	5,212	5,492	5,346	5,497	5,275	5,200
Other Assets	2,781	2,561	4,587	4,113	3,483	2,433
Non-Current assets	7,993	8,053	9,933	9,610	8,759	7,633
Total Assets	18,061	19,274	21,959	22,922	23,694	24,713
Accounts Payable	1,596	1,489	1,625	1,691	1,532	1,467
Other Accrued Expenses	238	142	500	1,406	1,550	1,751
Taxes Payable	289	302	325	300	393	435
ST and current LT debts	665	1,311	1,593	2,802	2,802	2,802
Total Current Liabilities	2,788	3,243	4,043	6,198	6,277	6,456
Long-term Debt	3,479	3,042	3,791	2,232	2,232	2,232
Other Noncurrent Liability	3	98	101	98	0	0
Noncurrent liabilities	3,483	3,140	3,892	2,330	2,232	2,232
Total Liabilities	6,271	6,383	7,934	8,528	8,509	8,687
Share capital	300	300	300	300	300	300
Reserves and Surplus	10,445	11,508	12,618	13,000	13,770	14,590
Total Shareholders' Equity	10,745	11,808	12,918	13,300	14,070	14,890
Minority Interest	1,046	1,083	1,106	1,094	1,114	1,136
Total Shareholders' Equity	11,791	12,891	14,025	14,394	15,184	16,026
Total Liabilities and Equity	18,061	19,274	21,959	22,922	23,694	24,713

Source: Company data, J.P. Morgan estimates.

Table 7: KBL - Cash flow statement

Year to Dec (HK\$ MM)	2011	2012	2013	2014	2015E	2016E
EBIT	1,704	1,349	1,434	1,387	1,924	2,068
Depreciation and Amortization	883	709	828	828	836	813
Working Capital Changes	(11)	(1,043)	(921)	(714)	126	(343)
Net Interest	(270)	(177)	(180)	(183)	(192)	(285)
Tax Paid	2,307	839	1,162	1,317	2,693	2,252
Cash Flow From Operations						
	(435)	(1,053)	(512)	(803)	(614)	(738)
Capital expenditures	1,670	380	(2,026)	473	630	1,050
Investments and others	(94)	(94)	(125)	(102)	(102)	(102)
Cash Flow from Investing	1,141	(767)	(2,662)	(432)	(86)	211
Free Cash Flow	3,448	72	(1,501)	886	2,607	2,463
Dividends	(806)	(300)	(430)	(516)	(664)	(832)
Common issue	0	0	0	0	0	0
Debt	391	(50)	3	(350)	(98)	0
Other Financing	0	0	0	0	0	0
Cash Flow from financing	(415)	(350)	(427)	(866)	(762)	(832)
Change in cash	563	(278)	99	20	1,846	1,632
Cash beginning	1,983	2,603	2,328	2,428	2,448	4,293
Foreign exchange changes	57	4	0	0	0	0
Cash at end	2,603	2,328	2,428	2,448	4,293	5,925

Source: Company data, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Kingboard Laminates (Overweight; Price Target: HK\$4.50)

Investment Thesis

The company is the largest maker of laminates used in PCB. The company is migrating from the low growth PC and notebook segment into faster growth laminates for smart phones, automotive and healthcare equipment. The company is expected to benefit from rising demand from a recovering European market for autos and electronics as well as a recovery in appliance demand in China.

Valuation

Our Dec-15 price target is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We have assumed a beta of 1.3. WACC is assumed at 12%.

Risks to Rating and Price Target

- Higher cost of copper lowers margins
- Slowdown in electronic exports
- Rising labor costs in China and the appreciation of the Chinese currency

Kingboard Laminates: Summary of Financials

Income Statement						Cash flow statement					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Revenues	12,798	13,283	13,372	14,228	14,770	EBIT	1,434	1,387	1,924	2,068	2,082
% change Y/Y	2.5%	3.8%	0.7%	6.4%	3.8%	Depr. & amortization	828	828	836	813	819
Gross Profit	1,991	1,997	2,317	2,503	2,528	Change in working capital	(921)	(714)	126	(343)	(371)
% change Y/Y	3.8%	0.3%	16.0%	8.0%	1.0%	Taxes	(180)	(183)	(192)	(285)	(327)
EBITDA	2,262	2,215	2,759	2,880	2,901	Cash flow from operations	1,162	1,317	2,693	2,252	2,203
% change Y/Y	9.9%	(2.1%)	24.6%	4.4%	0.7%	Capex	(2,538)	(329)	16	312	81
EBIT	1,434	1,387	1,924	2,068	2,082	Net Interest	(125)	(102)	(102)	(102)	(102)
% change Y/Y	6.3%	(3.3%)	38.7%	7.5%	0.7%	Other	0	0	0	0	0
EBIT Margin	11.2%	10.4%	14.4%	14.5%	14.1%	Free cash flow	(1,267)	1,075	2,795	2,650	2,368
Net Interest	(125)	(102)	(102)	(102)	(102)	Equity raised/(repaid)	0	0	0	0	0
Earnings before tax	1,393	1,328	1,882	2,026	1,981	Debt raised/(repaid)	3	350	98	0	0
% change Y/Y	3.6%	(4.7%)	41.7%	7.7%	(2.2%)	Other	0	(700)	(196)	0	0
Tax	(183)	(192)	(285)	(327)	(340)	Dividends paid	(430)	(516)	(664)	(832)	(843)
as % of EBT	13.2%	14.5%	15.2%	16.2%	17.2%	Beginning cash	2,328	2,428	2,448	4,293	5,925
Net income (reported)	1,207	1,122	1,576	1,677	1,619	Ending cash	2,428	2,448	4,293	5,925	7,264
% change Y/Y	3.7%	(7.1%)	40.5%	6.4%	(3.4%)	DPS	0.17	0.17	0.27	0.29	0.28
Shares outstanding	3,000	3,000	3,000	3,000	3,000						
EPS (reported)	0.40	0.37	0.53	0.56	0.54						
% change Y/Y	3.7%	(7.1%)	40.5%	6.4%	(3.4%)						
Balance sheet						Ratio Analysis					
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	2,428	2,448	4,293	5,925	7,264	Gross margin	15.6%	15.0%	17.3%	17.6%	17.1%
Accounts receivable	4,296	4,554	4,585	4,879	5,064	EBITDA margin	17.7%	16.7%	20.6%	20.2%	19.6%
Inventories	1,289	1,464	1,473	1,568	1,627	Operating margin	11.2%	10.4%	14.4%	14.5%	14.1%
Others	4,014	4,847	4,583	4,709	4,776	Net margin	9.4%	8.4%	11.8%	11.8%	11.0%
Current assets	12,027	13,312	14,935	17,080	18,732	Sales per share growth	2.5%	3.8%	0.7%	6.4%	3.8%
LT investments	4,587	4,112	3,483	2,433	1,383	Sales growth	2.5%	3.8%	0.7%	6.4%	3.8%
Net fixed assets	5,346	5,497	5,275	5,200	5,350	Net profit growth	3.7%	(7.1%)	40.5%	6.4%	(3.4%)
Total Assets	21,959	22,922	23,694	24,713	25,466	EPS growth	3.7%	(7.1%)	40.5%	6.4%	(3.4%)
Liabilities						Interest coverage (x)	18.1	21.7	27.1	28.3	28.5
Short-term loans	1,593	2,802	2,802	2,802	2,802	Net debt to equity	21.1%	18.0%	4.9%	(5.6%)	(13.2%)
Payables	1,625	1,691	1,532	1,467	1,370	Working Capital to Sales	62.4%	53.6%	64.7%	74.7%	83.5%
Others	824	1,705	1,943	2,186	2,223	Sales/assets	0.6	0.6	0.6	0.6	0.6
Total current liabilities	4,043	6,198	6,277	6,456	6,396	Assets/equity	1.7	1.7	1.7	1.7	1.6
Long-term debt	3,791	2,232	2,232	2,232	2,232	ROE	9.8%	8.6%	11.5%	11.6%	10.6%
Other liabilities	101	98	0	0	0	ROCE	7.2%	6.5%	8.7%	8.9%	8.5%
Total Liabilities	7,934	8,528	8,509	8,687	8,628						
Shareholders' equity	12,918	13,300	14,070	14,890	15,682						
BVPS	4.31	4.43	4.69	4.96	5.23						

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile

Kingboard Laminates Holdings Limited (HONG KONG / Information Technology)

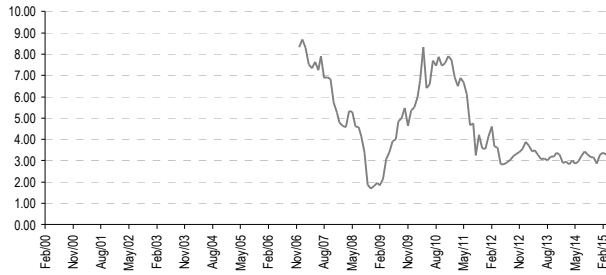
As Of: 13-Mar-2015

Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

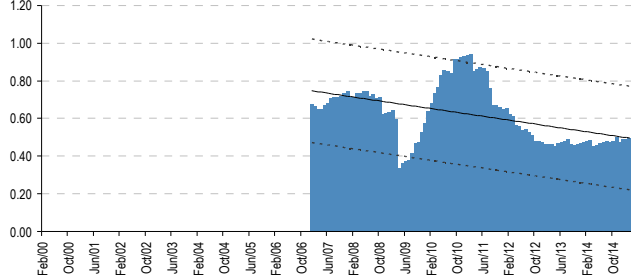
Local Share Price

Current: **3.28**



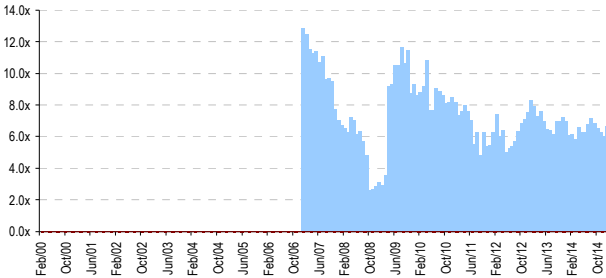
12 Mth Forward EPS

Current: **0.50**



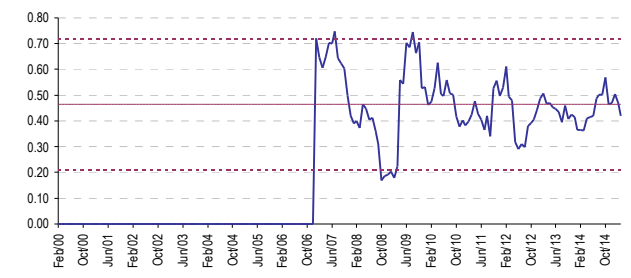
PE (1Yr Forward)

Current: **6.6x**



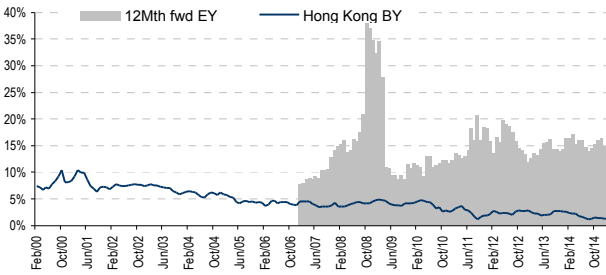
P/E Relative to Hong Kong Index

Current: **0.42**



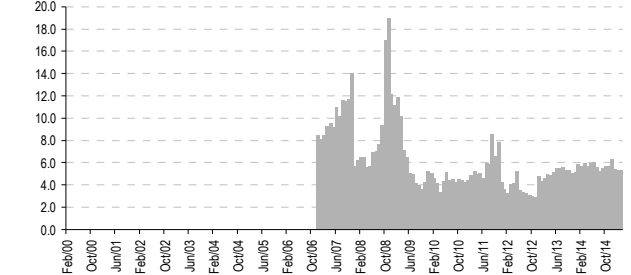
Earnings Yield (& Local Bond Yield)

Current: **15%**



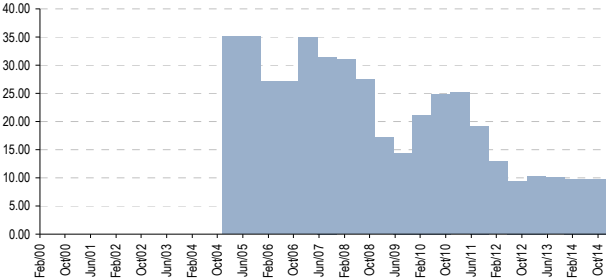
Dividend Yield (Trailing)

Current: **5.33**



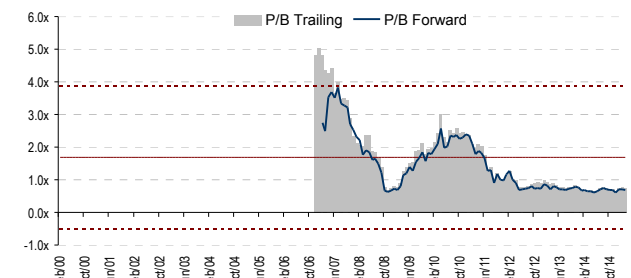
ROE (Trailing)

Current: **9.76**



Price/Book (Value)

Current: **0.8x**



Summary

Kingboard Laminates Holdings Limited		TICKER 1888 HK		As Of: 13-Mar-15							
HONG KONG				Local Price: 3.28							
Information Technology				EPS: 0.50							
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	6.60x										
P/BV (Trailing)	0.75	0.66	5.03	1.31	1.69	3.88	-0.51	-13%	567%	74%	123%
Dividend Yield (Trailing)	5.33x	2.94	18.93	5.40	6.30	12.07	0.54	-45%	256%	1%	18%
ROE (Trailing)	9.76	9.37	35.09	21.13	21.28	39.93	2.63	-4%	260%	117%	118%

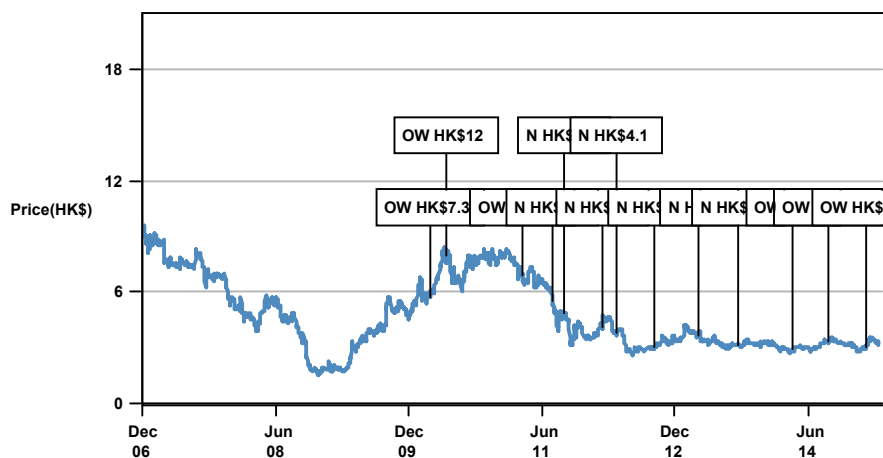
Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

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Kingboard Laminates (1888.HK, 1888 HK) Price Chart



Date	Rating	Share Price (HK\$)	Price Target (HK\$)
03-Mar-10	OW	5.75	7.30
30-Apr-10	OW	8.00	12.00
08-Mar-11	OW	6.91	10.00
12-Jul-11	N	5.45	6.30
29-Aug-11	N	4.89	5.50
06-Feb-12	N	4.06	4.80
30-Mar-12	N	3.74	4.10
03-Sep-12	N	3.03	3.40
08-Mar-13	N	3.68	4.00
16-Aug-13	N	3.17	3.80
24-Mar-14	OW	2.90	4.00
22-Aug-14	OW	3.38	4.50
27-Jan-15	OW	3.05	4.80

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Mar 03, 2010.

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IB clients*	56%	49%	33%
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IB clients*	75%	67%	52%

*Percentage of investment banking clients in each rating category.

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