

China / Hong Kong Company Focus

Jiangnan Group

Bloomberg: 1366 HK | Reuters: 1366.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 March 2015

BUY HK\$1.53 HSI: 23,897

Price Target : 12-Month HK\$ 2.20

Reason for Report : Annual results, earnings revision

Potential Catalyst: Strong spending from the State Grid

Where we differ: We are more conservative than the market

Analyst

Patricia YEUNG +852 2863 8908
patricia_yeung@hk.dbsvickers.com

Result Summary

FY Dec (RMBm)	FY13	FY14	yoy chg
Sales	6,477.3	8,154.6	25.9
Gross profit	1,000.4	1,271.3	27.1
EBIT	804.0	1,001.7	24.6
Pretax profit	605.2	758.1	25.3
Net Profit	503.4	626.0	24.4
EPS (RMB)	0.16	0.20	20.8
DPS (HK\$)	0.05	0.08	71.3
Gross margin (%)	15.4	15.6	
Opg margin (%)	12.4	12.3	
Net margin (%)	7.8	7.7	

Financial Summary

FY Dec (RMB m)	2013A	2014A	2015F	2016F
Turnover	6,477	8,155	9,518	11,640
Operating Profit	733	973	1,174	1,399
EBITDA	777	1,028	1,232	1,462
Net Pft (Pre Ex.)	461	626	749	937
EPS (RMB)	0.16	0.20	0.22	0.28
EPS (HK\$)	0.20	0.25	0.27	0.34
EPS Pre Ex. (HK\$)	0.19	0.25	0.27	0.34
EPS Gth (%)	25	21	12	25
EPS Gth Pre Ex (%)	14	32	12	25
PE (X)	7.5	6.2	5.6	4.5
PE Pre Ex. (X)	8.2	6.2	5.6	4.5
EV/EBITDA (X)	5.4	3.8	3.1	2.9
Net Div Yield (%)	3.8	5.0	4.5	5.6
P/Book Value (X)	1.7	1.3	1.1	0.9
Net Debt/Equity (X)	0.2	CASH	CASH	0.0
ROAE (%)	24.2	22.7	21.3	22.6
Earnings Rev (%)			(5)	(8)

At A Glance

Issued Capital (m shrs)	3,381
Mkt. Cap (HK\$m/US\$m)	5,172 / 667
Avg. Daily Vol. ('000)	7,947

ICB Industry : Industrials

ICB Sector: Electronics & Electrical Equipment

Principal Business: Jiangnan Group is a leading producer of wires and cables in China with a strong foothold in the Ultra High Voltage (UHV) / Extra High Voltage (EHV) power cable segment. Thanks to its diligent efforts in R&D, Jiangnan Group is among the top qualified suppliers to the State Grid. Its prominent customer base and solid track record of iconic projects testify to its high product quality and leading market position.

Source: Company, DBS Vickers

Strong growth intact

- **FY14 results in line**
- **Three main growth drivers remain intact**
- **M&A a positive catalyst**
- **Maintain BUY with TP at HK\$2.20**

Highlights

FY14 results in line with expectation

- Jiangnan Group reported a 24% net profit growth which was in line with our and market expectation. Turnover growth of 26% was slightly below our expectation. In particular, overseas sales unexpectedly declined 8%. An over 6% decline in copper prices caused power cable ASP to drop >15%. But topline growth was compensated by strong volume growth of >50%, underpinned by contribution from Zhongmei Cable and market share gain from smaller players.

Dividend payout ratio at c.25%

- A final dividend of HK\$0.037 was declared. Full year dividend payout ratio is maintained at c.25%.

Outlook

Three main growth drivers in China

- Three main growth drivers in China remain intact, i.e. strong investment from the State Grid, increasing use of renewable energy and rising investment of infrastructure construction. In particular, the serious air pollution in China is gaining increasing attention. Thus, the construction of UHV power network and use of renewable energy have to be accelerated which would create strong demand for Jiangnan Group's products.
- Strong sales order growth is also reflected in a 17.7% increase in inventory by Dec 2014 as the company would only procure raw materials after receiving sales orders.

South Africa and Singapore are major overseas markets

- Following the renewal of a 5-year procurement contract with Eskom in 2HFY14, we expect stronger sales to South Africa in FY15.
- Singapore is another important overseas market for Jiangnan Group as it is riding on the expansion plan of its major customer in Singapore to extend into other Asian countries.

Strong balance sheet

- Following a share placement in 2HFY14, Jiangnan Group was in a net cash position by year end which bode well for coming M&A. While an MOU in relation to an acquisition was signed in September, the negotiation progress is slower than expected. Nevertheless, a conclusion of this deal will be a positive catalyst.

Earnings projection fine-tuned

- We have trimmed our sales growth assumption, leading to a 5-8% downward revision in FY15/FY16 earnings forecasts. Nevertheless, earnings growth remains strong at 20-25%.

Valuation

We have a BUY rating on the counter. Our target price of HK\$2.20 is based on 8x FY15 PE.

Risks

Delays in investments in UHV power network by grid customers

- This will slow down earnings growth.

Fall in metal prices

- This will lower selling prices and profit.

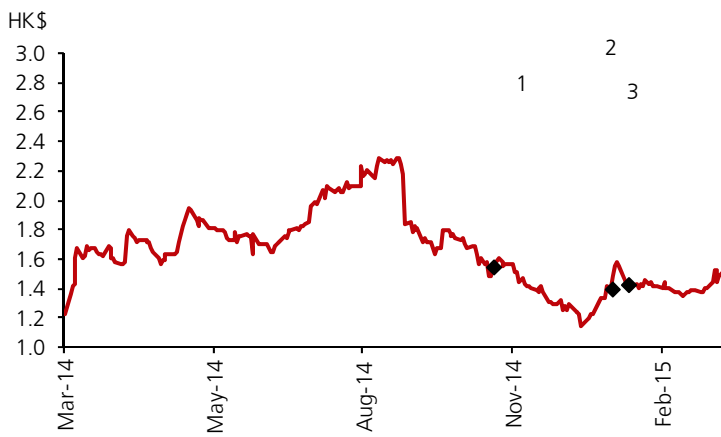
Keen competition

- Entry barrier is low for the low-end market.

Long A/R days

- Most customers settle their bills in 4Q; thus, working capital requirement is high during the year.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	31-Oct-14	HK\$1.48	HK\$2.70	Buy
2:	5-Jan-15	HK\$1.31	HK\$2.70	Buy
3:	14-Jan-15	HK\$1.43	HK\$2.20	Buy

Source: DBS Vickers

DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Vickers (Hong Kong) Limited ("DBSVHK"), a direct wholly-owned subsidiary of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). This report is intended for clients of DBSV Group only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVHK.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBSVHK and/or DBSVH) do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. DBSVHK accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. DBS Bank Ltd along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. DBSVHK, DBS Bank Ltd and their associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company (or companies) referred to in this report.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by DBSVHK and/or DBSVH (and/or any persons associated with the aforesaid entities), that:

- a. such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- b. there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months.

ANALYST CERTIFICATION


The research analyst primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of the date the report is published, the analyst and his / her spouse and/or relatives and/or associate who are financially dependent on the analyst, do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities, directorships and trustee positions).

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBSVHK and its subsidiaries do not have a proprietary position in the securities recommended in this report as of the date the report is published.
2. DBSVHK, DBSVUSA, DBS Bank Ltd and/or other affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this document as of the latest available date of the updated information.
3. Compensation for investment banking services:
 DBSVHK, DBSVUSA, DBS Bank Ltd and/or other affiliates may have received compensation, within the past 12 months, and within the next 3 months may receive or intends to seek compensation for investment banking services from the subject company mentioned in this document.

DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This document is being distributed in Australia by DBSVHK, which is exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ["CA"] in respect of financial services provided to the recipients. DBSVHK is regulated by the Securities and Futures Commission under the laws of Hong KONG, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Securities Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR") (formerly known as HwangDBS Vickers Research Sdn Bhd). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies. <div style="text-align: right;">  Wong Ming Tek, Executive Director, ADBSR </div>
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd. Research reports distributed are only intended for institutional clients only and no other person may act upon it.
United Kingdom	This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
Dubai	This research report is being distributed in The Dubai International Financial Centre ("DIFC") by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3 rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United States	Neither this report nor any copy hereof may be taken or distributed into the United States or to any U.S. person except in compliance with any applicable U.S. laws and regulations. It is being distributed in the United States by DBSV US, which accepts responsibility for its contents. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBS Vickers Securities (USA) Inc ("DBSVUSA") directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Vickers (Hong Kong) Limited

18th Floor Man Yee building, 68 Des Voeux Road Central, Central, Hong Kong
 Tel: (852) 2820-4888, Fax: (852) 2868-1523