



Rating  
**Buy**

Asia  
Hong Kong

Technology  
Hardware & Equipment

Company  
**Ju Teng**

Reuters 3336.HK    Bloomberg 3336 HK    Exchange HSI    Ticker 3336

Date  
17 March 2015

## Results

Price at 17 Mar 2015 (HKD)	4.87
Price target - 12mth (HKD)	7.00
52-week range (HKD)	6.24 - 3.20
HANG SENG INDEX	23,950

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# Rising unibody casing orders to boost 2015 business growth

## Improving product mix and margins in 2015

We are positive on Ju Teng's 2015 outlook, given its (a) rising order allocation and margins for Surface Pro tablets, (b) higher metal casing sales for the NB business (with better margins and ASP than the plastic models), and (c) lower one-off costs for the migration of factories. Ju Teng hosted its 2H14 results call meeting on 17 March with better operating profit (HK\$713m, +49% HoH) but lower net income (HK\$454m, +46% HoH) vs. consensus (HK\$655m and HK\$478m). We lower our 2015 sales (HK\$10.4m, +9% YoY) and EPS (HK\$0.87, +36% YoY) by 5% and 4% to reflect its guidance of weaker NB sales but better margins in 2015; Buy with new target price of HK\$7 (from HK\$7.2).

## Better sales for high-end metal casings

Ju Teng expects to lift its sales contribution from the unibody casing business from 15% in 2014 to 30% in 2015 (vs. DB's 25%), and we attribute its robust momentum to Microsoft's surface pro and Asustek's transformer NB orders. While its utilization rate for the unibody casings product is close to 100% currently, (vs. 70% for plastic and aluminum-alloy metal casings), Ju Teng reported preparing US\$60m for capex, including the purchase of 600 CNC machines in 2015 (up from 4,500 units in 4Q14). We expect its higher unibody casing sales, with better margins, to help raise its gross and operating margins from 18.9% and 12.4%, respectively, in 2014 to 20.6% and 13.9% in 2015, in line with the company's guidance for a margin hike of 1-2% in 2015.

## Weaker guidance for NB business

We concur with Ju Teng's decision to aggressively grow its higher-margin unibody and metal casings business and to rely less on lower-margin plastic casing orders. Management guided for reducing its sales contribution from the NB business from 75% in 2014 to 60% in 2015 but we see the upside potential for Ju Teng's sales and earnings growth from its order gains for NB metal casings from peers. This could also explain why our 2015E operating income (HK\$1,442m, +21% YoY) and EPS (HK\$0.87, +36% YoY) are higher than consensus estimates (HK\$1,362m, HK\$0.79).

## Valuation and risks

We base our valuation on 8x our 2015E EPS, which is at the low end of its peers' average P/E range (8-14x), given its higher NB sales exposure and lower ROE. Downside risks: loss of orders, inventory and currency.

### Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (HKDm)	9,201.3	9,256.8	9,571.0	10,386.5	11,298.5
EBIT (HKDm)	850.3	1,194.0	1,190.5	1,441.9	1,657.7
Reported NPAT (HKDm)	601.4	762.3	764.9	1,027.0	1,169.9
DB EPS FD(HKD)	0.52	0.65	0.64	0.87	0.99
PER (x)	4.4	6.7	7.6	5.6	4.9

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

### Key changes

Price target	7.20 to 7.00	↓	-2.8%
Sales (FYE)	9,723 to 9,571	↓	-1.6%
Op prof margin (FYE)	12.5 to 12.4	↓	-0.9%
Net profit (FYE)	832.7 to 764.9	↓	-8.1%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	13.3	19.1	-18.3
HANG SENG INDEX	-3.4	6.0	11.5

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Model updated: 17 March 2015

Running the numbers

Asia  
Hong Kong  
Hardware & Equipment

Ju Teng

Reuters: 3336.HK Bloomberg: 3336.HK

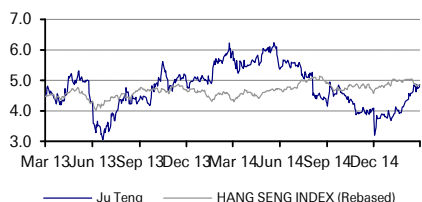
Buy

Price (17 Mar 15) HKD 4.87  
Target Price HKD 7.00  
52 Week range HKD 3.20 - 6.24  
Market Cap (m) HKDm 5,781  
USDm 745

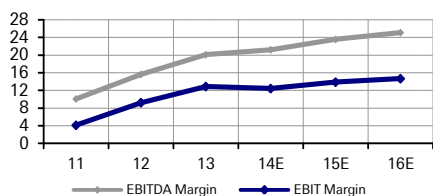
Company Profile

Ju Teng International Holdings Limited is a Hong Kong-based investment holding company. The Company, together with its subsidiaries, is engaged in the design, manufacturing and sale of notebook computer casings. The Company provides notebook computer casings, television casings, hand-held products casings and casings for customized products, among others.

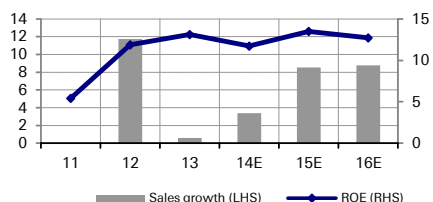
Price Performance



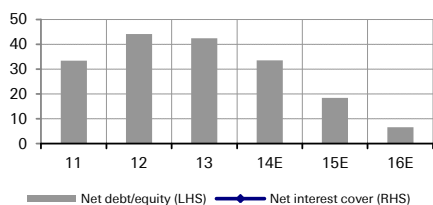
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

	2011	2012	2013	2014E	2015E	2016E
DB EPS (HKD)	0.23	0.52	0.65	0.64	0.87	0.99
Reported EPS (HKD)	0.23	0.52	0.65	0.64	0.87	0.99
DPS (HKD)	0.08	0.12	0.15	0.15	0.20	0.23
BVPS (HKD)	4.2	4.7	5.3	5.7	7.1	8.4
Weighted average shares (m)	1,119	1,150	1,167	1,187	1,187	1,187
Average market cap (HKDm)	2,160	2,618	5,093	5,781	5,781	5,781
Enterprise value (HKDm)	5,260	6,735	9,683	9,982	9,120	8,165

Valuation Metrics

P/E (DB) (x)	8.4	4.4	6.7	7.6	5.6	4.9
P/E (Reported) (x)	8.4	4.4	6.7	7.6	5.6	4.9
P/BV (x)	0.19	0.74	0.94	0.85	0.69	0.58
FCF Yield (%)	nm	nm	nm	0.3	8.2	10.6
Dividend Yield (%)	4.2	5.3	3.4	3.0	4.1	4.7
EV/Sales (x)	0.6	0.7	1.0	1.0	0.9	0.7
EV/EBITDA (x)	6.3	4.7	5.2	4.9	3.7	2.9
EV/EBIT (x)	15.5	7.9	8.1	8.4	6.3	4.9

Income Statement (HKDm)

Sales revenue	8,235	9,201	9,257	9,571	10,386	11,298
Gross profit	1,358	1,991	2,541	2,645	3,146	3,571
EBITDA	830	1,440	1,862	2,031	2,447	2,836
Depreciation	491	589	668	840	1,005	1,178
Amortisation	0	0	0	0	0	0
EBIT	339	850	1,194	1,190	1,442	1,658
Net interest income/(expense)	17	13	7	-1	15	15
Associates/affiliates	-7	-4	-8	-15	-8	-6
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-62	-71	-61	-165	-86	-88
Profit before tax	287	788	1,132	1,009	1,362	1,579
Income tax expense	50	128	255	185	261	316
Minorities	-20	59	115	60	74	93
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	257	601	762	765	1,027	1,170
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	257	601	762	765	1,027	1,170

Cash Flow (HKDm)

Cash flow from operations	687	411	1,056	1,739	2,120	2,329
Net Capex	-1,438	-1,224	-1,626	-1,720	-1,644	-1,718
Free cash flow	-751	-813	-571	19	476	611
Equity raised/(bought back)	-19	39	17	0	0	0
Dividends paid	-91	-91	-138	-175	-176	-236
Net inc/(dec) in borrowings	509	1,460	216	35	35	35
Other investing/financing cash flows	117	-120	334	579	604	640
Net cash flow	-235	475	-142	458	939	1,050
Change in working capital	0	0	0	0	0	0

Balance Sheet (HKDm)

Cash and other liquid assets	654	1,163	1,061	1,559	2,538	3,628
Tangible fixed assets	5,974	6,377	7,291	8,176	8,822	9,369
Goodwill/intangible assets	38	40	40	40	40	40
Associates/investments	25	31	44	29	21	15
Other assets	4,682	5,638	6,282	5,869	6,154	6,747
Total assets	11,373	13,249	14,718	15,673	17,575	19,799
Interest bearing debt	2,622	4,082	4,298	4,333	4,368	4,403
Other liabilities	2,852	2,551	2,787	3,070	3,275	3,770
Total liabilities	5,474	6,633	7,085	7,402	7,642	8,174
Shareholders' equity	4,742	5,386	6,236	6,814	8,402	10,001
Minorities	1,157	1,230	1,397	1,457	1,531	1,624
Total shareholders' equity	5,899	6,617	7,633	8,271	9,933	11,625
Net debt	1,967	2,919	3,236	2,774	1,830	776

Key Company Metrics

Sales growth (%)	nm	11.7	0.6	3.4	8.5	8.8
DB EPS growth (%)	na	127.7	24.9	-1.3	34.3	13.9
EBITDA Margin (%)	10.1	15.6	20.1	21.2	23.6	25.1
EBIT Margin (%)	4.1	9.2	12.9	12.4	13.9	14.7
Payout ratio (%)	35.2	22.9	23.0	23.0	23.0	23.0
ROE (%)	5.4	11.9	13.1	11.7	13.5	12.7
Capex/sales (%)	17.6	14.1	18.7	18.0	15.9	15.3
Capex/depreciation (x)	3.0	2.2	2.6	2.1	1.6	1.5
Net debt/equity (%)	33.4	44.1	42.4	33.5	18.4	6.7
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates



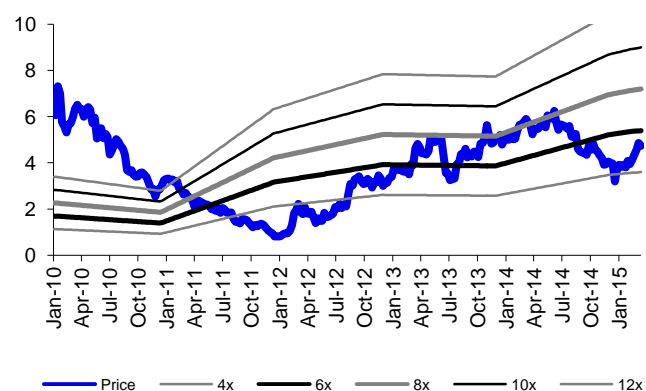
# Valuation and risks

## Maintaining our Buy rating with target price tweak

### Target price basis

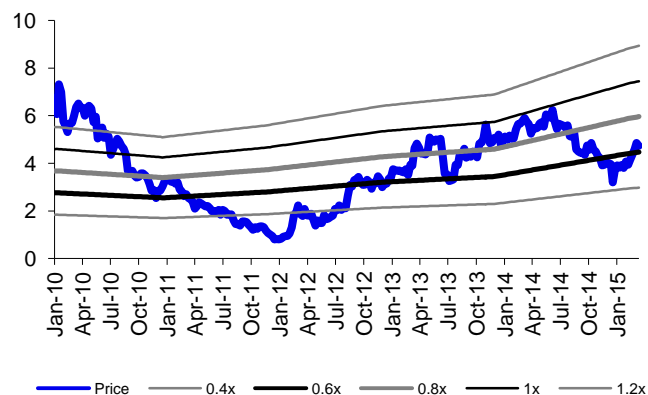
We adopt P/E methodology for our valuation, as we believe this better reflects Ju Teng's metal and plastic casing business growth for NB, smartphones and tablets. We lower our 2015 EPS by 4% from HK\$0.90 to HK\$0.87 and cut our target price from HK\$7.2 to HK\$7.0 to reflect its guidance of weaker NB sales but better margins in 2015. Our valuation is based on 8x our 2015E EPS, which is below the peer average (8-14x), given Ju Teng's higher sales exposure to slowing NB business, lower ROE and weaker balance sheet (net debt position). However, we assign a higher target P/E multiple than its historical trading data (6-7x) since 2011, to reflect our more positive outlook on the entire metal casing sector and its improving ROE. Ju Teng's dividend yield of 3.0%-4.7% for 2014-2016, based on its current share price, and 0.7x our 2015E P/B, are likely attractive for some value or dividend fund investors.

Figure 1: Forward P/E band for Ju Teng



Source: Deutsche Bank estimates, Bloomberg Finance LP

Figure 2: Forward P/B band for Ju Teng



Source: Deutsche Bank estimates, Bloomberg Finance LP

### EPS and target price sensitivity analysis

Our sensitivity analysis indicates attractive risk/reward for Ju Teng with 119% upside potential under a bull-case valuation of HK\$10.5, if we assume 2015 sales growth of 15% YoY and a consolidated operating margin (OPM) of 17.9%. Our target price of HK\$7.0 is based on a 2015E sales growth rate of +9% YoY and a consolidated OPM of 13.9%. On the downside, 2015 sales growth of 3% YoY and OPM of 9.9% would generate a valuation of HK\$3.8. These sensitivities assume the same target P/E multiple in each case.



Figure 3: EPS sensitivity analysis based on 2015E assumptions

		2015E Sales growth (%)				
		3%	6%	9%	12%	15%
	<b>9.9%</b>	0.48	0.50	0.52	0.55	0.57
2015 OPM	<b>11.9%</b>	0.64	0.67	0.70	0.73	0.76
(%)	<b>13.9%</b>	0.81	0.84	0.87	0.91	0.94
	<b>15.9%</b>	0.97	1.01	1.05	1.09	1.13
	<b>17.9%</b>	1.14	1.18	1.22	1.27	1.31

Source: Deutsche Bank estimates

Figure 4: Target price sensitivity analysis based on 2015E assumptions

		2015E Sales growth (%)				
		3%	6%	9%	12%	15%
	<b>9.9%</b>	3.8	4.0	4.2	4.4	4.6
2015 OPM	<b>11.9%</b>	5.1	5.4	5.6	5.8	6.1
(%)	<b>13.9%</b>	6.5	6.7	7.0	7.3	7.5
	<b>15.9%</b>	7.8	8.1	8.4	8.7	9.0
	<b>17.9%</b>	9.1	9.5	9.8	10.2	10.5

Source: Deutsche Bank estimates

## Risks

### Downside risks:

- Weaker demand for NB, tablets, and smartphones from brand vendors or end-users could result in lower shipment and earnings results.
- A labor cost hike in China could lead to lower margins and EPS results.
- Lower-than-expected yield rate
- Loss of orders to its peer competitors could result in lower sales and earnings than our estimates.



## Key Q&As

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### Q: What is the outlook for NB and tablet market in 1H15?

A: We expect overall NB shipment to decline 7% YoY in 2015, while tablets with a panel size over 12.5" to grow robustly.

### Q: What will drive Ju Teng's 2015 sales growth of 5-10% YoY? Will it be through the ASP hike or volume growth for NB?

A: Growth will mainly come from order gains from peers and the ASP hike for our NB business. Hence, we expect our NB shipment to decline 0-5% YoY, which is better than the industry.

### Q: What are the gross margins for metal and plastic casings respectively?

A: The gross margin for our metal casing business is 25-30% while that of our plastic casing business is 10-15%.

### Q: What is the utilization rate now?

A: 70% for plastic casings, 70% for aluminum metal casings, while that for CNC products (unibody casing) will be close to 100% in April.

### Q: What is the capex plan this year?

A: We currently have 4,500 CNC machines, which is insufficient. We plan to add 600 CNC machines in 2015. We will spend US\$60m on the CNC machines-related business and US\$20m on others.

### Q: Dividend payout for 2014?

A: Ju Teng's dividend payout ratio for 2014 is 23% with a cash dividend of HK\$0.15 per share.

### Q: What is the guidance for 1H15?

A: We expect Ju Teng's revenue to grow 0-5% YoY with its margin increasing by 100-120bps in 1H15. We expect the new products with 1.7m shipments and ASP of US\$60 to help boost 2H15 business momentum, helping ease the impacts of weaker orders for the plastic casings business.



Figure 5: Ju Teng's actual 2H14 P&L vs. our and consensus estimates

(HK\$m)	Actual	DBe	Diff	Consensus*	Diff	YoY	HoH
Sales	5,172	5,324	-3%	5,134	1%	4%	18%
Gross profit	1,031	1,152	-11%	1,046	-1%	-5%	33%
Operating profit	713	742	-4%	655	9%	1%	49%
Net profit	454	522	-13%	478	-5%	-10%	46%
EPS (HK\$)	0.38	0.45	-14%	0.39	-2%	-11%	46%
Outstanding shares (mn)	1,187.00	1,167.36					
Gross margin	19.9%	21.6%	-1.7%	20.4%	-0.4%	-1.9%	2.3%
Operating margin	13.8%	13.9%	-0.2%	12.8%	1.0%	-0.5%	2.9%
Net margins	8.8%	9.8%	-1.0%	9.3%	-0.5%	-1.3%	1.7%

Source: Deutsche Bank estimates, Bloomberg Finance LP, Company data

Figure 6: Revision of our assumptions for Ju Teng's 2014E and 2015E P&L

(HK\$m)	2014E					2015E				
	new	old	Diff	Consensus*	Diff	new	old	Diff	Consensus*	Diff
Sales	9,571	9,723	-2%	9,517	1%	10,386	10,884	-5%	10,218	2%
Gross profit	1,805	1,926	-6%	1,825	-1%	2,141	2,225	-4%	2,088	3%
Operating expenses	614	706	-13%	676	-9%	699	732	-5%	726	-4%
Operating profit	1,190	1,220	-2%	1,149	4%	1,442	1,492	-3%	1,362	6%
Net income	765	833	-8%	782	-2%	1,027	1,052	-2%	936	10%
EPS (HK\$)	0.64	0.71	-10%	0.66	-2%	0.87	0.90	-4%	0.79	9%
Outstanding shares (mn)	1,187	1,167				1,187	1,167			
Financial ratio										
Gross margin	18.9%	19.8%	-1.0%	19.2%	-0.3%	20.6%	20.4%	0.2%	20.4%	0.2%
Opex ratio	6.4%	7.3%	-0.8%	7.1%	-0.7%	6.7%	6.7%	0.0%	7.1%	-0.4%
Operating margin	12.4%	12.5%	-0.1%	12.1%	0.4%	13.9%	13.7%	0.2%	13.3%	0.6%
Net margins	8.0%	8.6%	-0.6%	8.2%	-0.2%	9.9%	9.7%	0.2%	9.2%	0.7%

Source: Deutsche Bank estimates, Bloomberg Finance LP



Figure 7: Ju Teng's quarterly P&L highlights

Unit: HK\$mn	1H13	2H13	2013	1H14	2H14E	2014E	1H15E	2H15E	2015E
Sales	4,299	4,958	9,257	4,399	5,172	9,571	4,572	5,814	10,386
Gross profit	793	1,080	1,873	774	1,031	1,805	862	1,278	2,141
Operating profit	485	709	1,194	478	713	1,190	556	886	1,442
Non- operating items	22	40	62	47	134	181	54	26	80
Pre- tax income	463	669	1,132	431	579	1,009	503	860	1,362
Net profit	260	502	762	311	454	765	353	674	1,027
EPS (HK\$)	0.22	0.43	0.65	0.26	0.38	0.64	0.30	0.57	0.87
No. of shares (m)	1,167	1,167	1,167	1,187	1,187	1,187	1,187	1,187	1,187
<b>Margin analysis (%)</b>									
Gross margin	18.4%	21.8%	20.2%	17.6%	19.9%	18.9%	18.9%	22.0%	20.6%
Operating margin	11.3%	14.3%	12.9%	10.9%	13.8%	12.4%	12.2%	15.2%	13.9%
Pre- tax margin	10.8%	13.5%	12.2%	9.8%	11.2%	10.5%	11.0%	14.8%	13.1%
Net margin	6.1%	10.1%	8.2%	7.1%	8.8%	8.0%	7.7%	11.6%	9.9%
Tax rate	31%	17%	23%	19%	18%	18%	20%	19%	19%
<b>YoY growth (%)</b>									
Sales	0%	1%	1%	2%	4%	3%	4%	12%	9%
Gross profit	34%	33%	34%	-2%	-5%	-4%	11%	24%	19%
Operating profit	43%	39%	40%	-1%	1%	0%	16%	24%	21%
Pre- tax income	50%	39%	44%	-7%	-13%	-11%	17%	49%	35%
Net profit	7%	41%	27%	19%	-10%	0%	13%	48%	34%
<b>HoH growth (%)</b>									
Sales	-12%	15%		-11%	18%		-12%	27%	
Gross profit	-2%	36%		-28%	33%		-16%	48%	
Operating profit	-5%	46%		-33%	49%		-22%	59%	
Pre- tax income	-4%	45%		-36%	34%		-13%	71%	
Net profit	-27%	93%		19%	46%		13%	91%	
<b>Sales breakdown (%)</b>									
NB - Plastic casings	68%	56%	62%	54%	42%	48%	42%	33%	37%
NB - Metal casings	14%	15%	14%	20%	23%	21%	24%	23%	24%
Tablet casings	8%	13%	11%	10%	18%	14%	20%	29%	25%
Smartphone casings	0%	5%	3%	3%	6%	5%	5%	6%	5%
Others	10%	11%	11%	13%	12%	12%	9%	9%	9%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Deutsche Bank estimates, Company data



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Ju Teng	3336.HK	4.87 (HKD) 17 Mar 15	NA

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.egsr?ricCode=3336.HK>

## Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Andrew-C Chang

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

(as of 3/17/2015)



#### Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

#### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9,2002

1. 19/09/2014: Upgrade to Buy, Target Price Change HKD7.20





### Equity rating key

**Buy:** Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.

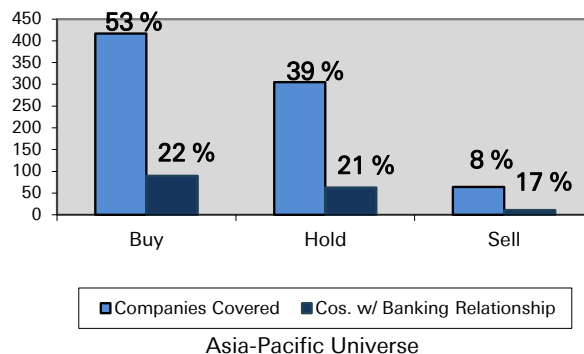
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

### Equity rating dispersion and banking relationships





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### 1. Important Additional Conflict Disclosures

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