



Ju Teng (3336 HK) – Unrated Electronic Manufacturing Industry

Key Data

Share price (HK\$)	3.74
Target price (HK\$)	-
Upside potential (%)	-
52Wk H/L(HK\$)	4.22 / 0.99
Issued shares (mn)	1,119.0
Market cap (HK\$mn)	4,301.6
30-day avg turnover (HK\$mn)	23.3
Major shareholder (%): Cheng Li-Yu*	25.2

*Chairman of Co.

Source: Company, Bloomberg

Share performance (%)

	Absolute	Relative*
1-mth	5.4	0.9
3-mth	20.6	10.3
6-mth	68.5	40.9

Source: Bloomberg

*Relative to Hang Seng Index

1 year price performance



Source: Bloomberg

Analyst:

Name: Lisa Lee

Tel: (852) 2147 8809

Email: lisalee@abci.com.hk

Key takeaways from management's meeting

Ju Teng's positive alert and low valuation has caught our attention. We had a meeting with the group's CFO. With strong cash flow track records and a rising GP margin trend, the under-covered stock is currently trading at below 1.0x PB and hence there is ample room for upside. We summarize the key points from the meeting including the growth momentum and business development of the group as follows:

GP margin expansion: Despite a slowdown in notebook (NB) shipments, the group managed to post a positive alert for its 2012 annual results due to a change of product mix. Sales contributed from metal and carbon fibre casings with higher margin as opposed to plastic casings with lower margin have been increased to ~20% of the group's revenue after buying 2,000 units of CNC machines in end of 2011. GP margin of the group has expanded from 10.5% in 2011 to 13.7% in 1H2012. With growing adoption of metal and carbon fibre casings by Acer, HP, Dell Lenovo and Sony, the management expects sales mix from high margin casings will increase to 30% in 2013 and the group's GP margin will further increase to over 15%.

Replacement demand: IDC estimated that worldwide notebook shipments YoY growth will rebound in 2013 to 9.9% from low single digit growth of 4.1% in 2011 and 2.4% in 2012. The reason is that the launch of Windows 8 operating system in 4Q2012 and a peak season of new products launch in coming Mar and Apr is expected to stimulate replacement demand in the market, leading to a stronger growth in notebook shipments.

Strong cash flow management: The group managed to maintain a positive cash inflow from operations during industry downturn in 2008 and 2009, indicating a strong working capital management.

Valuation: Although share price has risen by 11.3% (HSI up 4.4% for the same period) after the announcement of profit increase alert on 20 Dec 2012, the stock is trading at 0.85x PB.

Risk factors: High customer concentration, high gearing, weak NB demand

Results and valuation

(FY ended Dec 31)	FY08	FY09	FY10	FY11	1HFY12
Revenue (HK\$ mn)	7,249	7,464	7,166	8,235	4,315
<i>YoY Chg (%)</i>	37.4	3.0	(4.0)	14.9	18.1
Net Income (HK\$ mn)	658	705	331	257	243
<i>YoY Chg (%)</i>	60.6	7.1	(53.0)	(22.5)	120.2
FD EPS (HK\$)	0.658	0.662	0.296	0.227	0.215
<i>YoY Chg (%)</i>	60.5	0.6	(55.3)	(23.3)	121.6
NBV (HK\$/share)	2.820	3.547	3.874	4.238	4.364
PE (x)	-	-	-	13.4	8.7
PB (x)	-	-	-	0.88	0.85
ROAA (%)	10.6	8.5	3.4	2.4	4.7
ROAE (%)	26.7	20.8	7.9	5.6	10.5
Net D/E(%)	47.9	32.3	23.9	33.4	41.1

Source: Company, Bloomberg, ABCI Securities



Disclosures

I, Lee Oi-yee, Lisa, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return $<$ Market return rate
Sell	Stock return $<$ Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq 180$ day volatility/180 day benchmark index volatility
High	$1.5 \leq 180$ day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq 180$ day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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Office address : ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.

Tel : (852) 2868 2183