

Haitian International Holdings

Harvest time in 2015

Haitian is the largest producer of plastic injection molding machines (PIMM) in the world (in terms of units shipped). The company is migrating from a low cost equipment maker to a market leader in innovative and highly efficient equipment and taking market share in China as well as many large export markets. We are maintaining OW rating with PT unchanged at HK\$22.0.

- **2015 should be better than 2014.** The small beat in 2014 net profit is a very good performance given the sluggish demand and plunging currencies. Haitian has demonstrated its technological and cost superiority over peers in 2014. (The company has slack capacity and a strong brand to take advantage of the tailwinds in 2015 (better demand, lower raw material costs, Renminbi depreciation.)
- **NP revised up by 1.3% for FY15E and 0.5% for FY16E.** We slightly reduce our FY15E and FY16E sales estimates by 3.3% and 3.3% respectively, but we still expect a mild improvement in sales growth to 16.6% in 2015 due in part to a mild recovery in the economy, more exports to North America, which is very strong, and also a significant increase in capacity. We are not explicitly building a large increase in GPM forecasts (0.4% increase for FY15E) because we expect the company to lower prices (if costs come down) in order to boost sales and gain market share. We revise up FY15E and FY16E NP forecasts by 1.3% and 0.5% respectively given its technological and cost superiority over peers.
- **Price, valuation and risks.** Our DCF-based price target (Dec-15, WACC 9.0%, terminal growth of 3%) of HK\$22.0 implies a CY16E P/E of 22x. Downside risks include deterioration in the export environment in key markets such as Europe and the US, and a slower pace of government stimulus measure in China.

Overweight

1882.HK, 1882 HK

Price: HK\$16.50

Price Target: HK\$22.00

China

SMID-Caps

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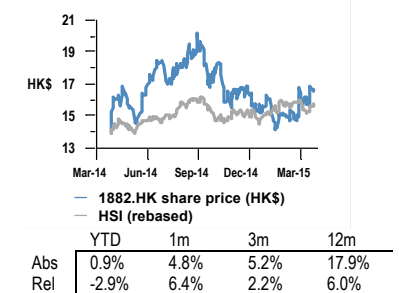
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Price Performance



Haitian International Holdings (Reuters: 1882.HK, Bloomberg: 1882 HK)

| Rmb in mn, year-end Dec | FY12A | FY13A | FY14A | FY15E | FY16E |
|-------------------------|---------|-------|-------|-------|--------|
| Revenue (Rmb mn) | 6,335 | 7,201 | 7,560 | 8,813 | 10,281 |
| Net Profit (Rmb mn) | 986 | 1,207 | 1,305 | 1,537 | 1,792 |
| EPS (Rmb) | 0.61 | 0.75 | 0.81 | 0.96 | 1.12 |
| DPS (Rmb) | 0.22 | 0.15 | 0.18 | 0.21 | 0.25 |
| Revenue growth (%) | (9.9%) | 13.7% | 5.0% | 16.6% | 16.7% |
| EPS growth (%) | (10.7%) | 22.4% | 8.1% | 17.8% | 16.6% |
| ROCE | 16.9% | 17.6% | 16.1% | 16.6% | 17.2% |
| ROE | 19.7% | 20.9% | 19.7% | 20.1% | 20.0% |
| P/E (x) | 21.5 | 17.6 | 16.3 | 13.8 | 11.9 |
| P/BV (x) | 4.0 | 3.4 | 3.0 | 2.5 | 2.2 |
| EV/EBITDA (x) | 17.4 | 15.0 | 14.0 | 11.4 | 9.2 |
| Dividend Yield | 1.6% | 1.1% | 1.4% | 1.6% | 1.9% |

Source: Company data, Bloomberg, J.P. Morgan estimates.

| Company Data | |
|------------------------------|-----------|
| Shares O/S (mn) | 1,607 |
| Market Cap (Rmb mn) | 21,242 |
| Market Cap (\$ mn) | 3,420 |
| Price (HK\$) | 16.50 |
| Date Of Price | 26 Mar 15 |
| Free Float(%) | - |
| 3M - Avg daily vol (mn) | 1.22 |
| 3M - Avg daily val (HK\$ mn) | 18.94 |
| 3M - Avg daily val (\$ mn) | 2.4 |
| HSI | 2,4497.08 |
| Exchange Rate | 7.75 |
| Price Target End Date | 31-Dec-15 |

See page 12 for analyst certification and important disclosures, including non-US analyst disclosures.

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| Key catalysts for the stock price: | Upside risks to our view: | Downside risks to our view: |
|---|---|--|
| <ul style="list-style-type: none"> A rise in profits for end customer (retailers) could spur demand for Haitian's products Easier credit in China could make it possible for Haitian to accelerate sales News on greater adoption of all-electric machines in developed markets could lift sentiment | <ul style="list-style-type: none"> A surge in demand as the economy in China improves The better performance for the new generation machines encourage faster than expected replacement cycle Development of more refined high end all-electric machines | <ul style="list-style-type: none"> End demand for plastic products in the domestic and international markets that could impact the sales volume of plastic injection machines. New products require significant costs to develop and there is risk that demand from customers may be lower than expected. Higher production costs in China as wages and currency rise |

| Key financial metrics | FY13 | FY14 | FY15E | FY16E |
|-----------------------------|--------|--------|--------|--------|
| Revenues (LC) | 7,201 | 7,560 | 8,813 | 10,281 |
| Revenue growth (%) | 13.7% | 5.0% | 16.6% | 16.7% |
| EBITDA (LC) | 1,499 | 1,633 | 1,913 | 2,227 |
| EBITDA margin (%) | 20.8% | 21.6% | 21.7% | 21.7% |
| Tax rate (%) | 18% | 18% | 19% | 20% |
| Net profit (LC) | 1,207 | 1,305 | 1,537 | 1,792 |
| EPS (LC) | 0.751 | 0.812 | 0.957 | 1.115 |
| EPS growth (%) | 22.4% | 8.1% | 17.8% | 16.6% |
| DPS (LC) | 0.15 | 0.18 | 0.21 | 0.25 |
| BVPS (LC) | 3.86 | 4.44 | 5.19 | 6.07 |
| Operating cash flow (LC mn) | 1,184 | 1,308 | 1,312 | 1,742 |
| Free cash flow (LC mn) | (530) | 129 | 677 | 1,258 |
| Interest cover (x) | -13 | -15 | -14 | -13 |
| Net margin (%) | 16.8% | 17.3% | 17.4% | 17.4% |
| Sales/assets (X) | 0.77 | 0.69 | 0.71 | 0.72 |
| Debt/equity (%) | 10.1% | 17.3% | 7.7% | 6.6% |
| Net debt/equity (%) | -23.5% | -13.8% | -26.1% | -34.9% |
| ROE (%) | 21% | 20% | 20% | 20% |

| Key model assumptions | FY13 | FY14 | FY15E | FY16E |
|-----------------------|------|------|-------|-------|
| Large machine Y/Y | 2% | 9% | 20% | 20% |
| Med machines Y/Y | 21% | 3% | 15% | 15% |
| Small machines Y/Y | 5% | 12% | 24% | 24% |

Source: Company and J.P. Morgan estimates.

| Sensitivity analysis | EBITDA | | EPS | |
|------------------------------|--------|-------|-------|-------|
| Sensitivity to | FY15E | FY16E | FY15E | FY16E |
| Export sales (5% chg) | 1.1% | 1.2% | 1% | 1% |
| Domestic sales (5% chg) | 3.1% | 3.0% | 4% | 4% |
| Large machine sales (5% chg) | 2.1% | 2.2% | 3% | 3% |
| GM (1% chg) | 3.7% | 3.7% | 5% | 5% |

Source: J.P. Morgan estimates.

Peer comparison – Industrial companies

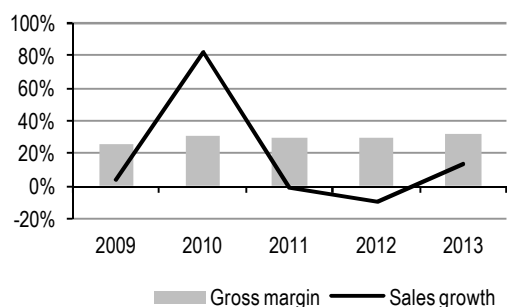
| Companies | Ticker | Price (PT), HK\$ | MCAP US\$MM | Vol US\$ MM | 1 W chg | 3M chg | 14 P/E (x) | 15E P/E(x) | EV / EBITDA | ROE (%) | P/B (x) | ytd (%) |
|------------------------|---------|------------------|-------------|-------------|------------|------------|-------------|-------------|-------------|-------------|------------|------------|
| XINYI GLASS HOLD (OW)* | 868 HK | 4.83 (6.1) | 2,438 | 9.3 | (2.2) | 24.9 | 13.9 | 8.6 | 6.6 | 11.1 | 1.4 | 3.1 |
| KINGBOARD CHEM (OW)* | 148 HK | 12.02 (19) | 1,598 | 3.0 | (3.0) | (7.4) | 4.9 | 6.8 | 4.7 | 7.3 | 0.4 | 4.1 |
| SHENZHOU (OW)* | 2313 HK | 33.8 (43) | 6,387 | 7.8 | 13.1 | 39.1 | 19.6 | 15.7 | 13.9 | 18.7 | 3.0 | 3.5 |
| LM PAPER (OW)* | 2314 HK | 3.68 (6) | 2,216 | 2.4 | (1.1) | (16.7) | 9.1 | 7.7 | 8.6 | 12.6 | 1.1 | 3.9 |
| TECHTRONIC INDS (OW)* | 669 HK | 27 (36) | 6,377 | 13.0 | (1.6) | 4.9 | 21.5 | 16.9 | 12.3 | 16.2 | 3.2 | 1.2 |
| ND PAPER (OW)* | 2689 HK | 4.88 (8.2) | 2,937 | 6.9 | (3.4) | (27.3) | 6.6 | 6.7 | 7.9 | 7.5 | 0.9 | 2.0 |
| HAITIAN (OW)* | 1882 HK | 16.5 (22) | 3,437 | 3.0 | 0.5 | 7.5 | 16.3 | 13.8 | 13.5 | 19.7 | 3.0 | 1.3 |
| VTECH (UW)* | 303 HK | 112.8 (80) | 3,523 | 4.8 | (3.0) | (5.4) | 16.6 | 16.4 | 13.7 | 35.4 | 5.5 | 5.7 |
| WASION GROUP (OW)* | 3393 HK | 8.45 (11) | 1,056 | 1.5 | 7.5 | 19.9 | 14.7 | 12.2 | 7.7 | 15.8 | 2.0 | 2.8 |
| Average | | | | | 0.4 | 3.8 | 12.8 | 10.9 | 9.5 | 15.4 | 2.1 | 3.2 |

Source: Bloomberg, J.P. Morgan estimates- Share prices are as of close Mar 26, 2015

Valuation and price target basis

Our Dec-15 price target is based upon a DCF methodology. The nature of the industry leads us to apply a terminal growth rate of 3% (the low end of the 3-6 percent growth rate we use for SMID caps).

Sales growth and GPM trends



Source: Company and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

| EPS (LC) | FY15E | FY16E |
|-----------|-------|-------|
| JPM old | 0.94 | 1.11 |
| JPM new | 0.96 | 1.12 |
| % chg | 1% | 1% |
| Consensus | 0.90 | 1.00 |

Source: Bloomberg, J.P. Morgan estimates.

Highlights from the analyst briefing

- **Making the right machines for the mass market.** Over three quarters of plastic production is standard types (PE, PP, PVC) and high end engineering plastics are low volume. Haitian continually uses its R&D to be the most efficient and innovative plastic injection equipment maker for the mass market products. While other western companies may have machines that make high end materials, Haitian aims to and we believe is achieving the position of the best machine maker for the mass market products (75 percent of total plastic volumes). Haitian was selected in 2015 as one of the 200 or so companies to join a technology alliance with the prestigious MIT (first time for Chinese Plastic injection company).
- **All electric machines gaining pace.** Sales of the all electric Venus series grew 22.4 percent Y/Y but the good news is that ASP rose 15 percent YY. The company is able to make larger and more complex machines with higher prices.
- **New facilities to foster growth.** Haitian has invested heavily in new plants that can accommodate 20 to 30 percent volume growth for the next three years. (The new Zhafir plant in Ningbo (near existing facilities) will open in May 2015 and this is the first large scale dedicated all electric factory for Haitian. It's a huge factory capable of producing at least 600 machines a month (equivalent to 25 percent of existing capacity) and the machines at this new factory are all electric machines with average prices that are 2-3x the average machines.
- **Increasing earnings estimates slightly.** We expect a mild improvement in sales growth to 16.6% in 2015 due in part to a mild recovery in the economy, more exports to North America which is very strong and also a significant increase in capacity. We are not explicitly building a large increase in GPM because we expect the company to lower prices (if costs come down) in order to boost sales and gain market share.
- **Trend towards larger machines.** The company mentioned that the drop in smaller machines in 2014 was due to a trend by customers to buy larger machines that can make more parts at the same time. For example, previously a machine that could make 4 phone cases can now be replaced with a larger machine that can make 16 phone cases at the same time. Even with a more expensive larger machine, the greater production makes the larger machines more efficient.
- **No major impact from currencies.** Although some markets experienced more than 20 percent depreciation in their currencies against the USD (that Haitian prices its products), demand was still strong in 2014 and the order book is strong in 2015. The reason is simple, Haitian's machines are much cheaper than peers (even when measured in USD) and the lower purchasing power in some regions (Europe, Russia, etc) would encourage the buying of more affordable machines by Haitian. Management expects strong export growth in 2015 based on the order book to date.

FY14 results review

Haitian achieved sales growth of 5% to Rmb7.56bn compared to our expectations of 8.6% growth in 2014. GPM of 32.4% is a historical high and compared with our est. of 32.3% for FY14. In our view, much of the benefits of lower commodity costs is not reflected in 2014 results but should help 2015. FY14 NP of Rmb1.305bn is 2% higher than our estimate of Rmb1.28bn mainly due to lower higher net interest income.

Haitian: FY14 results review

| FY results (RMB\$m) | FY13 | FY14A | Y/Y | FY14E | Var | FY14 Consensus |
|---------------------|-------|-------|------|-------|-------|----------------|
| Turnover* | 7,201 | 7,560 | 5.0% | 7,822 | -3.4% | 7,607 |
| Gross profit | 2,274 | 2,453 | 7.9% | 2,529 | -3.0% | 2,499 |
| GPM* | 31.6% | 32.4% | | 32.3% | | 32.9% |
| EBIT | 1,356 | 1,486 | 9.6% | 1,546 | -3.9% | 1,452 |
| EBITM | 18.8% | 19.7% | | 19.8% | | 19.1% |
| Net profit | 1206 | 1,305 | 8.2% | 1,280 | 2.0% | 1,266 |
| EPS | 0.76 | 0.82 | 7.9% | 0.80 | 3.0% | 0.80 |

Source: Company, J.P. Morgan estimates

NP estimates revised up by 1.3% for FY15E and 0.5% for FY16E

Table 1: Sales and net profits cut

| Year to Dec (Rmb m) | New | | Old | | Change | |
|---------------------|-------|--------|-------|--------|--------|-------|
| | FY15E | FY16E | FY15E | FY16E | FY15E | FY16E |
| Turnover | 8,813 | 10,281 | 9,115 | 10,629 | -3.3% | -3.3% |
| Gross profit | 2,884 | 3,366 | 2,948 | 3,439 | -2.2% | -2.1% |
| EBIT | 1,760 | 2,056 | 1,796 | 2,096 | -2.0% | -1.9% |
| Net profit | 1,537 | 1,792 | 1,518 | 1,783 | 1.3% | 0.5% |
| EPS (HKD) | 0.957 | 1.115 | 0.944 | 1.109 | 1.3% | 0.5% |
| Assumptions | | | | | | |
| Gross margin | 32.7% | 32.7% | 32.3% | 32.4% | 0.4% | 0.4% |

Source: J.P. Morgan estimates

We slightly reduce our FY15E and FY16E sales by 3.3% and 3.3% respectively, but we still expect a mild improvement in sales growth to 16.6% in 2015 due in part to a mild recovery in the economy, more exports to North America which is very strong and also a significant increase in capacity. We are not explicitly building a large increase in GPM (0.4% increase for FY15E) because we expect the company to lower prices (if costs come down) in order to boost sales and gain market share. We revise up FY15E and FY16E NP forecasts by 1.3% and 0.5% respectively given its technological and cost superiority over peers.

Valuation and share price analysis

DCF valuation

Our Dec-15 price target is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We assume a beta of 0.8 (Bloomberg beta of 0.62). Accordingly, we assume a WACC of 9.0%. We estimate free cash flow until 2020 and assume a terminal growth rate of 3.0%. The terminal growth is based on the annual growth rate expected in 2015 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China.

We also analyze the DCF price sensitivity to WACC, and the terminal multiple.

Table 2: Haitian – base-case DCF analysis

| HK\$MM | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E | 2019E | Terminal |
|--|---------------|------------|-------------------------------|--------------|--------------|-----------------|--------------|--------------|
| Cash flow estimates | | | | | | | | |
| Sales | 7,201 | 7,560 | 8,813 | 10,281 | 12,001 | 14,017 | 16,382 | 19,177 |
| EBIT | 1,366 | 1,498 | 1,760 | 2,056 | 2,403 | 2,781 | 3,142 | 3,645 |
| NOPAT | 1,131 | 1,227 | 1,441 | 1,673 | 1,931 | 2,208 | 2,463 | 2,821 |
| Capex, net | (516) | (478) | (526) | (341) | (188) | (194) | (195) | (197) |
| Depreciation | 133 | 135 | 153 | 171 | 177 | 178 | 179 | 180 |
| Change in working capital | (107) | (56) | (310) | (130) | (438) | (521) | (758) | (945) |
| Free CF (excl. non-core) | 641 | 828 | 758 | 1,373 | 1,484 | 1,673 | 1,692 | 1,864 |
| DCF Parameters | | | | | | | | |
| Liabilities as a % of EV | 0% | | Assumptions | | | Terminal growth | | |
| WACC | 9.0% | | Risk-free rate | | | 4.2% | | |
| Enterprise NPV (10E-16E) | | | | | | | | |
| + Net cash (debt), current | 2,164 | | Market risk | | | 6.0% | | |
| - Minorities (Market value) | 0 | | Beta | | | 0.8 | | |
| +/- Other items | 0 | | Cost of debt | | | 6.2% | | |
| = Equity value | 28,436 | | Implied exit P/E multiple (x) | | | 11.0 | | |
| / Number of shares | 1,596 | | | | | | | |
| = Equity value per share (HK\$) | 22.0 | | | | | | | |

Source Company data, J.P. Morgan estimates.

Table 3: Haitian – Sensitivity analysis based on WACC and perpetual terminal growth rate

| WACC | Terminal growth rate | | | | | | | |
|-------|----------------------|------|------|------|------|------|------|------|
| | 7.5% | 2% | 2% | 2.5% | 3.0% | 3.5% | 4.0% | 4.5% |
| 8.0% | 23.1 | 24.7 | 26.5 | 28.8 | 31.7 | 35.4 | 40.3 | |
| 8.5% | 21.4 | 22.7 | 24.2 | 26.1 | 28.3 | 31.1 | 34.7 | |
| 9.0% | 20.0 | 21.0 | 22.3 | 23.8 | 25.6 | 27.8 | 30.5 | |
| 9.5% | 18.7 | 19.6 | 20.7 | 22.0 | 23.4 | 25.1 | 27.3 | |
| 10.0% | 17.6 | 18.4 | 19.3 | 20.3 | 21.5 | 23.0 | 24.7 | |
| 10.5% | 16.6 | 17.3 | 18.1 | 19.0 | 20.0 | 21.1 | 22.5 | |
| | 15.8 | 16.4 | 17.0 | 17.8 | 18.6 | 19.6 | 20.8 | |

Source: J.P. Morgan estimates.

Financial analysis

Table 4: Haitian – revenue mix

| Rmb MM, year-end December | 2012 | 2013 | 2014 | 2015E | 2016E |
|---------------------------------|--------------|--------------|--------------|--------------|---------------|
| Large machines (>500 tons) | 2,432 | 2,492 | 2,716 | 3,259 | 3,911 |
| YoY | -2.7% | 2.5% | 9.0% | 20.0% | 20.0% |
| % of total | 38.4% | 34.6% | 35.9% | 37.0% | 38.0% |
| Medium machines (200-500 tons)* | 2,254 | 4,546 | 4,682 | 5,384 | 6,192 |
| YoY | -9% | 102% | 3% | 15% | 15% |
| % of total | 35.6% | 63.1% | 61.9% | 61.1% | 60.2% |
| Smaller machines (<200 tons) * | 1,495 | - | - | - | - |
| YoY | -20.0% | na | na | na | na |
| % of total | 23.6% | 0.0% | 0.0% | 0.0% | 0.0% |
| Sales of other business | 154 | 164 | 162 | 170 | 179 |
| YoY | -15.5% | 6.6% | -1.2% | 5.0% | 5.0% |
| % of total | 2.4% | 2.3% | 2.1% | 1.9% | 1.7% |
| Total | 6,335 | 7,201 | 7,560 | 8,813 | 10,281 |

Source: Company data, J.P. Morgan estimates. (* reclassified as one group called small machines)

Table 5: Haitian – P&L statement

| Rmb MM, year-end Dec | 2012 | 2013 | 2014 | 2015E | 2016E |
|-----------------------------|--------------|--------------|--------------|--------------|---------------|
| Total Revenues | 6,335 | 7,201 | 7,560 | 8,813 | 10,281 |
| YoY change (%) | -9.9% | 13.7% | 5.0% | 16.6% | 16.7% |
| Cost of Goods Sold | (4,428) | (4,927) | (5,108) | (5,930) | (6,915) |
| YoY change (%) | -10.4% | 11.3% | 3.7% | 16.1% | 16.6% |
| Gross Profit | 1,907 | 2,274 | 2,452 | 2,884 | 3,366 |
| YoY change (%) | -8.7% | 19.3% | 7.8% | 17.6% | 16.7% |
| Gross Margin | 30.1% | 31.6% | 32.4% | 32.7% | 32.7% |
| SGA | (830) | (979) | (1,052) | (1,226) | (1,431) |
| YoY change (%) | -3.4% | 17.9% | 7.5% | 16.6% | 16.7% |
| Other Income/(Expenses) | 53 | 70 | 98 | 103 | 120 |
| Operating profit | 1,130 | 1,366 | 1,498 | 1,760 | 2,056 |
| EBITDA | 1,246 | 1,499 | 1,633 | 1,913 | 2,227 |
| EBITDA margin | 19.7% | 20.8% | 21.6% | 21.7% | 21.7% |
| Depreciation & Amortization | (117) | (133) | (135) | (153) | (171) |
| YoY change (%) | 21.4% | 14.2% | 1.1% | 13.2% | 11.8% |
| EBIT | 1,130 | 1,366 | 1,498 | 1,760 | 2,056 |
| EBIT margin | 17.8% | 19.0% | 19.8% | 20.0% | 20.0% |
| Net Interest Expense | 62 | 114 | 106 | 134 | 175 |
| Exceptional item | 0 | (10) | (13) | (7) | (3) |
| Associates | 2 | 5 | 4 | 5 | 6 |
| Gains/losses | 0 | 0 | 0 | 0 | 0 |
| Net Income Before Taxes | 1,194 | 1,476 | 1,596 | 1,892 | 2,234 |
| YoY change (%) | -10.8% | 23.6% | 8.1% | 18.6% | 18.0% |
| Tax | (208) | (269) | (291) | (355) | (441) |
| Effective Tax rate | 17.4% | 18.2% | 18.3% | 18.8% | 19.8% |
| Minority Interests | 0 | 0 | 0 | 0 | 0 |
| Net Income | 986 | 1,207 | 1,305 | 1,537 | 1,792 |
| YoY change (%) | -10.7% | 22.4% | 8.1% | 17.8% | 16.6% |
| Net margin | 15.5% | 16.7% | 17.2% | 17.4% | 17.4% |

Source: Company data, J.P. Morgan estimates.

Table 6: Interim estimates

| Rmb MM, year-end Dec | 1H13 | 2H13 | 1H14 | 2H14E | 1H15E | 2H15E |
|-------------------------|-------|-------|-------|-------|-------|-------|
| Total Revenues | 3,621 | 3,580 | 3,811 | 3,749 | 4,523 | 4,291 |
| Gross Profit | 1,112 | 1,162 | 1,230 | 1,222 | 1,473 | 1,411 |
| EBIT | 640 | 726 | 724 | 774 | 866 | 894 |
| Net Income Before Taxes | 703 | 773 | 715 | 881 | 931 | 961 |
| Net Income | 568 | 638 | 575 | 729 | 756 | 781 |
| Diluted EPS (HK\$) | 0.354 | 0.40 | 0.358 | 0.45 | 0.471 | 0.49 |
| Ratios | | | | | | |
| Revenue split | 50.3% | 49.7% | 50.4% | 49.6% | 51.3% | 48.7% |
| GPM | 30.7% | 32.5% | 32.3% | 32.6% | 32.6% | 32.9% |
| EBIT margin | 17.7% | 20.3% | 19.0% | 20.7% | 19.2% | 20.8% |
| NPM | 15.7% | 17.8% | 15.1% | 19.5% | 16.7% | 18.2% |
| YoY | | | | | | |
| Revenue | 13.9% | 13.5% | 5.2% | 4.7% | 18.7% | 14.4% |
| GP | 17.5% | 21.0% | 10.6% | 5.2% | 19.7% | 15.5% |
| EBIT | 13.6% | 28.2% | 13.2% | 6.6% | 19.6% | 15.5% |
| NP | 17.0% | 27.6% | 1.2% | 14.2% | 31.5% | 7.1% |

Source: Company data, J.P. Morgan estimates.

Table 7: Haitian – Balance sheet

| Rmb MM, year-end Dec | 2012 | 2013 | 2014 | 2015E | 2016E |
|-------------------------------------|--------------|--------------|---------------|---------------|---------------|
| Cash and Cash Equivalents | 2,611 | 2,113 | 2,203 | 2,800 | 4,011 |
| Inventories | 1,417 | 1,612 | 1,677 | 1,955 | 2,281 |
| Accounts receivable | 2,048 | 2,286 | 2,217 | 2,585 | 3,016 |
| Other Current Assets | 583 | 1,800 | 2,477 | 2,346 | 2,190 |
| Total Current Assets | 6,660 | 7,810 | 8,574 | 9,687 | 11,498 |
| Intangible Assets | 6 | 11 | 13 | 13 | 13 |
| Property and Equipment, Net | 1,821 | 1,862 | 2,116 | 2,489 | 2,660 |
| Other Assets | 45 | 393 | 1,006 | 1,007 | 1,008 |
| Non-Current assets | 1,873 | 2,266 | 3,136 | 3,510 | 3,682 |
| Total Assets | 8,532 | 9,964 | 11,710 | 13,197 | 15,180 |
| Accounts Payable | 1,481 | 1,896 | 1,907 | 2,223 | 2,593 |
| Other Accrued Expenses | 1,105 | 1,172 | 1,266 | 1,925 | 2,054 |
| Taxes Payable | 73 | 80 | 66 | 130 | 216 |
| ST and current LT debts | 428 | 636 | 0 | 636 | 636 |
| Total Current Liabilities | 3,088 | 3,785 | 3,239 | 4,914 | 5,499 |
| Long-term Debt | 0 | 0 | 1,226 | 0 | 0 |
| Other Noncurrent Liability | 109 | 12 | 11 | 0 | 0 |
| Noncurrent liabilities | 109 | 12 | 1,236 | 0 | 0 |
| Total Liabilities | 3,197 | 3,797 | 4,626 | 4,914 | 5,499 |
| Share capital | 161 | 161 | 161 | 161 | 161 |
| Reserves and Surplus | 5,175 | 6,007 | 6,924 | 8,123 | 9,520 |
| Total Shareholders' Equity | 5,335 | 6,167 | 7,084 | 8,283 | 9,681 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total Shareholders' Equity | 5,335 | 6,167 | 7,084 | 8,283 | 9,681 |
| Total Liabilities and Equity | 8,532 | 9,964 | 11,710 | 13,197 | 15,180 |

Source: Company data, J.P. Morgan estimates.

Table 8: Haitian – Cash flow statement

| Year to Dec (Rmb MM) | 2012 | 2013 | 2014 | 2015E | 2016E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBIT | 1,130 | 1,366 | 1,498 | 1,760 | 2,056 |
| Depreciation and Amortization | 117 | 133 | 135 | 153 | 171 |
| Working Capital Changes | 718 | (107) | (56) | (310) | (130) |
| Tax Paid | (235) | (208) | (269) | (291) | (355) |
| Cash Flow From Operations | 1,730 | 1,299 | 1,414 | 1,445 | 1,917 |
| Capital expenditures | (258) | (516) | (478) | (526) | (341) |
| Investments and others | (157) | (1,102) | (612) | 1 | 2 |
| Net Interest | 62 | 114 | 106 | 134 | 175 |
| Cash Flow from Investing | (353) | (2,723) | (2,091) | (523) | (338) |
| Free Cash Flow | 1,377 | (322) | (66) | 921 | 1,577 |
| Dividends | (367) | (295) | (263) | (313) | (367) |
| Common issue | 0 | 0 | 0 | 0 | 0 |
| Debt | (174) | (308) | (2) | (11) | 0 |
| Other Financing | 35 | 426 | 0 | 0 | 0 |
| Cash Flow from financing | (507) | (176) | 156 | (324) | (367) |
| Change in cash | 869 | (498) | 90 | 598 | 1,211 |
| Cash beginning | 1,741 | 2,611 | 2,113 | 2,203 | 2,800 |
| Foreign exchange changes | 0 | 0 | 0 | 0 | 0 |
| Cash at end | 2,611 | 2,113 | 2,203 | 2,800 | 4,011 |

Source: Company data, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Haitian International Holdings *(Overweight; Price Target: HK\$22.00)*

Investment Thesis

Haitian is the largest plastic injection molding machine maker in the world and has a dominant position in China. It is rapidly adding higher end machines with more precision and specialized features that can attract customers in China and in developed countries. The company continues to grow its scale and thereby lowering costs and increasing its advantage over rivals.

Valuation

Our Dec-15 price target is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We assume a beta of 0.8. Accordingly, we assume a WACC of 9.0%. We estimate free cash flow until 2020 and assume a terminal growth rate of 3.0%. The terminal growth is based on the annual growth rate expected in 2015 (the final year of the estimate period) subject to a minimum of 3% and a maximum of 6%, depending on the nature of the industry and the level of maturity in China.

Risks to Rating and Price Target

The end demand for plastic products in the domestic and international markets that could impact the sales volume of plastic injection machines. New products require significant costs to develop, and there is a risk that demand from customers may be lower than expected. Higher production costs in China as wages and currency rise.

Haitian International Holdings: Summary of Financials

| Income Statement | | | | | | Cash flow statement | | | | | |
|-------------------------------|--------|--------|--------|--------|--------|-------------------------------|---------|---------|---------|---------|---------|
| Rmb in millions, year end Dec | FY13 | FY14 | FY15E | FY16E | FY17E | Rmb in millions, year end Dec | FY13 | FY14 | FY15E | FY16E | FY17E |
| Revenues | 7,201 | 7,560 | 8,813 | 10,281 | 12,001 | EBIT | 1,366 | 1,498 | 1,760 | 2,056 | 2,403 |
| % change Y/Y | 13.7% | 5.0% | 16.6% | 16.7% | 16.7% | Depr. & amortization | 133 | 135 | 153 | 171 | 177 |
| Gross Profit | 2,274 | 2,452 | 2,884 | 3,366 | 3,932 | Change in working capital | (107) | (56) | (310) | (130) | (438) |
| % change Y/Y | 19.3% | 7.8% | 17.6% | 16.7% | 16.8% | Taxes | (208) | (269) | (291) | (355) | (441) |
| EBITDA | 1,499 | 1,633 | 1,913 | 2,227 | 2,579 | Cash flow from operations | 1,184 | 1,308 | 1,312 | 1,742 | 1,700 |
| % change Y/Y | 20.3% | 8.9% | 17.1% | 16.4% | 15.8% | Capex | (1,621) | (1,092) | (527) | (342) | (189) |
| EBIT | 1,366 | 1,498 | 1,760 | 2,056 | 2,403 | Net Interest | 114 | 106 | 134 | 175 | 195 |
| % change Y/Y | 20.9% | 9.7% | 17.5% | 16.8% | 16.9% | Other | 3 | 2 | 2 | 3 | 3 |
| EBIT Margin | 19.0% | 19.8% | 20.0% | 20.0% | 20.0% | Free cash flow | (530) | 129 | 677 | 1,258 | 1,357 |
| Net Interest | 114 | 106 | 134 | 175 | 195 | Equity raised/(repaid) | 0 | 0 | 0 | 0 | 0 |
| Earnings before tax | 1,476 | 1,596 | 1,892 | 2,234 | 2,602 | Debt raised/(repaid) | (308) | (2) | (11) | 0 | 0 |
| % change Y/Y | 23.6% | 8.1% | 18.6% | 18.0% | 16.5% | Other | 426 | 0 | 0 | 0 | 0 |
| Tax | (269) | (291) | (355) | (441) | (540) | Dividends paid | (295) | (263) | (313) | (367) | (424) |
| as % of EBT | 18.2% | 18.3% | 18.8% | 19.8% | 20.8% | Beginning cash | 2,611 | 2,113 | 2,203 | 2,800 | 4,011 |
| Net income (reported) | 1,207 | 1,305 | 1,537 | 1,792 | 2,062 | Ending cash | 2,113 | 2,203 | 2,800 | 4,011 | 5,295 |
| % change Y/Y | 22.4% | 8.1% | 17.8% | 16.6% | 15.0% | DPS | 0.15 | 0.18 | 0.21 | 0.25 | 0.28 |
| Shares outstanding | 1,607 | 1,607 | 1,607 | 1,607 | 1,607 | | | | | | |
| EPS (reported) | 0.75 | 0.81 | 0.96 | 1.12 | 1.28 | | | | | | |
| % change Y/Y | 22.4% | 8.1% | 17.8% | 16.6% | 15.0% | | | | | | |
| | | | | | | | | | | | |
| Balance sheet | | | | | | Ratio Analysis | | | | | |
| Rmb in millions, year end Dec | FY13 | FY14 | FY15E | FY16E | FY17E | Rmb in millions, year end Dec | FY13 | FY14 | FY15E | FY16E | FY17E |
| Cash and cash equivalents | 2,113 | 2,203 | 2,800 | 4,011 | 5,295 | Gross margin | 31.6% | 32.4% | 32.7% | 32.7% | 32.8% |
| Accounts receivable | 2,286 | 2,217 | 2,585 | 3,016 | 3,520 | EBITDA margin | 20.8% | 21.6% | 21.7% | 21.7% | 21.5% |
| Inventories | 1,612 | 1,677 | 1,955 | 2,281 | 2,662 | Operating margin | 19.0% | 19.8% | 20.0% | 20.0% | 20.0% |
| Others | 1,800 | 2,477 | 2,346 | 2,190 | 2,294 | Net margin | 16.9% | 17.4% | 17.5% | 17.5% | 17.2% |
| Current assets | 7,810 | 8,574 | 9,687 | 11,498 | 13,772 | Sales per share growth | 13.7% | 5.0% | 16.6% | 16.7% | 16.7% |
| LT investments | 393 | 1,006 | 1,007 | 1,008 | 1,010 | Sales growth | 13.7% | 5.0% | 16.6% | 16.7% | 16.7% |
| Net fixed assets | 1,862 | 2,116 | 2,489 | 2,660 | 2,671 | Net profit growth | 22.4% | 8.1% | 17.8% | 16.6% | 15.0% |
| Total Assets | 10,076 | 11,710 | 13,197 | 15,180 | 17,466 | EPS growth | 22.4% | 8.1% | 17.8% | 16.6% | 15.0% |
| Liabilities | | | | | | Interest coverage (x) | NM | NM | NM | NM | NM |
| Short-term loans | 636 | 0 | 636 | 636 | 636 | Net debt to equity | (23.5%) | (13.8%) | (26.1%) | (34.9%) | (41.3%) |
| Payables | 1,896 | 1,907 | 2,223 | 2,593 | 3,027 | Working Capital to Sales | 55.9% | 70.6% | 54.2% | 58.3% | 63.3% |
| Others | 1,253 | 1,332 | 2,055 | 2,270 | 2,515 | Sales/assets | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 |
| Total current liabilities | 3,785 | 3,239 | 4,914 | 5,499 | 6,177 | Assets/equity | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Long-term debt | 0 | 1,226 | 0 | 0 | 0 | ROE | 20.9% | 19.7% | 20.1% | 20.0% | 19.7% |
| Other liabilities | 112 | 162 | 0 | 0 | 0 | ROCE | 17.6% | 16.1% | 16.6% | 17.2% | 17.1% |
| Total Liabilities | 3,896 | 4,626 | 4,914 | 5,499 | 6,177 | | | | | | |
| Shareholders' equity | 6,279 | 7,084 | 8,283 | 9,681 | 11,288 | | | | | | |
| BVPS | 3.86 | 4.44 | 5.19 | 6.07 | 7.07 | | | | | | |

Source: Company reports and J.P. Morgan estimates.

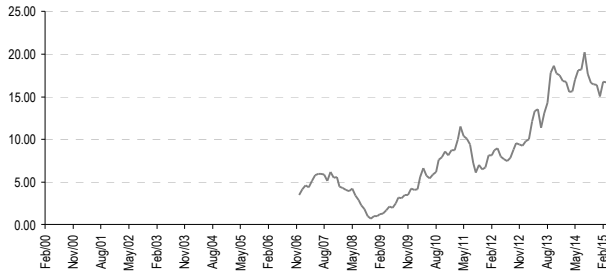
JPM Q-Profile

Haitian International Holdings Limited (CHINA / Industrials)

As Of: 23-Mar-2015

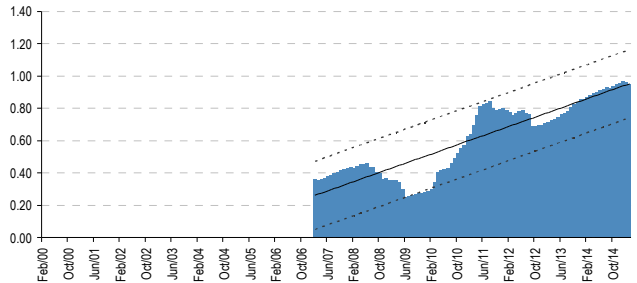
Local Share Price

Current: **16.66**



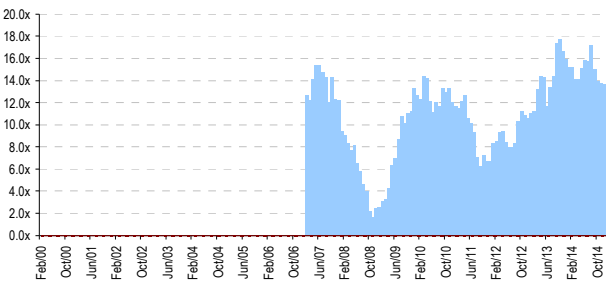
12 Mth Forward EPS

Current: **0.95**



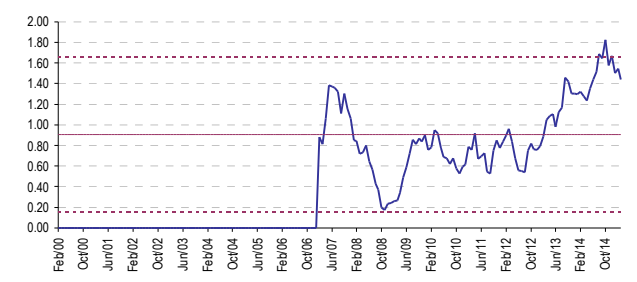
PE (1Yr Forward)

Current: **13.9x**



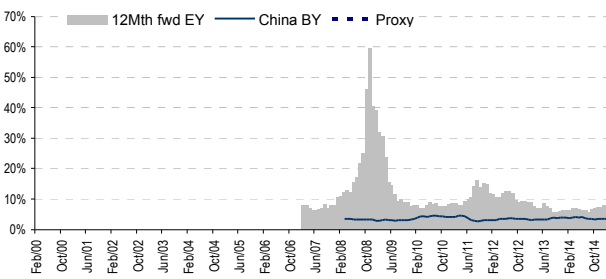
P/E Relative to China Index

Current: **1.44**



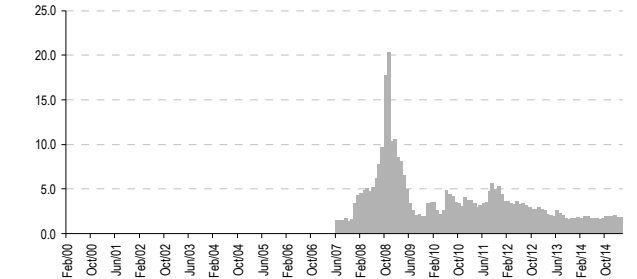
Earnings Yield (& Local Bond Yield)

Current: **7%**



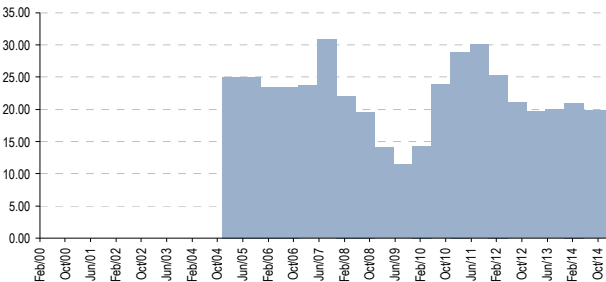
Dividend Yield (Trailing)

Current: **1.87**



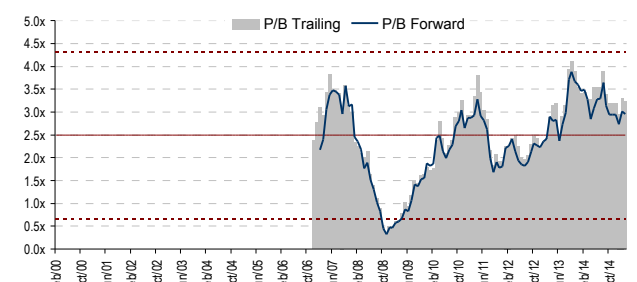
ROE (Trailing)

Current: **19.79**



Price/Book (Value)

Current: **3.2x**



Summary

| | | | | | | | | | | | |
|---|---------------|-----------------------|------------|---------------------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Haitian International Holdings Limited | | TICKER 1882 HK | | As Of: 23-Mar-15 | | | | | | | |
| CHINA | | | | Local Price: 16.66 | | | | | | | |
| Industrials | | | | EPS: 0.95 | | | | | | | |
| | Latest | Min | Max | Median | Average | 2 S.D.+ | 2 S.D. - | % to Min | % to Max | % to Med | % to Avg |
| 12mth Forward PE | 13.92x | | | | | | | | | | |
| P/BV (Trailing) | 3.24 | 0.34 | 4.11 | 2.47 | 2.49 | 4.32 | 0.66 | -90% | 27% | -24% | -23% |
| Dividend Yield (Trailing) | 1.87x | 0.00 | 20.34 | 2.92 | 3.55 | 9.62 | -2.52 | -100% | 989% | 56% | 90% |
| ROE (Trailing) | 19.79 | 11.44 | 30.86 | 22.01 | 22.05 | 31.83 | 12.27 | -42% | 56% | 11% | 11% |

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

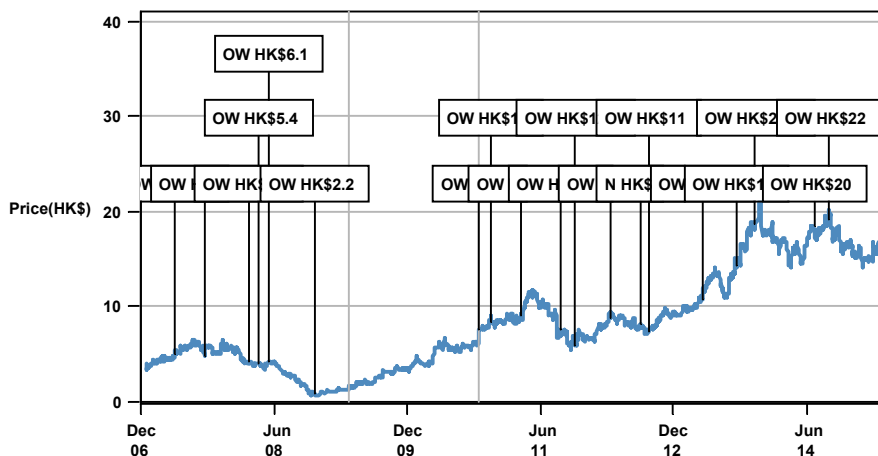
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Haitian International Holdings (1882.HK, 1882 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Apr 19, 2007.

| Date | Rating | Share Price (HK\$) | Price Target (HK\$) |
|-----------|--------|--------------------|---------------------|
| 19-Apr-07 | OW | 5.04 | 6.30 |
| 21-Aug-07 | OW | 4.92 | 6.80 |
| 21-Feb-08 | OW | 4.14 | 6.10 |
| 26-Mar-08 | OW | 4.05 | 5.40 |
| 08-May-08 | OW | 4.30 | 6.10 |
| 18-Nov-08 | OW | 0.74 | 2.20 |
| 23-Sep-10 | OW | 7.60 | 9.00 |
| 09-Nov-10 | OW | 8.50 | 12.00 |
| 16-Mar-11 | OW | 8.98 | 14.00 |
| 23-Aug-11 | OW | 7.48 | 15.00 |
| 20-Oct-11 | OW | 5.88 | 12.30 |
| 20-Mar-12 | OW | 8.91 | 13.00 |
| 17-Jul-12 | N | 8.25 | 10.00 |
| 21-Aug-12 | OW | 7.38 | 11.00 |
| 27-Mar-13 | OW | 10.82 | 13.00 |
| 20-Aug-13 | OW | 14.40 | 18.00 |
| 31-Oct-13 | OW | 18.68 | 21.50 |
| 30-Jun-14 | OW | 18.54 | 20.00 |
| 28-Aug-14 | OW | 19.06 | 22.00 |

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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| | Overweight (buy) | Neutral (hold) | Underweight (sell) |
|---|---------------------|-------------------|-----------------------|
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| IB clients* | 56% | 49% | 33% |
| JPMS Equity Research Coverage | 45% | 48% | 7% |
| IB clients* | 75% | 67% | 52% |

*Percentage of investment banking clients in each rating category.

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