

## Johnson Electric Holdings

Lowering PT to HK\$29: Another tough year of integration before turnaround

JE is one of the largest producers of micro motors in China; micro motors are used in autos and consumer products. JE reported disappointing FY16 results with an 18% drop in NP for FY16 Y/Y which was 12% lower than expectations. We see many of the key factors dampening JE's profits in FY16 to be temporary and we see the revised CY16 P/E of 10-11x as attractive against peers. We remain OW with a lower PT of HK\$29.

- **Headwinds unusually heavy in FY16.** FY16 net profit fell for the first time in about 7 years due to many negative factors hurting growth and profits. These include non-operating factors such as depreciating currencies and M&A related costs, but they also include some longer term problems such as a slowdown in IPG sales in Asia as well as startup losses in many new plants that are taking much longer to become profitable. Many of these headwinds could become less significant in FY17 compared to FY16. Longer term, growth in automotive components driven by new products, new production facilities and new brands (acquired recently) are the key factors behind a re-rating of JE.
- **Lowering FY17 earnings by 12% and taking PT down to HK\$29.** Due to the disappointment seen in FY16 (mainly sales decline in IPG as well as a sharp decline in GPM), we have adjusted our FY17 and FY18 estimates accordingly. We do expect lower GPM for JE for FY17 to factor in the drag to GPM from the newly acquired businesses, which would take some time for JE to turn around and improve the profitability to group levels. We have lowered our NP for FY17 and FY18 by 11% and 8% respectively and our revised FY17 EPS est. is 2% lower than consensus.
- **Price, valuation and risks.** Our DCF-based Dec-16 PT of \$29.0 implies CY17E P/E of 15x. Key risks include rising material costs, uncertainty over the sustainability of the US auto recovery, the company's ability to penetrate the PRC auto market, Rmb appreciation and higher commodity prices lifting costs.

## Overweight

0179.HK, 179 HK

Price: HK\$20.55

▼ **Price Target: HK\$29.00**  
Previous: HK\$34.00

### China

#### SMID-Caps

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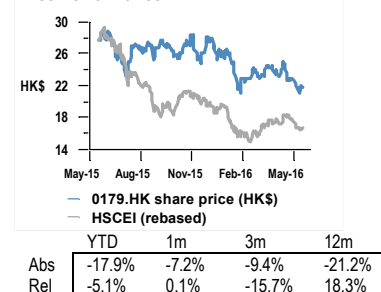
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### Price Performance



### Johnson Electric Holdings (Reuters: 0179.HK, Bloomberg: 179 HK)

\$ in mn, year-end Mar	FY13A	FY14A	FY15A	FY16A	FY17E
Revenue (\$ mn)	2,079	2,098	2,136	2,236	2,566
Net Profit (\$ mn)	211	208	211	173	208
EPS (\$)	0.23	0.23	0.23	0.19	0.23
DPS (\$)	0.06	0.06	0.06	0.06	0.07
Revenue growth (%)	(2.9%)	0.9%	1.8%	4.7%	14.8%
EPS growth (%)	14.1%	0.1%	1.6%	(17.5%)	20.3%
ROCE	11.5%	11.1%	10.3%	8.8%	9.9%
ROE	12.6%	12.6%	11.7%	10.0%	11.3%
P/E (x)	11.5	11.5	11.3	13.7	11.4
P/BV (x)	1.5	1.4	1.3	1.3	1.2
EV/EBITDA (x)	8.1	7.1	6.9	9.7	7.6
Dividend Yield	2.1%	2.2%	2.3%	2.4%	2.8%

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

Company Data	
Shares O/S (mn)	925
Market Cap (\$ mn)	2,450
Market Cap (\$ mn)	2,450
Price (HK\$)	20.55
Date Of Price	18 May 16
Free Float(%)	-
3M - Avg daily vol (mn)	0.35
3M - Avg daily val (HK\$ mn)	8.09
3M - Avg daily val (\$ mn)	1.0
HSCEI	8425.78
Exchange Rate	7.76
Price Target End Date	31-Dec-16

See page 11 for analyst certification and important disclosures, including non-US analyst disclosures.

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<b>Key catalysts for the stock price:</b> <ul style="list-style-type: none"> <li>• Signs of improved pricing power in EU as auto related demand improves</li> <li>• New products may be introduced such as motors for electric vehicles and smart meters</li> <li>• A trend of improving margins over the next few years as demand is strong and costs are well controlled</li> </ul>	<b>Upside risks to our view:</b> <ul style="list-style-type: none"> <li>• Lower Rmb improves cost competitiveness of JE</li> <li>• Strong recovery in EU demand for auto relate motors</li> <li>• Industrial motor demand from developed markets improving</li> </ul>	<b>Downside risks to our view:</b> <ul style="list-style-type: none"> <li>• Rising material costs (copper , steel) and wage inflation to crimp margins</li> <li>• Poor economic environment may dampen demand in China</li> <li>• Health of US auto market may deteriorate after several years of recovery</li> </ul>
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Key financial metrics	FY14	FY15	FY16	FY17E
Revenues (LC)	2,098	2,136	2,236	2,566
Revenue growth (%)	0.9%	1.8%	4.7%	14.8%
EBITDA (LC)	297	313	298	384
EBITDA margin (%)	14.1%	14.6%	13.3%	14.9%
Tax rate (%)	15%	15%	12%	12%
Net profit (LC)	208	211	173	208
EPS (LC)	0.230	0.234	0.193	0.232
EPS growth (%)	0.1%	1.6%	-17.5%	20.3%
DPS (LC)	0.06	0.06	0.06	0.07
BVPS (LC)	1.95	2.09	2.10	2.26
Operating cash flow (LC mn)	298	262	245	329
Free cash flow (LC mn)	198	91	(609)	49
Interest cover (x)	-33	-40	65	40
Net margin (%)	9.9%	9.9%	7.7%	8.1%
Sales/assets (X)	0.88	0.80	0.75	0.79
Debt/equity (%)	6.7%	15.3%	22.6%	21.1%
Net debt/equity (%)	NC	NC	NC	NC
ROE (%)	13%	12%	10%	11%
Key model assumptions	FY14	FY15	FY16	FY17E
Auto related (y/Y)	6.5%	3.4%	10.1%	21.3%
Industrial motors (Y/Y)	-4.0%	3.1%	-7.0%	-2.0%
Gross profit margin	29.5%	29.6%	26.4%	26.9%

Source: Company and J.P. Morgan estimates.

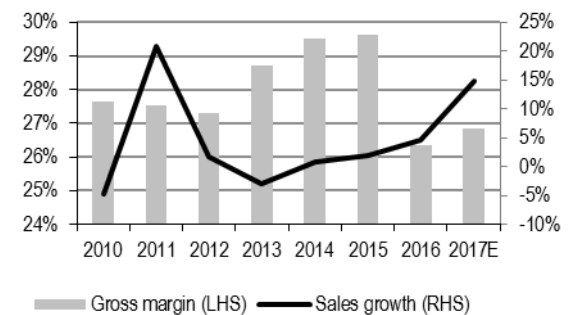
Sensitivity analysis	EBITDA	EPS		
Sensitivity to	FY16E	FY17E	FY16E	FY17E
Auto related volume growth (5%)	8.4%	7.8%	11.2%	11.1%
Ind related volume (5%)	3.3%	2.5%	4.4%	3.5%
1% chg in GPM	8.6%	7.6%	11.5%	10.9%

Source: J.P. Morgan estimates.

#### Valuation and price target basis

Our price target is based upon DCF methodology. The nature of the industry leads us to apply a terminal growth of 3% (the lower end of the 3 to 6 percent growth rate used for SMID Caps).

#### Sales growth and GPM trends



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

#### JPM vs. consensus, change in estimates

EPS (LC)	FY17E	FY18E
JPM old	0.260	0.288
JPM new	0.232	0.264
% chg	-11%	-8%
Consensus	0.237	0.260

Source: Bloomberg, J.P. Morgan estimates.

#### Peer Comparison

Company Name	Code	Price Local ccy	MCAP US\$mn	Vol US\$mn	3M Chg	16e P/E (x)	17e PE(x)	ROE (%)	P/B (x)	Yld (%)
CHINA STATE CONS	3311 HK	10.4	5,408.4	10.2	(15.4)	8.4	6.6	22.8	1.8	3.5
ND PAPER	2689 HK	5.4	3,215.6	4.8	4.1	10.7	8.3	5.7	0.9	1.6
LM PAPER	2314 HK	4.9	2,870.6	3.4	4.0	8.2	8.0	13.4	1.4	4.3
XINYI GLASS HOLD	868 HK	5.3	2,632.0	5.5	22.2	8.9	7.1	16.5	1.4	5.0
<b>JOHNSON ELECTRIC</b>	<b>179 HK</b>	<b>20.5</b>	<b>2,304.2</b>	<b>0.9</b>	<b>(15.8)</b>	<b>10.5</b>	<b>9.3</b>	<b>10.1</b>	<b>1.6</b>	<b>2.3</b>
HAITIAN	1882 HK	11.7	2,398.1	2.0	17.7	11.5	10.6	16.3	1.6	3.0
KINGBOARD CHEM	148 HK	15.7	2,061.7	3.6	38.3	7.7	6.1	5.8	0.4	3.9
CHINA LESSO	2128 HK	4.0	1,598.9	3.6	(9.9)	4.8	3.8	20.2	0.9	5.3
KB LAM	1888 HK	4.0	1,538.5	0.7	32.5	8.3	8.0	10.7	0.8	6.2
JIANGNAN GP	1366 HK	1.2	643.2	0.9	17.1	5.3	4.5	15.4	0.9	4.9
<b>Average</b>					<b>12.2</b>	<b>8.4</b>	<b>7.3</b>	<b>12.7</b>	<b>1.1</b>	<b>4.1</b>

Source: Company data, Bloomberg estimates for NC stocks, J.P. Morgan estimates. Share prices are as of 18 May 2016.

## Highlights from the year end results

**Headwinds in FY16.** Many adverse factors caused JE to have its first major (>5%) drop in net profit since 2009. These include the depreciation of the Euro (Euro denominated sales of 30-35% for JE) of over 15% Y/Y in FY16; a sharp 17% drop in sales of the industrial products group (IPG) in Asia due to the loss of low end customers to competitors on pricing; one-off acquisition related legal and other costs totaling \$12m and losses on start up production facilities in Serbia and Mexico. Demand for products from the automotive products group (APG) was stable with constant currency growth of 4-5% in all regions (still down 2% in US\$ terms). Most of these factors are less relevant in FY17 compared to FY16 and we do expect FY17 net profit to recover to the level of FY15 (FY17 net profits include some profits from newly acquired businesses not existing in FY15.)

**No pricing power demonstrated in FY16.** We have not seen any benefits of lower raw material costs as well as the depreciating Rmb in FY16, which have helped boost margins for some other exporters from China. The clear reason is that JE has a disproportionate high level of sales in regions with depreciating currencies (Europe, Latin America, Canada) and the impact of falling currencies prevented it from getting any margin improvements from the lower cost of production (more or less reflected in lower prices for customers) resulting in over a 3% drop in GPM. However, FY17 could be an interesting year as most currencies look to be stabilizing against the US\$ and we look forward to a mild 0.5% increase from FY16 GPM levels (lowest in 7 years).

**Integration upside to new M&A.** We believe that the newly acquired APG businesses of Stackpole (pumps, powdered metals) and AML (headlamps) give JE an opportunity to increase sales in the APG business as well as introduce new higher value added integrated components. For example, JE is developing an integrated motor/pump that can be cheaper and lighter and more efficient compared to existing products (motors and pumps in separate units).

**Investing heavily for future growth.** JE is adding capacity in Mexico, India, Serbia and a few other countries in order to boost production (mostly APG) in those regions and better service its automotive clients. The company is doing this despite sluggish demand and under-utilized Chinese based facilities in order to cater to longer term growth for JE. While it may be cheaper and more efficient to do production in China, JE cannot service some time and service demanding clients properly without localized production. However, having approx. 20 production facilities across the globe does cause significant startup costs and lower margins when key plants

are ramped up. The biggest location outside of China is in Mexico (commenced 2012 and size increased in 2015) which is still making a loss.

## Results review for FY16

Sales growth of 5% Y/Y was 1% better than our expectations. Sales growth was impacted by currency movements and a mid-year acquisition; excluding these factors, sales growth would have been 2%. However, the drop in GPM to 26.4% (down 3.2% Y/Y) was much more severe than the 1% drop that we (and consensus) estimated for FY16.

The reason for the lower-than-expected GPM is due to adverse currency impact from euro-denominated sales plus the fact that the newly acquired auto parts business in the US in mid-FY16 (Stackpole acquisition) is likely to have lower margins compared to JE's existing business until efficiencies can be achieved by JE over the longer term.

Overall NP fell 18% (12% below our expectations) and about 15% below consensus due to the currency impact of a falling euro as well as a one-off M&A-related cost of US\$12m, which is non-recurring in nature. Shares have been quite weak (underperforming the Hang Seng Index by 15% in the past three months) and near a two-year low, so we do not believe that the results (mostly disappointing due to currency and M&A costs) will have much negative impact on the shares. Longer term, we need to see stronger sales growth driven by automotive and new industrial demand before sentiment improves.

Year to Mar (US\$ mn)	FY15A	FY16A	Growth	FY16E	Variance
Turnover	2,136	2,235	4.6%	2,209	1.2%
Gross profit	632	590	-6.8%	632	-6.7%
GPM	29.6%	26.4%		28.6%	
EBIT	243	207	-14.7%	243	-14.7%
Net profit	211	173	-18.1%	197	-12.4%
EPS (HKD)	0.236	0.198	-16.3%	0.219	-9.8%

Source: Company, J.P. Morgan estimates.

## Lowering FY17 earnings by 12% and taking PT down to HK\$29

Due to the disappointment seen in FY16 (mainly sales decline in IPG as well as a sharp decline in GPM), we have adjusted our FY17 and FY18 estimates accordingly. We now assume organic sales growth for APG (without acquisitions) of 2% in US\$ and a decline in IPG sales of 2% in US\$ Y/Y. Our overall sales estimate has not been lowered significantly because we are including the sales of the newly acquired French auto component maker AML as well as higher sales contribution from the FY16 acquisition of Stackpole pump maker. We do expect lower GPM for JE for FY17 to factor in the drag to GPM from the newly acquired businesses, which could take some time for JE to turn around and improve profitability at the group level. We have lowered our NP estimate for FY17 and FY18 by 11%

and 8% respectively and our revised FY17 EPS est. is 2% lower than consensus. We have lowered our DCF based Dec 16 PT to HK\$29 (prev. HK\$34).

	----- New -----		----- Old -----		----- Change -----	
Year to Mar (US\$)	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Turnover	2,566	2,678	2,526	2,608	1.6%	2.7%
Gross profit	689	738	741	777	-6.9%	-5.1%
EBIT	264	295	296	319	-10.7%	-7.5%
Net profit	208	236	234	259	-11.4%	-9.0%
EPS (HKD)	0.232	0.264	0.260	0.288	-10.7%	-8.2%
<b>Assumptions</b>						
Gross margin	26.9%	27.6%	29.3%	29.8%	-2.4%	-2.2%

Source: Company, J.P. Morgan estimates.

## Valuation and share price analysis

### DCF valuation

Our Dec-16 PT 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 have assumed a beta of 0.9. Accordingly, WACC is assumed at 9.6%. We have estimated free cash flow for JE until 2020 and assume a terminal growth rate of 3%. The terminal growth is based on the annual growth rate expected in 2020 (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 analyzed the DCF price sensitivity to WACC, and the terminal multiple.

Table 1: XYG – base-case DCF analysis

HK\$ in millions, year-end Dec	2013	2014E	2015	2016E	2017E	2018E	2019E	Terminal
Cash flow estimates								
Sales	2,079	2,098	2,136	2,236	2,566	2,678	2,740	2,804
EBIT	212	234	243	219	264	295	321	348
NOPAT	189	222	211	201	231	254	273	292
Capex, net	(83)	(92)	(120)	(186)	(192)	(161)	(164)	(168)
Depreciation	69	63	70	79	119	128	134	139
Change in working capital	(87)	23	(23)	(24)	(31)	(9)	11	0
Free operating CF (FoCF)	89	215	139	72	130	217	258	269
DCF Parameters			Assumptions					
Liabilities as a % of EV	0%	Terminal growth				3.0%		
WACC	9.6%	Risk-free rate				4.2%		
		Market risk				6.0%		
Enterprise NPV (10-16E)	3,667	Beta				0.90		
+ Net cash (debt), 14E	(268)	Cost of debt				6.2%		
- Minorities (Market value)	(120)							
+/- Other items	0	Implied exit P/E multiple (x)				15x		
= Equity value	3,279							
/ Number of shares	879							
= Equity value per share (HK\$)	29.0							

Source: Company data, J.P. Morgan estimates

Table 2: XYG – Sensitivity analysis based on WACC and perpetual terminal growth rate

		Terminal growth rate						
WACC		1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
	8.1%	30.2	32.6	35.5	38.9	43.1	48.3	54.9
	8.6%	27.7	29.8	32.2	35.1	38.5	42.6	47.7
	9.1%	25.6	27.4	29.5	31.8	34.6	38	42.1
	9.6%	23.8	25.3	27.1	29.1	31.5	34.2	37.5
	10.1%	22.2	23.5	25	26.8	28.8	31.1	33.8
	10.6%	20.7	21.9	23.2	24.7	26.4	28.4	30.7
	11.1%	19.4	20.5	21.6	22.9	24.4	26.1	28.1

Source: J.P. Morgan estimates.

Table 4: P&L statement

US\$ MM, year-end Mar	2014	2015	2016	2017E	2018E
<b>Total Revenues</b>	<b>2,098</b>	<b>2,136</b>	<b>2,236</b>	<b>2,566</b>	<b>2,678</b>
YoY change (%)	0.9%	1.8%	4.7%	14.8%	4.4%
Cost of Goods Sold	(1,479)	(1,504)	(1,646)	(1,877)	(1,940)
YoY change (%)	-0.2%	1.7%	9.5%	14.0%	3.4%
Gross Profit	619	633	589	689	738
YoY change (%)	3.7%	2.2%	-6.8%	16.9%	7.1%
Gross Margin	29.5%	29.6%	26.4%	26.9%	27.6%
SGA	(405)	(408)	(399)	(458)	(478)
YoY change (%)	3.1%	0.6%	-2.2%	14.8%	4.4%
Other Income/(Expenses)	20	18	28	33	34
Operating profit	234	243	219	264	295
<b>EBITDA</b>	<b>297</b>	<b>313</b>	<b>298</b>	<b>384</b>	<b>423</b>
EBITDA margin	14.1%	14.6%	13.3%	14.9%	15.8%
Depreciation & Amortization	(63)	(70)	(79)	(119)	(128)
YoY change (%)	-7.9%	10.6%	12.5%	51.7%	7.5%
<b>EBIT</b>	<b>234</b>	<b>243</b>	<b>219</b>	<b>264</b>	<b>295</b>
EBIT margin	11.1%	11.4%	9.8%	10.3%	11.0%
Net Interest Expense	9	6	(3)	(10)	(10)
Exceptional item	0	0	(12)	(8)	0
Associates	0	1	3	3	3
Gains/losses	0	0	0	0	0
Net Income Before Taxes	243	249	207	250	287
YoY change (%)	2.3%	2.6%	-17.1%	20.9%	15.1%
Tax	(28)	(29)	(24)	(30)	(37)
Effective Tax rate	11.6%	11.3%	11.0%	12.0%	13.0%
Minority Interests	(7)	(9)	(10)	(12)	(14)
<b>Net Income</b>	<b>208</b>	<b>211</b>	<b>173</b>	<b>208</b>	<b>236</b>
YoY change (%)	-1.3%	1.5%	-18.2%	20.3%	13.7%
Net margin	9.9%	9.8%	7.6%	8.0%	8.7%

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

Table 5: Interim estimates

US\$ MM, year-end Mar	1H15	2H15	1H16	2H16	1H17E	2H17E
Total Revenues	1,080	1,057	1,022	1,214	1,293	1,273
Gross Profit	326	307	282	307	338	351
EBIT	125	118	115	104	133	131
Net Income Before Taxes	129	121	115	91	126	124
Net Income	109	102	98	75	104	103
Diluted EPS (HK\$)	0.121	0.115	0.109	(0.109)	0.117	(0.117)
<b>Ratios</b>						
Revenue split	50.5%	49.5%	45.7%	54.3%	50.4%	49.6%
GPM	30.2%	29.0%	27.6%	25.3%	26.2%	27.6%
EBIT margin	11.6%	11.2%	11.2%	8.6%	10.3%	10.3%
NPM	10.1%	9.6%	9.6%	6.2%	8.1%	8.1%
<b>YoY</b>						
Revenue	4.3%	-0.6%	-5.3%	14.8%	26.5%	4.9%
GP	6.3%	-1.8%	-13.4%	0.2%	19.9%	14.2%
EBIT	-0.4%	9.3%	-8.0%	-11.7%	15.7%	26.1%
NP	-0.7%	4.0%	-10.5%	-26.6%	6.8%	38.1%

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

Table 6: Balance sheet

US\$ MM, year-end Mar	2014	2015	2016	2017E	2018E
Cash and Cash Equivalents	644	773	193	163	277
Inventories	207	222	271	280	292
Accounts receivable	442	415	542	560	584
Other Current Assets	14	71	50	87	109
Total Current Assets	1,306	1,482	1,056	1,089	1,262
Intangible Assets	647	596	1,083	1,083	1,083
Property and Equipment, Net	388	411	667	741	773
Other Assets	160	360	343	439	466
Non-Current assets	1,194	1,366	2,094	2,263	2,322
<b>Total Assets</b>	<b>2,501</b>	<b>2,848</b>	<b>3,149</b>	<b>3,352</b>	<b>3,585</b>
Accounts Payable	386	381	474	490	511
Other Accrued Expenses	46	36	60	83	108
Taxes Payable	46	37	35	41	48
ST and current LT debts	115	66	98	100	101
Total Current Liabilities	593	521	668	714	768
Long-term Debt	2	226	327	331	335
Other Noncurrent Liability	0	0	0	0	0
Noncurrent liabilities	2	226	327	331	335
Total Liabilities	734	947	1,265	1,314	1,372
Share capital	6	6	6	6	6
Reserves and Surplus	1,727	1,883	1,837	1,978	2,138
Total Shareholders' Equity	1,732	1,862	1,843	1,984	2,144
Minority Interest	34	39	42	54	68
Total Shareholders' Equity	1,766	1,901	1,885	2,038	2,212
<b>Total Liabilities and Equity</b>	<b>2,501</b>	<b>2,848</b>	<b>3,149</b>	<b>3,352</b>	<b>3,585</b>

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

## Investment Thesis, Valuation and Risks

### Johnson Electric Holdings (Overweight; Price Target: HK\$29.00)

#### Investment Thesis

JE is one of the largest makers of motors used in auto and industrial applications. The company is benefiting from a recovery in the auto markets in the US and EU. For industrial motors, JE has a strategy to provide more high-end components with more design work, rather than lower-end “build to print” OEM production.

#### Valuation

Our Dec-16 PT of HK\$34 is based on a DCF methodology. The nature of the industry leads us to apply a terminal growth rate of 3% (the lower end of the 3-6% growth rate used for SMID-caps) and a risk-free rate of 4.2% (the yield on 10-year government notes in China). We assume a beta of 0.9. Accordingly, WACC is assumed at 9.6%.

#### Risks to Rating and Price Target

Rising material costs (copper, steel) and wage inflation could crimp margins. The poor economic environment may dampen demand in China. The health of the U.S. auto market may deteriorate after several years of recovery.

## Johnson Electric Holdings: Summary of Financials

Income Statement						Cash flow statement					
\$ in millions, year end Mar	FY15	FY16	FY17E	FY18E	FY19E	\$ in millions, year end Mar	FY15	FY16	FY17E	FY18E	FY19E
Revenues	2,136	2,236	2,566	2,678	2,740	EBIT	243	219	264	295	321
% change Y/Y	1.8%	4.7%	14.8%	4.4%	2.3%	Depr. & amortization	70	79	119	128	134
Gross Profit	633	589	689	738	774	Change in working capital	(23)	(24)	(31)	(9)	11
% change Y/Y	2.2%	(6.8%)	16.9%	7.1%	4.9%	Taxes	(28)	(29)	(24)	(30)	(37)
EBITDA	313	298	384	423	454	Cash flow from operations	262	245	329	384	428
% change Y/Y	5.5%	(4.8%)	28.8%	10.2%	7.4%	Capex	(164)	(857)	(289)	(188)	(193)
EBIT	243	219	264	295	321	Net Interest	8	(5)	(10)	(10)	(8)
% change Y/Y	4.1%	(9.8%)	20.6%	11.4%	8.8%	Other	45	6	(5)	(5)	(6)
EBIT Margin	11.4%	9.8%	10.3%	11.0%	11.7%	Free cash flow	91	(609)	49	205	242
Net Interest	8	(5)	(10)	(10)	(8)	Equity raised/(repaid)	0	0	0	0	0
Earnings before tax	263	207	250	287	315	Debt raised/(repaid)	174	83	5	5	0
% change Y/Y	3.7%	(21.5%)	20.9%	15.1%	9.7%	Other	(98)	0	0	0	0
Tax	(40)	(24)	(30)	(37)	(44)	Dividends paid	(54)	(54)	(62)	(71)	(79)
as % of EBT	15.3%	11.6%	12.0%	13.0%	14.0%	Beginning cash	644	773	193	163	277
Net income (reported)	211	173	208	236	256	Ending cash	773	193	163	277	418
% change Y/Y	1.6%	(18.2%)	20.3%	13.7%	8.4%	DPS	0.06	0.06	0.07	0.08	0.09
Shares outstanding	902	895	895	895	895						
EPS (reported)	0.23	0.19	0.23	0.26	0.29						
% change Y/Y	1.6%	(17.5%)	20.3%	13.7%	8.4%						
Balance sheet						Ratio Analysis					
\$ in millions, year end Mar	FY15	FY16	FY17E	FY18E	FY19E	\$ in millions, year end Mar	FY15	FY16	FY17E	FY18E	FY19E
Cash and cash equivalents	773	193	163	277	418	Gross margin	29.6%	26.4%	26.9%	27.6%	28.3%
Accounts receivable	415	542	560	584	598	EBITDA margin	14.6%	13.3%	14.9%	15.8%	16.6%
Inventories	222	271	280	292	299	Operating margin	11.4%	9.8%	10.3%	11.0%	11.7%
Others	71	50	87	109	123	Net margin	9.9%	8.3%	8.4%	8.8%	9.3%
Current assets	1,482	1,056	1,089	1,262	1,437	Sales per share growth	1.8%	5.5%	14.8%	4.4%	2.3%
LT investments	360	343	439	466	494	Sales growth	1.8%	4.7%	14.8%	4.4%	2.3%
Net fixed assets	411	667	741	773	804	Net profit growth	1.6%	(18.2%)	20.3%	13.7%	8.4%
Total Assets	2,848	3,149	3,352	3,585	3,819	EPS growth	1.6%	(17.5%)	20.3%	13.7%	8.4%
Liabilities						Interest coverage (x)	NM	65.4	40.1	41.3	54.3
Short-term loans	66	98	100	101	101	Net debt to equity	(25.3%)	12.3%	13.2%	7.2%	0.7%
Payables	381	474	490	511	523	Working Capital to Sales	45.0%	17.3%	14.6%	18.5%	22.8%
Others	73	95	124	156	189	Sales/assets	0.8	0.7	0.8	0.8	0.7
Total current liabilities	521	668	714	768	814	Assets/equity	1.5	1.6	1.7	1.7	1.7
Long-term debt	226	327	331	335	335	ROE	11.7%	10.0%	11.3%	11.4%	11.5%
Other liabilities	201	269	269	269	269	ROCE	10.3%	8.8%	9.9%	10.3%	10.3%
Total Liabilities	947	1,265	1,314	1,372	1,418						
Shareholders' equity	1,862	1,843	1,984	2,144	2,318						
BVPS	2.09	2.10	2.26	2.44	2.64						

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

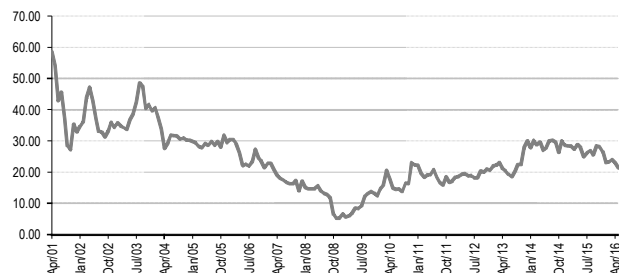
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Johnson Electric Holdings Limited (HONG KONG / Industrials)

As Of: 13-May-2016

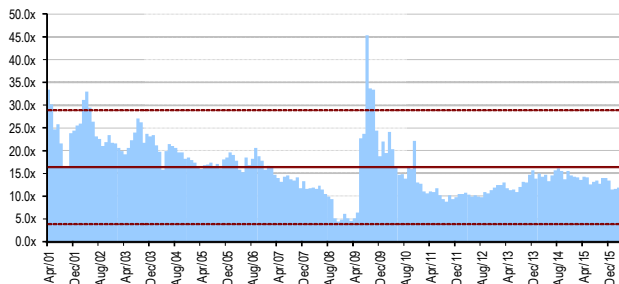
### Local Share Price

Current: 21.35



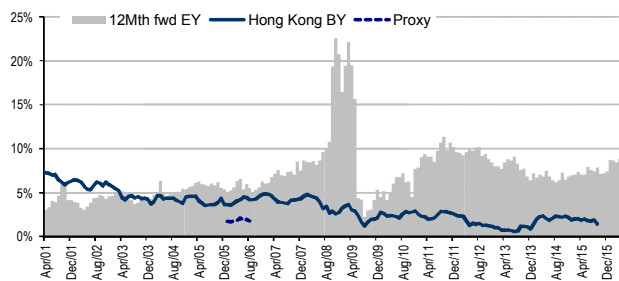
### PE (1Yr Forward)

Current: 10.6x



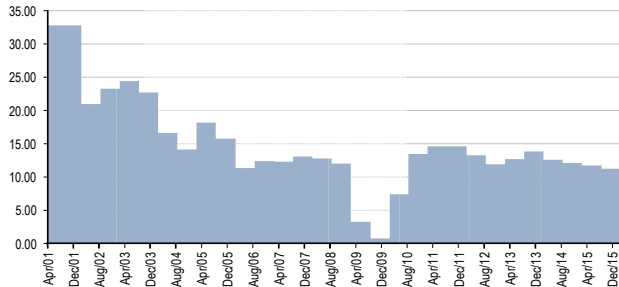
### Earnings Yield (& Local Bond Yield)

Current: 9.44%



### ROE (Trailing)

Current: 11.22

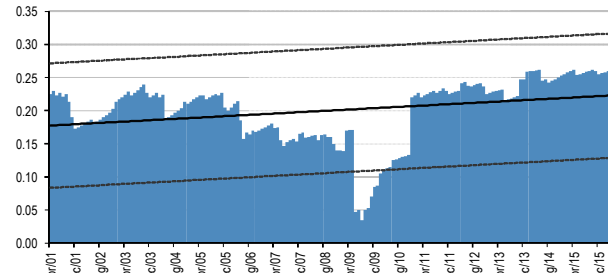


## Global Equity Quantitative Analysis

Quant\_Strategy@jpmorgan.com

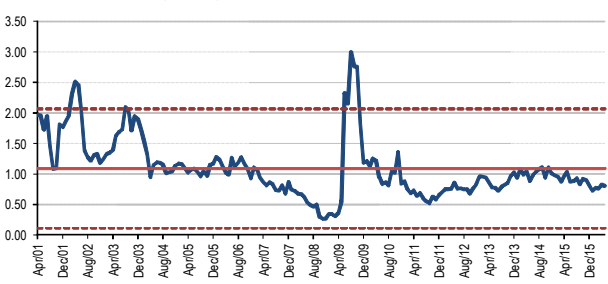
### 12 Mth Forward EPS

Current: 0.26



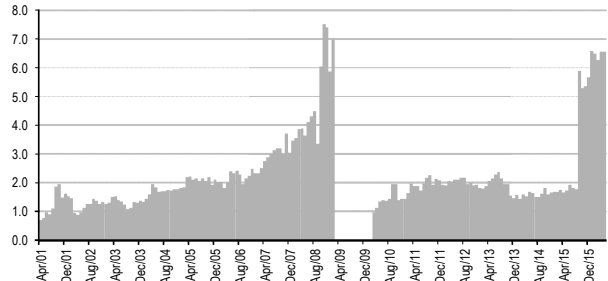
### P/E Relative to Hong Kong Index

Current: 0.80



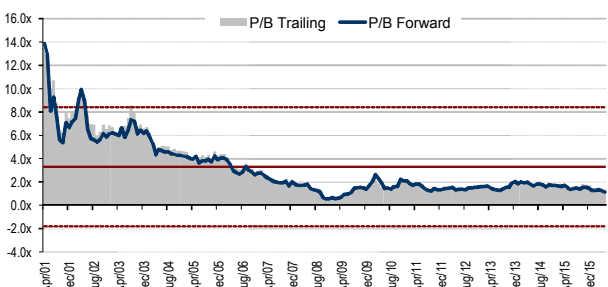
### Dividend Yield (Trailing)

Current: 6.55



### Price/Book (Value)

Current: 1.3x



## Summary

Johnson Electric Holdings Limited

HONG KONG

Industrials

TICKER 179 HK

As Of: 13-May-16

Local Price: 21.35

EPS: 0.26

	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	10.60x	4.44	45.27	15.16	16.37	28.88	3.86	-58%	327%	43%	54%
P/BV (Trailing)	1.35x	0.58	13.76	1.91	3.29	8.42	-1.83	-57%	919%	42%	144%
Dividend Yield (Trailing)	6.55	0.00	7.51	1.86	2.14	5.07	-0.78	-100%	15%	-72%	-67%
ROE (Trailing)	11.22	0.81	32.79	13.06	14.81	28.22	1.39	-93%	192%	16%	32%

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

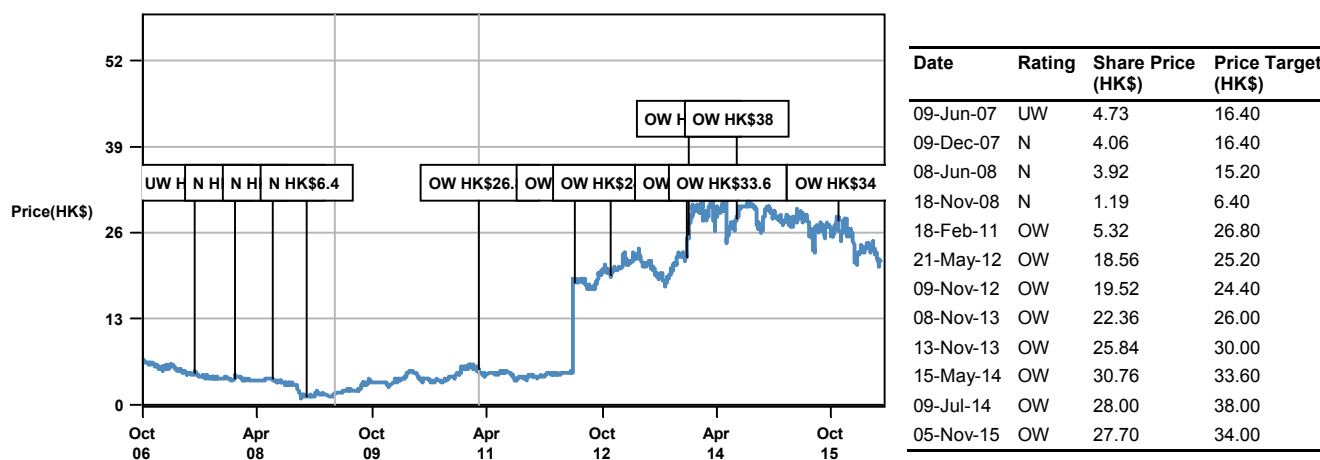
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Johnson Electric Holdings (0179.HK, 179 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Jun 09, 2007.

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