

Kingboard Chemical

Lowering PT to HK\$19 - Good value and improving cash flows

KBC is one of the largest producers of laminates, PCBs and industrial chemicals in China. The company reported 0.6% growth in sales revenue, but net profits down 14.3%. We remain OW, but lower our PT to HK\$19.

- An opportunity to accumulate KBC as demand stabilizes in 2015 and margins recover.** We await a stronger buy signal in the form of an upward revision in management's capital expenditure plans. The most attractive aspect of KBC, in our view, is the improvement in free cash flows. Due to constrained spending in 2015 and 2016, we expect a very high level of FCF even after investments in core operations and property development. However, we still prefer KBL in 1H15, as the laminates business has better visibility and margin recovery potential.
- Lowering estimates and PT.** We lower our FY15E and FY16E sales by 0.2% and 0.5%, respectively. We lift GPM, as we no longer see a big drop in GPM in 2015, as prices for chemicals appear to have stabilized. We lower 2016E net profit to reflect a more conservative view on future gains on property disposals. Our DCF-based Dec-15 PT declines to HK\$19 (from HK\$21) due to the earnings revisions.
- KBC trades at a 7.0x FY15E P/E.** Our new DCF-based Dec-15 PT of HK\$19 (12.0% WACC and 3% terminal growth) implies a CY16E P/B of 0.53x and a P/E of 8.1x. The key risks to our PT are the rising cost of copper and oil-based chemicals and falling demand from electronics producers.

Overweight

0148.HK, 148 HK

Price: HK\$12.48

▼ **Price Target: HK\$19.00**
Previous: HK\$21.00

China

Conglomerates & Multi-industry

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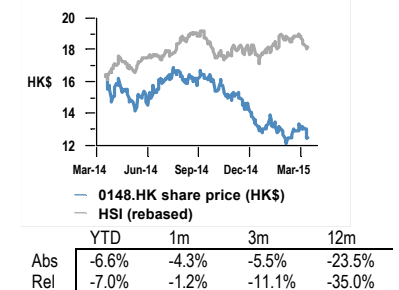
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Price Performance



Kingboard Chemical (Reuters: 0148.HK, Bloomberg: 148 HK)

HK\$ in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (HK\$ mn)	37,297	35,683	35,906	38,562	41,394
Net Profit (HK\$ mn)	2,107	2,961	2,537	1,889	2,501
EPS (HK\$)	1.99	2.78	2.38	1.77	2.34
DPS (HK\$)	0.42	0.48	0.48	0.43	0.57
Revenue growth (%)	2.0%	(4.3%)	0.6%	7.4%	7.3%
EPS growth (%)	(19.8%)	39.7%	(14.3%)	(25.5%)	32.4%
ROCE	6.0%	4.2%	3.9%	4.5%	5.5%
ROE	8.0%	4.6%	4.3%	5.2%	6.6%
P/E (x)	6.3	4.5	5.2	7.0	5.3
P/BV (x)	0.4	0.4	0.4	0.3	0.3
EV/EBITDA (x)	5.3	5.8	6.7	6.1	5.3
Dividend Yield	3.3%	3.9%	3.9%	3.4%	4.5%

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

Company Data

Shares O/S (mn)	1,048
Market Cap (HK\$ mn)	13,076
Market Cap (\$ mn)	1,684
Price (HK\$)	12.48
Date Of Price	16 Mar 15
Free Float(%)	-
3M - Avg daily vol (mn)	1.36
3M - Avg daily val (HK\$ mn)	17.55
3M - Avg daily val (\$ mn)	2.3
HSI	2,3949.55
Exchange Rate	7.77
Price Target End Date	31-Dec-15

See page 12 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"> • A spin-off of the property business to crystallize its value • More cash inflows from property disposals in 2014 to generate gains and lower debt • Higher margins from chemical 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 construction sector in China spurs chemical demand • More income from property rentals and disposals 	<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 Rmb appreciation
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Key financial metrics	FY13	FY14	FY15E	FY16E
Revenues (LC)	35,683	35,906	38,562	41,394
Revenue growth (%)	-4.3%	0.6%	7.4%	7.3%
EBITDA (LC)	7,093	6,107	6,526	7,287
EBITDA margin (%)	19.9%	17.0%	16.9%	17.6%
Tax rate (%)	16%	20%	19%	20%
Net profit (LC)	2,961	2,537	1,889	2,501
EPS (LC)	2.775	2.377	1.771	2.344
EPS growth (%)	39.7%	-14.3%	-25.5%	32.4%
DPS (LC)	0.48	0.48	0.43	0.57
BVPS (LC)	33.10	34.57	35.96	37.80
Operating cash flow (LC mn)	656	3,457	3,882	4,577
Free cash flow (LC mn)	(2,007)	820	2,309	2,533
Interest cover (x)	15	14	14	16
Net margin (%)	8.3%	7.1%	4.9%	6.0%
Sales/assets (X)	0.53	0.48	0.50	0.52
Debt/equity (%)	58.0%	52.5%	50.1%	47.3%
Net debt/equity (%)	42.4%	41.7%	37.7%	33.0%
ROE (%)	9%	7%	5%	7%

Key model assumptions	FY13	FY14	FY15E	FY16E
Laminates (mn sheets/month)	9.8	9.9	10.1	10.3
PCB capacity (msf/month)	20.8	22.2	23.8	25.5
Methanol price (US\$/MT)	340	272	245	269

Source: Company and J.P. Morgan estimates.

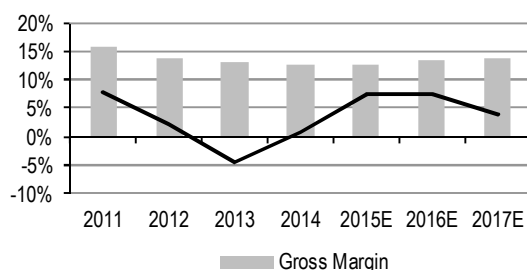
Sensitivity analysis	EBITDA		EPS	
	FY15E	FY16E	FY15E	FY16E
Copper costs	-1%	-1%	-4%	-3%
Methanol price	1%	2%	5%	5%
Oil costs	-2%	-3%	-7%	-7%
GM - 1% Change	3%	4%	10%	11%

Source: J.P. Morgan estimates.

Valuation and price target basis

Our DCF-based Dec-15 PT of HK\$19 (12.0% WACC and 3% terminal growth) implies a CY16E P/B of 0.53x and a P/E of 8.1x. The nature of the industry leads us to apply a terminal growth rate of 3.0%, the low end of the 3-6% growth rate used for SMID-caps.

Sales growth and margin trends



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

JPM vs. consensus, change in estimates

EPS (LC)	FY15E	FY16E
JPM old	1.82	2.60
JPM new	1.77	2.34
% chg	-2%	-10%
Consensus	1.82	2.547

Source: Bloomberg, J.P. Morgan estimates.

Peer comparisons

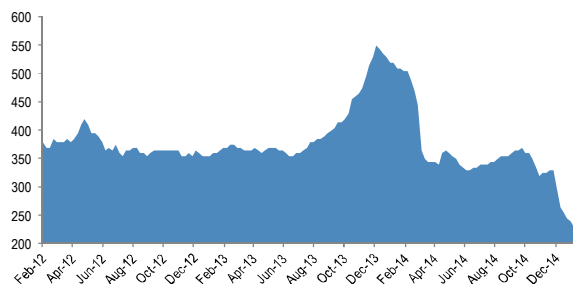
Company (Rating)	Code	Price (PT) (LC)	Mcap (US\$ M)	Vol (US\$ M)	1W chg	3M chg	14E P/E (x)	15E P/E (x)	13E EV/ EBITDA	ROE (%)	P/B (x)	Yield (%)
Industrial peers												
XINYI GLASS HOLD (OW)	868 HK	4.49 (6.1)	2,267	7.9	(4.1)	14.8	13.0	8.0	6.2	11.1	1.4	3.3
KINGBOARD CHEM (OW)	148 HK	12.48 (19)	1,648	2.5	(4.0)	(5.5)	5.0	7.0	4.8	7.3	0.4	4.0
KB LAM (OW)	1888 HK	3.12 (4.5)	1,205	1.0	(5.5)	4.7	8.3	5.9	4.0	8.6	0.7	5.1
SHENZHOU (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
VTECH (UW)	303 HK	111.9 (80)	3,603	4.2	1.8	5.0	17.0	16.8	14.0	35.4	5.5	5.6
Average							12.2	10.5	9.0	15.5	2.0	3.3

Source: Company data, Bloomberg, J.P. Morgan estimates. Share prices are as of March 16, 2015.

Highlights from analysts briefing

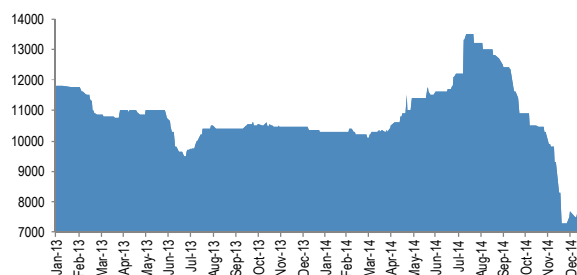
- No major expansion in operations.** The company is looking at lifting the utilization of existing plants and not making any major new additions in the core business. KBL has also not added to its landbank since the end of 2013. Capex is HK\$500mn for KBC and HK\$650mn for KBL, with HK\$200-300mn in other operations, with total capex of HK\$1.4-1.5bn. KBC will finish construction on its landbank, but plans to control cash outlays to be similar to cash proceeds on housing sales. We conservatively assume another net HK\$500mn in expenditures related to property development on top of HK\$1.5bn in spending on core operations.
- Worst period appears over.** KBC produces a number of industrial chemicals, with two key chemicals, methanol and phenol/acetone (produced together) making up 70-80% of chemical divisional profits. The company mentioned that 4Q14 was a terrible period for laminates, PCB and chemicals, as underlying demand was weak and buyers preferred to wait until commodity prices bottomed out before making purchases. This exacerbated the weak demand for the core KBC products, resulting in lower prices and margins. However, demand returned to normal as oil and metal prices stabilized in 1Q15. We expect a mild recovery in 2015, but need more macro data improvements to become more positive on this space (chemicals/laminates).

Figure 1: Methanol price in China (US\$/ton)



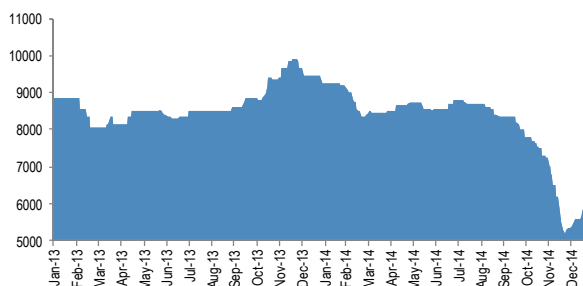
Source: Bloomberg.

Figure 2: Phenol price in China (Rmb/ton)



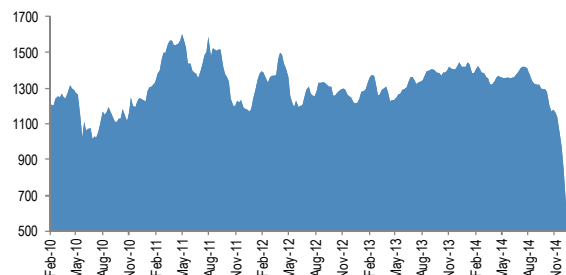
Source: Bloomberg.

Figure 3: Acetone price in China Huabei (Rmb/ton)



Source: Bloomberg.

Figure 4: Propylene price (USD/ton)



Source: Bloomberg.

Prefer KBL over KBC

In our latest note, dated March 16, 2015, we highlighted that the negative reaction to KBL's results is not warranted, in our view, particularly compared to other heavy industrial companies that 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. Pricing for laminates has been stable for a number of months. This is positive, given that material costs have fallen for a number of months and the low-cost inventory should have a positive impact on margins in early 2015.

We believe KBL has more visibility and margin upside in 2015. We await a clear signal before becoming more positive on KBC. That signal would be an increase in investments in either core business or the property portfolio, which we may see at the interim results in August. While we believe the shares bottomed out in 1Q15, we believe significant upside is not likely until we management spends more on investments.

Review of FY14 results

Table 1: FY14 results

HK\$ in millions, Year-end Dec	FY13A	FY14A	Growth	FY14E	Variance
Turnover	35,683	35,905	0.6%	36,780	-2.4%
Gross profit	4,657	4,597	-1.3%	4,633	-0.8%
GPM	13.1%	12.8%		12.6%	
EBIT	2972	2617	-11.9%	2752	-4.9%
Net profit	2961	2537	-14.3%	2340	8.4%
EPS (HK\$)	2.89	2.47	-14.3%	2.19	12.8%

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

KBC reported 0.6% y/y sales growth in FY14, with GP down 1.3%, roughly in line with our estimates. The main reason for EBIT's coming in less than expected was the much higher SG&A costs, which rose from 6.8% of revenues to 7.3% due to a tough environment in which product prices fell, but marketing activities stayed the same.

Net profits revised down 15% for FY14E and 37% for FY15E

Table 2: Estimate changes

HK\$ in millions, Year-end Dec	New		Old		Change	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Turnover	38,562	41,394	38,627	41,589	-0.2%	-0.5%
Gross profit	4,908	5,591	4,487	5,419	9.4%	3.2%
EBIT	2,781	3,588	2,592	3,603	7.3%	-0.4%
Net profit	1,889	2,501	1,938	2,779	-2.5%	-10.0%
EPS (HK\$)	1.77	2.34	1.82	2.60	-2.5%	-10.0%
Assumptions						
Gross margin	12.7%	13.5%	11.6%	13.0%	1.1%	0.5%

Source: J.P. Morgan estimates.

We slightly lower our FY15E and FY16E sales, by 0.2% and 0.5%, respectively. We lift GPM, as we no longer see a big drop in GPM in 2015, as prices for chemicals appear to have stabilized. We lower 2016E net profit to reflect a more conservative view on future gains on property disposals. Our DCF value declines to HK\$19.

Valuation and share price analysis

DCF valuation

Our Dec-15 price target is based on our DCF valuation, which 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 assume a beta of 1.3 and a WACC of 12.0%. Our beta is 1.3.

We estimate free cash flow for KBC until 2020 and assume a terminal growth rate of 3.0%. Our terminal growth estimate 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 analyze the DCF price sensitivity to WACC and the terminal multiple.

Table 3: Base-case DCF analysis

HK\$ in millions, Year-end Dec	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal
Cash flow estimates								
Sales	35,683	35,906	38,562	41,394	43,033	44,605	46,451	48,411
EBIT	2,141	2,000	1,880	2,419	2,667	3,057	2,883	3,108
NOPAT	1,835	1,688	1,509	1,966	2,141	2,424	2,257	2,402
Capex, net	(1,308)	(1,683)	(1,490)	(1,961)	(2,022)	(2,051)	(2,085)	(2,426)
Depreciation	2,433	2,373	2,361	2,297	2,259	2,231	2,211	2,198
Change in working capital	(3,951)	(804)	(567)	(762)	(101)	(582)	(695)	(433)
Free operating CF (FoCF)	(991)	1,574	1,814	1,541	2,279	2,026	1,692	1,745
DCF parameters								
Liabilities as a % of EV	0%	Assumptions			Terminal growth	3.0%		
WACC	12.0%				Risk-free rate	4.2%		
Enterprise NPV (10E-16E)	17,657				Market risk	6.0%		
+ Net cash (debt), current	(12,883)				Beta	1.30		
- Minorities (Market value)	(5,503)				Cost of debt	6.2%		
+/- Other items (property assets at a discount to NBV)	20,040				Implied exit P/E multiple (x)	5x		
= Equity value	19,312							
/ Number of shares	1,026							
= Equity value per share (HK\$)	19.0							

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

Table 4: 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%	20.7	21.1	21.6	22.1	22.7	23.4	24.2
	11.0%	19.7	20.1	20.5	20.9	21.4	21.9	22.6
	11.5%	18.8	19.1	19.4	19.8	20.2	20.6	21.2
	12.0%	18	18.3	18.5	19.0	19.2	19.5	19.9
	12.5%	17.3	17.5	17.7	18	18.2	18.5	18.9
	13.0%	16.6	16.8	17	17.2	17.4	17.7	17.9
	13.5%	16	16.2	16.3	16.5	16.7	16.9	17.1

Source: J.P. Morgan estimates.

New SOTP valuation

We calculate the value of KBC using a sum-of-the-parts methodology that arrives at a value of HK\$18.50 per share, or HK\$0.50 below our DCF-based valuation, which looks at the company as a whole.

Table 5: Estimate of SOTP value at HK\$19

	HK\$ M	% NAV	Methodology
Net Laminate value (current price)	9,563	50%	DCF of KBL
Associates (methanol)	666	4%	7x 15E P/E
PCB	744	4%	7x 15E P/E
Chemicals and others	2,529	13%	7x 15E P/E
Total core	13,501		
Investment prop	7,597	40%	80% of Jun-14 NBV
Development prop	8,876	47%	50% of Jun-14 NBV
Other investments (mostly bonds)	4,460	24%	100% of Jun-14 NBV
Total non-core	20,932		
14E net cash (excl KBL)	(15,467)	-82%	
SOTP value	18,966	100%	
Number of shares (millions)	1,026		
SOTP value per share (HK\$)	18.5		

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

The key issues/assumptions that impact the SOTP valuation are as follows:

- **Multiples for operating business.** We assume a 7x FY15E PE for the PCB and chemical (including methanol associates) business, which is a 49% discount to SMID-cap industrial companies under our coverage.
- **Discounts for property.** We assign a 40% discount to the net book value of the development property business, which is consistent with the market cap discounts to NBV of medium-sized property companies in China. We attribute a lower 20% discount to NBV on the investment property, as these are revalued each year by professional values, and their valuation should be closer to market prices than development properties.

The total SOTP value of HK\$18.50 is HK\$0.50 below our DCF-based valuation for the company as a whole, but we note that the SOTP valuation reflects current value, while the DCF valuation estimates the value at Dec-15E.

Financial analysis

Table 6: Revenue mix

HK\$ in millions, year-end Dec	2011	2012	2013	2014	2015E	2016E
Laminates	11,178	10,749	10,994	11,477	11,272	11,865
Y/Y	5.9%	-3.8%	2.3%	4.4%	-1.8%	5.3%
% of total	30.6%	28.8%	30.8%	32.0%	29.2%	28.7%
Printed circuit board	8,117	7,253	7,155	7,474	8,461	8,917
Y/Y	-6.8%	-10.6%	-1.4%	4.5%	13.2%	5.4%
% of total	22.2%	19.4%	20.1%	20.8%	21.9%	21.5%
Chemicals	16,269	16,844	16,375	13,575	15,426	17,185
Y/Y	18.7%	3.5%	-2.8%	-17.1%	13.6%	11.4%
% of total	44.5%	45.2%	45.9%	37.8%	40.0%	41.5%
Others	995	2,450	1,159	3,379	3,402	3,427
Y/Y	7.6%	146.3%	-52.7%	191.7%	0.7%	0.7%
% of total	2.7%	6.6%	3.2%	9.4%	8.8%	8.3%
Total	36,559	37,297	35,683	35,906	38,562	41,394
Y/Y	7.9%	2.0%	-4.3%	0.6%	7.4%	7.3%

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

Table 7: P&L statement

HK\$ in millions, year-end Dec	2011	2012	2013	2014	2015E	2016E
Total Revenues	36,559	37,297	35,683	35,906	38,562	41,394
YoY change (%)	7.9%	2.0%	-4.3%	0.6%	7.4%	7.3%
Cost of Goods Sold	(30,736)	(32,186)	(31,026)	(31,308)	(33,654)	(35,803)
YoY change (%)	14.3%	4.7%	-3.6%	0.9%	7.5%	6.4%
Gross Profit	5,823	5,111	4,657	4,597	4,908	5,591
YoY change (%)	-16.7%	-12.2%	-8.9%	-1.3%	6.8%	13.9%
Gross Margin	15.9%	13.7%	13.1%	12.8%	12.7%	13.5%
SGA	(2,372)	(2,391)	(2,438)	(2,628)	(2,823)	(3,030)
YoY change (%)	7.6%	0.8%	2.0%	7.8%	7.4%	7.3%
Other Income/(Expenses)	269	376	374	527	696	1,027
Operating profit	3,720	3,096	2,594	2,496	2,781	3,588
EBITDA	5,854	5,693	5,027	4,869	5,142	5,885
EBITDA margin	16.0%	15.3%	14.1%	13.6%	13.3%	14.2%
Depreciation & Amortization	(2,134)	(2,597)	(2,433)	(2,373)	(2,361)	(2,297)
YoY change (%)	3.7%	21.7%	-6.3%	-2.5%	-0.5%	-2.7%
EBIT	3,720	3,096	2,594	2,496	2,781	3,588
EBIT margin	10.2%	8.3%	7.3%	7.0%	7.2%	8.7%
Net Interest Expense	(362)	(349)	(480)	(445)	(454)	(449)
Exceptional item	108	(58)	1,552	1,285	382	375
Associates	254	248	234	177	207	237
Gains/losses	0	0	0	0	0	0
Net Income Before Taxes	3,720	2,936	3,900	3,514	2,916	3,750
YoY change (%)	-28.0%	-21.1%	32.8%	-9.9%	-17.0%	28.6%
Tax	(513)	(420)	(608)	(693)	(546)	(739)
Effective Tax rate	13.8%	14.3%	15.6%	19.7%	18.7%	19.7%
Minority Interests	(612)	(409)	(330)	(284)	(481)	(510)
Net Income	2,594	2,107	2,961	2,537	1,889	2,501
YoY change (%)	-28.3%	-18.8%	40.5%	-14.3%	-25.5%	32.4%
Net margin	7.1%	5.6%	8.3%	7.1%	4.9%	6.0%
Net profit excluding property	2,594	2,104	2,961	2,537	1,436	1,755
YoY change (%)	-28.3%	-18.9%	40.7%	-14.3%	-43.4%	22.3%
Net margin	7.1%	5.6%	8.3%	7.1%	3.7%	4.2%

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

Table 8: Interim estimates

HK\$ in millions, year-end Dec	1H13	2H13	1H14	2H14E	1H15E	2H15E
Total Revenues	17,081	18,602	17,558	18,348	19,931	18,632
Gross Profit	2,417	2,240	2,349	2,248	2,650	2,257
EBIT	1,402	1,192	1,365	1,131	1,607	1,174
Net Income Before Taxes	1,263	2,637	1,878	1,636	1,685	1,231
Net Income	933	2,028	1,409	1,127	1,092	797
Diluted EPS (HK\$)	0.91	1.87	1.32	1.15	1.02	0.75
Revenue split	47.9%	52.1%	48.9%	51.1%	51.7%	48.3%
GPM	14.1%	12.0%	13.4%	12.3%	13.3%	12.1%
EBIT margin	8.2%	6.4%	7.8%	6.2%	8.1%	6.3%
NPM	5.5%	10.9%	8.0%	6.1%	5.5%	4.3%
YoY						
Revenue	2.9%	-10.1%	2.8%	-1.4%	13.5%	1.5%
GP	-3.6%	-14.0%	-2.8%	0.4%	12.8%	0.4%
EBIT	-1.0%	-29.0%	-2.6%	-5.1%	17.7%	3.7%
NP	2.8%	69.1%	51.0%	-44.4%	-22.5%	-29.3%

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

Table 9: Balance sheet

HK\$ in millions, year-end Dec	2011	2012	2013	2014	2015E	2016E
Cash and Cash Equivalents	4,437	3,915	6,363	4,559	5,404	6,556
Inventories	2,926	3,449	3,145	2,801	3,008	3,229
Accounts receivable	8,414	8,488	8,799	8,819	9,472	10,167
Other Current Assets	11,417	13,075	19,765	21,317	22,418	23,289
Total Current Assets	27,194	28,927	38,073	37,497	40,302	43,241
Intangible Assets	0	0	0	0	0	0
Property and Equipment, Net	18,358	18,727	18,201	18,202	17,452	17,116
Other Assets	14,907	13,281	18,587	19,934	20,333	20,740
Non-Current assets	33,265	32,008	36,788	38,136	37,784	37,855
Total Assets	60,459	60,934	74,860	75,633	78,087	81,096
Accounts Payable	5,023	4,959	4,623	4,847	5,206	5,588
Other Accrued Expenses	2,439	1,254	4,573	5,389	6,073	6,463
Taxes Payable	661	555	604	523	376	569
ST and current LT debts	6,724	5,734	7,172	9,804	9,715	9,626
Total Current Liabilities	14,847	12,502	16,972	20,562	21,370	22,246
Long-term Debt	11,451	12,025	16,507	12,251	12,140	12,029
Other Noncurrent Liability	167	258	521	846	931	1,024
Noncurrent liabilities	11,618	12,283	17,028	13,097	13,071	13,053
Total Liabilities	26,465	24,785	34,000	33,660	34,441	35,299
Share capital	85	85	103	103	103	103
Reserves and Surplus	27,960	30,560	34,056	35,574	37,006	38,902
Total Shareholders' Equity	28,045	30,646	34,158	35,676	37,109	39,005
Minority Interest	5,949	5,503	6,701	6,297	6,538	6,793
Total Shareholders' Equity	33,994	36,149	40,859	41,973	43,646	45,797
Total Liabilities and Equity	60,459	60,934	74,860	75,633	78,087	81,096

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

Table 10: Cash flow statement

HK\$ in millions, year-end Dec	2011	2012	2013	2014	2015E	2016E
EBIT	3,720	3,096	2,594	2,496	2,781	3,588
Depreciation and Amortization	2,134	2,597	2,433	2,373	2,361	2,297
Working Capital Changes	(3,036)	(2,708)	(3,951)	(804)	(567)	(762)
Tax Paid	(462)	(513)	(420)	(608)	(693)	(546)
Cash Flow From Operations	2,356	2,471	656	3,457	3,882	4,577
Capital expenditures	(6,731)	(1,295)	(1,308)	(1,683)	(1,490)	(1,961)
Investments and others	(74)	640	(1,761)	(1,317)	(462)	(452)
Net Interest	(362)	(349)	(480)	(445)	(454)	(449)
Cash Flow from Investing	(7,167)	(1,004)	(3,549)	(3,445)	(2,406)	(2,862)
Free Cash Flow	(4,811)	1,467	(2,893)	12	1,476	1,715
Dividends	(1,339)	(545)	(442)	(516)	(516)	(457)
Common issue	0	0	0	0	0	0
Debt	5,353	(1,497)	5,769	(1,300)	(115)	(107)
Other Financing	0	0	0	0	0	0
Cash Flow from financing	4,014	(2,042)	5,327	(1,816)	(631)	(564)
Change in cash	(785)	(545)	2,399	(1,804)	845	1,151
Cash beginning	5,144	4,437	3,915	6,363	4,559	5,404
Foreign exchange changes	79	23	49	0	0	0
Cash at end	4,437	3,915	6,363	4,559	5,404	6,556

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

Investment Thesis, Valuation and Risks

Kingboard Chemical (*Overweight; Price Target: HK\$19.00*)

Investment Thesis

Kingboard Chemical is the largest maker of laminates in the world and the largest maker of PCBs in China. Industrial chemicals make up nearly half of its sales, and profitability is highly dependent on the domestic economy. The company also has approximately HK\$25 per share equivalent in property holdings.

The attractiveness of the company depends on the health of the economy in China, in our view, particularly the property sector. Given uncertainties in the macro environment, it may take time for KBC's margins and profitability to return to the strong levels of 2010. KBC has a history of strong operations and low-cost production, and we believe it could be well positioned to take advantage of any upcoming recovery in demand.

Valuation

Our Dec-15 PT is based on our DCF valuation, which 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 assume a beta of 1.3 and a WACC of 12.0%.

Risks to Rating and Price Target

Risks to our rating and price target include: (1) a higher cost of copper, which would lower margins; (2) a slowdown in electronic exports; (3) rising labor costs in China; and (4) appreciation of the Chinese currency.

JPM Q-Profile

Kingboard Chemical Holdings Limited (HONG KONG / Information Technology)

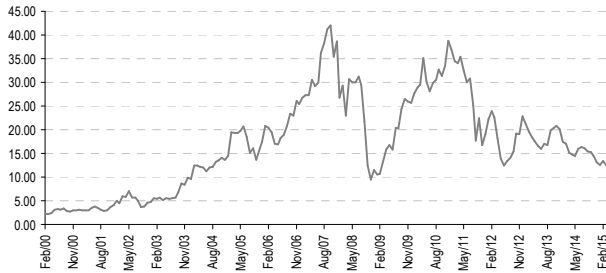
As Of: 13-Mar-2015

Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

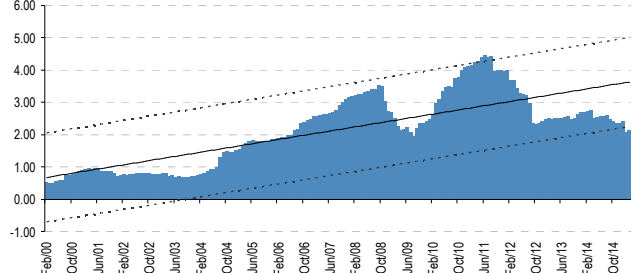
Local Share Price

Current: 12.46



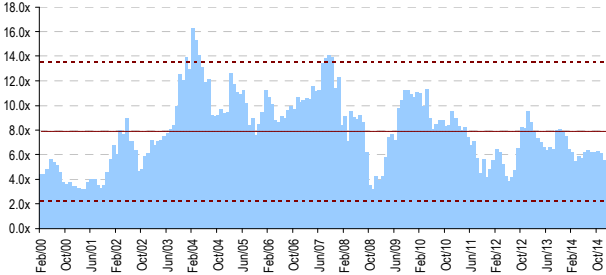
12 Mth Forward EPS

Current: 2.15



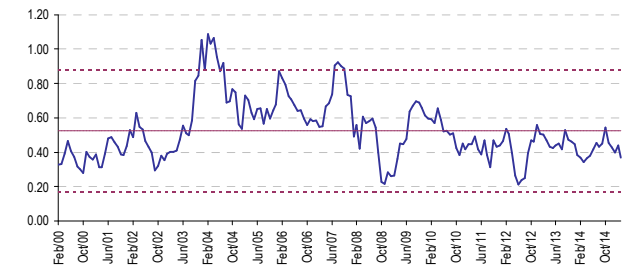
PE (1Yr Forward)

Current: 5.8x



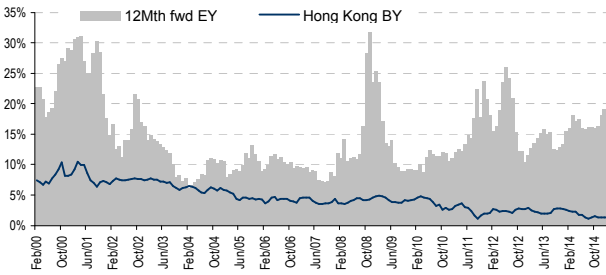
P/E Relative to Hong Kong Index

Current: 0.37



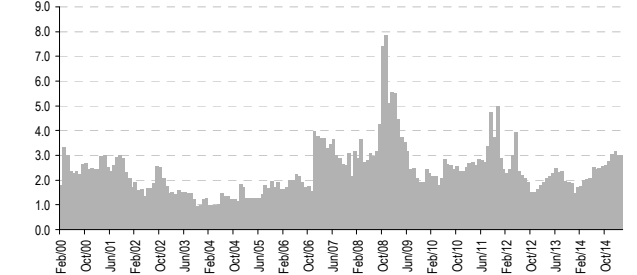
Earnings Yield (& Local Bond Yield)

Current: 17%



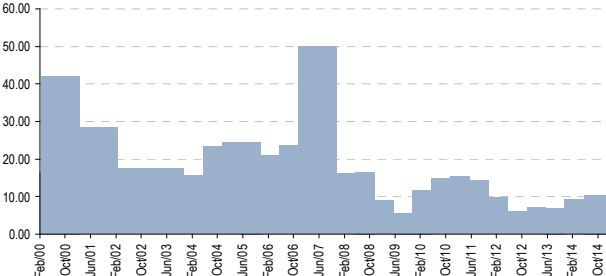
Dividend Yield (Trailing)

Current: 2.99



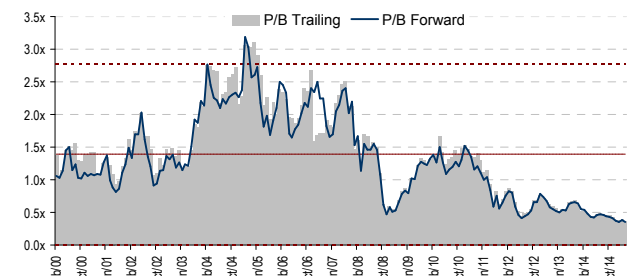
ROE (Trailing)

Current: 10.34



Price/Book (Value)

Current: 0.4x



Summary

Kingboard Chemical Holdings Limited		TICKER 148 HK		As Of: 13-Mar-15							
HONG KONG				Local Price: 12.46							
Information Technology				EPS: 2.15							
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	5.81x	3.14	16.28	7.86	7.90	13.59	2.21	-46%	180%	35%	36%
P/BV (Trailing)	0.37	0.37	3.10	1.36	1.39	2.77	0.02	0%	747%	272%	281%
Dividend Yield (Trailing)	2.99x	0.96	7.85	2.30	2.41	4.45	0.37	-68%	163%	-23%	-19%
ROE (Trailing)	10.34	5.54	50.00	16.57	19.68	43.93	-4.56	-46%	383%	60%	90%

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

Kingboard Chemical: 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	35,683	35,906	38,562	41,394	43,033	EBIT	2,659	2,734	3,166	3,990	4,645
% change Y/Y	(4.3%)	0.6%	7.4%	7.3%	4.0%	Depr. & amortization	4,433	3,373	3,361	3,297	3,259
Gross Profit	4,657	4,597	4,908	5,591	5,896	Change in working capital	(3,951)	(804)	(567)	(762)	(101)
% change Y/Y	(8.9%)	(1.3%)	6.8%	13.9%	5.5%	Taxes	(420)	(608)	(693)	(546)	(739)
EBITDA	7,093	6,107	6,526	7,287	7,904	Cash flow from operations	656	3,457	3,882	4,577	5,736
% change Y/Y	3.1%	(13.9%)	6.9%	11.6%	8.5%	Capex	(3,069)	(3,000)	(1,952)	(2,413)	(2,434)
EBIT	2,659	2,734	3,166	3,990	4,645	Net Interest	(480)	(445)	(454)	(449)	(445)
% change Y/Y	(16.2%)	(3.8%)	11.4%	29.0%	20.3%	Other	0	0	0	0	0
EBIT Margin	7.5%	7.6%	8.2%	9.6%	10.8%	Free cash flow	(2,007)	820	2,309	2,533	3,661
Net Interest	(480)	(445)	(454)	(449)	(445)	Equity raised/(repaid)	0	0	0	0	0
Earnings before tax	3,900	3,514	2,916	3,750	4,511	Debt raised/(repaid)	5,769	(1,300)	(115)	(107)	(98)
% change Y/Y	32.8%	(9.9%)	(17.0%)	28.6%	20.3%	Other	0	0	0	0	0
Tax	(608)	(693)	(546)	(739)	(934)	Dividends paid	(442)	(516)	(516)	(457)	(605)
as % of EBT	15.6%	19.7%	18.7%	19.7%	20.7%	Beginning cash	3,915	6,363	4,559	5,404	6,556
Net income (reported)	2,961	2,537	1,889	2,501	3,082	Ending cash	6,363	4,559	5,404	6,556	8,710
% change Y/Y	40.5%	(14.3%)	(25.5%)	32.4%	23.3%	DPS	0.48	0.48	0.43	0.57	0.70
Shares outstanding	1,067	1,067	1,067	1,067	1,067						
EPS (reported)	2.78	2.38	1.77	2.34	2.89						
% change Y/Y	39.7%	(14.3%)	(25.5%)	32.4%	23.3%						
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	6,363	4,559	5,404	6,556	8,710	Gross margin	13.1%	12.8%	12.7%	13.5%	13.7%
Accounts receivable	8,799	8,819	9,472	10,167	10,570	EBITDA margin	19.9%	17.0%	16.9%	17.6%	18.4%
Inventories	3,145	2,801	3,008	3,229	3,357	Operating margin	7.5%	7.6%	8.2%	9.6%	10.8%
Others	19,765	21,317	22,418	23,289	23,765	Net margin	4.1%	4.1%	4.9%	6.1%	7.1%
Current assets	38,073	37,497	40,302	43,241	46,402	Sales per share growth	(4.9%)	0.6%	7.4%	7.3%	4.0%
LT investments	18,587	19,934	20,333	20,740	21,154	Sales growth	(4.3%)	0.6%	7.4%	7.3%	4.0%
Net fixed assets	18,201	18,202	17,452	17,116	16,879	Net profit growth	40.5%	(14.3%)	(25.5%)	32.4%	23.3%
Total Assets	74,860	75,633	78,087	81,096	84,435	EPS growth	39.7%	(14.3%)	(25.5%)	32.4%	23.3%
Liabilities						Interest coverage (x)	14.8	13.7	14.4	16.2	17.8
Short-term loans	7,172	9,804	9,715	9,626	9,537	Net debt to equity	42.4%	41.7%	37.7%	33.0%	26.3%
Payables	4,623	4,847	5,206	5,588	5,809	Working Capital to Sales	59.1%	47.2%	49.1%	50.7%	54.4%
Others	5,176	5,911	6,449	7,032	7,663	Sales/assets	0.5	0.5	0.5	0.5	0.5
Total current liabilities	16,972	20,562	21,370	22,246	23,010	Assets/equity	2.1	2.2	2.1	2.1	2.1
Long-term debt	16,507	12,251	12,140	12,029	11,918	ROE	4.6%	4.3%	5.2%	6.6%	7.6%
Other liabilities	521	846	931	1,024	1,126	ROCE	4.2%	3.9%	4.5%	5.5%	6.1%
Total Liabilities	34,000	33,660	34,441	35,299	36,054						
Shareholders' equity	34,158	35,676	37,109	39,005	41,342						
BVPS	33.10	34.57	35.96	37.80	40.06						

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

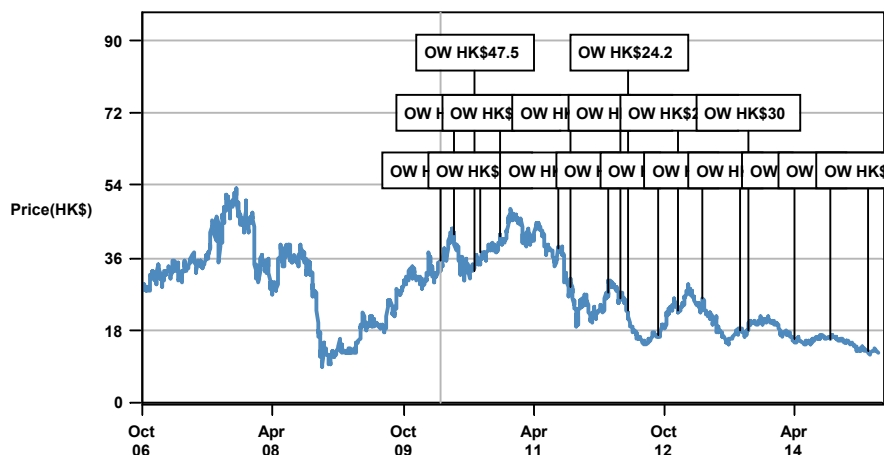
Other Companies Discussed in This Report (all prices in this report as of market close on 16 March 2015)
 Kingboard Laminates (1888.HK/HK\$3.12/Overweight)

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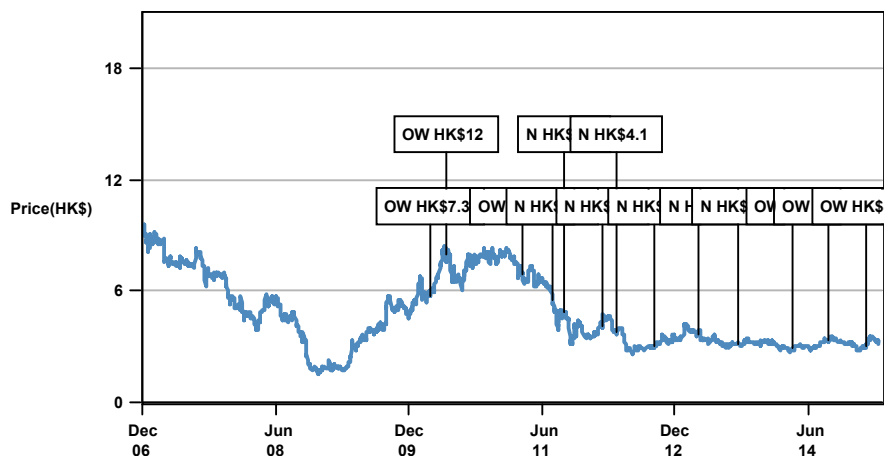
Kingboard Chemical (0148.HK, 148 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage May 20, 2003.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
20-May-03	N	28.05	-
03-Mar-10	OW	35.20	39.10
29-Apr-10	OW	42.00	54.10
20-Jul-10	OW	32.80	47.50
22-Aug-10	OW	37.30	50.00
09-Nov-10	OW	41.35	54.20
12-Jul-11	OW	38.40	44.20
29-Aug-11	OW	28.75	40.80
06-Feb-12	OW	27.50	35.00
30-Mar-12	OW	25.85	30.00
26-Apr-12	OW	22.80	24.20
03-Sep-12	OW	16.96	20.80
27-Nov-12	OW	22.80	24.20
09-Mar-13	OW	25.70	28.30
16-Aug-13	OW	18.08	27.00
11-Sep-13	OW	18.12	30.00
24-Mar-14	OW	15.80	25.00
23-Aug-14	OW	15.96	28.00
28-Jan-15	OW	12.88	21.00

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
16-Mar-15	OW	3.12	4.50

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

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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J.P. Morgan Equity Research Ratings Distribution, as of January 1, 2015

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	45%	43%	12%
IB clients*	56%	49%	33%
JPMS Equity Research Coverage	45%	48%	7%
IB clients*	75%	67%	52%

*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

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