

Ju Teng International

Margin improved on sales mix change

BUY (unchanged)

Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	5,275.87,249.2	7,339.210,010.814,091.4			
Net Profit (HK\$m)	410.0	658.3	696.7	933.9	1,280.5
EPS (HK\$)	0.410	0.658	0.658	0.847	1.161
EPS Δ%	102.0	60.5	0.0	28.7	37.1
P/E (x)	13.9	8.7	8.7	6.7	4.9
P/B (x)	2.70	2.02	1.63	1.33	1.06
EV/EBITDA (x)	8.8	6.8	5.5	3.8	2.7
Yield (%)	-	0.9	1.1	1.5	2.0
ROE (%)	22.4	26.7	20.9	21.8	24.1
ROCE (%)	21.3	22.7	18.6	23.0	26.4
N. Gear. (%)	15.8	51.0	12.0	4.1	2.6

Source: SBI E2-Capital

Ticker:	3336.HK	12 mth range:	HK\$1.12-6.35
Price:	HK\$6.50	Market cap:	US\$919.0m
Target:	HK\$8.37 (+29%)	Daily t/o, 3 mth:	US\$3.6m
		Free float %:	69.1%

Key points:

- * Gross margin improved surprisingly in 1H due to relatively steady margin for each single product and sales mix change.
- * Better-than-expected PC shipment worldwide in 2Q.
- * Metal casing expansion on schedule.
- * To obtain market share from Hon Hai in 2H.
- * Forecast revised up by 8.1%, 7.7% and 1.4%, respectively, for FY12/09F, FY12/10F and FY12/11F.
- * Target price unchanged at HK\$8.37.

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+8.2	+44.2	+61.1
Actual price changes (%)	+8.9	+61.7	+69.7

	08F	09F	10F
Consensus EPS (HK\$)	0.665	0.856	1.099
Previous forecasts (HK\$m)	644.2	867.4	1,262.3
Previous EPS (HK\$)	0.609	0.787	1.145

Price Chart



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Ramping up metal casing operation. The JV with Compal launched operation in Apr. Shipment in 1H totaled ~1m units, of which around half went to Compal. Full year target is unchanged to reach 2m units / month output by the year-end. Current gross margin is 18-19%, which may rise gradually subject to the scaling up.

More production in JVs. Profit attributable to minority shareholders amounted to HK\$6.3m in 1H, down from HK\$18.7m one year ago. Despite this, we remain our view that more orders will be allocated to the JVs in the future, as this model will probably best link both parties' interest. In fact JTI plans to have half of its future capacity expansion in JVs.

Opportunity / threat. Other than the existing production of LCD TV casings for Wistron, the company is considering a move into DSLR camera casing area. Meanwhile, we see BYD's entering into note ODM market as a

Impressive margin improvement in 1H. Gross margin widened surprisingly in 1H FY12/09A from 15.6% one year ago to 17.8%. We have thought moderating demand amid the economy slowdown might intensify competition, pushing down gross margin (in our precious estimates, JTI's blended gross margin will narrow 0.4pcp in FY12/09F to 16.3%). Nevertheless, after discussing with the management, we found: 1) although selling price dropped following retreat in raw materials costs, gross margin remained stable for each product category; 2) demand concentrated at mid-end products in 1H, which, eventually, resulted in an improvement in sales mix and, consequently, blended gross margin. We reckon reasons behind, other than JTI's competitive strength, might include:

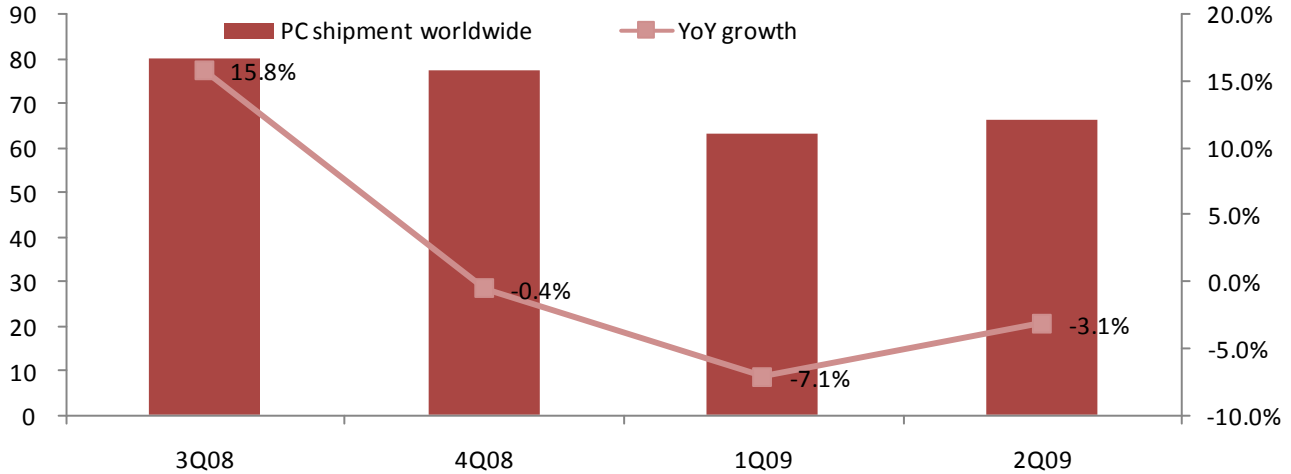
- Better-than-expected notebook market – IDC's data shows global PC shipment dipped 3.1% in 2Q, versus expected 6.3%. Portable PCs, especially netbook, was the volume driver as consumers are seeking more personal, portable and cost-effective products, which support demand for notebook casings.
- Consumer emphasis on personalized and fashionable products – this is a long term trend for digit products, in our view. It prevented casing demand from falling into low-end range in 1H.

To enhance market occupancy at expense of Hon Hai. Hon Hai is anticipated to lose orders after it announced in May 08 to launch its own notebook ODM business. Although it managed to retain its market share in 1H, some notebook ODMers have been working on adjusting their procurement, reducing allocation to Hon Hai. We reckon this will bring JTI extra growth in 2H.

potential threat to JTI because the high vertical integration model adopted by the prior, which will reduce reliance on independent components suppliers.

Estimates lifted to reflect margin expansion. Industry wise, we maintain global PC shipment forecasts for the time being, despite the better-than-expected shipment volume in 2Q, which provides upside adjustment potential for the future. We believe the margin improvement backed by product mix change (i.e. more personalized and fashion products) is sustainable in long term, which has been embedded in our previous calculations. Although the present consumption focus on mid-end products might be temporary, it does encourage us to adopt more optimistic assumptions on gross margins (and ASPs) in 2H FY12/09F and FY12/10F. Accordingly, we raised our earnings projection for FY12/09F, FY12/10F and FY12/11F by 8.1%, 7.7% and 1.4%, respectively. Given these insignificant adjustments, especially in long term, we keep our target price unchanged for the counter at HK\$8.37.

Chart 1: Quarterly PC shipment worldwide (units m) and YoY movement



Source: IDC

Table 1: Interim results highlight

Six months to Jun (HK\$m)	08A	09A	YoY change (%)
Revenue	3,428.2	3,124.3	(8.9)
Gross profit	534.7	556.8	4.1
Operating profit	391.4	400.3	2.3
Minority interest	18.7	6.3	(66.3)
Net profit	283.5	289.6	2.2
			(pcp)
Gross margin	15.6	17.8	2.2
Operating margin	11.4	12.8	1.4
Net margin	8.3	9.3	1.0

Source: Company data

Table 2: P & L

Year to Dec (HK\$m)	07A	08A	09F	10F	11F
Revenue	5,275.8	7,249.2	7,339.2	10,010.8	14,091.4
COGS	(4,479.7)	(6,036.2)	(6,020.1)	(8,109.9)	(11,374.3)
Gross profit	796.2	1,213.0	1,319.0	1,900.9	2,717.2
Other income and gains	95.0	99.2	88.2	63.6	92.9
Selling and distribution costs	(23.7)	(31.2)	(44.0)	(51.4)	(69.1)
Administrative expenses	(271.9)	(360.2)	(381.7)	(519.5)	(698.8)
Other expenses	(12.7)	(26.9)	(28.6)	(37.0)	(49.8)
Profit from operations	582.8	894.0	952.9	1,356.6	1,992.4
Finance costs	(99.9)	(75.1)	(62.8)	(43.2)	(50.3)
Share of profit of an associate	1.3	0.0	0.0	0.0	0.0
Profit before tax	484.2	818.9	890.1	1,313.4	1,942.1
Tax	(57.3)	(130.3)	(178.0)	(289.0)	(466.1)
Profit for the period	426.9	688.6	712.1	1,024.5	1,476.0
Attributable to:					
Equity holders of the Company	410.0	658.3	696.7	933.9	1,280.5
Minority interests	16.9	30.3	15.4	90.5	195.5
EPS - Basic (HK\$)	0.410	0.658	0.658	0.847	1.161
EPS - Diluted (HK\$)	0.402	0.643	0.644	0.829	1.136
Proposed DPS (HK\$)	0.000	0.050	0.063	0.085	0.116
Proposed dividend	0.0	50.0	69.7	93.4	128.1

Source: Company data and SBI E2-Capital

P & L (HK\$m)	07A	08A	09F	10F	11F	Cash Flow (HK\$m)	07A	08A	09F	10F	11F															
Year to Dec						Year to Dec																				
Turnover	5,275.8	7,249.2	7,339.2	10,010.8	14,091.4	EBIT	571.3	883.8	942.8	1,347.3	1,975.8															
% chg	48.3	37.4	1.2	36.4	40.8	Depre./amort.	168.7	205.7	279.7	332.5	374.5															
Gross profit	796.2	1,213.0	1,319.0	1,900.9	2,717.2	Net int. paid	(88.4)	(64.9)	(52.7)	(33.9)	(33.7)															
EBITDA	740.0	1,089.4	1,222.5	1,679.8	2,350.3	Tax paid	(55.3)	(113.3)	(161.1)	(264.0)	(429.2)															
Depre./amort.	(168.7)	(205.7)	(279.7)	(332.5)	(374.5)	Dividends received	2.2	3.1	0.0	0.0	0.0															
EBIT	571.3	883.8	942.8	1,347.3	1,975.8	Gross cashflow	598.5	914.3	1,008.7	1,382.0	1,887.5															
Net int. income/(exp.)	(88.4)	(64.9)	(52.7)	(33.9)	(33.7)	Chgs. in working cap.	(215.1)	(1,194.4)	(41.6)	(692.2)	(1,041.9)															
Exceptionals						Operating cashflow	383.4	(280.1)	967.1	689.8	845.6															
Associates	1.3	0.0	0.0	0.0	0.0	Capex	(225.9)	(831.9)	(432.9)	(534.5)	(990.8)															
Jointly-controlled entit.						Free cashflow	157.4	(1,112.0)	534.3	155.3	(145.2)															
Pre-tax profit	484.2	818.9	890.1	1,313.4	1,942.1	Dividends paid	0.0	0.0	(55.1)	(69.7)	(93.4)															
Tax	(57.3)	(130.3)	(178.0)	(289.0)	(466.1)	Net distribution to MI	0.0	0.0	(1.5)	(9.1)	(19.6)															
Minority interests	(16.9)	(30.3)	(15.4)	(90.5)	(195.5)	Investments	1.0	0.0	0.0	0.0	0.0															
Net profit	410.0	658.3	696.7	933.9	1,280.5	Disposals	9.2	17.7	0.0	0.0	0.0															
% chg	102.0	60.6	5.8	34.1	37.1	New shares	0.0	0.0	401.0	0.0	0.0															
Dividends	0.0	50.0	69.7	93.4	128.1	Others	48.7	92.0	(1.5)	151.3	277.7															
Retained earnings	410.0	708.3	766.3	1,027.3	1,408.6	Net cashflow	206.1	(1,020.0)	878.6	236.9	39.1															
EPS (HK\$) - Basic	0.410	0.658	0.658	0.847	1.161	Net (debt)/cash - Beg.	(504.1)	(297.9)	(1,317.9)	(439.4)	(202.4)															
EPS (HK\$) - F.D.	0.402	0.643	0.644	0.829	1.136	Net (debt)/cash - End.	(297.9)	(1,317.9)	(439.4)	(202.4)	(163.3)															
DPS (HK\$)	-	0.050	0.063	0.085	0.116	Interim Results (HK\$m)																				
No. sh.s o/s (m) - W.A.	1,000.0	1,000.0	1,058.3	1,102.8	1,102.8	07A			08A			09A														
No. sh.s o/s (m) - Y.E.	1,000.0	1,000.0	1,102.8	1,102.8	1,102.8	Six months to Jun																				
No. sh.s o/s (m) - F.D.	1,019.4	1,024.0	1,082.3	1,126.8	1,126.8	Turnover			2,156.4			3,428.2			3,124.3											
Margins (%)						% chg			46.6			59.0			(8.9)											
Gross	15.1	16.7	18.0	19.0	19.3	Profit from operations			234.5			391.4			400.3											
EBITDA	14.0	15.0	16.7	16.8	16.7	Interest expenses			(48.0)			(36.1)			(31.8)											
EBIT	7.0	7.0	7.0	7.0	7.0	Associates			0.1			0.0			0.0											
Pre-tax	9.2	11.3	12.1	13.1	13.8	Jointly-controlled entit.																				
Net	7.8	9.1	9.5	9.3	9.1	Pre-tax profit			186.6			355.3			368.5											
Balance Sheet (HK\$m)						Tax			(22.3)			(53.0)			(72.5)											
Year to Dec						Minority interests			0.0			(18.7)			(6.3)											
Fixed assets	1,688.0	2,345.4	2,980.6	3,159.9	3,772.3	Net profit			164.3			283.5			289.6											
Intangible assets	1.1	4.8	4.8	4.8	4.8	% chg			133.1			72.6			2.2											
Other LT assets	127.3	234.9	57.2	79.8	83.7	EPS (HK\$) - Basic			0.158			0.284			0.283											
Cash	459.2	559.4	490.7	815.9	1,220.0	DPS (HK\$)																				
Accounts receivable	2,026.2	2,937.4	2,973.9	4,056.4	5,709.9	Shareholding Structure						Shares o/s (m)			%											
Other receivables	166.5	216.2	218.9	298.6	420.4	Cheng's family						273.6			24.8											
Inventories	727.8	821.9	819.7	1,104.2	1,548.7	UBS						69.4			6.3											
Due from related co.s						Others						759.8			68.9											
Other current assets	28.3	24.4	24.4	24.4	24.4	Total						1,102.8			100.0											
Total assets	5,224.3	7,144.5	7,570.1	9,544.1	12,784.3	Background						Established in 2000 in Suzhou, JTI has growing into one of the largest plastic notebook computer casing supplier. With notebook ODMers as its direct customers, the company has built up a solid client base, indirectly serving almost all mainstream computer brands in the world. In 2009, the company launched metal casing operation, which is expected to become a major driver in the foreseeable future.														
Accounts payable	(1,398.4)	(1,530.1)	(1,526.0)	(2,055.8)	(2,883.2)	Key Ratios						07A			08A			09F			10F			11F		
Other payable	(330.5)	(570.6)	(569.1)	(766.6)	(1,075.2)	Net gearing (%)			15.8			51.0			12.0			4.1			2.6					
Tax payable	(84.7)	(101.7)	(118.6)	(143.6)	(180.6)	Net ROE (%)			22.4			26.7			20.9			21.8			24.1					
Due to related co.s						EBIT ROCE (%)			21.3			22.7			18.6			23.0			26.4					
ST debts	(757.2)	(947.3)	0.0	(88.3)	(453.3)	Dividend payout (%)			-			(7.6)			(10.0)			(10.0)			(10.0)					
Other current liab.	(443.5)	(74.2)	(75.1)	(102.5)	(144.2)	Effective tax rate (%)			11.8			15.9			20.0			22.0			24.0					
LT debts	0.0	(930.1)	(930.1)	(930.1)	(930.1)	Net interest coverage (x)			6.5			13.6			17.9			39.8			58.7					
Other LT liabilities	(25.6)	(9.1)	(11.4)	(12.6)	(13.7)	A/R turnover (days)			115.6			125.0			147.0			128.2			126.5					
Total liabilities	(3,039.9)	(4,163.0)	(3,230.3)	(4,099.3)	(5,680.3)	A/P turnover (days)			76.7			73.7			76.0			65.3			64.0					
Share capital	100.0	100.0	110.3	110.3	110.3	Stock turnover (days)			56.3			46.9			49.8			43.3			42.6					
Reserves	2,011.1	2,720.3	3,750.2	4,613.3	5,799.3																					
Shareholders' funds	2,111.1	2,820.3	3,860.5	4,723.6	5,909.6																					
Minority interest	73.2	161.1	479.3	721.2	1,194.4																					
Total	2,184.4	2,981.4	4,339.8	5,444.8	7,104.0																					
Capital employed	2,941.6	4,858.8	5,269.9	6,463.1	8,487.4																					
Net (debt)/cash	(297.9)	(1,317.9)	(439.4)	(202.4)	(163.3)																					

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