

Ju Teng Intl (3336 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$4.87
Target Price: HK\$5.40 (+11%)
Prior TP: HK\$6.00

Key Data

HKEx code		3336
12 Months High (HK\$)		6.40
12 Month Low (HK\$)		3.14
3M Avg Dail Vol. (mn)		3.38
Issue Share (mn)		1,151.63
Market Cap (HK\$mn)		5,608.45
Fiscal Year		12/2013
Major shareholder (s)	Director Cheng Li Yu	(28.68%)

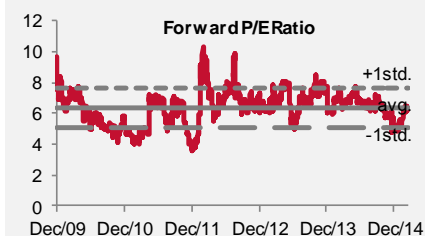
Source: Company data, Bloomberg, OP Research
 Closing price are as of 17/03/2015

Price Chart



	1mth	3mth	6mth
Absolute %	17.6	19.1	17.1
Rel. MSCI CHINA %	18.5	10.5	12.1

PE



Company Profile

Ju Teng is a leading notebook casing supplier with 30% global market share.

In-line FY14 result; Margin expansion resumed

- JT released its FY14 results with sales up 3.4% yoy to HK\$9.57bn and net profit up 0.3% yoy to HK\$765mn, in-line with our expectations.
- Management targets at 5% - 10% topline growth in 2015 mainly driven by change of product mix and 1-2ppt improvement on GPM. JT proposed a HK\$0.15 dividend per share and one for eight warrant with exercise price HK\$4.60 and 18 months maturity
- Maintain BUY with TP cut to HK\$5.40 from HK\$6.00 based on 9x FY15E PE or 0.8x PB to reflect the potential share dilution from warrant exercise

In-line FY14 results. JT released its FY14 results with sales up 3.4% yoy to HK\$9.57bn despite global slowdown in Notebook and Tablet shipments growth, thanks to continuous optimizing product mix to higher ASP and margin composite casing sales. Net profit was flat at HK\$765mn, in-line with our expectations. 2H14 GP margin improved by 2.3ppt yoy to 19.9% after the decline in 1H14, management expect to further improve its GPM by 1-2ppt in FY15E and targeting 5-10% sales growth in FY15E. The company proposed a final dividend of HK\$0.15 per share, representing 23% payout ratio. The company also announced issue of one for eight bonus warrant with exercise price at HK\$4.60, 5.5% discount to latest close price, with 18 months maturity. Upon fully exercise of the 144mn warrants, the company is able to raise HK\$662mn for general working capital with 10% earnings dilution effect.

We maintain our FY15/16E earnings estimate broadly unchanged and cut our FY15E EPS estimates by 10% to HK\$0.598 to reflect the potential dilution from the bonus 1-for-8 warrant proposed. Given (1) in-line FY14 results, (2) 5-10% sales growth target and (3) 1-2ppt GPM guidance in FY15E, we maintain our FY15/16E earnings estimate broadly unchanged at HK\$846mn/HK\$1.0bn, representing 7.2% sales growth, 1ppt margin improvement and 11% net profit growth in FY15E. However, given the potential dilution from the 1-for-8 bonus warrant, we cut our FY15E EPS by 10.3% to HK\$0.598 to reflect the potential earnings dilution.

Undemanding valuation. Maintain BUY. We maintain our BUY rating on JT with TP cut to HK\$5.40 from HK\$6.0, mainly to reflect the potential earnings dilution from fully exercise of the 144mn bonus warrant. JT is currently trades at 8.1x/6.7x FY15/16E PE and 0.71 PB. Our TP is based on 9x FY15E PE or 0.8x PB.

Risks: (1) lower-than-expected global notebook shipments (2) lower-than-expected non-plastic casing margin and ASP (3) failure to penetrate into smartphone casing.

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	9,257	9,571	10,259	10,981	11,665
Growth (%)	1	3	7	7	6
Net Profit	762	765	846	1,033	1,165
Growth (%)	27	0	11	22	13
Diluted EPS (HK\$)	0.617	0.594	0.598	0.730	0.823
EPS growth (%)	27	(4)	1	22	13
Change to previous EPS (%)			(10)	(10)	
Consensus EPS (HK\$)			0.765	0.844	
ROE (%)	13.1	12.0	11.7	12.4	12.6
P/E (x)	7.9	8.2	8.1	6.7	5.9
P/B (x)	0.9	0.9	0.7	0.6	0.6
Yield (%)	3.1	3.1	3.1	3.8	4.3
DPS (HK\$)	0.150	0.150	0.151	0.184	0.208

Source: Bloomberg, OP Research

Exhibit 2: Revision in Key Assumption and Forecasts

(HK\$ mn)	FY15E			FY16E			OP comments
	New	Old	% Chg	New	Old	% Chg	
Turnover	10,259	10,325	(0.6)	10,981	11,302	(2.8)	
Gross profit	2,042	2,057	(0.7)	2,315	2,423	(4.5)	
Gross margin	19.9%	19.9%	(0.0)	21.1%	21.4%	(0.4)	
Total opex	(901)	(870)	3.6	(950)	(915)	3.8	
Operating profit (EBIT)	1,197	1,251	(4.3)	1,441	1,581	(8.9)	
Net profit	846	854	(0.9)	1,033	1,037	(0.4)	
EPS - Fully diluted (HK\$)	0.598	0.666	(10.3)	0.730	0.809	(9.8)	Mainly reflect the potential 144mn new share issue upon exercise the 8 for 1 bonus warrant at HK\$4.60 with 18 months maturity

Source: Company, OP Research

Exhibit 3: Results Summary

(HK\$ mn)	1H12A	2H12A	1H13A	2H13A	1H14A	2H14A	FY14A	FY14	Act/Est	FY14	YoY	OP Comments
Revenue	4,315	4,886	4,299	4,958	4,399	5,173	9,571		-0.4%		3%	
COGS	(3,726)	(4,074)	(3,506)	(3,878)	(3,624)	(4,141)	(7,766)		-0.4%		5%	
Gross profit	590	812	793	1,080	774	1,031	1,805		-0.6%		-4%	
Other income & gains	42	58	30	35	88	88	176		41.0%		168%	Mainly due to higher than expected subsidy income from relocating the production plant
Selling exp	(40)	(54)	(45)	(57)	(56)	(73)	(128)		14.7%		26%	
Admin exp	(244)	(287)	(258)	(323)	(310)	(353)	(662)		2.8%		14%	Mainly due to commence of production and capacity expansion of Chongqing plant
Other opex	(7)	(20)	(35)	(27)	(19)	(73)	(92)		90.9%		48%	
Finance costs	(32)	(30)	(22)	(39)	(47)	(43)	(90)		42.1%		46%	Mainly due to higher debt level to finance capex
Profit after financing costs	308	480	463	669	431	578	1,009		-6.0%		-11%	
Associated cos	0	0	0	0	0	0	0		n.a.		n.a.	
Pre-tax profit	308	480	463	669	431	578	1,009		-6.0%		-11%	
Tax	(56)	(73)	(143)	(112)	(83)	(102)	(185)		-9.4%		-28%	
Minority interests	(8)	(51)	(60)	(55)	(38)	(22)	(60)		-35.0%		-48%	Management explain the decline in MI was mainly due to shifting composite material casing production to its wholly owned subsidiary as well as weakness in plastic casing MI entity
Net profit	244	357	260	502	311	454	765		-1.7%		0%	
HoH%												
Revenue	-6%	13%	-12%	15%	-11%	18%						
Gross profit	5%	38%	-2%	36%	-28%	33%						
Net profit	67%	46%	-27%	93%	-38%	46%						
YoY%												
Revenue	18%	7%	0%	1%	2%	4%	3%					
Gross profit	91%	45%	34%	33%	-2%	-5%	-4%					
Net profit	120%	145%	7%	41%	19%	-10%	0%					
Key ratios												
GPM	13.7%	16.6%	18.4%	21.8%	17.6%	19.9%	18.9%					
Selling exp	0.9%	1.1%	1.0%	1.2%	1.3%	1.4%	1.3%					
Admin exp	5.7%	5.9%	6.0%	6.5%	7.0%	6.8%	6.9%					
EIT	18.1%	15.1%	30.9%	16.8%	19.3%	17.6%	18.3%					
Net margin	5.7%	7.3%	6.1%	10.1%	7.1%	8.8%	8.0%					
Segment revenue												
PRC exclude HK	4,170	4,681	4,153	4,771	4,171	5,066	9,236					
ROC	119	6	46	86	138	62	199					
Others	26	199	100	97	91	45	136					
Segment revenue %												
PRC exclude HK	96.6%	95.8%	96.6%	96.2%	84.1%	97.9%	96.5%					
ROC	2.8%	0.1%	1.1%	1.7%	2.8%	1.2%	2.1%					
Others	0.6%	4.1%	2.3%	1.9%	1.8%	0.9%	1.4%					

Source: Company, OP Research

Financial Summary

Year to Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Income Statement (HK\$ mn)					
Turnover	9,257	9,571	10,259	10,981	11,665
YoY%	1	3	7	7	6
COGS	(7,384)	(7,766)	(8,217)	(8,666)	(9,159)
Gross profit	1,873	1,805	2,042	2,315	2,506
Gross margin	20.2%	18.9%	19.9%	21.1%	21.5%
Other income	66	176	56	75	89
Selling & distribution	(102)	(128)	(129)	(136)	(142)
Admin	(581)	(662)	(752)	(791)	(816)
Other opex	(62)	(92)	(21)	(22)	(23)
Total opex	(745)	(882)	(901)	(950)	(982)
Operating profit (EBIT)	1,194	1,100	1,197	1,441	1,613
Operating margin	12.9%	11.5%	11.7%	13.1%	13.8%
Provisions	0	0	0	0	0
Finance costs	(62)	(90)	(95)	(95)	(95)
Profit after financing costs	1,132	1,009	1,103	1,346	1,519
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	1,132	1,009	1,103	1,346	1,519
Tax	(255)	(185)	(193)	(236)	(266)
Minority interests	(115)	(60)	(64)	(78)	(88)
Net profit	762	765	846	1,033	1,165
YoY%	27	0	11	22	13
Net margin	8.2%	8.0%	8.2%	9.4%	10.0%
EBITDA	1,897	1,929	2,120	2,406	2,622
EBITDA margin	20.5%	20.2%	20.7%	21.9%	22.5%
EPS (HK\$)	0.617	0.594	0.598	0.730	0.823
YoY%	27	(4)	1	22	13
DPS (HK\$)	0.150	0.150	0.151	0.184	0.208
Cash Flow (HK\$ mn)					
EBITDA	1,897	1,929	2,120	2,406	2,622
Chg in working cap	(641)	(658)	(125)	(213)	(201)
Others	0	0	0	0	0
Operating cash	1,256	1,271	1,995	2,194	2,421
Interests paid	0	0	(95)	(95)	(95)
Tax	(173)	(238)	(292)	(193)	(236)
Net cash from operations	1,083	1,033	1,609	1,906	2,091
Capex	(1,287)	(1,436)	(667)	(714)	(758)
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	18	17	21	40	53
Others	0	0	0	0	0
Investing cash	(1,268)	(1,418)	(646)	(674)	(705)
FCF	(186)	(385)	963	1,232	1,386
Issue of shares	0	0	662	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(138)	(175)	(173)	(174)	(212)
Net change in bank loans	220	437	0	0	0
Others	0	0	0	0	0
Financing cash	82	262	489	(174)	(212)
Net change in cash	(103)	(123)	1,452	1,058	1,174
Exchange rate or other Adj	0	0	0	0	0
Opening cash	1,163	1,061	1,564	3,016	4,074
Closing cash	1,061	1,564	3,016	4,074	5,248
CFPS (HK\$)	0.876	0.803	1.137	1.347	1.477

Source: Company, OP Research

Year to Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Ratios					
Gross margin (%)	20.2	18.9	19.9	21.1	21.5
Operating margin (%)	12.9	11.5	11.7	13.1	13.8
Net margin (%)	8.2	8.0	8.2	9.4	10.0
Selling & dist'n exp/Sales (%)	1.1	1.3	1.3	1.2	1.2
Admin exp/Sales (%)	6.3	6.9	7.3	7.2	7.0
Payout ratio (%)	24.3	25.3	25.3	25.3	25.3
Effective tax (%)	22.6	18.3	17.5	17.5	17.5
Total debt/equity (%)	69.0	72.4	60.1	54.2	48.9
Net debt/equity (%)	52.0	48.5	21.9	7.6	Net cash
Current ratio (x)	1.29	1.42	1.76	1.96	2.18
Quick ratio (x)	1.07	1.15	1.48	1.69	1.90
Inventory T/O (days)	58	64	60	60	60
AR T/O (days)	156	126	126	126	126
AP T/O (days)	77	63	63	63	63
Cash conversion cycle (days)	138	127	123	123	123
Asset turnover (x)	0.66	0.62	0.61	0.60	0.60
Financial leverage (x)	2.41	2.41	2.34	2.19	2.10
EBIT margin (%)	12.9	11.5	11.7	13.1	13.8
Interest burden (x)	0.95	0.92	0.92	0.93	0.94
Tax burden (x)	0.67	0.76	0.77	0.77	0.77
Return on equity (%)	13.1	12.0	11.7	12.4	12.6
ROIC (%)	9.1	8.2	8.9	10.8	12.2
Balance Sheet (HK\$ mn)					
Fixed assets	7,291	8,589	8,313	8,022	7,718
Intangible assets & goodwill	40	40	40	40	40
Associated companies & JVs	0	0	0	0	0
Long-term investments	44	37	37	37	37
Other non-current assets	327	470	470	470	470
Non-current assets	7,702	9,137	8,860	8,569	8,265
Inventories	1,183	1,355	1,351	1,424	1,506
AR	3,954	3,313	3,552	3,801	4,038
Prepayments & deposits	794	728	781	836	888
Other current assets	24	36	36	36	36
Cash	1,061	1,564	3,016	4,074	5,248
Current assets	7,016	6,996	8,734	10,171	11,715
AP	1,555	1,348	1,426	1,504	1,590
Tax	238	292	193	236	266
Accruals & other payables	984	1,164	1,248	1,336	1,419
Bank loans & leases	2,668	2,107	2,107	2,107	2,107
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	5,445	4,911	4,974	5,182	5,381
Bank loans & leases	1,634	2,633	2,633	2,633	2,633
CB & othe debts	0	0	0	0	0
Deferred tax & others	6	632	632	632	632
MI	1,397	1,410	1,474	1,552	1,639
Non-current liabilities	3,038	4,675	4,738	4,816	4,904
Total net assets	6,236	6,547	7,883	8,742	9,695
Shareholder's equity	6,236	6,547	7,883	8,742	9,695
Share capital	117	116	116	116	116
Reserves	6,119	6,431	7,767	8,626	9,579
BVPS (HK\$)	5.34	5.63	6.84	7.59	8.42
Total debts	4,302	4,739	4,739	4,739	4,739
Net cash/(debts)	(3,241)	(3,176)	(1,723)	(665)	509

Exhibit 4: Peer Group Comparison

Company	Ticker	Price (US\$m)	Mkt cap (US\$m)	3-mth avg t/o	PER		PER		EPS		3-Yr EPS Cagr (%)	PEG (x)	Div yld		P/B	EV/		EV/ gearing		Gross margin		Net		Sh px 3-mth %
					Hist (x)	FY1 (x)	FY2 (x)	EPS FY1	EPS FY2	Hist (%)			FY1 (%)	Hist (%)		FY1 (%)	Ebitda Hist	Ebitda Cur Yr	Hist (%)	margin Hist (%)	margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	
Ju Teng Intl Hdg	3336 HK	4.87	722	1.7	8.2	8.1	6.7	0.6	22.1	5.8	1.41	3.1	3.1	0.86	0.71	4.6	3.5	48.5	18.9	8.0	12.0	11.7	13.3	19.1
HSI	23,901.49				9.9	11.4	10.2	(12.7)	11.4	2.4	4.70	3.8	3.5	1.33	1.25						13.4	11.0	(3.6)	5.8
HSCEI	11,837.78				8.3	8.2	7.3	1.8	11.9	7.4	1.10	3.6	3.8	1.28	1.11						15.4	13.6	(1.3)	5.0
CSI300	3,757.12				16.3	13.6	11.8	19.9	15.5	N/A	N/A	1.6	2.0	2.38	1.99						14.6	14.7	6.7	11.8
Adjusted sector avg*					15.7	11.9	10.3	28.9	15.0	18.3	0.91	3.9	3.6	1.61	1.55	8.4	7.2	13.4	11.2	3.2	8.3	13.6	(1.0)	9.8
Catcher Tech	2474 TT	287.50	6,987	51.2	15.6	13.3	11.2	17.9	17.9	15.3	0.87	1.7	2.4	2.59	2.53	9.7	7.1	0.0	42.4	31.9	19.3	20.5	(1.7)	22.9
Foxconn Technolo	2354 TT	80.00	3,488	12.4	15.6	13.0	12.2	19.9	6.3	8.0	1.62	1.2	1.5	1.49	1.25	7.5	6.9	0.0	12.7	7.4	10.3	11.0	(0.5)	(6.9)
Bin Chuan Enterp	1569 TT	21.10	56	0.2	N/A	11.0	9.6	N/A	14.6	N/A	N/A	N/A	N/A	0.86	0.87	6.5	N/A	82.5	8.3	(1.5)	(2.2)	N/A	0.7	1.7
Quanta Computer	2382 TT	77.10	9,430	15.0	15.9	15.9	13.5	(0.0)	18.3	9.9	1.61	4.9	4.8	2.39	2.36	13.7	12.6	0.0	4.2	2.1	15.7	14.6	(2.8)	2.8
Compal Electron	2324 TT	26.60	3,726	17.4	16.3	10.6	9.5	53.5	12.0	21.2	0.50	3.8	5.2	1.23	1.14	8.5	6.7	17.7	4.1	0.8	5.2	11.2	13.4	32.0
Wistron Corp	3231 TT	27.20	2,126	14.4	18.1	11.1	9.2	63.1	20.7	32.3	0.34	6.5	4.8	1.00	0.92	7.4	6.8	23.1	4.8	0.6	6.0	8.7	(6.2)	(1.1)
Tongda Group Hld	698 HK	1.13	796	1.8	15.1	12.7	9.8	19.1	29.2	23.3	0.55	2.3	2.5	1.95	1.79	11.3	8.6	33.4	22.0	9.9	14.7	15.8	9.7	31.4
Ka Shui Intl Hld	822 HK	1.07	123	0.1	15.8	N/A	N/A	N/A	N/A	N/A	N/A	6.8	N/A	1.34	N/A	7.7	N/A	19.9	22.1	3.4	(2.8)	N/A	(6.1)	(4.5)

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

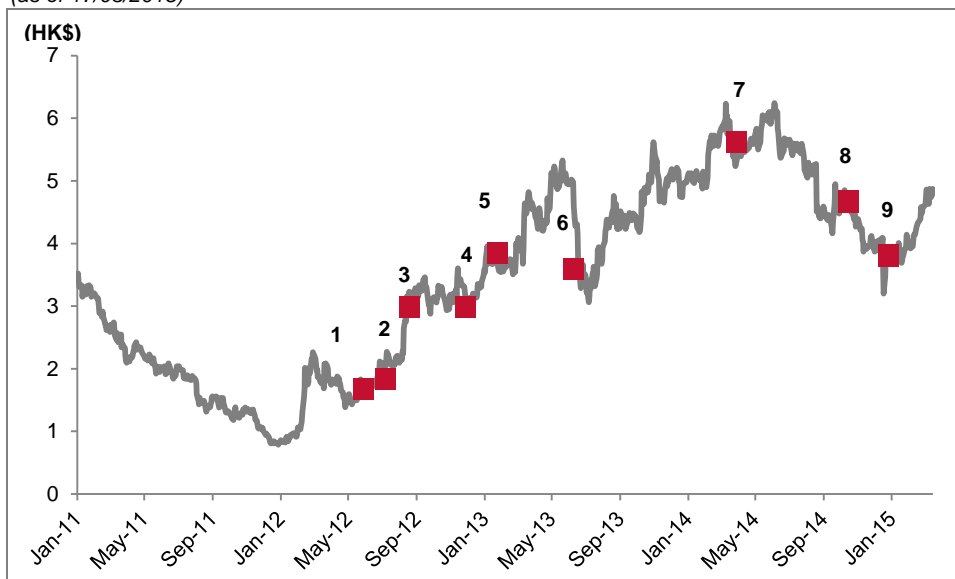
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
17/03/2015	Kwoon Chung Bus	306	Value unlocked	NR	Bruce Yeung
12/03/2015	BWI Int'l	2339	FY14 earnings hit huge gain of HK\$169 mn	NR	Kelvin Ng
10/03/2015	Technovator	1206	Spin-off and poised to swamp China	BUY	Yuji Fung
03/03/2015	TCL COMM	2618	Strong guidance ahead	BUY	Yuji Fung
06/02/2015	Technovator	1206	Positive signaling from stake increase by ParentCo	BUY	Yuji Fung
04/02/2015	Beijing Properties	925	Divest for reinvesting logistics properties	BUY	Bruce Yeung
03/02/2015	TK Group	2283	When the best is served by the best of best	NR	Lindsay Hu/ Yuji Fung
15/01/2015	Ju Teng Intl	3336	Correction overdone	BUY	Yuji Fung
12/01/2015	TCL COMM	2618	Profits soar with Iron Man, X-men and OneTouch	BUY	Yuji Fung
09/01/2015	Technovator	1206	Past year promising, New Year winning	BUY	Yuji Fung
06/01/2015	Sinomedia	623	Downgrade on economic slowdown	HOLD	Yuji Fung
05/01/2015	SCUD Group	1399	Beneficiary of Xiaomi Success	BUY	Yuji Fung
22/12/2014	China Fiber Optic Network	3777	Penetrating into a broadband service provider	BUY	Yuji Fung
10/12/2014	SCUD Group	1399	Introducing Value Partner as 2nd largest shareholder	BUY	Vivien Chan/ Yuji Fung
08/12/2014	Great Wall Motor	2333	SUV sales accelerates	BUY	Vivien Chan
27/11/2014	PAX Global	327	Overseas expansion on track	HOLD	Vivien Chan
26/11/2014	BWI Intl	2339	A Chinese-owned, Global Auto Parts Leader with a strong product	NR	Vivien Chan
24/11/2014	Tiangong	826	Solid order growth remains	BUY	Vivien Chan
19/11/2014	Sinotrans	598	A shift to risk aversion	HOLD	Bruce Yeung
17/11/2014	CMGC	8081	Mobile game coming to the stage	NR	Lindsay Hu/ Yuji Fung
13/11/2014	HC International	2280	3Q14 results miss	BUY	Yuji Fung
13/11/2014	CFON	3777	In line 3Q14 operation results	BUY	Yuji Fung
12/11/2014	Shenzhen International	152	A visionary logistics development plan with solid executions	BUY	Bruce Yeung
11/11/2014	UKF	8168	Interim results meet expectation	NR	Lily Man
11/11/2014	Geely Auto	175	Xindihao sales is ramping up	BUY	Vivien Chan
05/11/2014	UKF	8168	Got Fur	NR	Lily Man
04/11/2014	SCUD Group	1399	NDR Takeaway	BUY	Vivien Chan/ Yuji Fung

Historical recommendations and target price: Ju Teng Intl (3336 HK)

(as of 17/03/2015)



1	16 May 2012	BUY, Target price HK\$2.50	6	22 Aug 2013	BUY, Target price change HK\$7.00
2	29 May 2012	BUY, Target price change HK\$3.00	7	19 Mar 2014	BUY, Target price change HK\$7.70
3	22 Aug 2012	BUY, Target price change HK\$4.40	8	26 Aug 2014	BUY, Target price change HK\$5.90
4	21 Dec 2012	BUY, Target price change HK\$5.20	9	15 Jan 2015	BUY, Target price change HK\$6.00
5	20 Mar 2013	BUY, Target price change HK\$6.10			

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