

Ju Teng International

Tread in the recovery track

to summarize...

- Top line growth returned positive in 2H following comeback of PC demand.
- PC market outlook is improving backed by better-than-expected economy recovery.
- Market occupancy is expected to increase in 2010.
- Earnings forecast was revised up to reflect optimistic view on PC shipment.
- Target price was re-set at HK\$9.56 from previous HK\$8.37.

Top line regained growth in 2H. FY12/09A results came in broadly in line with our expectation. Turnover climbed up 3.0% to HK\$7,463.9m, suggesting 13.6% YoY rebound in 2H from 8.9% slide in 1H. Gross margin enhanced 1.3pcp to 18.0% due to the sales mix change with more demand for mid-end products, which, however, was eroded by increased effective tax rate from 15.9% to 18.9%. Thus, net margin improved only 0.1pcp to 9.3% and net profit picked up 4.0% to HK\$704.9m.

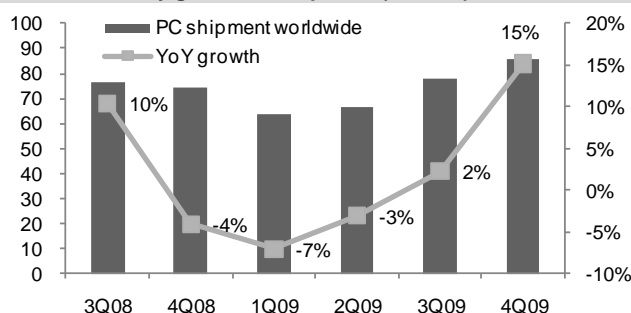
Table 1. Growth in 1H & 2H FY12/09A

Year to Dec (HK\$ m)	08A			09A		
	1H	2H	Total	1H	2H	Total
Revenue	3,428.2	3,821.0	7,249.2	3,124.3	4,339.6	7,463.9
Gross profit	534.7	678.3	1,213.0	556.8	788.0	1,344.7
Operating profit	391.4	502.6	894.0	400.3	582.3	982.5
Net profit	283.5	374.8	658.3	289.6	415.2	704.9
Growth (%)						
Revenue				(8.9)	13.6	3.0
Gross profit				4.1	16.2	10.9
Operating profit				2.3	15.9	9.9
Net profit				2.2	10.8	7.1

Source: Company data

Improving PC market will favor casing demand. PC market bottomed out in 3Q 09 and PC shipment globally increased 8.7% in 2H, versus 5.1% decline in 1H, which largely explained JTI's regaining growth in the second half, in our view. In 2009, the actual PC shipment number was 6.3% ahead of our previous assumption (IDC Dec forecast: 278.2m units). We re-iterate our view that, as a major supplier of laptop casings, JTI's performance is highly correlated with the PC market. As outlook of PC market in 2010 is improving (in its latest research in Mar, IDC penciled up 2010 PC shipment forecast by 11.5% to 333.2 units), aided by better-than-expected economy recovery, we maintain our positive view towards JTI unchanged.

Chart 1. Quarterly global PC shipment (units m)



Source: IDC

Ticker	3336 HK
Rating	BUY
Price (HK\$)	7.41
Target Price (HK\$)	9.56 (+29.0%)
12m Price Range (HK\$)	2.12-8.51
Market cap. (US\$m)	1,062.0
Daily t/o (US\$m)	3.4
Free float (%)	71.9

Financial summary

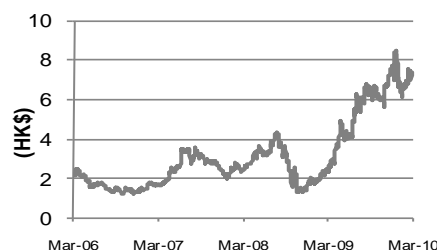
Year to Dec	08A	09A	10F	11F	12F
Turnover (HK\$m)	7,249	7,464	10,935	15,574	19,760
Net Profit (HK\$m)	658.3	704.9	971.3	1,460.0	1,776.9
EPS (HK\$)	0.658	0.662	0.869	1.306	1.589
P/E (x)	60.5	0.6	31.2	50.3	21.7
P/B (x)	9.9	9.8	7.5	5.0	4.1
EV/EBITDA (x)	2.30	1.83	1.50	1.17	0.93
Yield (%)	7.7	6.6	4.1	3.0	2.2
ROE (%)	0.8	1.2	1.3	2.0	5.9
ROCE (%)	26.7	20.8	22.0	26.4	25.3
N. Gear. (%)	22.7	17.0	22.0	26.9	27.3

Source: SBI E2-Capital

	10F	11F	12F
Consensus EPS (HK\$)	0.867	1.194	1.265
Previous earnings (HK\$m)	933.9	1,280.5	n.a.
Previous EPS (HK\$)	0.847	1.161	n.a.

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	+9.3	+2.3	+91.6
Actual price changes (%)	+12.6	+1.1	+202.4



Source: Bloomberg

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Table 2. PC shipment forecast

Year to Dec (units m)	09F	10F	11F	12F	13F	14F
New forecast (Mar 10)						
Desktop PC	127.1	128.3	130.3	131.8	132.6	133.2
Portable PC	168.8	204.9	249.4	296.2	344.8	398.1
Total	296.0	333.2	379.6	428.0	477.4	531.3
Old forecast (Dec 09)						
Desktop PC	125.8	123.7	125.4	127.5	128.8	n.a.
Portable PC	152.4	175.1	212.6	251.4	291.0	n.a.
Total	278.2	298.8	338.0	378.9	419.8	n.a.
Adjustment (%)						
Desktop PC	1.0	3.7	3.9	3.4	3.0	n.a.
Portable PC	10.8	17.0	17.3	17.8	18.5	n.a.
Total	6.4	11.5	12.3	13.0	13.7	n.a.

Source: IDC

Market share expansion thesis remains. Momentum still comes from: 1) JTI's expansion in metal casing business; 2) orders shifted from Hon Hai to JTI after the prior launched its own laptop ODM operation. The resilient PC demand will probably encourage Hon Hai's expansion in laptop ODM business, which, consequently, will accelerate other ODMers' pace in shifting casing orders from Hon Hai to JTI. Overall, we expect ~3pcp market share enhancement in 2010 to ~33%.

Profit projection was penciled up to reflect better-than-expected PC shipment recovery. Following change in global PC shipment, we revised our earnings forecast accordingly. FY12/10F and FY12/11F net profit were revised up by 4.0% and 14.0%, respectively, to HK\$971.3m and HK\$1,460.0m. We expect earnings growth to drive up share price and set our new target at HK\$9.56 (previous: HK\$8.37) based on 11.0x FY12/10F P/E, which will drop to undemanding 7.3x in FY12/11F.

Table 3. P&L

Year to Dec (HK\$ m)	08A	09A	10F	11F	12F
Revenue	7,249.2	7,463.9	10,935.5	15,573.8	19,759.9
COGS	(6,036.2)	(6,119.2)	(8,874.6)	(12,601.6)	(15,919.5)
Gross profit	1,213.0	1,344.7	2,060.8	2,972.2	3,840.5
Other income and gains	99.2	74.2	72.2	100.3	136.5
Selling and distribution costs	(31.2)	(35.7)	(50.7)	(68.8)	(87.3)
Administrative expenses	(360.2)	(369.4)	(524.0)	(711.0)	(902.2)
Other expenses	(26.9)	(31.3)	(44.4)	(60.3)	(76.5)
Profit from operations	894.0	982.5	1,513.9	2,232.5	2,911.0
Finance costs	(75.1)	(48.6)	(108.8)	(75.4)	(69.0)
Share of profit of an associate	0.0	0.0	0.0	0.0	0.0
Profit before tax	818.9	933.9	1,405.1	2,157.1	2,842.0
Tax	(130.3)	(172.8)	(288.0)	(485.4)	(710.5)
Profit for the period	688.6	761.2	1,117.0	1,671.7	2,131.5
Attributable to:					
Equity holders of the Company	658.3	704.9	971.3	1,460.0	1,776.9
Minority interests	30.3	56.3	145.7	211.8	354.6
EPS - Basic (HK\$)	0.658	0.662	0.869	1.306	1.589
EPS - Diluted (HK\$)	0.643	0.631	0.830	1.248	1.519
Proposed DPS (HK\$)	0.050	0.080	0.087	0.131	0.384
Proposed dividend	50.0	89.4	97.1	146.0	429.4

Source: Company data, SBI E2-Capital

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