

Ju Teng International [3336.HK]

Weak 1H 2016 is behind it. Recovery is on track.

The industry news flow has turned more positive on Ju Teng [3336.HK], which supports our view that the Company's recovery is on track after a weak 1H 2016. Ju Teng management confirmed that the Company sees sequential improvement in operating performance and reiterated guidance released in its 1H 2016 results presentation. We also maintain the view that apart from 2-in-1 notebook casings, Ju Teng will penetrate the market for metal casings for other products, such as PCs and TVs, to drive growth. Shares of Ju Teng have been under heavy selling pressure since it issued a profit warning in mid-Jul 2016. Ju Teng's low base in 1H 2016 is likely to ensure HoH and YoY improvement in 2H 2016 and 1H 2017, respectively. After the Company's weak 1H 2016 results, management prefers to wait for more data points to confirm the trend. But we hold a more positive view and believe that the worst is over and that expectations have been reset. Shares of some of Ju Teng's peers, such as Catcher, Quanta and Inventec, have rebounded recently due to improvement in sentiment after more positive industry news flow. Any improvement in sentiment towards the Company will drive up the share price. Maintain BUY with a target price of HK\$3.25, based on 7.0x 2016E PER. Our target PE represents a discount to the industry average, but is in line with the Company's historical average.

Investment Highlights

- Positive industry news flow.** According to Digitimes.com, several notebook-related components, such as TFT-LCD panels, batteries and solid-state drives are suffering from shortages, given stronger-than-expected orders from notebook brands, including Hewlett-Packard (HP) and Dell. Several notebook brands, including HP and Dell, have recently raised their notebook shipment forecasts for 2H 2016 and 1H 2017. According to the article, the stronger expected demand is due to low channel inventory, Intel's new processor and rising acceptance of Windows 10. Jabil also raised its guidance for Q1 FY17. Jabil also highlighted that its CNC capacity would be fully used in the coming years based on its current product roadmap, which should partly remove concern about excess capacity triggered by the potential adoption of glass casings. Ju Teng management said that because of technical issues, notebook casings were likely to be made of materials such as glass and ceramics going forward. The continued increase in the contribution from the metal casing division will have positive impact on Ju Teng's profitability.
- Management reiterated previous guidance for 2H 2016.** Ju Teng management reiterated its guidance for 2H 2016, released during its 1H 2016 results presentation. The Company expects a 10%-15% HoH increase in revenue as a result of the seasonality effect and new product launches. Recall that Ju Teng's 1H 2016 results were distorted by a product delay by a key customer. Management believes that the new product launches by this customer will be on track. The Company's gross margin is likely to rebound to the range of 15 to 20%. We believe that Ju Teng's 2H 2016 recovery is on track, and we still share the view that the very low base in 1H 2016 should ensure HoH and YoY growth in both top and bottom lines in 2H 2016 and 1H 2017.
- Concentration on the PC segment.** Management still expects notebooks and tablets to remain its major product applications. The smartphone segment offers limited growth opportunities for Ju Teng at this stage.

Key Financials (in HKDm)	2013	2014	2015	2016E	2017E
Revenue	9,256.8	9,571.2	8,936.1	7,973.9	8,615.9
Change (YoY %)	0.6	3.4	(6.6)	(10.8)	8.1
Gross Profit	1,873.0	1,805.3	1,905.6	1,355.2	1,523.2
Gross Margin %	20.2	18.9	21.3	17.0	17.7
Net Profit	762.2	764.7	875.0	520.6	636.9
Net Margin %	8.2	8.0	9.8	6.5	7.4
EPS (Basic)	0.66	0.65	0.77	0.46	0.57
Change (YoY %)	24.6	(1.3)	17.6	(39.6)	22.4
DPS	\$0.150	\$0.150	\$0.150	\$0.093	\$0.131
ROE (%)	13.1	12.0	13.4	7.7	9.0
Dividend Yield (%)	6.44	6.44	6.44	3.99	5.61
PER (x)	3.5	3.6	3.0	5.0	4.1
PBR (x)	0.4	0.4	0.4	0.4	0.4
FCF Yield (%)	-15.51%	32.62%	31.51%	36.18%	25.78%
Capex (m)	(1,720.0)	(1,560.0)	(1,326.0)	(1,170.0)	(1,147.0)
Free cash flow per share	(0.4)	0.8	0.7	0.8	0.6
Net Gearing (%)	51.9	48.2	51.4	38.3	32.9

Source: Bloomberg, CGIS Research

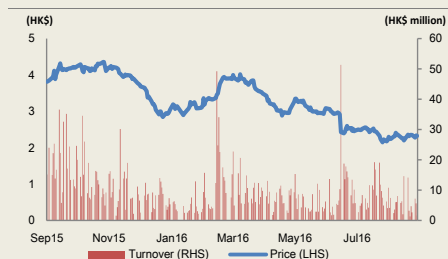
TMT - Hardware

BUY

Close: HK\$2.33 (Sep 28, 2016)

Target Price: HK\$3.25 (+39.6%)

Share Price Performance



Source: Bloomberg, CGIS Research

Market Cap	US\$337m
Shares Outstanding	1,120m
Auditor	Ernst & Young
Free Float	68.3%
52W range	HK\$2.15-4.36
3M average daily T/O	US\$1.1m
Major Shareholding	Chen Family (28.68%)

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Figure 1: Results highlights

2015 Results Highlights (HKD m)	1H 2014	2H 2014	1H 2015	2H 2015	1H 2016	2H 2016E
Revenue	4,399	5,173	4,215	4,721	3,696	4,278
Cost of sales and services	(3,624)	(4,141)	(3,409)	(3,622)	(3,146)	(3,473)
Gross profit	774	1,031	806	1,100	551	805
Other income and other gains and losses	88	88	69	85	168	45
Distribution and selling expenses	(56)	(73)	(57)	(52)	(52)	(55)
Administrative expenses	(329)	(425)	(360)	(351)	(340)	(342)
Finance costs	(47)	(43)	(44)	(46)	(49)	(45)
JV & Associates	0	0	0	0	0	0
Profit before tax	431	578	414	736	277	407
Income tax expense	(83)	(102)	(63)	(142)	(47)	(75)
MI	(38)	(22)	3	(73)	(29)	(13)
Net profit	311	454	354	521	202	319

Source: Company, CGIS Research

Figure 2: Key assumptions for Ju Teng

	2008	2009	2010	2011	2012	2013	2014	2015	2016F	2017F
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	4,914.9	3,499.4	3,324.4
Metal casing	0	0	0	823.5	1,840.3	2,116.3	2,645.4	3,439.0	3,954.8	4,745.8
Other Casing	0	0	0	0	0	368.4	492.3	582.3	519.7	545.7
Total	7,249.2	7,463.9	7,166.2	8,234.5	9,201.3	9,256.8	9,571.2	8,936.1	7,973.9	8,615.9
YoY Change (%)										
Plastic casing		3.0	(4.0)	3.4	(0.7)	(8.0)	(5.0)	(23.6)	(28.8)	(5.0)
Metal casing					123.5	15.0	25.0	30.0	15.0	20.0
Other Casing							33.6	18.3	(10.8)	5.0
Total		3.0	(4.0)	14.9	11.7	0.6	3.4	(6.6)	(10.8)	8.1
Gross margin (%)										
Plastic casing	16.7	18.0	12.9	10.0	14.0	17.0	15.0	15.5	9.5	9.5
Metal casing			28.0	15.0	20.0	28.2	26.2	28.0	22.5	22.5
Other Casing			14.0	0	0	34.0	30.0	31.0	25.5	25.5
Net margin (%)	16.7	18.0	12.9	10.5	15.2	20.2	18.9	21.3	17.0	17.7
Cost (HKDm)										
S,G&A	(391.3)	(405.1)	(479.7)	(576.0)	(624.4)	(682.6)	(790.3)	(759.0)	(723.1)	(742.6)
Financial Expenses	(75.1)	(48.6)	(35.6)	(45.1)	(62.0)	(61.8)	(90.2)	(90.3)	(94.4)	(99.9)
YoY Change (%)										
S,G&A		3.5	18.4	20.1	8.4	9.3	15.8	(4.0)	(4.7)	2.7
Financial Expenses		(35.3)	(26.8)	26.9	37.4	(0.2)	45.8	0.1	4.6	5.8
Volume shipment (m units)										
Plastic casing	40.00	45.00	56.00	58.00	60.00	51.00	46.92	44.57	37.89	30.31
Metals casing						9.00	10.35	12.94	16.82	19.34
Volume shipment YoY Change (%)										
Plastic casing		12.5	24.4	3.6	3.4	(15.0)	(8.0)	(5.0)	(15.0)	(20.0)
Metals casing							15.0	25.0	30.0	15.0
ASP (HK\$)										
Plastic casing					144.3	144.3	144.3	129.7	115.5	115.5
Metals casing					204.5	204.5	204.5	204.5	204.5	204.5
ASP YoY Change (%)										
Plastic casing						0	0	(10.1)	(11.0)	0
Metals casing						0	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)	(1,326.0)	(1,170.0)	(1,147.0)
Net Gearing (%)	50.6	37.2	28.5	41.5	54.2	51.9	48.2	51.4	38.3	32.9

Source: Company, CGIS Research

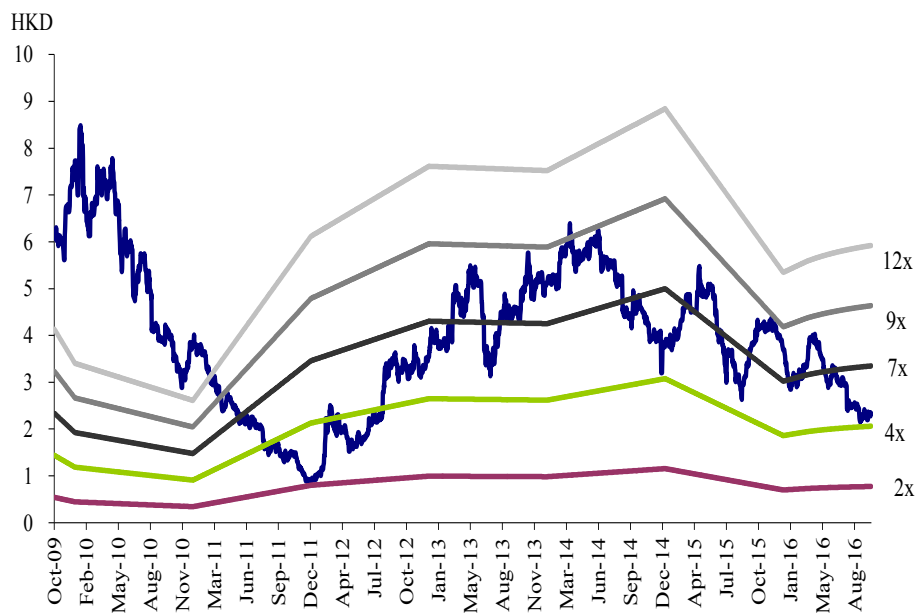
Figure 3: Earnings projection

Income Statement (HKDm)						Cash Flow Statement (HKDm)					
	FY2013	FY2014	FY2015	FY2016F	FY2017F		FY2013	FY2014	FY2015	FY2016F	FY2017F
Revenue	9,257	9,571	8,936	7,974	8,616	Net Income	1,176	1,082	1,224	752	905
Growth yoy%	0.6%	3.4%	(6.6%)	(10.8%)	8.1%	Depreciation & Amort.	668	772	970	1,048	1,125
Gross Profit	1,873	1,805	1,906	1,355	1,523	Change in Working Capital	(539)	595	(33)	314	(210)
Growth yoy%	33.7%	(3.6%)	5.6%	(28.9%)	12.4%	Cash from Ops.	1,304	2,449	2,161	2,114	1,820
Selling General & Admin Exp.	(683)	(790)	(759)	(723)	(743)	Capital Expenditure	(1,720)	(1,560)	(1,326)	(1,170)	(1,147)
Others Operating Expenses/Items	(15)	67	77	120	124	Sale of Property, Plant, and Equipment	-	-	-	-	-
Operating Income	1,176	1,082	1,224	752	905	Change in Investing Activities	428	(266)	(647)	95	(146)
Growth yoy%	n.a.	(8%)	13.1%	(38.5%)	20.3%	Cash from Investing	(1,292)	(1,826)	(1,973)	(1,075)	(1,293)
Interest Expense	(61.8)	(90.2)	(90.3)	(94.4)	(99.9)	Net increase in bank borrowings	216	420	186	224	299
Interest and Invest. Income	18.4	17.2	16.5	26.6	32.5	Issuance of Common Stock	17	16	0	0	0
Income/(Loss) from Affiliates	0	0	0	0	0	Common Dividends Paid	(138)	(175)	(174)	(168)	(104)
Other Non-Operating Inc. (Exp.)	0	0	0	0	0	Special Dividend Paid	-	-	-	-	-
Impairment of Goodwill	-	-	-	-	-	Other Financing Activities	(235)	(212)	(227)	(159)	(179)
Gain (Loss) On Sale Of Invest.	-	-	-	-	-	Cash from Financing	(140)	50	(216)	(103)	16
Gain (Loss) On Sale Of Assets	-	-	-	-	-	Net Change in Cash	(128)	673	(27)	936	542
Income Tax Expense	(255)	(185)	(205)	(122)	(149)						
Minority Int. in Earnings	(115)	(60)	(70)	(42)	(51)						
Net Income	762	765	875	521	637						
Growth yoy%	26.8%	0.3%	14.4%	(40.5%)	22.4%						

Balance Sheet (HKDm)						Ratios					
	FY2013	FY2014	FY2015	FY2016F	FY2017F		FY2013	FY2014	FY2015	FY2016F	FY2017F
ASSETS						Profitability					
Cash And Equivalents	1,061	1,564	1,541	2,482	3,029	Return on Assets %	5.5%	5.0%	5.5%	3.3%	3.9%
Receivables	1,977	2,083	1,805	1,611	1,740	Return on Capital %	8.2%	7.8%	8.5%	5.2%	6.0%
Inventory	3,954	3,313	3,080	2,748	2,969	Return on Equity %	13.1%	12.0%	13.4%	7.7%	9.0%
Other Current Assets	24	36	99	0	0	Margin Analysis					
Total Current Assets	7,016	6,996	6,525	6,841	7,739	Gross Margin %	20.2%	18.9%	21.3%	17.0%	17.7%
Net Property, Plant & Equipment	7,291	8,589	8,398	8,520	8,542	SG&A Margin %	7.4%	8.3%	8.5%	9.1%	8.6%
Long-term Investments	-	-	-	-	-	EBIT Margin %	12.9%	11.5%	13.9%	9.8%	10.9%
Other Intangibles	-	-	-	-	-	EBITDA Margin %	20.1%	19.6%	24.8%	22.9%	23.9%
Deferred Tax Assets, LT	-	-	-	-	-	Net Income Margin %	8.2%	8.0%	9.8%	6.5%	7.4%
Other Long-Term Assets	412	547	534	560	584	Asset Turnover					
Goodwill	-	-	-	-	-	Total Asset Turnover	0.6x	0.6x	0.6x	0.5x	0.5x
Accounts Receivable Long-Term	-	-	-	-	-	Fixed Asset Turnover	1.2x	1.0x	1.0x	0.9x	0.9x
Total Long Term Assets	7,702	9,137	8,931	9,079	9,126	Accounts Receivable Turnover	4.8x	4.7x	4.6x	4.7x	5.1x
Total Assets	14,718	16,132	15,456	15,920	16,865	Inventory Turnover	2.3x	2.9x	2.9x	2.9x	2.9x
LIABILITIES & EQUITY						Liquidity					
Accounts Payable	2,539	2,512	1,968	1,756	1,897	Current Ratio	1.3x	1.4x	1.1x	1.2x	1.3x
Accrued Exp.	-	-	-	-	-	Quick Ratio	0.4x	0.6x	0.5x	0.6x	0.7x
Short-term Borrowings	2,664	2,085	3,493	3,717	4,016	Avg. Days Sales Out.	77.9	79.4	73.7	73.7	73.7
Curr. Port. of LT Debt	-	-	-	-	-	Avg. Days Inventory Out.	155.9	126.4	125.8	125.8	125.8
Curr. Income Taxes Payable	-	-	-	-	-	Avg. Days Payable Out.	121.4	118.7	116.3	102.7	94.0
Unearned Revenue, Current	-	-	-	-	-	Avg. Cash Conversion Cycle	173.3	139.4	153.2	144.9	146.2
Other Current Liabilities	242	313	217	239	263	Net Debt to Equity	52%	48%	51%	38%	33%
Total Current Liabilities	5,445	4,911	5,678	5,711	6,176	Growth Over Prior Year					
Long-Term Debt	1,634	2,633	1,411	1,411	1,411	Total Revenue	0.6%	3.4%	(6.6%)	(10.8%)	8.1%
Def. Tax Liability, Non-Curr.	6	15	23	25	28	Net Income	26.8%	0.3%	14.4%	(40.5%)	22.4%
Other Non-Current Liabilities	0	617	418	451	487	Payout Ratio %	22.6%	22.9%	19.5%	20.0%	23.0%
Total Liabilities	7,085	8,175	7,529	7,598	8,101						
Common Stock	117	116	112	112	117						
Additional Paid In Capital	-	-	-	-	-						
Retained Earnings	6,119	6,431	6,434	6,786	7,173						
Treasury Stock	-	-	-	0	0						
Comprehensive Inc. and Other	-	-	-	-	-						
Minority Interest	1,397.2	1,410.3	1,381.5	1,423.3	1,474.5						
Total Equity	7,633	7,958	7,927	8,322	8,764						
Total Liabilities And Equity	14,718	16,132	15,456	15,920	16,865						

Sources: Company, CGIS Research

Figure 4: Ju Teng's PER trend



Sources: Bloomberg, CGIS Research estimates

Figure 5: Peer comparison

Ticker	Company	Price Lcy	Market Cap US\$m	PE			EV/EBITDA			P/B		ROE		ROA		Div yield		Share Price Performance			
				2016F	2017F	2018F	2016F	2017F	2018F	2015	2016F	2015	2016F	2015	2016F	2015	2016F	1M	3M	6M	12M
3336 HK	Ju Teng International Hldgs	2.33	336.5	5.0	4.1	4.0	3.7	3.1	3.5	0.4	0.4	13.4	7.7	5.5	3.3	6.4	4.0	4.5	-20.5	-40.3	-39.2
698 HK	Tongda Group Holdings Ltd	1.86	1376.5	11.3	9.3	8.1	8.5	7.1	6.3	2.5	2.3	18.7	21.9	9.3	10.7	2.3	2.7	17.7	24.8	24.8	39.8
285 HK	Byd Electronic Intl Co Ltd	6.33	1839.3	10.2	8.9	8.3	3.5	3.1	3.0	1.1	1.1	9.0	10.7	5.6	5.6	1.2	1.6	-2.3	45.9	39.4	28.4
838 HK	Eva Precision Industrial Hld	0.95	230.2	30.6	14.4	9.5	6.0	5.0	4.1	0.7	0.7	8.3	2.4	2.1	1.8	1.8	0.9	5.6	17.3	-24.6	-35.4
2038 HK	Fih Mobile Ltd	2.60	2646.7	25.8	21.0	19.7	0.5	0.5	0.5	0.8	0.7	6.0	2.7	2.1	1.8	2.6	3.6	-1.5	4.0	-19.6	-24.9
1050 HK	Karrie Intl Hldgs Ltd	0.64	164.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.3	n.a.	7.9	n.a.	5.8	n.a.	5.5	n.a.	-3.0	14.3	34.7	93.9
732 HK	Truly International Holdings	3.15	1180.9	10.2	8.8	7.4	5.6	5.2	4.6	1.3	1.2	11.9	11.8	4.0	5.2	3.2	3.2	-8.7	-10.8	56.7	58.3
2018 HK	Aac Technologies Holdings In	79.55	12597.7	21.6	17.4	14.9	17.0	13.6	11.6	7.2	5.9	30.4	29.8	20.3	20.7	n.a.	1.7	-3.0	26.3	39.3	66.2
2382 HK	Sunny Optical Tech	37.45	5298.0	30.1	23.0	18.4	21.6	16.6	13.4	8.7	7.3	21.5	27.0	11.9	14.0	0.6	0.9	-6.6	37.9	71.0	150.3
992 HK	Lenovo Group Ltd	5.18	7420.7	10.1	9.0	7.8	5.4	5.0	4.6	2.3	2.0	23.4	21.4	n.a.	2.9	n.a.	3.9	0.0	13.1	-15.8	-20.9
Average				18.7	14.0	11.8	8.5	7.0	6.0	2.9	2.6	15.2	15.9	7.6	7.9	2.4	2.3	-0.2	19.2	22.9	39.5
2474 TT	Catcher Technology Co Ltd	257.50	6323.5	9.7	9.3	8.7	4.2	4.0	3.7	1.8	1.5	23.7	16.7	14.7	13.0	n.a.	3.8	13.9	9.3	1.6	-23.8
5264 TT	Casatek Holdings Ltd	116.00	1256.1	9.7	8.5	7.6	3.4	2.9	2.5	1.4	1.2	19.0	13.5	11.8	8.2	n.a.	5.8	-3.7	5.5	-29.3	-21.4
2354 TT	Foxconn Technology Co Ltd	88.80	4003.9	11.4	11.4	12.0	3.7	3.7	3.9	1.4	1.3	14.1	11.9	8.9	8.6	n.a.	3.1	0.5	23.0	26.0	-1.0
2356 TT	Inventec Corp	24.90	2847.5	14.0	12.0	11.2	6.1	5.6	5.4	1.7	1.6	9.8	10.3	3.2	3.5	n.a.	6.0	7.3	10.2	21.2	56.6
2324 TT	Compal Electronics	19.25	2715.1	10.0	9.2	8.5	5.5	5.4	5.1	0.8	0.8	8.5	8.0	2.7	2.7	n.a.	6.4	-0.5	-1.8	-3.3	4.5
2382 TT	Quanta Computer Inc	66.00	8126.4	14.5	13.1	11.8	8.5	7.8	7.0	2.0	1.9	13.4	12.7	3.1	3.1	n.a.	5.6	7.3	11.3	17.0	15.6
2383 TT	Elite Material Co Ltd	87.00	883.7	10.3	9.1	n.a.	7.2	6.5	n.a.	3.0	2.8	26.8	29.1	14.5	14.8	n.a.	5.6	2.4	21.3	45.7	21.7
2357 TT	Asustek Computer Inc	279.00	6605.8	11.3	11.0	10.7	6.8	6.5	6.7	1.3	1.2	10.3	10.9	5.1	5.4	n.a.	5.7	1.5	3.9	-3.0	0.2
3231 TT	Wistron Corp	23.15	1957.1	17.8	12.7	11.3	6.3	5.8	5.5	0.9	0.9	1.9	5.1	0.6	1.3	n.a.	4.7	2.9	9.9	23.2	39.4
2353 TT	Acer Inc	14.75	1448.5	37.5	38.8	38.2	2.8	3.0	3.2	0.7	0.7	1.0	2.2	0.6	1.0	n.a.	1.6	2.8	3.0	21.4	14.6
Average				14.6	13.5	13.3	5.4	5.1	4.8	1.5	1.4	12.9	12.0	6.5	6.2	n.a.	4.8	3.4	9.6	12.1	10.6
300115 CH	Shenzhen Everwin Precision-A	26.66	3598.5	31.7	23.0	17.3	21.4	16.1	12.8	6.7	6.0	17.0	17.8	10.0	11.7	n.a.	0.6	-1.2	27.0	46.4	50.6
300083 CH	Janus Dongguan Precision-A	7.40	1578.6	9.6	6.5	18.0	n.a.	n.a.	n.a.	2.1	2.0	-14.5	6.6	-3.8	n.a.	n.a.	n.a.	4.2	-11.5	-11.6	29.0
300328 CH	Dongguan Eontec Co Ltd-A	12.68	766.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.6	n.a.	8.3	n.a.	4.9	n.a.	n.a.	n.a.	-9.6	-29.1	-1.8	4.6
002426 CH	Suzhou Victory Precision-A	10.39	4524.6	34.6	23.9	17.4	n.a.	n.a.	n.a.	5.7	1.7	6.6	14.3	6.5	7.5	n.a.	0.6	2.9	9.1	29.2	50.8
Average				25.3	17.8	17.6	21.4	16.1	12.8	5.5	3.2	4.4	12.9	4.4	9.6	n.a.	0.6	-0.9	-1.1	15.5	33.7
060720 KS	Kh Vatec Co Ltd	12400.00	225.9	n.a.	10.8	8.3	8.5	4.1	3.6	0.9	0.9	7.6	-0.3	1.0	n.a.	n.a.	2.1	-8.1	5.5	-23.9	-18.4
JBL US	Jabil Circuit Inc	21.92	4188.6	10.6	9.5	8.4	3.9	3.7	4.1	1.7	1.6	12.5	5.1	2.6	6.6	1.5	1.5	4.0	24.7	15.8	1.2
HIP SP	Hi-P International Ltd	0.48	286.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.8	n.a.	-7.8	n.a.	-2.3	n.a.	n.a.	n.a.	17.1	24.7	17.1	37.1
Average				18.0	12.7	11.4	11.3	7.9	6.9	2.2	1.9	4.1	5.9	1.4	8.1	n.a.	1.4	3.0	13.4	6.1	13.4

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

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