

HL Technology

Satisfactory growth driven by client acquisition

to summarize...

- Reference target price has been revised up from HK\$3.00 to HK\$3.27. We will initiate coverage of the stock at due course.
- FY12/10A results are broadly in line. Revenue went up 62% to RMB1,414m and net profit increased 73% to RMB153m.
- The growth can be partly attributed to successful client acquisition. The company had 73 new clients last year on top of existing 100.
- The company will maintain its pace on acquiring market share. Meanwhile, new products will be launched gradually.
- In our preliminary estimates, FY12/11F profit is said to increase 28% to RMB196m.

Satisfactory top line growth in FY12/10A. Revenue surged 62% to RMB1,414m partly owe to an enlarged customer base. 73 names were added in 2010, bringing HLT's total number of customers to 173. Segment wise,

- External signal cable assembly (ESCA) – Sales volume improved 11%. Despite a rising copper price (average price increased 103% YoY in 2010 to RMB55,160/mt), ASP was dragged down slightly by a reduction in average length of assembly products. Thus, turnover edged up 9.6% to RMB353m.
- Internal signal cable assembly (ISCA) – Turnover increased 142% to RMB307m. ISCA segment experienced 70% volume growth during the period, boosted mainly by strong demand for LVDS. Meanwhile, ASP was pushed up by the high copper price.
- Power cord assembly (PCA) – Similar to ESCA, a reduction in product length affected ASP, partly offsetting 68% gain in sales volume. Segmental revenue increased 45% to RMB247m.
- Signal transmission wire & cable (STWC) – The core product category of consumer electronic cables registered 87% increase in sales volume accompanied by ASP enhancement due to high copper price. Overall, the segment reported RMB348m revenue, up 102% YoY.

Table 1. Segmental revenue

Year to Dec (RMBm)	09A	10A	YoY change
Revenue	872.4	1,414.0	62.1%
ESCA	322.5	353.4	9.6%
ISCA	126.6	307.0	142.5%
PCA	170.2	246.8	45.0%
STWC	172.1	348.3	102.4%
Connectors	36.1	46.4	28.5%
Antenna		11.8	n.a.
Others	44.9	100.2	123.2%

Source: Company data

Margins improved slightly. Blended gross margin widened 0.3 pcp to 23.0% during the period. Mild margin squeeze was observed for ESCA, PCA, STWC as a result of more aggressive pricing strategy in order to expand market share. Operating expenses (D&S, A&G, R&D) dropped in terms of proportion to sales from 11% to 9.2% due to enlarged operation leverage. Net profit, thereafter, surged 73% to RMB153m, which is slightly higher than the company's guidance (no less than RMB150m).

Ticker	1087 HK
Rating	Not Rated
Price (HK\$)	2.53
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	1.94-2.95
Market cap. (US\$m)	233.5
Daily t/o (US\$m)	1.1
Free float (%)	30.3

Financial summary

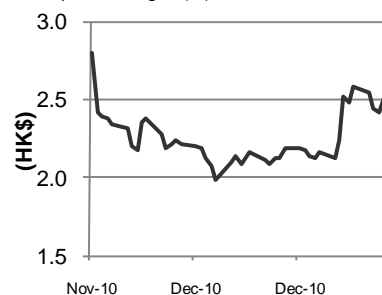
Year to Dec	08A	09A	10A
Turnover (RMBm)	898	872	1,414
Net Profit (RMBm)	54	88	153
EPS (RMB)	0.112	0.169	0.275
P/E (x)	19.6	13.0	8.0
P/B (x)	5.37	3.75	1.31
EV/EBITDA (x)	16.2	11.8	7.2
Yield (%)	0.0	0.0	0.0
ROE (%)	27.8	32.8	24.9
ROCE (%)	17.2	17.7	15.2
N. Gear. (%)	83.6	72.9	8.4

Source: SBI E2-Capital

	11F	12F	13F
Consensus EPS (RMB)	0.285	0.415	-
Previous earnings (RMBm)	-	-	-
Previous EPS (RMB)	-	-	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(1.1)	+19.1	n.a.
Actual price changes (%)	+0.8	+21.1	n.a.



Source: Bloomberg

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Table 2. Margin movement

Year to Dec	09A	10A	YoY change (pcp)
Gross margin	22.7%	23.0%	0.3
ECSA	23.0%	22.6%	(0.4)
ISCA	25.5%	27.9%	2.4
PCA	18.7%	16.3%	(2.3)
STWC	26.8%	22.5%	(4.3)
Connectors	27.3%	31.5%	4.2
Antenna		10.5%	n.a.
Others	8.3%	25.5%	17.2
% of operating items to sales	0.9%	-0.2%	(1.1)
Other gains and losses	-2.3%	-1.9%	0.4
D&S	-5.5%	-5.1%	0.4
A&G	-3.1%	-2.2%	0.9
R&D	0.9%	-0.2%	(1.1)

Source: Company data

Developing strategy carried out as planned. The management also re-explained its developing strategies during the analyst meeting:

- Growing existing business – part of IPO proceeds will be used on capacity expansion for existing products. New customers will help to absorb the new capacity. As mentioned, the company added 73 names last year.
- Rolling out new products – new products will be introduced gradually. For 2011, other than already launched automobile hardness, production of both solar connector and special power cable will be initiated by the year end.

Positive view unchanged. The results are broadly in line with our preliminary estimates. We maintain our view that, as the one of few PRC players among the industry, HLT is able to expand market occupancy at expense of its Taiwan peers for the prior's better cost structure, stronger R&D ability and greater operation flexibility. Together with the favorable business environment for consumer electronics, we expect the company to retain its high growth in FY12/11F. New products, meanwhile, will be the major driver in FY12/12F and thereafter. In particular, we highlight potential of the new generation of high-speed transmission cable, which can be used for Intel's Thunderbolt I/O port. We will initiate coverage on the counter at due course. For time being, we revised our reference target price from HK\$3.00 to HK\$3.27 based on 10x FY12/11F PE.

Table 3. Preliminary forecast review

Year to Dec (RMBm)	10A	10F	Difference
Revenue	1,414.0	1,364.9	3.6%
Gross profit	325.6	301.0	8.2%
Operating profit	192.3	187.5	2.6%
Net profit	152.7	150.7	1.3%

Source: Company data, SBI E2-Capital

Table 4. Key financials

Year to Dec (Rmbm)	08A	09A	10A
Revenue	898.0	872.4	1,414.0
Gross profit	174.8	198.0	325.6
Operating profit	81.7	110.5	192.3
Net profit	54.4	88.3	152.7
EBITDA	102.2	139.7	230.2
Fixed assets	268.4	308.6	448.9
Inventories	115.3	115.6	178.5
Receivables	338.8	423.5	725.5
Payables	335.3	302.0	384.6
Cash	58.4	115.2	585.1
Short-term debt	243.3	353.4	663.1
Long-term debt			
Shareholders' fund	221.1	316.6	909.9
Total equity	221.1	327.0	923.5
Net cash from operating activities	1.7	0.5	n.a.
Net cash used in investing activities	(117.5)	(70.5)	n.a.
Net cash from financing activities	119.4	120.4	n.a.
Net change in cash and cash equivalents	3.6	50.3	n.a.

Source: Company data

Table 5. P&L

Year to Dec (Rmbm)	07A	08A	09A	10A
Revenue	652.6	898.0	872.4	1,414.0
Cost of sales	(517.3)	(723.2)	(674.4)	(1,088.3)
Gross profit	135.3	174.8	198.0	325.6
Other gains and losses	10.8	(2.5)	8.3	(2.6)
Distribution and selling expenses	(14.8)	(18.9)	(20.5)	(27.2)
Administrative and general expenses	(30.9)	(45.4)	(48.0)	(72.5)
Research and development expenses	(23.2)	(26.3)	(27.3)	(30.9)
Profit from operations	77.3	81.7	110.5	192.3
Finance costs	(9.1)	(15.6)	(13.9)	(19.1)
Share of loss of an associate	(0.2)	0.0	0.0	0.0
Profit before taxation	68.0	66.1	96.6	173.3
Income tax expenses	(2.4)	(11.5)	(8.1)	(18.2)
Profit for the period	65.5	54.5	88.5	155.0
Attributable to:				
Owners of the Company	62.7	54.4	88.3	152.7
Non-controlling interests	2.8	0.1	0.2	2.4
EPS - Basic (Rmb)	0.132	0.112	0.169	0.275

Source: Company data

Table 6. Shareholding structure

Shareholders	Interest
Chi Shaolin	40.87%
Yongchang Joint Stock Company Limited	18.59%
Hongxin Joint Stock Company Limited	5.11%
Others	35.43%
Total	100.00%

Source: HKEx

Table 7. Preliminary forecasts

Year to Dec (RMBm)	07A	08A	09A	10A	11F	12F
Revenue	652.6	898.0	872.4	1,414.0	2,112.8	2,607.9
ESCA	314.9	427.2	322.5	353.4	458.0	503.8
ISCA	72.3	83.9	126.6	307.0	407.3	476.1
PCA	59.7	115.3	170.2	246.8	331.1	390.7
STWC	142.2	173.4	172.1	348.3	475.2	665.4
Connector	1.4	23.1	36.1	46.4	60.8	67.6
Antenna				11.8	20.0	40.0
Special power cable					20.0	40.0
Solar connector					20.0	40.0
Automotive wiring harness					200.0	240.0
Others	62.0	75.0	44.9	100.2	120.3	144.3
Gross profit	135.3	174.8	198.0	325.6	465.0	574.2
Operating profit	77.3	81.7	110.5	192.3	267.0	329.9
Net profit	62.7	54.4	88.3	152.7	196.1	235.4
Gross margin	20.7%	19.5%	22.7%	23.0%	21.4%	21.2%
ESCA	23.2%	20.2%	23.0%	22.6%	22.6%	22.6%
ISCA	17.8%	25.3%	25.5%	27.9%	27.9%	27.9%
PCA	18.2%	15.5%	18.7%	16.3%	16.3%	16.3%
STWC	19.8%	20.0%	26.8%	22.5%	22.5%	22.5%
Connector	8.1%	15.1%	27.3%	31.5%	31.5%	31.5%
Antenna				10.5%	15.0%	20.0%
Special power cable					10.0%	15.0%
Solar connector					10.0%	15.0%
Automotive wiring harness					15.0%	15.0%
Others	16.7%	14.8%	8.3%	25.5%	25.5%	25.5%

Source: Company data, SBI E2-Capital

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