

Ju Teng International

3336 HK

Target (HKD): 3.70 → 4.60

Downside: 2.7%

13 Mar price (HKD): 4.73

- 1 Buy
- 2 Outperform
- 3 Hold (from Underperform)
- 4 Underperform
- 5 Sell

Likely modest recovery

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- 2H14 net profit likely to beat our forecast but miss market's
- Metal casing business should help 1H15 revenue momentum
- Upgrading to Hold (3) with a new 12-month TP of HKD4.6

■ What's new

We expect Ju Teng's 2H14 results (due 17 March) to miss consensus but beat our previous forecasts. While we see near-term strength in its metal-casing orders, we remain cautious on the revenue growth outlook for its non-plastics business. Upgrade to Hold (3).

■ What's the impact

2H14 preview. Ju Teng will report its 2H14 results on 17 March after market. We now expect a net profit of HKD422m (EPS: HKD0.36) vs. our prior forecast of HKD390m, still below the consensus forecast of HKD477m. With likely better-than-expected plastic revenue (for notebooks and smartphones), we raise our 2H14E sales to HKD5.07bn (vs. HKD4.81bn before) but trim our gross margin to 19.5% (vs 20.3%) since plastic orders typically offer lower gross margins.

1H15 outlook. We now forecast Ju Teng's 1H15 sales to decline by 2% HoH only, less than the usual seasonal decline of 10-15% and our prior forecast of -6% HoH. We expect revenue strength to come from a ramp-up in the volume of unibody metal casings for

Microsoft's Surface Pro tablet and plastic casings for the new Asus Zenfone smartphone. We also expect the 1H15 gross margin to improve HoH due to a better sales mix (more high-margin metal-casing sales).

We remain cautious on the non-plastics business outlook.

While the Surface Pro should boost Ju Teng's non-plastic casing exposure, we remain cautious on the longer term, as: 1) surface tablets may only offer limited upside, with volume of 2-3m a year, 2) our market surveys suggest Ju Teng has not won any smartphone metal casing orders YTD, nor does it plan to. This may disappoint investors who expect Ju Teng to benefit from the rising metal casing adoption in smartphones, 3) plastic casing sales could remain resilient given the strength of the Zenfone (whose sales volume should double YoY in 2015) and there could be market-share gains in notebook casings, as some competitors (such as Huan Hsin) are scaling back capacities. We now look for non-plastic sales contributions of 38% in 2014, 45% in 2015 and 46% in 2016 (from 37%/43%/44%).

■ What we recommend

We raise our 2014-16E EPS by 5-13% to reflect: 1) better contribution from Surface Pro and Zenfone related orders, and 2) a 3% capital reduction after its share buyback in late 2014. As we roll forward our valuation basis, we raise our TP to HKD4.60 (now 12-month, from a 6-month TP of HKD3.70), based on an unchanged 1-year-forward PER of 6x (near the mid-point of the past-3-year range of 4-9x). We upgrade the stock to Hold (3) from Underperform (4). After the slump in December 2014, Ju Teng's share price has recovered well so far this year, which in our view has been driven by its share buyback and the

favourable sentiment toward metal-casing players. We expect metal-casing orders to help 1H15 sales, but believe the strength may not be sustained given the company's lack of new order wins. Disappointing 2H14 results could also be a drag in the near term. The key upside risk is major non-plastic order wins in the smartphone area, while weaker-than-expected metal casing orders represents the downside risk.

■ How we differ

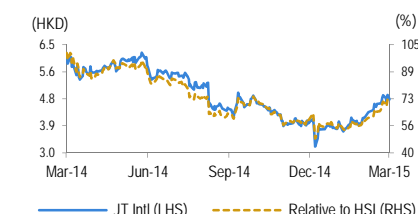
We are more cautious than the market on Ju Teng's non-plastic revenue contribution.

Forecast revisions (%)

Year to 31 Dec	14E	15E	16E
Revenue change	2.8	9.3	9.8
Net profit change	4.5	11.8	7.8
Core EPS (FD) change	5.1	13.4	9.4

Source: Daiwa forecasts

Share price performance



12-month range	3.20-6.24
Market cap (USDbn)	0.71
3m avg daily turnover (USDm)	1.71
Shares outstanding (m)	1,162
Major shareholder	Southern Asia Management (26.3%)

Financial summary (HKD)

Year to 31 Dec	14E	15E	16E
Revenue (m)	9,471	10,476	10,579
Operating profit (m)	1,112	1,315	1,376
Net profit (m)	732	881	926
Core EPS (fully-diluted)	0.630	0.765	0.804
EPS change (%)	(4.8)	21.4	5.0
Daiwa vs Cons. EPS (%)	(3.3)	(4.2)	(9.6)
PER (x)	7.5	6.2	5.9
Dividend yield (%)	2.1	2.0	2.4
DPS	0.099	0.096	0.115
PBR (x)	0.8	0.7	0.8
EV/EBITDA (x)	5.4	4.7	4.5
ROE (%)	11.5	12.8	13.3

Source: FactSet, Daiwa forecasts

Ju Teng: revenue and earnings revisions

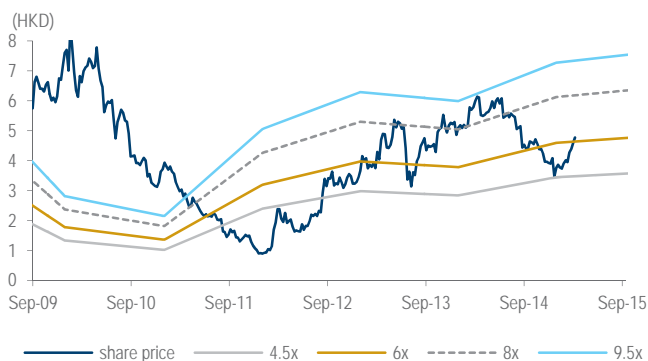
(HKDm)	2014E			2015E			2016E		
	Previous	New	Consensus	Previous	New	Consensus	Previous	New	Consensus
Revenue	9,209	9,471	9,498	9,583	10,476	10,100	9,635	10,579	10,576
Diff (%)		2.8%	-0.3%		9.3%	3.7%		9.8%	0.0%
Gross Margin (%)	19.0%	18.6%	19.2%	19.6%	20.3%	20.4%	20.0%	20.5%	21.0%
Operating profit	1,074	1,112	1,145	1,166	1,315	1,347	1,263	1,376	1,506
Op Margin (%)	11.7%	11.7%	12.1%	12.2%	12.6%	13.3%	13.1%	13.0%	14.2%
Net profit	701	732	769	788	881	921	858	926	1,024
EPS (HKD)	0.60	0.63	0.65	0.68	0.77	0.80	0.73	0.80	0.89
Diff (%)		5.1%	-3.3%		13.4%	-4.2%		9.4%	-9.6%

Source: Bloomberg, Daiwa forecasts

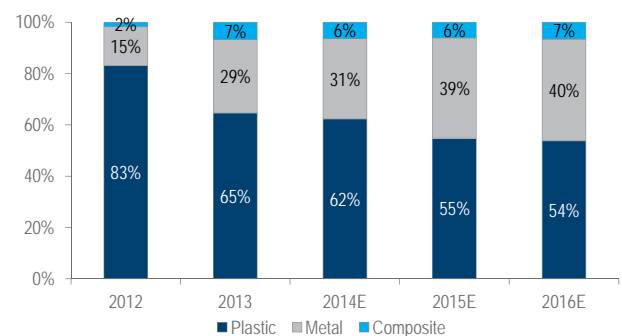
Ju Teng: quarterly P&L statement

(HKDm)	2012		2013		2014		2015E		2013	2014E	2015E
	1H	2H	1H	2H	1H	2HE	1HE	2HE			
Net sales	4,315	4,886	4,299	4,958	4,399	5,072	4,978	5,497	9,257	9,471	10,476
COGS	-3,726	-4,074	-3,506	-3,878	-3,624	-4,081	-3,980	-4,373	-7,384	-7,705	-8,352
Gross profit	590	812	793	1,080	774	991	999	1,125	1,873	1,766	2,124
Operating costs	-249	-302	-307	-371	-296	-358	-391	-418	-679	-654	-808
Operating profit	340	510	485	709	478	634	608	707	1,194	1,112	1,315
Non-operating profit	-32	-30	-22	-39	-47	-50	-50	-55	-62	-97	-105
Pre-tax profit	308	480	463	669	431	584	558	652	1,132	1,015	1,210
Taxes	-56	-73	-143	-112	-83	-117	-112	-130	-255	-200	-242
Minorities	8	51	60	55	38	45	39	47	115	83	87
Net profit	244	357	260	502	311	422	407	474	762	732	881
EPS (HKD)	0.22	0.32	0.23	0.44	0.27	0.36	0.35	0.41	0.66	0.63	0.77
Operating Ratios											
Gross margins	13.7%	16.6%	18.4%	21.8%	17.6%	19.5%	20.1%	20.5%	20.2%	18.6%	20.3%
Operating margin	7.9%	10.4%	11.3%	14.3%	10.9%	12.5%	12.2%	12.9%	12.9%	11.7%	12.6%
Pre-tax margin	7.1%	9.8%	10.8%	13.5%	9.8%	11.5%	11.2%	11.9%	12.2%	10.7%	11.6%
Net margin	5.7%	7.3%	6.1%	10.1%	7.1%	8.3%	8.2%	8.6%	8.2%	7.7%	8.4%
YoY%											
Net revenues	18%	7%	0%	1%	2%	2%	13%	8%	1%	2%	11%
Gross profit	91%	45%	34%	33%	-2%	-8%	29%	13%	34%	-6%	20%
Operating income	46%	-16%	23%	23%	-4%	-4%	32%	17%	40%	-7%	18%
Pre-tax income	168%	179%	50%	39%	-7%	-13%	29%	12%	44%	-10%	19%
Net income	120%	145%	7%	41%	19%	-16%	31%	12%	27%	-4%	20%
HoH%											
Net revenues	-6%	13%	-12%	15%	-11%	15%	-2%	10%			
Gross profit	5%	38%	-2%	36%	-28%	28%	1%	13%			
Operating income	69%	50%	-5%	46%	-33%	33%	-4%	16%			
Pre-tax income	78%	56%	-4%	44%	-36%	35%	-4%	17%			
Net income	67%	46%	-27%	93%	-38%	36%	-4%	17%			

Source: Company, Daiwa forecasts

Ju Teng: 1-year forward PER


Source: Bloomberg, Daiwa forecasts

Ju Teng: revenue breakdown by material


Source: Company, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Notebook revenue growth YoY (%)	3.0	(4.0)	14.9	4.3	(14.5)	1.8	(7.1)	(0.5)
Tablet revenue growth YoY (%)	n.a.	n.a.	n.a.	n.a.	190.1	(4.8)	82.0	2.9
Smartphone revenue growth YoY (%)	n.a.	n.a.	n.a.	n.a.	n.a.	71.7	90.4	8.2

■ Profit and loss (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Plastic casing	7,464	7,166	7,814	7,648	5,983	5,903	5,745	5,691
Metal casing	0	0	421	1,391	2,640	2,959	4,089	4,184
Other Revenue	0	0	0	162	633	608	642	704
Total Revenue	7,464	7,166	8,235	9,201	9,257	9,471	10,476	10,579
Other income	74	93	65	100	66	141	100	100
COGS	(6,119)	(6,308)	(7,367)	(7,800)	(7,384)	(7,705)	(8,352)	(8,413)
SG&A	(405)	(480)	(576)	(624)	(683)	(766)	(864)	(846)
Other op.expenses	(31)	(15)	(17)	(26)	(62)	(29)	(44)	(45)
Operating profit	983	456	339	850	1,194	1,112	1,315	1,376
Net-interest inc./(exp.)	(49)	(35)	(45)	(62)	(62)	(97)	(105)	(115)
Assoc/forex/extraord./others	0	(1)	(7)	0	0	0	0	0
Pre-tax profit	934	420	287	788	1,132	1,015	1,210	1,261
Tax	(173)	(65)	(50)	(129)	(255)	(200)	(242)	(252)
Min. int./pref. div./others	(56)	(24)	20	(59)	(115)	(83)	(87)	(83)
Net profit (reported)	705	331	257	601	762	732	881	926
Net profit (adjusted)	705	331	257	601	762	732	881	926
EPS (reported)(HKD)	0.662	0.296	0.227	0.532	0.662	0.630	0.765	0.804
EPS (adjusted)(HKD)	0.662	0.296	0.227	0.532	0.662	0.630	0.765	0.804
EPS (adjusted fully-diluted)(HKD)	0.662	0.296	0.227	0.532	0.662	0.630	0.765	0.804
DPS (HKD)	0.047	0.080	0.080	0.080	0.120	0.099	0.096	0.115
EBIT	983	456	339	850	1,194	1,112	1,315	1,376
EBITDA	1,299	874	832	1,444	1,868	1,829	2,104	2,193

■ Cash flow (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit before tax	934	420	287	788	1,132	1,015	1,210	1,261
Depreciation and amortisation	316	418	493	594	674	717	789	817
Tax paid	(144)	(77)	(38)	(84)	(191)	(200)	(242)	(252)
Change in working capital	49	304	(80)	(1,166)	(623)	969	(152)	(77)
Other operational CF items	65	31	26	280	102	97	0	44
Cash flow from operations	1,220	1,097	687	411	1,094	2,598	1,605	1,793
Capex	(1,641)	(964)	(1,379)	(1,275)	(1,296)	(1,326)	(1,467)	(1,481)
Net (acquisitions)/disposals	(56)	31	14	(63)	418	0	0	0
Other investing CF items	292	(137)	(253)	(6)	(4)	(99)	(95)	(60)
Cash flow from investing	(1,405)	(1,070)	(1,618)	(1,344)	(882)	(1,425)	(1,561)	(1,541)
Change in debt	(68)	28	509	1,460	216	0	0	0
Net share issues/(repurchases)	0	0	(19)	39	17	0	0	0
Dividends paid	(50)	(89)	(91)	(91)	(138)	(115)	(110)	(133)
Other financing CF items	468	238	297	0	0	262	0	0
Cash flow from financing	350	176	696	1,408	95	147	(110)	(133)
Forex effect/others	(3)	51	28	34	40	0	0	0
Change in cash	163	254	(208)	508	347	1,320	(66)	119
Free cash flow	(421)	132	(692)	(864)	(202)	1,272	138	312

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (HKDm)

As at 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash & short-term investment	608	862	654	1,163	1,061	2,119	2,053	2,172
Inventory	869	1,029	1,029	937	1,183	850	910	932
Accounts receivable	3,267	2,499	2,732	3,239	3,954	3,335	3,555	3,655
Other current assets	417	449	612	1,023	817	799	799	799
Total current assets	5,162	4,839	5,027	6,363	7,016	7,103	7,317	7,557
Fixed assets	4,243	4,987	6,283	6,815	7,618	8,579	9,259	8,445
Goodwill & intangibles	38	38	38	40	40	38	35	32
Other non-current assets	78	48	24	31	44	60	60	60
Total assets	9,521	9,912	11,373	13,249	14,718	15,780	16,672	16,095
Short-term debt	883	761	541	2,499	2,664	3,217	3,217	3,217
Accounts payable	2,089	1,581	1,796	1,629	1,555	1,789	1,917	1,961
Other current liabilities	772	980	1,052	917	1,226	974	974	974
Total current liabilities	3,745	3,322	3,389	5,045	5,445	5,980	6,108	6,152
Long-term debt	1,202	1,353	2,081	1,583	1,634	1,884	1,884	1,884
Other non-current liabilities	14	11	4	5	6	19	19	19
Total liabilities	4,961	4,686	5,474	6,633	7,085	7,882	8,010	8,055
Share capital	112	113	112	115	117	117	117	117
Reserves/R.E./others	3,854	4,276	4,630	5,271	6,119	6,391	7,154	6,533
Shareholders' equity	3,966	4,389	4,742	5,386	6,236	6,508	7,271	6,649
Minority interests	595	837	1,157	1,230	1,397	1,390	1,390	1,390
Total equity & liabilities	9,521	9,912	11,373	13,249	14,718	15,780	16,672	16,095
EV	7,568	7,578	8,621	9,645	10,130	9,868	9,934	9,815
Net debt/(cash)	1,477	1,251	1,968	2,919	3,236	2,982	3,048	2,929
BVPS (HKD)	3.724	3.923	4.194	4.768	5.418	5.601	6.314	5.774

■ Key ratios (%)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales (YoY)	3.0	(4.0)	14.9	11.7	0.6	2.3	10.6	1.0
EBITDA (YoY)	45.3	(32.7)	(4.8)	73.5	29.4	(2.1)	15.1	4.2
Operating profit (YoY)	9.9	(53.6)	(25.6)	150.5	40.4	(6.9)	18.3	4.6
Net profit (YoY)	7.1	(53.0)	(22.5)	134.2	26.8	(3.9)	20.3	5.0
Core EPS (fully-diluted) (YoY)	0.6	(55.3)	(23.3)	134.4	24.5	(4.8)	21.4	5.0
Gross-profit margin	18.0	12.0	10.5	15.2	20.2	18.6	20.3	20.5
EBITDA margin	17.4	12.2	10.1	15.7	20.2	19.3	20.1	20.7
Operating-profit margin	13.2	6.4	4.1	9.2	12.9	11.7	12.6	13.0
Net profit margin	9.4	4.6	3.1	6.5	8.2	7.7	8.4	8.7
ROAE	20.8	7.9	5.6	11.9	13.1	11.5	12.8	13.3
ROAA	8.5	3.4	2.4	4.9	5.5	4.8	5.4	5.6
ROCE	17.1	6.5	4.3	8.8	10.6	8.9	9.8	10.2
ROIC	15.3	6.2	3.9	8.2	9.1	8.2	9.3	9.7
Net debt to equity	37.2	28.5	41.5	54.2	51.9	45.8	41.9	44.0
Effective tax rate	18.5	15.5	17.5	16.3	22.6	19.7	20.0	20.0
Accounts receivable (days)	151.7	146.8	115.9	118.4	141.8	140.5	120.0	124.4
Current ratio (x)	1.4	1.5	1.5	1.3	1.3	1.2	1.2	1.2
Net interest cover (x)	20.2	13.2	7.5	13.7	19.3	11.5	12.5	12.0
Net dividend payout	7.1	27.0	35.3	15.1	18.1	15.7	12.5	14.3
Free cash flow yield	n.a.	2.4	n.a.	n.a.	n.a.	23.1	2.5	5.7

Source: FactSet, Daiwa forecasts

■ Company profile

Established in 2000, Ju Teng is the largest supplier of plastic casings for notebook PCs, with a global market share of more than 30%. In recent years, the company has started to diversify its business into other materials (such as metal and carbon fiber) and applications (tablets and smartphones). Ju Teng has been listed in Hong Kong since November 2005 and in Taiwan (via Taiwan depository receipts) since May 2009.

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