

Equities

Hong Kong/China

Company Update

Company Report

Ju Teng International (3336 HK)

18 March 2015

Results Review

Ju Teng announced a set of stable results with revenue increasing by 3.4% YoY to HK\$9571m and net profit increasing by 0.3% YoY to HK\$765m. The results were largely in line with both the market and our expectation. Ju Teng declared a final dividend of HK\$0.15 per share for 2014, same as previous year. Moreover, Ju Teng proposed issuing one warrant for every eight shares at an initial subscription price of HK\$4.60. Given the recent development was largely on track, we keep our earnings estimates and our target price at HK\$6.30. Maintain Buy.

- In line results.** Despite of a tough PC market in 2014, Ju Teng managed to grow its revenue by 3.4% through selling more non-plastic casing products. As expected, with increasing contribution from high-margin non-plastic casing products from 2H14, Ju Teng's gross margin improved to 19.9% in 2H14 compared to 17.6% in 1H14. In 2014, overall gross margin shed by 1.4 ppts YoY to 18.9%. Consequently, gross profit decreased by 3.6% YoY to HK\$1,805m. Owing to higher subsidy income and lower effective tax rate, its net profit increased marginally 0.3% YoY to HK\$765m in 2014.
- Target to grow revenue by 5-10% in 2015.** According to IDC, global shipments of personal computers would decline 4.9% YoY in 2015, and demand for both desktop and portable PCs would remain weak. Though notebook demand will remain subdued in 2015, Ju Teng targets to grow its revenue by 5-10% YoY in 2015 through selling more high-price non-plastic casing products to improve its sales mix and average selling price (ASP). Ju Teng also aims to win market share from its rivals, especially in the enterprise notebook market.
- New capacity to cope with increasing demand.** Ju Teng finished the construction of plants in Chongqing in late 2014. It planned to acquire more CNC machines in 2015 to cope with the growing orders. Currently, its CNC machines are fully utilised.
- Valuation remains attractive.** The share price of Ju Teng has gone up by 25% since we published our Buy report on 8 January 2015. Though we expect Ju Teng's earnings to grow at 6-7% YoY in the coming two years, current valuation remains attractive. Given the results and recent development were largely on track, we keep our earnings estimates and our target price at HK\$6.30, equivalent to 9x 2015E PE. Maintain Buy.
- Key risks.** 1) Changes in customer preferences; 2) slowing global economy; 3) intense competition; and 4) fluctuating raw material prices.

Investment Summary

FY-end Dec	2012	2013	2014	2015E	2016E
Turnover (HK\$ m)	9,201	9,257	9,571	10,088	10,660
Growth (%)	11.7	0.6	3.4	5.4	5.7
Net Profit (HK\$ m)	601	762	765	806	863
Growth (%)	134.2	26.8	0.3	5.4	7.2
EPS (HK\$)	0.53	0.66	0.65	0.69	0.74
Growth (%)	134.4	24.4	(1.2)	6.0	7.2
PER (x)	9.2	7.4	7.4	7.0	6.6
OCF/Share (HK\$)	0.4	0.9	1.9	1.2	1.3
P/B (x)	1.0	0.9	0.9	0.8	0.7
EV/EBITDA (x)	5.9	4.8	4.7	4.4	3.9
DPS (HK\$)	0.12	0.15	0.15	0.17	0.19
Yield (%)	2.5	3.1	3.1	3.6	3.8

Sources: Company, CER

China / Technology / Device Casing

BUY

Share Price	Target Price	Upside
HK\$4.87	HK\$6.30	29.36%

(As of 17 March 2015)

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52 Week Price Range (HK\$)	6.40/3.14
Yield (%)	3.08

Latest Key Data

FF no of shares (m)	798
FF (%)	69.3
FF market cap (HK\$ m)	3,885
12M daily turnover (HK\$ m)	19
12M volatility (%)	42
PEG FY14-16E (x)	3.0
RoE FY15E (%)	11.7
P/B FY15E (x)	0.8
Net debt/equity FY15E (%)	35.0

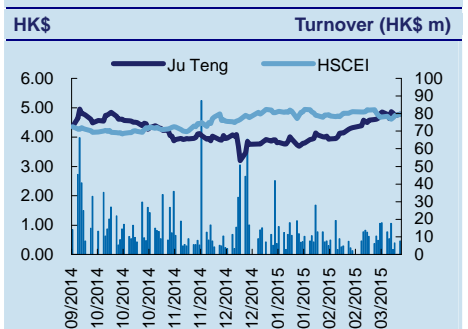
Performance (%)

	1M	YTD	12M
Absolute	13.3	27.5	(20.3)
Relative to HSCEI	14.6	28.8	(19.0)

Major Shareholders (%)

Lin Mei-Li	39.9
AllianceBernstein L.P.	6.0
Templeton Asset Management	7.0
Free Float	47.1

Price Chart



Sources: Bloomberg, CER estimates

2014 results review

HK\$m	2013	2014	YoY%
Revenue	9,256.8	9,571.2	3.4
Cost of sales	(7,383.9)	(7,765.9)	5.2
Gross profit	1,873.0	1,805.3	(3.6)
Other income and gains	65.9	176.3	167.6
Selling and distribution expenses	(101.6)	(128.1)	26.1
Administrative expenses	(581.0)	(662.2)	14.0
Other expenses	(62.2)	(91.7)	47.6
Finance costs	(61.8)	(90.2)	45.8
Profit before tax	1,132.2	1,009.4	(10.8)
Income tax expense	(255.4)	(185.0)	(27.6)
Profit after tax	876.8	824.4	(6.0)
Minorities	(114.6)	(59.7)	(47.9)
Net profit	762.2	764.7	0.3
EPS	0.7	0.7	(1.2)

			PPT change
Gross margin (%)	20.2	18.9	(1.4)
Net margin (%)	8.2	8.0	(0.2)
Effective tax rate	22.6	18.3	(4.2)

Sources: Company, CER

Company Description

Ju Teng is not only one of the largest plastic casing manufacturers, but also a strong technology leader in metal and composite material casing solutions. With its products ranging from notebook computers, tablet PCs to smartphones, Ju Teng is said to be a leading one-stop device (Notebook PCs, tablets and mobile phones) casing solution provider.

Profit & Loss (Consolidated)

FY-end 31 Dec (HK\$ m)	2012	2013	2014	2015E	2016E
Sales	9,201	9,257	9,571	10,088	10,660
Cost of sales	(7,800)	(7,384)	(7,766)	(8,065)	(8,491)
Gross profit	1,401	1,873	1,805	2,023	2,169
Other income	100	66	176	71	74
Operating expenses	(651)	(745)	(882)	(926)	(979)
Operating profit	850	1,194	1,100	1,167	1,264
Finance cost, net	(62)	(62)	(90)	(95)	(100)
Share of P/L of asso. & JCE	0	0	0	0	0
Pre-tax profit	788	1,132	1,009	1,072	1,164
Tax	(129)	(255)	(185)	(204)	(233)
Minorities	(59)	(115)	(60)	(63)	(67)
Net profit	601	762	765	806	863
EBITDA	1,438	1,850	1,874	1,847	1,959
EBIT	843	1,176	1,082	1,149	1,245
EPS (HK\$)	0.53	0.66	0.65	0.69	0.74
DPS (HK\$)	0.12	0.15	0.15	0.17	0.19

Sources: Company, CER estimates

Cash Flow (Consolidated)

FY-end 31 Dec (HK\$ m)	2012	2013	2014	2015E	2016E
Operating cash flow	411	1,089	2,168	1,439	1,518
Net profit	601	762	765	806	863
Depreciation &	594	674	791	697	715
Change in working capital	(925)	(608)	507	(156)	(172)
Others	141	261	105	92	113
Investment cash flow	(1,344)	(1,300)	(2,237)	(655)	(808)
Net capex	(1,424)	(1,477)	(2,232)	(653)	(806)
Disposal	71	171	0	0	0
Change in LT investment	0	(13)	7	0	0
Change in other assets	9	20	(11)	(1)	(2)
Free cash flow	(933)	(211)	(68)	785	711
Financing cash flow	1,408	109	245	(828)	(687)
Change in share capital	39	31	0	0	0
Net change in debt	1,460	216	420	(656)	(486)
Dividend paid	(91)	(138)	(175)	(173)	(201)
Net impact of exchange fluctuation	34	0	0	0	0
Net cash flow	508	(102)	176	(43)	24

Sources: Company, CER estimates

Balance Sheet (Consolidated)

FY-end 31 Dec (HK\$ m)	2012	2013	2014	2015E	2016E
Total assets	13,249	14,718	16,132	16,332	16,767
Current assets	6,363	7,016	6,996	7,239	7,583
Cash & ST investments	1,221	1,085	1,599	1,552	1,573
Marketable securities & ST inv.	-	-	-	-	-
Account & notes receivable	3,239	3,954	3,313	3,492	3,690
Inventories	937	1,183	1,355	1,428	1,509
Others	965	794	728	768	811
Non-current assets	6,886	7,702	9,137	9,093	9,184
LT investments	31	44	37	37	37
Net fixed assets	6,417	7,536	8,978	8,934	9,025
Others	438	122	121	121	121
Total liabilities	6,633	7,085	8,175	7,685	7,395
Current liabilities	5,045	5,445	4,911	5,078	5,282
Account payable	1,629	1,555	1,348	1,421	1,501
ST borrowings	2,499	2,664	2,085	2,088	2,096
Others	917	1,226	1,478	1,570	1,685
Non-current liabilities	1,587	1,641	3,264	2,606	2,113
Long-term debts	1,583	1,634	2,633	1,974	1,481
Others	5	6	632	632	632
Total equities	6,617	7,633	7,958	8,654	9,383
Shareholders' equity	5,386	6,236	6,547	7,180	7,842
Minority shareholders	1,230	1,397	1,410	1,473	1,541
Total liabilities + SH equities	13,249	14,718	16,132	16,338	16,778
Net cash / (debt)	(2,876)	(3,213)	(3,119)	(2,511)	(2,004)
Working capital	1,318	1,571	2,085	2,161	2,301
Total capital employed	9,468	10,533	11,265	11,242	11,419
Shareholders' equity + Minorities	6,617	7,633	7,958	8,654	9,383
Net gearing (%)	43	42	39	29	21

Sources: Company, CER estimates

Financial Summary

FY-end 31 Dec	2012	2013	2014	2015E	2016E
Growth (%)					
Revenue	11.7	0.6	3.4	5.4	5.7
EBITDA	75.7	28.6	1.3	(1.4)	6.1
EBIT	159.2	39.4	(7.9)	6.2	8.3
Net profit	134.2	26.8	0.3	5.4	7.2
EPS	134.4	24.4	(1.2)	6.0	7.2
Margins (%)					
Gross	15.2	20.2	18.9	20.1	20.3
EBITDA	15.6	20.0	19.6	18.3	18.4
EBIT	9.2	12.7	11.3	11.4	11.7
Net	6.5	8.2	8.0	8.0	8.1
Others (%)					
Effective tax rate	16.3	22.6	18.3	19.0	20.0
Payout ratio	23.1	23.0	22.6	25.0	25.0
RoCE	6.3	7.2	6.8	7.2	7.6
Average RoE	11.9	13.1	12.0	11.7	11.5
Average RoA	4.9	5.5	5.0	5.0	5.2
Interest cover (x)	15.3	27.1	14.8	15.0	15.3

Sources: Company, CER estimates

China Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

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