

Ju Teng Intl (3336 HK)

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Company Update

BUY

UNCHANGED
Close price: HK\$2.96

Target Price: HK\$3.30 (+11%)

Prior TP: HK\$3.57

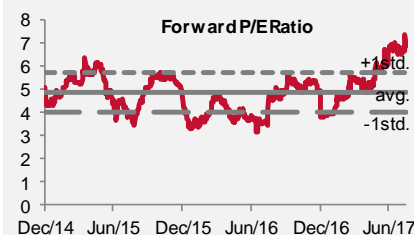
Key Data

HKEx code		3336
12 Months High (HK\$)		3.58
12 Month Low (HK\$)		2.15
3M AvgDail Vol. (mn)		3.83
Issue Share (mn)		1,134.71
Market Cap (HK\$m)		3,358.74
Fiscal Year		12/2016
Major shareholder (s)	Director Cheng Li Yu	(29.11%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 17/08/2017

Price Chart


	1mth	3mth	6mth
Absolute %	-8.4	4.6	2.1
Rel. MSCI CHINA %	-12.7	-8.3	-20.1

PE

Company Profile

Ju Teng is a leading notebook casing supplier with 30% global market share.

1H17 results come up short

- JT released its 1H17 results with sales up 1.4% yoy to HK\$3.7bn and net profit down 59.9% yoy to HK\$82mn, short of market expectation.
- We revised up our FY17E earnings estimate by 62.3% to HK\$782mn, mainly to reflect one-off relocation compensation of HK\$486mn. We revised down our FY18E earnings estimate by 14.7% to HK\$444mn to reflect lacklustre sales growth and lower GPM assumption.
- Maintain BUY with TP revised down to HK\$3.30 based on same 9x FY18E PE.

1H17 results miss. JT released a disappointing 1H17 results with sales up 1.4% yoy to HK\$3.7bn while net profit declined by 59.9% yoy to HK\$82mn, mainly due to (1) absence of exchange gain in 1H17 versus HK\$53mn in 1H16, (2) HK\$18mn share reward expense, (3) government subsidies income declined by 75.8% to HK\$25.5mn. GPM was stable at 15%. Despite the substantial decrease of government subsidy income in 1H17, we expect JT to receive HK\$486mn one-off disposal gain from the PRC government in 2H17E for the relocation of its Suzhou Dazhi (SD) Plant and Wujiang Dading (WD) Plant to Wujiang Economic Development Zone in Jiangsu.

We revise down our FY18E earnings estimate by 14.7% to HK\$444mn to reflect the delay of NB market recovery. We revised up our FY17/18E revenue by 0.6%/3.4% to HK\$8.0bn/HK\$8.4bn and we revised down our GPM assumption by 0.8ppt/0.5ppt to 16.7%/17.4%. As a result of operating deleveraging, we revised down our FY18E earnings estimate by 14.7% to HK\$444mn. Given the HK\$486mn one-off disposal gain is expected to book in 2H17E, we revised up our FY17E earnings estimate by 62.3% to HK\$782mn, without taking into account this one-off gain, our FY17E core net profit is revised down by 29.3% yoy to HK\$340mn.

Maintain BUY. We maintain our BUY rating on JT with TP revised down to HK\$3.30 from HK\$3.57 based on same 9x FY18E PE given (1) undemanding valuation as JT currently trades at 0.48x PB, (2) 2H usually the peak season to support HoH improvement, (3) a recovery of NB market may kick off from FY18E onwards.

Risks: GPM improvement may be lower than we expect due to intensifying competition.

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	8,936	8,002	8,044	8,416	8,891
Growth (%)	(7)	(10)	1	5	6
Net Profit	875	501	782	444	533
Growth (%)	14	(43)	56	(43)	20
Diluted EPS (HK\$)	0.747	0.412	0.649	0.368	0.443
EPS growth (%)	26	(45)	57	(43)	20
Change to previous EPS (%)			63.6	(14.0)	
Consensus EPS (HK\$)			0.429	0.507	0.553
ROE (%)	13.4	7.8	11.7	6.2	7.2
P/E (x)	3.9	7.1	4.5	8.0	6.6
P/B (x)	0.5	0.5	0.5	0.5	0.4
Yield (%)	5.1	3.4	5.4	3.0	3.7
DPS (HK\$)	0.150	0.100	0.157	0.089	0.107

Source: Bloomberg, OP Research

Exhibit 2: Revision in key assumption and forecasts

(HK\$ mn)	FY17E			FY18E			OP comments
	New	Old	% Chg	New	Old	% Chg	
Turnover	8,044	7,994	0.6	8,416	8,138.5	3.4	
Gross profit	1,341	1,393.5	(3.8)	1,463	1,453	0.7	
Gross margin	16.7%	17.4%	(0.8)	17.4%	17.9%	(0.5)	
Total opex	(886)	(797)	11.1	(824)	(806)	2.2	
Operating profit (EBIT)	532	776	(31.4)	721	832	(13.3)	
Net profit	782	482	62.3	444	521	(14.7)	
EPS - Fully diluted (HK\$)	0.649	0.396	63.6	0.368	0.4	(14.0)	

Source: Company, OP Research

Exhibit 3: Results summary

(HK\$ mn)	1H14	2H14	1H15	2H15	1H16	2H16	1H17	1H17 YoY%	2H17E
Revenue	4,399	5,173	4,215	4,721	3,696	4,306	3,748	1%	4,296
COGS	(3,624)	(4,141)	(3,409)	(3,622)	(3,146)	(3,514)	(3,187)	1%	(3,517)
Gross profit	774	1,031	806	1,100	551	792	561	2%	779
Other income & gains	88	88	69	85	168	105	58	-65%	20
Selling exp	(56)	(73)	(57)	(52)	(52)	(53)	(49)	-7%	(58)
Admin exp	(310)	(353)	(312)	(338)	(305)	(317)	(332)	9%	(351)
Other opex	(19)	(73)	(48)	(13)	(35)	(13)	(58)	64%	(39)
Finance costs	(47)	(43)	(44)	(46)	(49)	(45)	(50)	3%	(34)
Profit after financing costs	431	578	414	736	277	469	130	-53%	318
Associated cos	0	0	0	0	0	0	0	n.a	0
Pre-tax profit	431	578	414	736	277	469	130	-53%	318
Provisions or other items	0	0	0	0	0	0	0	n.a	486
Tax	(83)	(102)	(63)	(142)	(47)	(110)	(21)	-56%	(73)
Minority interests	(38)	(22)	3	(73)	(29)	(60)	(28)	-3%	(31)
Net profit	311	454	354	521	202	299	82	-60%	214
HoH%									
Revenue	-11%	18%	-19%	12%	-22%	17%	-13%	9%	
Gross profit	-28%	33%	-22%	36%	-50%	44%	-29%	21%	
Net profit	-38%	46%	-22%	47%	-61%	48%	-73%	-11%	
YoY%									
Revenue	2%	4%	-4%	-9%	-12%	-9%	1%	14%	
Gross profit	-2%	-5%	4%	7%	-32%	-28%	2%	34%	
Net profit	19%	-10%	14%	15%	-43%	-43%	-60%	-16%	
Key ratios									
GPM	17.6%	19.9%	19.1%	23.3%	14.9%	18.4%	15.0%	0.1%	18.1%
Selling exp	1.3%	1.4%	1.3%	1.1%	1.4%	1.2%	1.3%	-0.1%	1.4%
Admin exp	7.0%	6.8%	7.4%	7.2%	8.2%	7.4%	8.8%	0.6%	8.2%
EIT	19.3%	17.6%	15.2%	19.3%	16.9%	23.4%	16.0%	-0.9%	22.9%
Net margin	7.1%	8.8%	8.4%	11.0%	5.5%	6.9%	2.2%	-3.3%	5.0%
Segment revenue									
PRC exclude HK	4,171	5,066	4,161	4,387	3,626	4,242	3,691	2%	
ROC	138	62	41	51	49	47	48	-3%	
Others	91	45	13	284	21	17	10	-54%	
Segment revenue %									
PRC exclude HK	84.1%	97.9%	98.7%	92.9%	98.1%	98.5%	98.5%	0.4%	
ROC	2.8%	1.2%	1.0%	1.1%	1.3%	1.1%	1.3%	-0.1%	
Others	1.8%	0.9%	0.3%	6.0%	0.6%	0.4%	0.3%	-0.3%	

Source: Company, OP Research

Financial Summary

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Income Statement (HK\$ mn)					
Turnover	6.5	8,002	8,044	8,416	8,891
YoY%	(7)	(10)	1	5	6
COGS	(7,031)	(6,659)	(6,704)	(6,953)	(7,283)
Gross profit	1,906	1,343	1,341	1,463	1,608
Gross margin	21.3%	16.8%	16.7%	17.4%	18.1%
Other income	154	273	78	82	86
Selling & distribution	(109)	(106)	(107)	(112)	(117)
Admin	(650)	(622)	(682)	(662)	(674)
Other opex	(61)	(48)	(97)	(50)	(53)
Total opex	(820)	(776)	(886)	(824)	(845)
Operating profit (EBIT)	1,240	841	532	721	849
Operating margin	13.9%	10.5%	6.6%	8.6%	9.6%
Provisions	0	0	486	0	0
Finance costs	(90)	(94)	(84)	(84)	(84)
Profit after financing costs	1,150	746	934	637	765
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	1,150	746	934	637	765
Tax	(205)	(156)	(93)	(115)	(138)
Minority interests	(70)	(89)	(59)	(78)	(94)
Net profit	875	501	782	444	533
YoY%	14	(43)	56	(43)	20
Net margin	9.8%	6.3%	9.7%	5.3%	6.0%
EBITDA	2,194	1,814	1,842	2,049	2,110
EBITDA margin	24.6%	22.7%	22.9%	24.3%	23.7%
EPS (HK\$)	0.747	0.412	0.649	0.368	0.443
YoY%	26	(45)	57	(43)	20
DPS (HK\$)	0.150	0.100	0.157	0.089	0.107
Cash Flow (HK\$ mn)					
EBITDA	2,194	1,814	1,842	2,049	2,110
Chg in working cap	(294)	351	(13)	(112)	(144)
Others	(23)	(15)	0	0	0
Operating cash	1,878	2,150	1,829	1,936	1,966
Interests paid	(97)	(103)	(90)	(90)	(90)
Tax	(261)	(161)	(202)	(93)	(115)
Net cash from operations	1,520	1,887	1,537	1,753	1,762
Capex	(1,399)	(1,218)	(965)	(1,010)	(1,067)
Investments	(151)	(114)	0	0	0
Dividends received	1	1	0	0	0
Sales of assets	135	60	0	0	0
Interests received	17	10	13	17	21
Others	55	(3)	486	0	0
Investing cash	(1,341)	(1,264)	(466)	(993)	(1,046)
FCF	178	623	1,071	761	716
Issue of shares	80	14	0	0	0
Buy-back	(255)	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(175)	(168)	(168)	(179)	(101)
Net change in bank loans	209	(447)	0	0	0
Others	(0)	0	0	0	0
Financing cash	(140)	(601)	(168)	(179)	(101)
Net change in cash	38	22	903	582	615
Exchange rate or other Adj	(60)	(34)	0	0	0
Opening cash	1,564	1,541	1,529	2,432	3,014
Closing cash	1,541	1,529	2,432	3,014	3,629
CFPS (HK\$)	1.311	1.561	1.286	1.469	1.479

Source: Company, OP Research

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Ratios					
Gross margin (%)	21.3	16.8	16.7	17.4	18.1
Operating margin (%)	13.9	10.5	6.6	8.6	9.6
Net margin (%)	9.8	6.3	9.7	5.3	6.0
Selling & dist'n exp/Sales (%)	1.2	1.3	1.3	1.3	1.3
Admin exp/Sales (%)	7.3	7.8	8.5	7.9	7.6
Payout ratio (%)	20.1	24.3	24.3	24.3	24.3
Effective tax (%)	17.8	21.0	10.0	18.0	18.0
Total debt/equity (%)	74.9	69.9	63.8	61.4	58.0
Net debt/equity (%)	51.4	45.9	28.9	19.8	10.7
Current ratio (x)	1.15	1.55	1.83	1.98	2.13
Quick ratio (x)	0.92	1.22	1.49	1.64	1.78
Inventory T/O (days)	67	71	71	71	71
AR T/O (days)	126	131	131	131	131
AP T/O (days)	55	57	57	57	57
Cash conversion cycle (days)	138	145	145	145	145
Asset turnover (x)	0.57	0.53	0.53	0.54	0.55
Financial leverage (x)	2.41	2.34	2.26	2.20	2.17
EBIT margin (%)	13.9	10.5	6.6	8.6	9.6
Interest burden (x)	0.93	0.89	1.76	0.88	0.90
Tax burden (x)	0.76	0.67	0.84	0.70	0.70
Return on equity (%)	13.4	7.8	11.7	6.2	7.2
ROIC (%)	9.1	6.1	4.1	5.7	6.9
Balance Sheet (HK\$ mn)					
Fixed assets	8,398	8,079	7,728	7,398	7,189
Intangible assets & goodwill	40	54	54	54	54
Associated companies & JVs	0	0	0	0	0
Long-term investments	25	15	15	15	15
Other non-current assets	469	565	565	565	565
Non-current assets	8,931	8,713	8,361	8,032	7,823
Inventories	1,296	1,289	1,298	1,346	1,410
AR	3,080	2,876	2,891	3,025	3,195
Prepayments & deposits	509	370	372	389	411
Other current assets	99	31	31	31	31
Cash	1,541	1,529	2,432	3,014	3,629
Current assets	6,525	6,095	7,024	7,805	8,676
AP	1,052	1,042	1,049	1,088	1,139
Tax	217	202	93	115	138
Accruals & other payables	916	1,027	1,033	1,081	1,141
Bank loans & leases	3,493	1,657	1,657	1,657	1,657
CB & other debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	5,678	3,929	3,833	3,941	4,076
Bank loans & leases	1,411	2,791	2,791	2,791	2,791
CB & othe debts	0	0	0	0	0
Deferred tax & others	440	344	344	344	344
MI	1,382	1,382	1,441	1,519	1,613
Non-current liabilities	3,232	4,517	4,576	4,655	4,749
Total net assets	6,546	6,362	6,976	7,242	7,674
Shareholder's equity	6,546	6,362	6,976	7,242	7,674
Share capital	112	113	113	113	113
Reserves	6,434	6,249	6,863	7,128	7,560
BVPS (HK\$)	5.84	5.61	6.15	6.38	6.76
Total debts	4,904	4,449	4,449	4,449	4,449
Net cash/(debts)	(3,362)	(2,920)	(2,017)	(1,435)	(820)

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	Mkt cap	3-mth avg t/o	PER		PER		EPS		3-Yr EPS Cagr (%)	Div yld		P/B		EV/EBITDA		EV/gearing		Net margin		Gross margin		Net margin		ROE	ROE	Shpx 1-mth %	Shpx 3-mth %
					(x)	FY1 (x)	(x)	FY2 (x)	YoY%	YoY%		(x)	(x)	Hist (%)	FY1 (%)	(x)	FY1 (x)	Hist	Cur Yr	Hist (%)	Hist (%)	Hist (%)	Hist (%)	FY1 (%)	FY1 (%)				
Ju Teng Intl Hdg	3336 HK	2.96	429	1.6	7.1	4.5	8.0	57.4	(43.2)	2.4	1.88	3.4	5.4	0.52	0.48	3.4	2.9	45.9	16.8	6.3	7.8	11.7	(5.1)	1.4					
HSI		27,344.22			14.2	12.9	11.9	9.9	8.8	9.4	1.37	3.3	3.3	1.35	1.30						9.5	10.1	3.3	8.1					
HSCEI		10,801.42			8.9	8.5	7.8	5.6	8.6	8.1	1.04	3.7	3.6	1.05	0.96						11.7	11.3	0.2	4.0					
CSI300		3,721.28			16.3	14.4	12.7	13.5	13.1	9.7	1.48	2.0	2.0	1.94	1.78						11.9	12.4	1.6	9.1					
Adjusted sector avg*					13.2	12.3	10.4	13.8	23.3	14.8	0.82	3.8	4.2	1.56	1.52	6.8	6.5	11.7	13.8	5.6	9.8	13.1	(8.5)	3.4					
Catcher Tech	2474 TT	377.50	9,595	56.5	13.2	12.5	10.2	5.8	22.0	13.7	0.91	2.6	2.8	2.49	2.10	6.1	5.3	0.0	43.5	27.8	17.6	17.8	(2.2)	13.4					
Foxconn Tech	2354 TT	95.60	4,461	27.8	12.6	12.7	12.0	(1.0)	5.7	(1.8)	N/A	4.0	3.4	1.08	1.13	7.0	6.8	0.0	18.2	13.4	7.8	9.8	5.1	8.3					
Bin Chuan	1569 TT	37.00	123	3.6	19.1	9.9	N/A	92.8	N/A	N/A	N/A	N/A	1.77	N/A	7.9	N/A	62.2	17.7	6.4	12.4	N/A	(14.9)	2.2						
Quanta Computer	2382 TT	70.00	8,920	19.0	17.8	15.1	12.5	17.8	20.9	15.6	0.97	5.0	5.4	2.15	1.96	9.8	9.1	0.0	5.2	1.7	11.8	13.1	(5.4)	9.2					
Compal Elec	2324 TT	19.75	2,881	7.3	10.5	10.7	8.6	(2.0)	25.1	8.6	1.25	6.1	6.0	0.87	0.80	4.7	4.4	1.8	4.3	1.1	6.1	7.5	(6.3)	(2.9)					
Wistron Corp	3231 TT	27.00	2,449	12.3	23.2	15.8	11.3	46.3	40.6	32.2	0.49	4.3	4.5	1.13	1.08	6.2	5.9	0.0	4.8	0.4	5.2	6.7	(8.9)	1.1					
Tongda Group Hld	698 HK	1.94	1,501	25.3	11.1	9.6	7.6	16.0	25.6	20.7	0.46	2.7	3.1	2.40	2.04	8.8	7.2	45.2	24.1	12.8	23.0	23.7	(16.0)	(29.5)					
Ka Shui Intl Hld	822 HK	0.52	59	0.0	7.8	N/A	N/A	N/A	N/A	N/A	N/A	1.9	N/A	0.61	N/A	3.8	N/A	35.0	22.5	3.4	7.9	N/A	(5.5)	(7.1)					

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

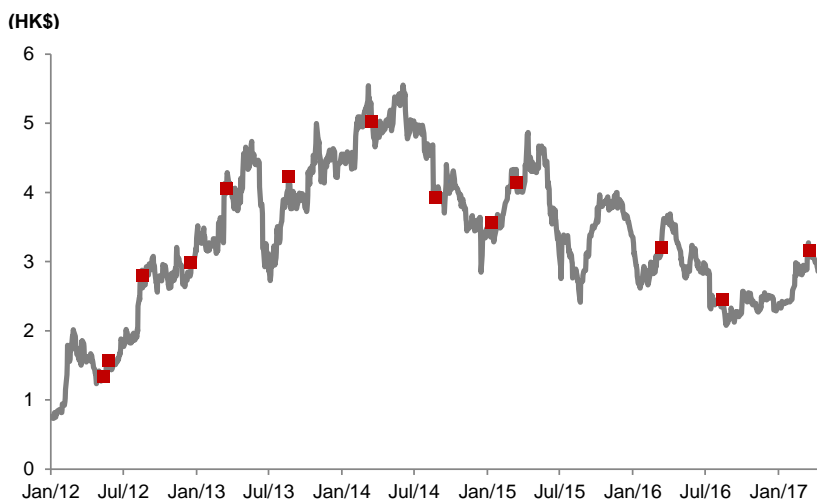
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
14/08/2017	Q Tech	1478	1H17 up on GPM and ASP	BUY	Yuji Fung
09/08/2017	TCL Multimedia	1070	1H17 results in line	BUY	Yuji Fung
08/08/2017	CH Display OPT	334	1H17 Results beat expectations	BUY	Yuji Fung
07/08/2017	Dynagreen Environmental	1330	Tongzhou Phase Two off launch-pad	BUY	Bruce Yeung
27/07/2017	China Securities Sector	-	Preliminary 1H17 results	BUY	Bruce Yeung/Daisy Wang
20/07/2017	Canvest	1381	Fast and Fabulous	BUY	Bruce Yeung/Daisy Wang
11/07/2017	Dynagreen Environmental	1330	Positive catalyst ahead	BUY	Bruce Yeung/Daisy Wang
30/06/2017	GTJA	2611	Catching the momentum	BUY	Bruce Yeung/Daisy Wang
28/06/2017	Chinasoft Intl	354	1H17E result preview	BUY	Yuji Fung
13/06/2017	Q Tech	1478	Product mix continues to improve in May	BUY	Yuji Fung
12/06/2017	CH Display OPT	334	Promising prospects from share deal	BUY	Yuji Fung
12/06/2017	Sunny Optical	2382	Momentum in May pushes shipment	BUY	Yuji Fung
31/05/2017	Truly Intl	732	1Q17 results up to expectations	BUY	Yuji Fung
26/05/2017	C Cheng	1486	Le Mariage	BUY	Bruce Yeung
11/05/2017	Q Tech	1478	CCM shipment growth accelerated in April	BUY	Chloe Liu/Yuji Fung
11/05/2017	China Securities Sector	-	1Q17 review looking rosy	BUY	Bruce Yeung/Daisy Wang
10/05/2017	Sunny Optical	2382	Strong growth in April HLS shipments	BUY	Chloe Liu/Yuji Fung
09/05/2017	Kingdom Holdings	528	Heilongjiang plant kicks off in 3Q17E	HOLD	Bruce Yeung
08/05/2017	HNA Holding	521	Transforming story for OBOR	NR	Bruce Yeung/Daisy Wang
08/05/2017	Truly Intl	732	April sales in line	BUY	Chloe Liu/Yuji Fung
28/04/2017	TCL Multimedia	1070	Solid 1Q17 results	BUY	Chloe Liu/Yuji Fung
27/04/2017	China Securities Sector	-	Geared for 2017	BUY	Bruce Yeung/Daisy Wang
12/04/2017	Chunli Medical	1858	Transition on the way	BUY	Chloe Liu/Yuji Fung
11/04/2017	Sunny Optical	2382	Robust growth continues in Mar17	HOLD	Chloe Liu/Yuji Fung
11/04/2017	Q Tech	1478	1Q17 shipments beat on product mix upgrade	BUY	Chloe Liu/Yuji Fung
11/04/2017	CH Display OPT	334	Strong Mar17 sales	BUY	Chloe Liu/Yuji Fung
03/04/2017	Sinosoft Tech	1297	Solid FY16 results	BUY	Chloe Liu/Yuji Fung

Historical recommendations and target price: Ju Teng Intl (3336 HK)

(as of 17/08/2017)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 16 May 2012	BUY	2.50	1.34	9 15 Jan 2015	BUY	6.00	3.57
2 29 May 2012	BUY	3.00	1.58	10 18 Mar 2015	BUY	5.40	4.15
3 22 Aug 2012	BUY	4.40	2.79	11 16 Mar 2016	BUY	5.60	3.20
4 21 Dec 2012	BUY	5.20	2.98	12 16 Aug 2016	BUY	3.20	2.44
5 20 Mar 2013	BUY	6.10	4.05	13 22 Mar 2017	BUY	3.57	3.16
6 22 Aug 2013	BUY	7.00	4.23	14			
7 19 Mar 2014	BUY	7.70	5.02	15			
8 26 Aug 2014	BUY	5.90	3.92	16			

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