

Ju Teng International [3336.HK]

2014 Review: Outlook remains positive. Maintain BUY.

Ju Teng International's (Ju Teng) 2014 results were lower than our expectations due to lower than expected gross margin achieved in 2H14. We remain positive on Ju Teng's outlook for 2015 given (a) its higher metals casing for notebook, tablet and two-in-one PC; b) rising order allocation and margins for Surface Pro tablets and c) lack of one-off costs for the relocation of factories. Despite negative news flow from the supply chain, management believes that Ju Teng will report turnover and margin improvement in 1H15. We maintain the view that Ju Teng should deliver solid earnings growth in 2015E and 2016E. Maintain BUY with a higher target price of HK\$6.20 which is based on 8x 2015E PER. Our target PE represents 40% discount to industry average but in line with historical average.

Investment Highlights

- 2H14 gross margin weaker than expected...** 2H14 results below expectations on lower than expected gross margin. Ju Teng report turnover of HK\$5.2bn, up 4% YoY and 18% HoH, largely in line with our and market expectations. However, gross margin was weaker than our and market expectations. The lower than expected gross margin, in our view, was mainly due to lower operating efficiency at Chongqing plant. The impact of higher other income (higher government subsidy) in 2H14 was partly offset by provisions/write-off made for relocation of production facilities. Ju Teng declared a final dividend of HK\$0.15, flat YoY.
- ...but remain positive for 2015.** Despite negative industry news flow, Ju Teng still guided 0-5% YoY turnover growth in 1H15 given strong demand for its metal casing products. Margin is also expected to improve 1-2% YoY in 1H15 given more favourable product mix. For 2015, management expects its market share in commercial/enterprise segment to report good growth given gaining market share. Management also highlights that demand for metal casing in Chongqing plant is strong given lack of competition. In smartphone segment, management's tone is more conservative on sales growth or client acquisition. Management is putting resources on growing the sales of metal casings for tablet and two-in-one PC which offer higher margin. Ju Teng guides 2015 turnover to increase 5-10%, on improved ASP, while gross margin to improve 1-2ppts YoY in 2015.
- We believe that Ju Teng is on the right track to reduce reliance on plastic casing business through expanding higher-margin unibody and metal casings business. Metal casing composite material casing will account for close to 40% of total turnover in 2015, up from 25% in 2014. Ju Teng's CAPEX for 2015 is US\$60m which is mainly for the purchase of 600 CNC machines in 2015. The valuation gap between Ju Teng and its peers should narrow given increasing contribution from metals casings.

Key Financials (in HKDm)	2012	2013	2014	2015E	2016E
Revenue	9,201.3	9,256.8	9,571.2	10,344.3	11,126.4
Change (YoY %)	11.7	0.6	3.4	8.1	7.6
Gross Profit	1,401.2	1,873.0	1,805.3	2,125.0	2,350.6
Gross Margin %	15.2	20.2	18.9	20.5	21.1
Net Profit	601.0	762.2	764.7	900.1	1,029.0
Net Margin %	6.5	8.2	8.0	8.7	9.2
EPS (Basic)	0.53	0.66	0.65	0.78	0.89
Change (YoY %)	134.4	24.6	(2.3)	20.8	14.3
DPS	\$0.120	\$0.150	\$0.150	\$0.156	\$0.179
ROE (%)	11.9	13.1	12.0	13.0	13.4
Dividend Yield (%)	2.46	3.08	3.08	3.21	3.67
PER (x)	n.a.	7.3	7.5	6.2	5.5
PBR (x)	1.0	0.9	0.9	0.8	0.7
FCF Yield (%)	-15.61%	-8.79%	16.50%	17.85%	24.45%
Capex (m)	(1,274.8)	(1,720.0)	(1,560.0)	(1,014.0)	(918.5)
Free cash flow per share	(0.6)	(0.4)	0.7	0.7	1.0
Net Gearing (%)	54.2	51.9	48.1	37.4	24.3

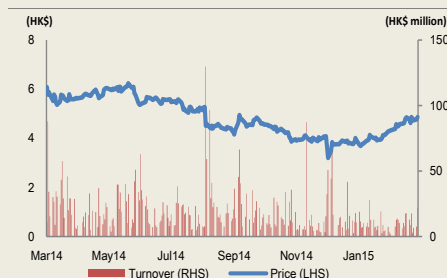
TMT - Hardware

BUY

Close: HK\$4.87 (Mar 17, 2015)

Target Price: HK\$6.25 (+28.4%)

Share Price Performance



Market Cap	US\$722m
Shares Outstanding	1,151.6m
Auditor	Ernst & Young
Free Float	69.3%
52W range	HK\$3.20-4.87
3M average daily T/O	US\$1.7m
Major Shareholding	Chen Family (28.68%)

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	2008	2009	2010	2011	2012	2013	2014	2015F	2016F
Turnover (HKDm)									
Plastic casing	7,249.2	7,463.9	7,166.2	7,411.1	7,361.1	6,772.2	6,433.6	6,433.6	6,433.6
Metal casing	0	0	0	823.5	1,840.3	2,116.3	2,645.4	3,439.0	4,126.8
Other Casing	0	0	0	0	0	368.4	492.3	471.7	566.1
Total	7,249.2	7,463.9	7,166.2	8,234.5	9,201.3	9,256.8	9,571.2	10,344.3	11,126.4
YoY Change (%)									
Plastic casing		3.0	(4.0)	3.4	(0.7)	(8.0)	(5.0)	0	0
Metal casing					123.5	15.0	25.0	30.0	20.0
Other Casing							33.6	(4.2)	20.0
Total		3.0	(4.0)	14.9	11.7	0.6	3.4	8.1	7.6
Gross margin (%)									
Plastic casing	16.7	18.0	12.9	10.0	14.0	17.0	15.0	15.5	15.5
Metal casing			28.0	15.0	20.0	28.2	26.2	28.7	28.7
Other Casing			14.0	0	0	34.0	30.0	30.0	30.0
Net margin (%)	16.7	18.0	12.9	10.5	15.2	20.2	18.9	20.5	21.1
Cost (HKDm)									
S,G&A	(391.3)	(405.1)	(479.7)	(576.0)	(624.4)	(682.6)	(790.3)	(845.8)	(910.2)
Financial Expenses	(19.6)	(14.3)	(27.9)	(53.8)	(54.3)	(32.7)	(42.3)	(51.4)	(60.4)
YoY Change (%)									
S,G&A		3.5	18.4	20.1	8.4	9.3	15.8	7.0	7.6
Financial Expenses		(27.2)	95.5	92.8	0.9	(39.7)	29.2	21.5	17.4
Volume shipment (m units)									
Plastic casing	40.00	45.00	56.00	58.00	60.00	51.00	57.51	61.39	64.76
Metals casing						9.00	10.35	12.94	16.82
Volume shipment YoY Change (%)									
Plastic casing		12.5	24.4	3.6	3.4	(15.0)	12.8	6.7	5.5
Metals casing							15.0	25.0	30.0
ASP (HK\$)									
Plastic casing					144.3	144.3	144.3	144.3	144.3
Metals casing					204.5	204.5	204.5	204.5	204.5
ASP YoY Change (%)									
Plastic casing						0	0	0	0
Metals casing						0	0	0	0
CAPEX (HKDm)	(555.2)	(1,641.1)	(964.2)	(1,379.1)	(1,274.8)	(1,720.0)	(1,560.0)	(1,014.0)	(918.5)
Net Gearing (%)	50.6	37.2	28.5	41.5	54.2	51.9	48.1	37.4	24.3

Sources: Company, CGIHK Research

Figure 1: Earnings projection

Income Statement (HKDm)						Cash Flow Statement (HKDm)					
	FY2012	FY2013	FY2014F	FY2015F	FY2016F		FY2012	FY2013	FY2014F	FY2015F	FY2016F
Revenue	9,201	9,257	9,571	10,344	11,126	Net Income	843	1,176	1,082	1,253	1,411
Growth yoy%	11.7%	0.6%	3.4%	8.1%	7.6%	Depreciation & Amort.	589	668	772	839	900
Gross Profit	1,401	1,873	1,805	2,125	2,351	Change in Working Capital	(882)	(539)	507	(233)	(236)
Growth yoy%	61.5%	33.7%	(3.6%)	17.7%	10.6%	Cash from Ops.	550	1,304	2,361	1,859	2,076
Selling General & Admin Exp.	(624)	(683)	(790)	(846)	(910)	Capital Expenditure	(1,275)	(1,720)	(1,560)	(1,014)	(919)
Others Operating Expenses/Items	67	(15)	67	(27)	(29)	Sale of Property, Plant, and Equipment	-	-	-	-	-
Operating Income	843	1,176	1,082	1,253	1,411	Change in Investing Activities	(69)	428	(339)	0	6
Growth yoy%	n.a.	n.a.	(7.9%)	15.7%	12.7%	Cash from Investing	(1,344)	(1,292)	(1,899)	(1,014)	(912)
Interest Expense	(62.0)	(61.8)	(90.2)	(93.4)	(87.1)	Net increase in bank borrowings	1,460	216	420	168	(330)
Interest and Invest. Income	6.8	18.4	17.2	23.9	28.4						
Income/(Loss) from Affiliates	0	0	0	0	0	Issuance of Common Stock	39	17	0	0	0
Other Non-Operating Inc. (Exp.)	0	0	0	0	0	Common Dividends Paid	(90)	(138)	(175)	(174)	(180)
Impairment of Goodwill	-	-	-	-	-	Special Dividend Paid	-	-	-	-	-
Gain (Loss) On Sale Of Invest.	-	-	-	-	-	Other Financing Activities	(140)	(235)	(212)	(229)	(241)
Gain (Loss) On Sale Of Assets	-	-	-	-	-	Cash from Financing	1,269	(140)	33	(235)	(751)
Income Tax Expense	(129)	(255)	(185)	(213)	(243)						
Minority Int. in Earnings	(59)	(115)	(60)	(70)	(80)	Net Change in Cash	476	(128)	495	610	413
Net Income	601	762	765	900	1,029						
Growth yoy%	134.2%	26.8%	0.3%	17.7%	14.3%						

Balance Sheet (HKDm)						Ratios					
	FY2012	FY2013	FY2014F	FY2015F	FY2016F		FY2012	FY2013	FY2014F	FY2015F	FY2016F
ASSETS						Profitability					
Cash And Equivalents	1,163	1,061	1,567	2,175	2,587	Return on Assets %	4.9%	5.5%	5.0%	5.4%	5.8%
Receivables	1,902	1,977	2,083	2,251	2,422	Return on Capital %	7.9%	8.2%	7.8%	8.5%	9.0%
Inventory	3,239	3,954	3,313	3,581	3,852	Return on Equity %	11.9%	13.1%	12.0%	13.0%	13.4%
Other Current Assets	58	24	36	0	0						
Total Current Assets	6,363	7,016	6,999	8,008	8,860	Margin Analysis					
Net Property, Plant & Equipment	6,193	7,291	8,589	8,764	8,782	Gross Margin %	15.2%	20.2%	18.9%	20.5%	21.1%
Long-term Investments	-	-	-	-	-	SG&A Margin %	6.8%	7.4%	8.3%	8.2%	8.2%
Other Intangibles	-	-	-	-	-	EBIT Margin %	9.2%	12.9%	11.5%	12.3%	12.9%
Deferred Tax Assets, LT	-	-	-	-	-	EBITDA Margin %	15.7%	20.1%	19.6%	20.5%	21.0%
Other Long-Term Assets	693	412	547	568	589	Net Income Margin %	6.5%	8.2%	8.0%	8.7%	9.2%
Goodwill	-	-	-	-	-						
Accounts Receivable Long-Term	-	-	-	-	-	Asset Turnover					
Total Long Term Assets	6,886	7,702	9,137	9,332	9,371	Total Asset Turnover	0.7x	0.6x	0.6x	0.6x	0.6x
Total Assets	13,249	14,718	16,136	17,340	18,231	Fixed Asset Turnover	1.3x	1.2x	1.0x	1.1x	1.2x
						Accounts Receivable Turnover	5.3x	4.8x	4.7x	4.8x	4.8x
LIABILITIES & EQUITY						Inventory Turnover	2.8x	2.3x	2.9x	2.9x	2.9x
Accounts Payable	2,373	2,539	2,512	2,715	2,920						
Accrued Exp.	-	-	-	-	-	Liquidity					
Short-term Borrowings	2,499	2,664	2,085	2,253	1,924	Current Ratio	1.3x	1.3x	1.4x	1.5x	1.7x
Curr. Port. of LT Debt	-	-	-	-	-	Quick Ratio	0.4x	0.4x	0.6x	0.7x	0.8x
Curr. Income Taxes Payable	-	-	-	-	-	Avg. Days Sales Out.	75.5	77.9	79.4	79.4	79.4
Unearned Revenue, Current	-	-	-	-	-	Avg. Days Inventory Out.	128.5	155.9	126.4	126.4	126.4
Other Current Liabilities	173	242	313	321	353	Avg. Days Payable Out.	119.1	121.4	118.7	116.1	117.2
Total Current Liabilities	5,045	5,445	4,911	5,289	5,197	Avg. Cash Conversion Cycle	132.9	173.3	139.4	142.7	143.8
Long-Term Debt	1,583	1,634	2,633	2,633	2,633	Net Debt to Equity	54%	52%	48%	37%	24%
Def. Tax Liability, Non-Curr.	5	6	15	16	18						
Other Non-Current Liabilities	0	0	617	666	720	Growth Over Prior Year					
Total Liabilities	6,633	7,085	8,175	8,605	8,567	Total Revenue	11.7%	0.6%	3.4%	8.1%	7.6%
Common Stock	115	117	116	115	115	Net Income	134.2%	26.8%	0.3%	17.7%	14.3%
Additional Paid In Capital	-	-	-	-	-	Payout Ratio %	35.2%	22.6%	22.6%	23.2%	20.0%
Retained Earnings	5,271	6,119	6,433	7,139	7,988						
Treasury Stock	-	-	-	0	0						
Comprehensive Inc. and Other	-	-	-	-	-						
Minority Interest	1,230.5	1,397.2	1,410.3	1,480.3	1,560.4						
Total Equity	6,617	7,633	7,960	8,734	9,663						
Total Liabilities And Equity	13,249	14,718	16,135	17,339	18,230						

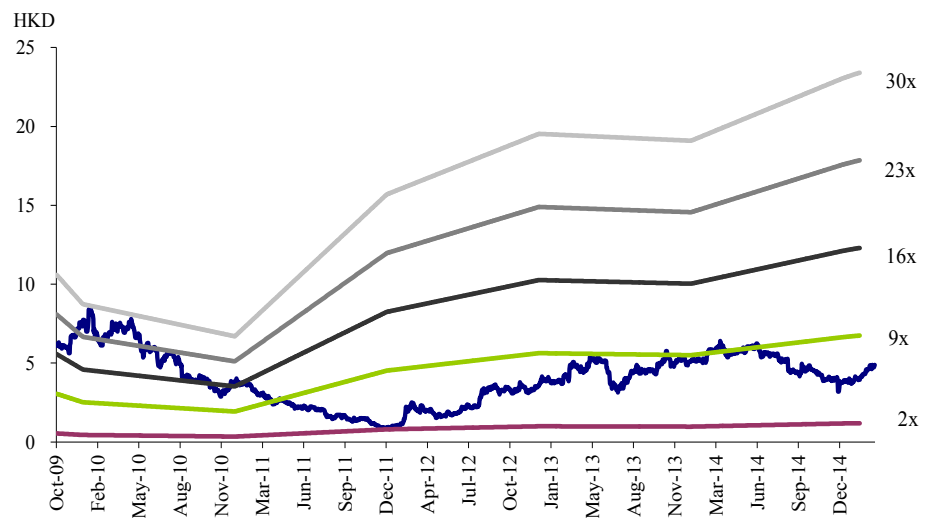
Valuation

Should deserve a higher valuation

Ju Teng is a leader in plastic casings with a 30% global market share. The group has traded at a sizeable valuation discount since 2011 due to its high exposure to the notebook segment, and has been lagging behind peers in the metal casing business. Ju Teng is successfully diversifying away from its traditional plastic notebook casing business.

The stock is trading at 6.2x 2015E PER, which we think is undervalued vs its casing component peers (12.6x and 10.6x on average). Maintain **BUY** rating with target price of HK\$6.25 based on 8x 20145 PER (discount to average of peers of 16.0x but in line with historical average of 8.0x).

Figure 2: Ju Teng PER trend



Sources: Bloomberg, CGIHK Research estimates

Figure 3: Peer comparison

Ticker	Company	Price Lcy	Market Cap US\$m	PE			EV/EBITDA			P/B		ROE		ROA		Div yield		Share Price Performance			
				2014F x	2015F x	2016F x	2014F x	2015F x	2016F x	2013 x	2014F x	2013 %	2014F %	2013 %	2014F %	2013 %	2014F %	1M %	3M %	6M %	12M %
3336 HK	Ju Teng International Hldgs	4.9	722.3	6.4	5.8	4.6	4.7	4.3	n.a.	0.9	0.8	13.1	12.5	5.0	5.6	3.1	3.6	13.3	19.1	14.3	-20.3
698 HK	Tongda Group Holdings Ltd	1.1	795.9	12.7	9.8	8.1	8.6	6.8	5.7	2.0	1.8	15.8	15.8	7.6	8.8	2.3	2.5	9.7	31.4	4.6	-5.8
285 HK	Byd Electronic Intl Co Ltd	8.7	2524.5	14.5	10.6	8.8	6.7	5.1	4.5	1.7	1.6	7.6	11.5	6.5	8.0	0.4	0.7	9.6	17.4	6.5	95.5
838 HK	Eva Precision Industrial Hld	2.2	503.5	15.3	11.7	8.8	7.9	6.2	4.9	1.7	1.6	2.7	11.8	3.5	5.8	1.2	1.9	14.4	18.6	12.6	85.8
2038 HK	Fih Mobile Ltd	3.6	3571.2	21.8	15.8	14.3	2.6	2.3	2.1	0.9	0.9	2.2	4.0	2.0	3.2	0.0	0.0	0.0	-3.5	-14.4	-21.2
732 HK	Truly International Holdings	3.4	1284.1	8.7	7.0	6.3	5.5	4.8	4.2	1.5	1.2	27.3	15.4	9.1	6.7	6.1	2.8	4.9	12.5	-22.9	-30.7
2018 HK	Aac Technologies Holdings In	54.0	8539.7	22.2	17.6	15.3	17.4	13.8	11.9	6.6	5.7	36.9	27.5	24.3	20.5	2.0	1.7	10.1	34.3	19.2	65.1
2382 HK	Sunny Optical Tech	14.2	2006.1	15.7	13.0	10.4	11.3	9.5	7.7	3.9	3.2	18.5	21.3	11.0	12.2	1.4	1.8	16.6	4.4	39.5	68.6
992 HK	Lenovo Group Ltd	10.8	15507.6	17.0	13.8	10.7	10.0	8.4	6.7	3.7	3.8	25.3	23.0	3.6	4.0	2.2	2.1	-9.2	9.2	-9.8	31.1
Average				16.0	12.4	10.3	8.7	7.1	5.9	2.7	2.5	17.0	16.3	8.5	8.6	2.0	1.7	7.0	15.5	4.4	36.1
2474 TT	Catcher Technology Co Ltd	287.5	6987.2	13.3	11.2	10.2	7.1	5.9	5.1	2.6	2.5	20.5	20.5	13.7	13.9	n.a.	2.4	-1.7	22.9	-0.9	32.8
5264 TT	Casatek Holdings Ltd	178.0	1914.9	10.3	8.4	n.a.	4.6	3.8	n.a.	2.1	1.9	29.8	19.3	11.1	12.3	n.a.	3.9	5.3	-2.2	-1.7	8.5
2354 TT	Foxconn Technology Co Ltd	80.0	3487.9	13.0	12.2	12.4	6.9	6.2	6.1	1.5	1.3	10.8	11.0	7.0	7.8	n.a.	1.5	-0.5	-6.9	9.6	16.8
2356 TT	Inventec Corp	23.1	2618.7	12.0	11.1	11.2	6.4	6.7	6.3	1.5	1.5	13.5	11.3	3.6	3.1	n.a.	5.8	0.4	14.1	11.6	-25.9
2324 TT	Compal Electronics	26.6	3726.1	10.6	9.5	9.2	6.7	6.0	5.6	1.2	1.1	2.5	11.2	1.5	3.0	n.a.	5.2	13.4	32.0	5.3	36.1
2383 TT	Elite Material Co Ltd	53.2	532.4	10.8	n.a.	n.a.	6.8	n.a.	n.a.	2.1	2.0	12.7	20.5	9.8	9.3	n.a.	4.1	21.5	35.2	63.2	96.7
2357 TT	Asustek Computer Inc	317.5	7468.3	10.9	10.3	10.8	7.1	6.9	7.0	1.6	1.5	16.4	14.2	7.1	6.9	n.a.	5.7	-2.2	-4.9	2.8	8.0
3231 TT	Wistron Corp	27.2	2126.1	11.1	9.2	7.8	6.8	5.8	4.9	1.0	0.9	9.0	8.7	1.3	2.1	n.a.	4.8	-6.2	-1.1	-15.8	10.5
2353 TT	Acer Inc	21.0	2059.3	34.2	28.1	26.2	9.6	9.1	8.9	1.0	1.0	-31.5	2.8	-3.3	0.9	n.a.	0.4	4.7	3.0	-8.1	15.9
Average				14.0	12.5	12.5	6.9	6.3	6.3	1.6	1.5	9.3	13.3	5.8	6.6	n.a.	3.8	3.9	10.2	7.3	22.2
300115 CH	Shenzhen Everwin Precision-A	25.4	2095.4	40.5	27.3	20.1	24.4	18.1	14.1	7.0	6.2	14.0	16.2	10.1	11.2	n.a.	0.4	11.8	29.5	17.4	55.8
300083 CH	Janus Dongguan Precision-A	32.1	1170.6	108.7	31.6	26.0	n.a.	n.a.	n.a.	4.4	n.a.	9.4	3.9	2.1	2.2	n.a.	0.3	18.9	39.3	70.1	74.0
300328 CH	Dongguan Eontec Co Ltd-A	45.5	816.1	67.0	43.8	51.8	42.3	27.8	n.a.	8.2	5.4	8.3	9.2	6.1	3.8	0.4	n.a.	22.4	17.7	58.1	118.4
002426 CH	Suzhou Victory Precision-A	12.5	1971.1	69.4	27.8	20.2	n.a.	n.a.	n.a.	4.2	n.a.	8.5	5.9	4.2	n.a.	n.a.	0.2	3.5	11.0	9.8	39.3
Average				71.4	32.6	29.5	33.4	22.9	14.1	5.9	5.8	10.0	8.8	5.6	5.7	0.4	0.3	14.1	24.4	38.9	71.9
060720 KS	Kh Vatec Co Ltd	31100.0	552.5	8.7	8.6	9.9	5.2	4.7	6.5	2.4	1.9	26.9	23.7	5.1	n.a.	n.a.	1.4	12.7	14.0	48.7	74.2
JBL US	Jabil Circuit Inc	22.2	4293.4	11.0	9.5	9.1	4.5	4.1	4.1	1.9	1.8	16.7	14.0	2.2	n.a.	1.4	1.5	0.0	10.7	2.7	23.4
HIP SP	Hi-P International Ltd	0.5	320.6	19.5	20.2	n.a.	4.2	4.4	n.a.	0.7	0.7	1.1	3.6	0.9	1.8	n.a.	4.8	-13.5	-16.8	-21.6	-5.2
Average				27.6	17.7	16.2	11.8	9.1	8.3	2.8	2.5	13.7	12.5	3.5	3.8	0.9	2.0	3.3	8.1	17.2	41.1

Sources: Bloomberg, Company, CGIHK Research estimates for covered stocks

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