



Asia
Taiwan
Technology
Hardware & Equipment

Industry Asian Casing Sector

Date
19 September 2014

Initiation of Coverage

Robust demand and disciplined supply for metal casings

Positive sector outlook; initiating on Casetek, Ju Teng and Tongda with Buy

We are positive on the Asian metal casings sector given: (a) the design trend for thinner, lighter mobile devices with larger screens; (b) Apple's preference (86%+ adoption rate) for using metal casings for the iPhone, iPad and Macbook; (c) a rising adoption rate from non-Apple brands; (d) disciplined capex through controlled CNC (Computer Numerical Control) equipment procurement; and (e) higher entry barriers in casing manufacturing and surface treatment. We are less concerned than the Street about the over-supply risk within three years. We reiterate our positive view on Catcher (Buy) and initiate coverage on Casetek, Ju Teng and Tongda with Buy ratings.

Robust metal casings demand: 2013-2016 CAGR at +18.6%

We forecast the 2013-2016 CAGR for metal casing shipments on mobile devices to reach +18.6% (Figure 1), thanks to Apple's high adoption rate (100% for Macbook and iPad, 80% for iPhone), and rising orders from HP and Lenovo for commercial NBs, Microsoft, Asustek and Acer for 2-in-1 tablets, and Sony, HTC and more local Chinese brand vendors for smartphones (Figure 20). While Apple takes 62% of total metal casings demand currently, we also view Samsung's increased new model designs with metal casings/frames from 2H14 as helping to boost upside for overall market sales and profitability.

Disciplined capex + higher entry barriers = lower risks for oversupply

We expect 2013-2016 CAGR for the purchase of CNC machines (the basic gauge for metal casings capacity) by major Asian casing suppliers to reach +13.7% (Figure 2). We are less concerned than the street about oversupply due the sector due not only to the disciplined capacity increase but also to the higher entry barriers in higher-end metal casings manufacturing, including: (i) higher dollar capex per unit purchase of the equipment, (ii) clients' rising requirements on casing quality and solidity, (iii) quick mass production lead time to meet the shortening product life-cycle and time-to-market pressure of mobile devices and (iv) local government restriction policies on pollution and labor safety.

Top picks are Casetek and Catcher

We suggest focusing on the leading Apple plays and the non-Apple plays with better product diversification and low growth base to help boost their revenue, margins and EPS momentum.

- **Key Apple play winners:** While we like **Catcher** (new iPhone 6 orders), we also favor **Casetek**, given its high possibility of leveraging its parent, Pegatron, to ship metal casings for Apple's 12.9" iPad, iPhone and new smartphone clients.
- Another value pick is **Ju Teng**, given its better mix of metal/plastic casings for NBs, order gains for Microsoft's surface tablets and smartphones, and low valuation (6x our target 2015 PE). We also like **Tongda** with its exciting business growth from Huawei and Xiaomi.

Valuation and risks

We apply a target 2015 P/E 14x for Catcher, 12x for Casetek, Tongda, and Foxconn Tech, and 8x for Ju Teng, based on their different earnings outlooks. Key risks include order gains/losses and yield rate.

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Top picks

Casetek (5264.TW), TWD184.00	Buy
Ju Teng (3336.HK), HKD4.35	Buy
Catcher Technology (2474.TW), TWD298.50	Buy
Tongda Group (0698.HK), HKD1.07	Buy
Foxconn Technology (2354.TW), TWD74.60	Sell

Source: Deutsche Bank

Company Featured

Casetek (5264 TW)		2014E	2015E
P/E (x)		11	8.8
TP: NT\$248	EPS YoY	-8%	24%
Upside: 37%	P/B (x)	2.3	19
	ROE	214%	23.3%
Ju Teng (3336 HK)		2014E	2015E
P/E (x)		5.8	4.6
TP: HK\$7.2	EPS YoY	9%	27%
Upside: 73%	P/B (x)	0.7	0.6
	ROE	12.7%	13.9%
Tongda (0698 HK)		2014E	2015E
P/E (x)		11.8	8.8
TP: HK\$1.43	EPS YoY	18%	35%
Upside: 35%	P/B (x)	16	14
	ROE	16.3%	17.5%
Catcher (2474 TW)		2014E	2015E
P/E (x)		12.9	10.7
TP: NT\$350	EPS YoY	23%	20%
Upside: 17%	P/B (x)	2.5	2.2
	ROE	212%	218%

Source: Deutsche Bank estimates, price as of 18, September, 2014

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Executive summary

Outlook

Positive outlook for Asian metal casings sector

We hold an optimistic view on the metal casings industry. On the demand side, we are confident about its robust shipment momentum within the next three years due to (a) the design trend toward ultra-slim and lighter form-factor, and larger panel-screens on mobile devices (NBs, smartphones and tablets), (b) Apple's preference for using metal casings (its adoption rate at 86%, Figure 19) for iPhone, iPad and Macbook products, and (c) the increasing adoption rate from other smartphone and tablet brand vendors. On the supply side, the disciplined procurement of CNC (Computer Numerical Control) machines by major casing suppliers in Asia (hence controlled supply increase) and the higher entry barriers in metal casings manufacturing and surface treatment solution can help ease the Street's concerns about the industry's oversupply risks.

Rapidly-growing demand for metal casings: 2013-2016 CAGR at +18.6%

We estimate the CAGR for metal casing shipments on mobile devices in 2013-2016 to reach +18.6% (Figure 1). We attribute its robust sales growth to (i) Apple's high use of metal casings for its Macbook Air and Pro (100%), iPad (100%) and iPhone (80%) products, (ii) the rising adoption rate from HP and Lenovo for their commercial NB models, (iii) increasing tablet (including 2-in-1 convertible models) shipments with metal casings from Microsoft, Lenovo, Asustek and Acer, and (iv) increasing use by smartphone vendors. While we believe Apple is the biggest driver for using metal casings on mobile devices (it consumes 62% of total metal casings, Figure 20), Samsung could be the next big potential buyer, given its large smartphone volume, lower adoption rate (6%) but aggressive plan to compete against Apple and other Android-camp vendors by using more high-end components.

Healthy capacity expansion and high entry barriers reducing over supply risks

According to our industry study, the CAGR for the purchase of CNC machines by major Asian manufacturers (a key gauge for metal casing production capacity) in 2013-16 will be +13.7% (Figure 2). We think the increase in capacity is quite healthy as most of the procurements are based on solid, firm orders from global leading clients, such as Apple (Hon Hai, Catcher, Casetek), Xiaomi (FIH), Microsoft (Ju Teng), and Huawei (BYDE). The Street's concerns about oversupply for the metal casings industry would not be critical within three years given the high entry barriers in manufacturing and surface treatment arising from (i) higher dollar capex per unit purchase of CNC machines and assembly and testing equipment, (ii) clients' high requirement for casing quality and solidity, (iii) quick mass production lead time to meet the shortening product life-cycle and time-to-market pressure of mobile devices, and (iv) local government's restriction policies on pollution and labor safety.

Buy Catcher, Casetek (Apple plays) and Ju Teng, Tongda (non-Apple winners)

For the Asian casings sector, we recommend Buy on Catcher and Casetek given their robust sales momentum from Apple's Macbook and iPad and rising upsides from new iPhone orders. We also expect Casetek to leverage its parent company, Pegatron, to win more orders from new brand clients from 2H14, helping diversify its operational risks.



We also view Ju Teng as a value pick, given its low valuation (5x our target 2015E EPS, and 0.6x 2015E book) and rising metal casings shipments for NBs, robust unibody casing sales for Microsoft's surface Pro and new smartphone orders to help boost its revenue and earnings growth from 2H14. We also think Tongda with its exciting business growth from Huawei and Xiaomi will support ongoing outperform for its share price.

Valuation and recommendations

Valuation methodology

- We use price-to-earnings (PE) as our main valuation methodology for our coverage stocks to reflect their different earnings growth and competitiveness in the smartphone, NB and tablet space.
- We assume 14x our target P/E multiple for valuation on Catcher and 12x on Casetek, Tongda, Foxconn Tech and 8x for Ju Teng.

For more details on valuation, please see the recommendation section for each company.

Recommendations

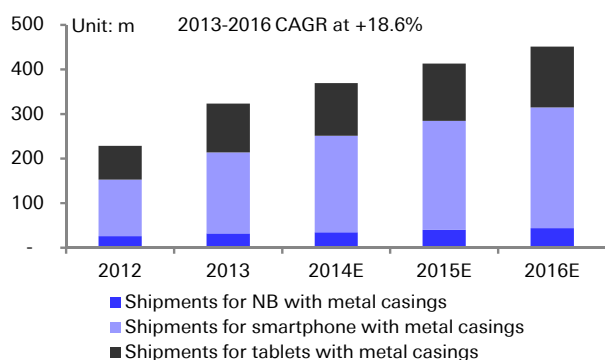
- **Casetek (Buy, target price (TP) of NT\$248, analyst: Andrew Chang):** we base our target price on 12x our 2015E EPS to reflect its iPad, Macbook casing business momentum and new orders for iPhone and from non-Apple clients. The target P/E multiple is in line with that for its peer average (8-14x), but higher than its historical average P/E multiple (10x), given its EPS expansion (-8% in 2014E vs. +18-24% in 2015-2016) and improved ROE (21.4% in 2014 vs. 23.3-24.1% in 2015-2016). The shorter history for the stock trading since its IPO in January 2013 may also not reflect its rising cash dividend payout ratio (15% in 2012 to 50%+ since 2013) and improved net cash position (from the net debt in 2012).
- **Ju Teng (Buy, TP of HK\$7.2, analyst: Andrew Chang):** our target price is based on 8x our 2015E EPS, which is lower than that for its peer average (8-14x), given its higher sales exposure to slow NB business, lower ROE and net debt position. However, we reward a higher target P/E multiple than its historical trading data (6-7x) since 2011 (post its aggressive expansion and capex plans for the metal casings business) to reflect its improved ROE (up from 5-13% during 2011-2014 to 13-14% in 2015-2016) and our more positive outlook for the entire metal casings sector (as opposed the Street's concerns about the industry's oversupply risk).
- **Catcher (Buy, TP of NT\$350, analyst: Birdy Lu):** our target price is based on 14x forward P/E, which is higher than the stock's historical trading average of 12x. We expect a re-rating to take place, with ROE expansion (from high teens to low twenties), core EPS growth acceleration (from 15% in 2013 to 25%+ in 2014 and 2015), and business diversification (from PC to mobile device) in sight.
- **Foxconn Tech (Sell, TP of NT\$64, analyst: Birdy Lu):** our target price for the stock is derived from 12x forward P/E, below its historical trading average of 14x. We expect a de-rating to take place, estimating its EPS CAGR to decelerate from 10% over 2009-2012 to -6% over 2013-2015. The 12x P/E multiple is in line with the trading average of regional competitors.
- **Tongda (Buy, TP of NT\$1.43, analyst: Birdy Lu):** our target price is based on 12x 2015 P/E, which is higher than the stock's historical trading average of 8x over the past four years. We believe Tongda's valuation will be re-rated, given accelerated EPS growth (2014-16 EPS



CAGR of 26% vs. 2010-13 EPS CAGR of 17%) and continued ROE expansion (15% in 2013 vs. 19% in 2016).

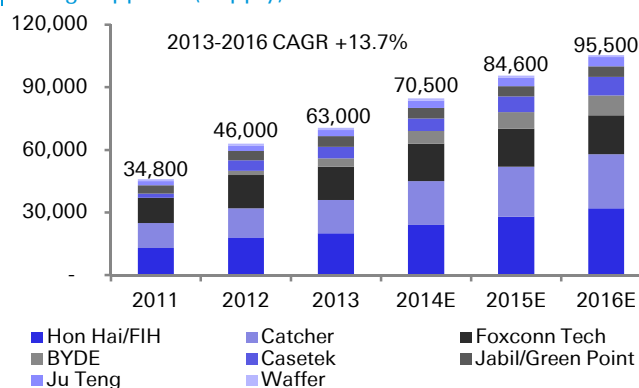
We acknowledge a wide deviation in our target 2015 multiples. At the low end, the 8x P/E applied to Ju Teng represents a significant discount to the peer group due to its higher sales exposure to the NB business (weaker growth outlook) and lower ROE (13-14%). We also think a discount is warranted due to it being a smaller market cap company (i.e. with less liquidity than the peers). At the upper end, we apply 14x to Catcher, which we think deserves a premium to peers as it is generally considered to be the industry leader with a comprehensive technology portfolio and a diversified client base. In addition, it has been consistently delivering industry-best gross margin (40%+ vs. peers' 25%-30%) with decent ROE (20%+).

Figure 1: Metal casing shipments on mobile devices (Demand)



Source: Deutsche Bank estimates, IDC

Figure 2: The increase of CNC machines by major metal casing suppliers (Supply)



Source: Deutsche Bank estimates, IDC

Figure 3: Revenue breakdown by products for major metal casings suppliers in 2015E

Sales exposure	Metal and composite casing business					Top clients	Other business
	Smartphone	Tablet	NB	Other	Total		
Hon Hai/FIH	3%	2%	0%	0%	5%	Apple, Xiaomi, Amazon, Nokia	95%
Catcher	61%	12%	26%	0%	98%	Apple, HTC, Sony, Dell	2%
Foxconn Tech	40%	9%	9%	3%	58%	Apple, Nintendo	42%
BYDE	20%	3%	0%	0%	23%	Huawei, TCL and other China vendors	77%
Casetek	14%	56%	19%	3%	92%	Apple, Asustek, Xiaomi	8%
Jabil/Green Point	4%	2%		2%	8%	Apple	92%
Ju Teng	7%	17%	22%	4%	50%	Microsoft, HP, Dell, Acer, Lenovo/Moto, Asustek	50%
Waffer	0%	10%	75%	1%	86%	HP, Acer, Lenovo	14%

Source: Deutsche Bank estimates, Company data, Bloomberg Finance LP



Risks

- Stronger/weaker orders for NB, tablet and smartphone metal/plastic casings/frames and MIM (Metal Injection Molding) components from major brand vendors could lead to a positive/negative impact on our shipment, margins and EPS assumptions.
- Market share gain/loss to peer competitors or new suppliers would result in higher/lower revenue, utilization rate, and earnings results.
- Better/lower-than-expected demand from consumers could create lower/higher inventory correction risks for their component procurement, which will lead to upside/downside risk for gross, operating margins and EPS vs. our forecasts.
- Higher/lower initial costs and/or lower/better yield rate for new product design and mass production.

Figure 4: Peer Comparison Table

Name	Ticker	Target price (local cur.)	PX_Last (local cur.)	Market Cap (US\$m)	DB rating	PE 2014	PE 2015	EPS YoY 2014	EPS YoY 2015	PB 2014	PB 2015	ROE 2014	ROE 2015	Dividend 2014	Yield 2015
Asian components															
Catcher	2474 TT	350	290	7,239	Buy	12.9	10.7	23%	20%	2.5	2.2	21.2%	21.8%	3.1%	3.7%
Casetek	5264 TT	248	181.5	2,035	Buy	11.0	8.8	-8%	24%	2.3	1.9	21.4%	23.3%	4.6%	5.7%
Ju Teng	3336 HK	7.2	4.16	627	Buy	5.8	4.6	9%	27%	0.7	0.6	12.7%	13.9%	3.9%	5.0%
Tongda	0698 HK	1.43	1.06	762	Buy	11.7	8.9	21%	32%	1.7	1.5	16.3%	17.5%	2.9%	3.9%
Foxconn Tech	2354 TT	64	73	3,235	Sell	14.5	13.7	-4%	6%	1.3	1.2	9.3%	9.2%	1.0%	1.1%
BYDE (*)	0285 HK	n.a.	8.09	2,461	NR	13.2	11.5	67%	14%	1.3	1.4	11.2%	11.4%	1.2%	1.3%
Largan	3008 TT	2900	2350	10,509	Buy	17.3	13.0	91%	33%	7.0	5.1	48.6%	45.5%	2.3%	3.5%
AAC	2018 HK	46	45.3	7,288	Hold	18.4	14.3	-5%	29%	5.1	4.1	30.2%	31.8%	2.2%	2.8%
Delta	2308 TT	225	196.5	15,616	Buy	21.3	17.3	25%	23%	5.5	5.0	27.3%	30.3%	3.8%	4.6%
Simplo	6121 TT	178	154.5	1,580	Buy	13.1	11.7	13%	11%	2.3	2.1	18.6%	19.1%	4.6%	5.1%
Average						17.1	13.8	32%	24%	4.5	3.8	28.5%	29.2%	2.9%	3.7%
Asian brands															
Lenovo	992 HK	13.2	12.02	16,553	Buy	17.8	14.6	11%	22%	4.8	4.0	28.5%	30.2%	2.1%	2.6%
Acer	2353 TT	22.5	23.15	2,169	Hold	39.9	31.1	n.a.	28%	1.1	1.0	2.8%	3.3%	0.0%	0.0%
Asustek	2357 TT	260	309	7,594	Sell	11.7	11.9	-9%	-2%	1.6	1.5	14.0%	13.3%	5.8%	5.7%
Average						17.9	15.2	5%	16%	3.6	3.0	22.2%	23.1%	3.0%	3.3%
Asian ODM/EMS															
Hon Hai	2317 TT	116	101	50,784	Buy	12.5	10.6	2%	18%	1.9	1.7	15.6%	17.0%	1.8%	2.1%
Pegatron	4938 TT	73	57.3	4,472	Buy	11.7	9.7	21%	21%	1.2	1.1	10.4%	12.3%	5.8%	7.0%
Quanta	2382 TT	88	78.6	10,108	Buy	14.0	12.5	17%	11%	2.3	2.2	17.1%	17.8%	5.0%	5.6%
Wistron	3231 TT	30	32.3	2,577	Hold	15.0	10.9	-10%	37%	1.3	1.2	8.4%	11.5%	3.3%	4.6%
Compal	2324 TT	26	25.25	3,573	Hold	17.2	9.8	160%	76%	1.2	1.1	6.7%	11.8%	3.2%	5.6%
Average						13.0	10.8	13%	21%	1.9	1.7	14.8%	16.4%	2.6%	3.2%
US peers															
Apple	AAPL US	105	101.58	620,032	Buy	16.1	15.0	11%	8%	5.2	4.6	31.7%	32.1%	1.8%	1.9%
IBM	IBM US	200	192.8	192,491	Hold	10.9	9.8	9%	11%	8.4	6.6	74.1%	76.1%	2.2%	2.4%
HP	HPQ US	40	36.67	69,727	Buy	9.9	9.4	5%	6%	2.3	2.0	18.7%	20.7%	2.3%	2.0%
Average						14.5	13.4	10%	8%	5.7	4.8	39.9%	40.8%	1.9%	2.0%

Source: Deutsche Bank estimates, (price as at 18 September, 2014)

Note: * Consensus forecast according to Bloomberg Finance LP





Robust demand for metal casings business

Rising adoption for metal casings on mobile device

Robust shipment growth and the trend of ultra-slim design for mobile devices

According to IDC's estimate (Figure 5), the CAGR for total mobile device shipments, including NBs, smartphones, and tablets, in 2013-2016 will come in at +17.3%. The composition for each segment's growth is -4.6% CAGR in 2013-2016 for NB, +21.1% for smartphones and +20.2% for tablets (including 2-in-1 detachable models).

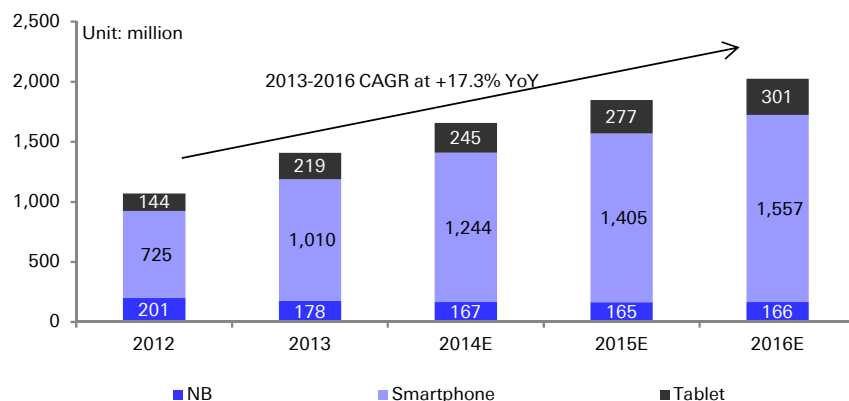
For the casings on these mobile devices, we are seeing rising demand for metal casings or composite (glass fiber or carbon fiber) materials from Apple and other brand vendors, because of its advantages in the design trend for:

- thinner and lighter form factors,
- bigger panel-screen smartphones (with 5-inch or larger screen are expected to increase as it provides more comfort in reading e-mails, texting and watching videos, Figure 6 and 7) and tablets, as metal casings provide more solid protection against panel break, and
- differentiated surface touch and quality looks compared to other competing materials (i.e. plastic, glass or carbon fibers).

Apple's high adoption rates for metal casings for Macbook (100%), iPad (100%) and iPhone (80%) and an increasing number of other brand vendors following Apple to design their mobile devices with metal casings will continue to support the sales momentum for the sector.

To help investors understand the demand for metal casings on mobile devices clearly, we analyze the shipment growth and the adoption rate by NB, smartphone and tablet segments separately, as shown in Figure 5.

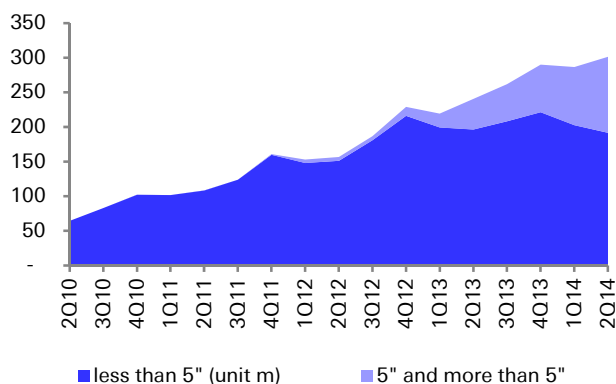
Figure 5: Global mobile device shipments and growth



Source: Deutsche Bank, IDC

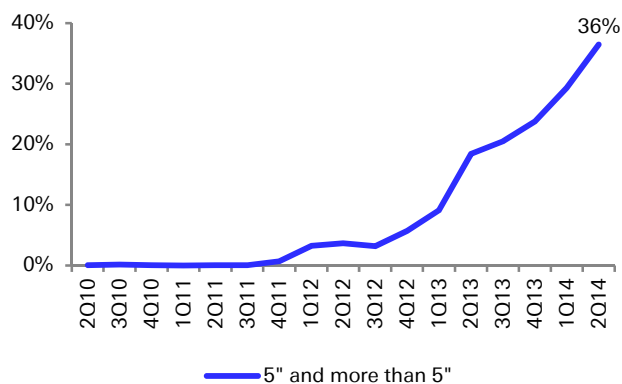


Figure 6: Smartphone shipment by panel-screen size



Source: Deutsche Bank, IDC

Figure 7: Rising share for smartphones with more than 5" panel-screen



Source: Deutsche Bank, IDC

Figure 8: Type of casings on mobile devices

	Plastic	Composite		Metal Casings		
	Plastic	Glass Fiber	Carbon Fiber	Stamping (Aluminum)	Magnesium	Unibody (Aluminum)
Process	Injection molding	Injection molding	Thermosetting, thermoplastic	Stamping +CNC	Die casting, Thixomolding	Extrusion +CNC
Cost (US\$)	10-15	15-20	25-40 (piece A only)	15-30	20-40	30-90
Thickness (mm)	1.5-1.8	1.0-1.2	0.7-0.8	1.1-1.3	0.9-1.1	0.7-0.9
Surface treatment	IMR	Sputtering, IMR	Sputtering, IMR	Anodizing, brushed	Sputtering, brushed	Anodizing, brushed
Margins	Low	Mid	High	Mid	Mid	High
Yield rate	High	High	Low	Mid	Mid	Low

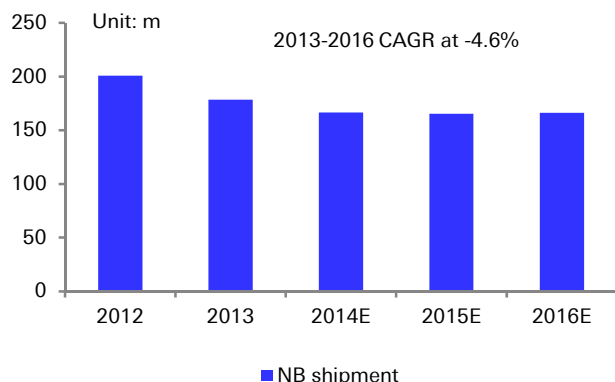
Source: Deutsche Bank, Company data

NB: slow shipment growth but rising adoption rate

IDC forecasts that global NB (excluding 2-in-1, detachable models) shipment CAGR in 2013-2016 will come in at -4.6% (Figure 9), due mainly to the cannibalization impacts from tablets and weaker demand in China and some emerging countries. Despite its sales growth being negative, we estimate metal casings shipment CAGR in 2012-2016 for NB to reach 13.8% (Figure 10). The robust growth for metal casings on NB is mainly because of its increasing adoption rate, thanks to higher ultrabook, Macbook Air & Pro shipments and better commercial NB sales pushed by HP, Dell and Lenovo. The trend is positive for Catcher and Casetek's business growth, who are the leading suppliers for ultrabooks and share unibody metal casing orders for Apple's orders between them. We also view Ju Teng as one of the key beneficiaries from the improved commercial NB demand and rising adoption rates by HP, Lenovo and other PC brands for metal casings on NB.

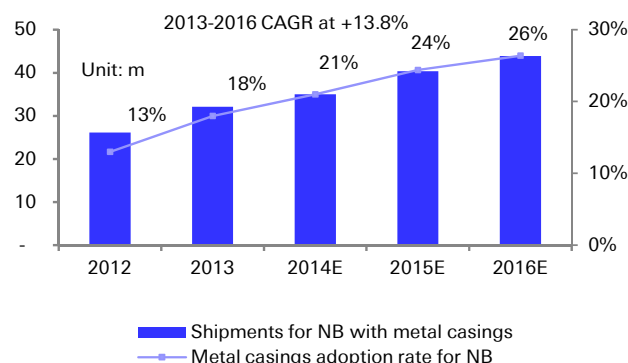


Figure 9: Global NB shipments and growth



Source: Deutsche Bank, IDC

Figure 10: Metal casing shipment and adoption rate for NB



Source: Deutsche Bank estimates, IDC

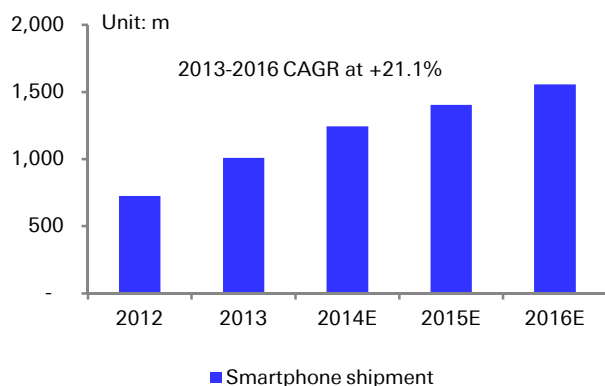
Smartphone: robust shipment growth with stable adoption rate

According to IDC, global smartphone shipment CAGR in 2013-2016 will come in at +21.1% (Figure 11). We believe Apple is the biggest metal casings (unibody) user with 62% share of consumption, Figure 20) in the smartphone space and it is not easy for the company to find an alternative material (such as liquid metal, carbon fiber and etc.) or technology with sufficient supply, attractive costs and a higher yield rate for mass production for the iPhone within three years. We also think rising orders for metal casings on smartphones from Chinese local vendors, such as Huawei, TCL, Lenovo/Motorola and potential upsides from Samsung can help boost metal casings shipment CAGR in 2013-2016 for smartphones to 20.9% with a stable adoption rate of 17-18% (Figure 12). We assume a stable adoption rate for metal casings for smartphones in 2014-2016 because some suppliers, such as Asustek and white-brand vendors, still prefer to use cheaper-priced plastic casings to grow market shares.

While Hon Hai and Catcher will continue sharing Apple's rapidly-growing iPhone orders, helping their margins and EPS growth, we also expect Casetek to leverage Pegatron's partnership with Apple in its assembly business to win new iPhone metal casings business from 2015. Within the non-Apple camp, we believe Ju Teng has a good opportunity to diversify its casings business from NB to smartphone products and gain orders from new brand customers step by step, given its improved manufacturing experience, yield rate and margins for Asustek (plastic casings) and Motorola's (composite casings) orders. Tongda can likely benefit from Xiaomi and Huawei's robust shipment and market share increase for smartphones.

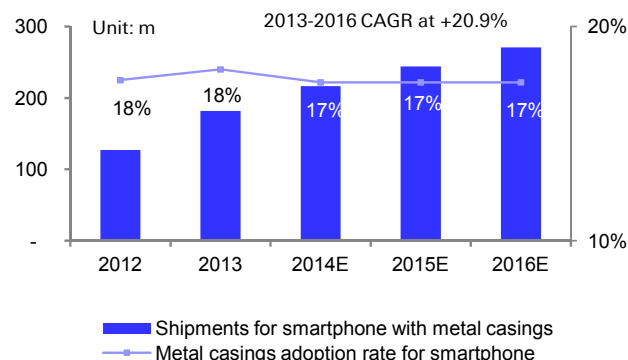


Figure 11: Global smartphone shipment and growth



Source: Deutsche Bank, IDC

Figure 12: Metal casing shipment and adoption rate for smartphones



Source: Deutsche Bank estimates, IDC

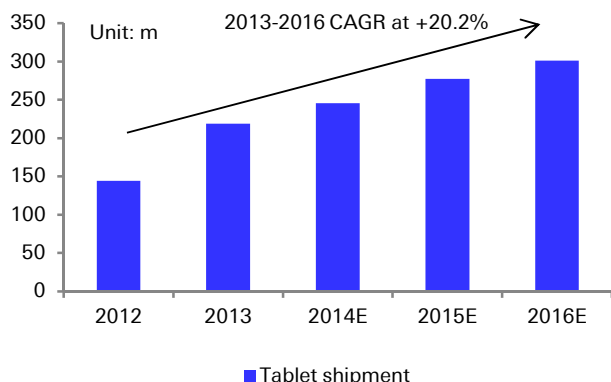
Tablets – rapid shipment growth but lower adoption rate

IDC predicts that global tablet (including 2-in-1, detachable models) shipment CAGR in 2013-2016 will be +20.2% (Figure 13). Apple's 100% adoption rate for metal casings on iPad Air/mini and more 2-in-1 detachable-type products (CAGR at +42.2% in 2013-2016, Figure 15) pushed by Asustek (T100/300), Acer (Switch 10/11/12), Lenovo (Yoga) and Microsoft (Surface Pro) can support sales momentum. However, we expect the adoption rate for metal casings on tablets to decrease from 54% in 2012 to 44% in 2016 (Figure 14). Our assumptions for the adoption rate are cautious because the robust demand for tablets currently is driven by non-Apple vendors and local China brands that promote cheaper products with plastic casings. These brand vendors are facing intensified competition and price pressure to drive down costs and selling price in the space. We forecast metal casing shipment CAGR in 2013-2016 for tablets will come in at 16% (Figure 14).

While Catcher and Casetek are key iPad metal casings suppliers, Ju Teng's market share gains for Microsoft's surface Pro 3 (unibody) and improved 2-in-1 casings sales from its PC clients can help its EPS upside risks going forward.

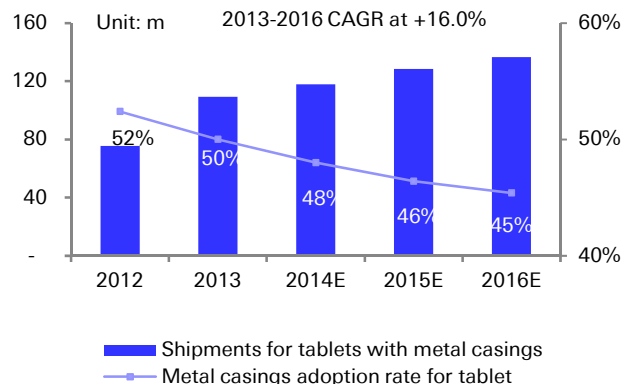


Figure 13: Global tablet shipments and growth



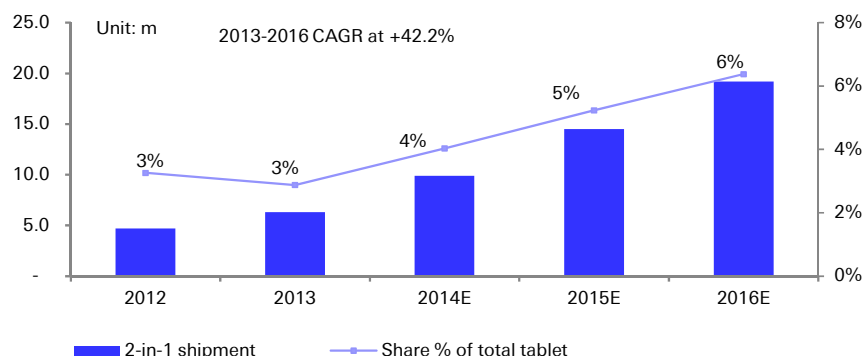
Source: Deutsche Bank, IDC

Figure 14: Metal casing shipment and adoption rate for tablet



Source: Deutsche Bank estimates, IDC

Figure 15: Rising 2-in-1 detachable NB/tablet shipments



Source: Deutsche Bank estimates, IDC

Our positive outlook for metal casings demand

Total metal casing shipments on mobile device: 2012-2016 CAGR at +18.6%

According to IDC's forecast for NBs, smartphones and tablets and our assumptions for their different adoption rates, we expect total metal casings shipment CAGR in 2013-2016 for total mobile devices to reach +18.6% (Figure 16) with its stable adoption rate at 22-23% (Figure 17) during the same period. We hold our more optimistic assumption than consensus expectations (the downward trend for the adoption rate of metal casings on mobile device in coming two to three years) due mainly to our confidence on:

- Apple's ongoing support for using metal casings (the current adoption rate) for its Macbook (100%), iPad (100%) and iPhone (80%).
- Rising adoption rates from the low base or higher preference for other brand vendors in the NB (HP, Lenovo, Asustek, Acer), smartphone (local China suppliers, Samsung) and tablet (Microsoft) space, and

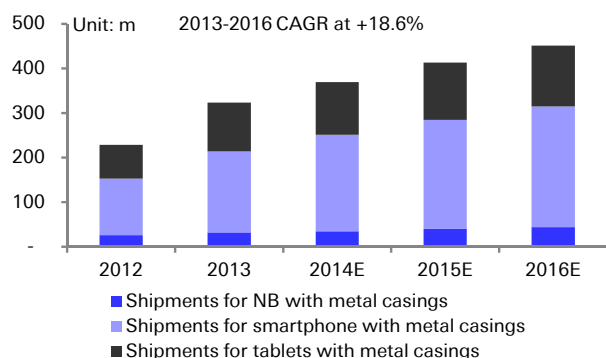


- While metal casing adoption rate is lower for local China brand companies (Figure 20), we see the rising possibility for these companies to follow the global smartphone leaders to design in more metal casings for their mobile devices and offer more attractive price/spec products to consumers.

While Apple's strong order momentum for the iPhone, iPad and Macbook will benefit its key metal casing suppliers, like Catcher, Hon Hai and Casetek, Ju Teng and Tongda will be among the winners in the non-Apple camp.

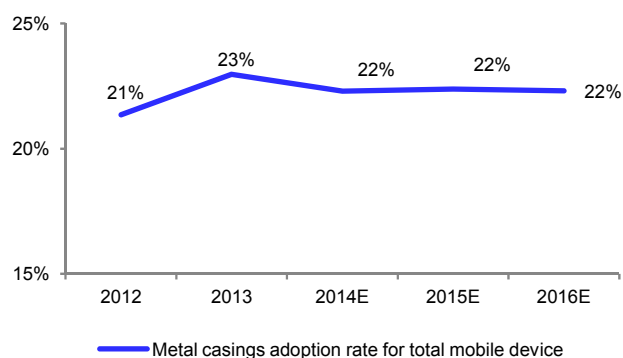
If Samsung (smartphone and tablet), Lenovo/Motorola (smartphone, NB) Xiaomi (smartphone and tablet), Microsoft/Nokia (smartphone and tablet) and more global brand vendors follow Apple and use more metal casings on their mobile devices, it can help the upside for overall sector demand.

Figure 16: Metal casings shipment and growth for total mobile device



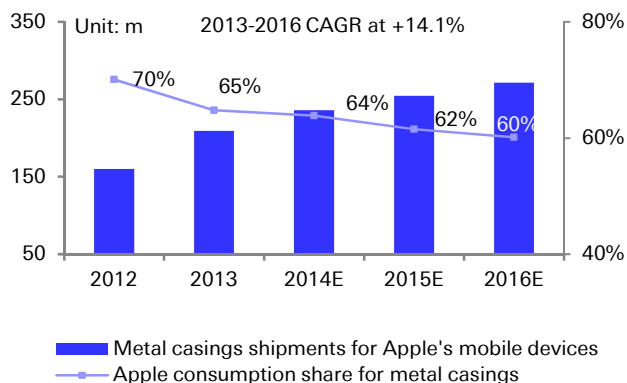
Source: Deutsche Bank estimates, IDC

Figure 17: Stable metal casing adoption rate for total mobile device



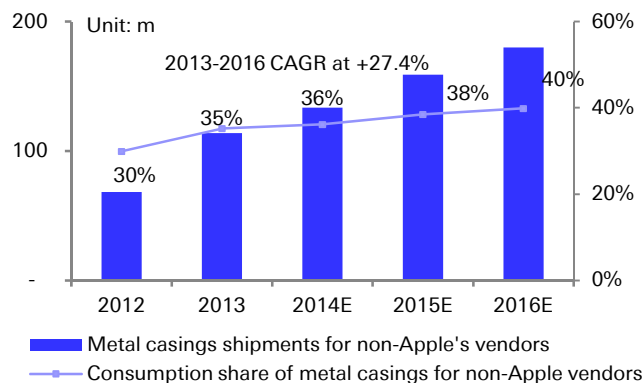
Source: Deutsche Bank estimates, IDC

Figure 18: Metal casing shipments for Apple's mobile devices and its consumption share



Source: Deutsche Bank estimates, IDC

Figure 19: Metal casing shipment and consumption share for non-Apple vendors



Source: Deutsche Bank estimates, IDC



Figure 20: Top brands for metal casings consumption on mobile devices (2015E)

Metal casings adoption rate

	Apple	Samsung	Lenovo / Moto	Sony	Xiaomi	Asustek	HTC	Microsoft / Nokia	Acer	Dell	HP	Others	Total
NB	100%	40%	19%	85%		14%			12%	24%	10%	10%	24%
smartphone	80%	4%	9%	28%	14%	12%	44%	5%	8%			4%	17%
Tablet	100%	21%	19%	57%	8%	44%		100%	33%	22%	20%	17%	46%
Total	86%	6%	12%	35%	14%	24%	44%	26%	17%	24%	12%	5%	22%

Metal casings consumption share

Unit:m	Apple	Samsung	Lenovo/Moto	Sony	Xiaomi	Asustek	HTC	Microsoft / Nokia	Acer	Dell	HP	Others	Total
NB	35%	4%	16%	8%		7%			6%	12%	7%	5%	100%
smartphone	66%	5%	4%	5%	5%	1%	4%	1%	0%			9%	100%
Tablet	61%	7%	3%	2%	1%	6%		7%	3%	1%	1%	9%	100%
Total	62%	5%	5%	4%	3%	3%	3%	2%	2%	1%	1%	9%	100%

Source: Deutsche Bank estimates, company data, IDC

Note: Tablet includes 2-in-1 detachable model; others include Huawei, TCL, Amazon.



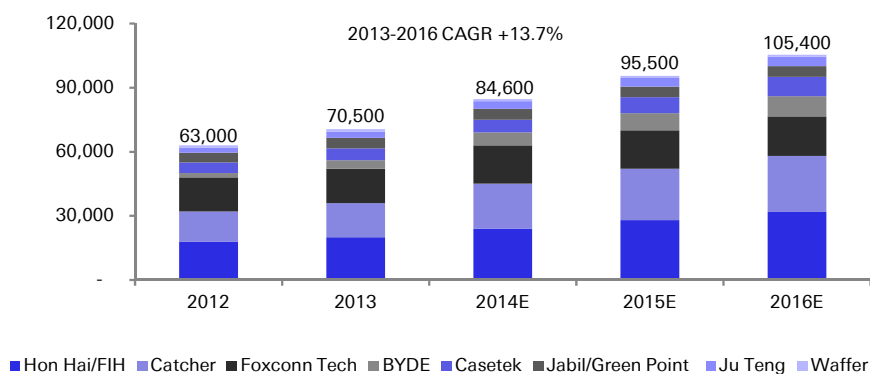
Healthy capacity expansion

Well-managed supply increase for metal casings

CNC machines supply CAGR in 2013-2016 at 13.7%

Our industry study indicates that 2013-2016 CAGR for the purchase of CNC (Computer Numerical Control) machines (the key equipment for metal casings manufacturing) by key Asian casing manufacturers (Figure 21) comes in at +13.7%. The increase in CNC machines (the supply) is lower than the metal casings shipment CAGR of 18.6% in 2013-2016 (the demand), which can support ASPs and margin stability, as well as reduce oversupply risks. We also believe most of the major metal casings suppliers are purchasing CNC machines in accordance with firm orders from their key brand vendors, including Apple (Hon Hai, Catcher, Casetek), Xiaomi (FIH), Microsoft (Ju Teng), and Huawei (BYDE). Hence, we are very comfortable for the supply discipline to help enhance the bargaining power of some leading metal casings suppliers and boost their revenue and earnings momentum. Our discussions with several industry experts in the field also support our positive views for its healthy demand/supply outlook.

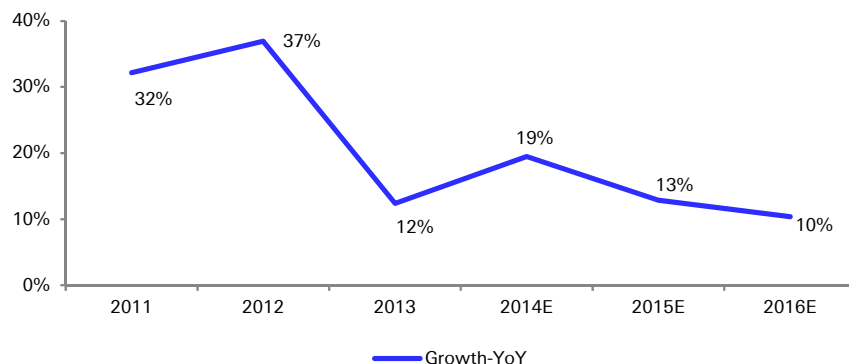
Figure 21: The increase of CNC machines by major metal casings suppliers



Source: Deutsche Bank estimates, Company data



Figure 22: Unit growth for the purchase of CNC machines by major Asian metal casings suppliers



Source: Deutsche Bank estimates, Company data

Lower risks of oversupply on higher entry barriers for metal casings

We think some investors were overly concerned about the supply/demand risks post the aggressive capex plans reported by Catcher, Casetek, and other metal casing suppliers. The challenge in relation to oversupply of metal casings is not critical and is lower than expectations, in our view, if we also consider the higher entry barriers in manufacturing from:

- (i) higher capex requirement for the purchase of CNC and testing equipment (rising unit price of CNC machines),
- (ii) clients' high requirement for product quality and solidity, especially for high-end design models,
- (iii) quick mass production lead time to meet the shortening product life-cycle and time-to-market pressure for mobile devices,
- (iv) local government's restrictive policy or requirements for environmental pollution protection and labor safety, and
- (v) a tougher learning curve for secondary operations, including cosmetic or surface treatments (Figure 24).

Figure 23: Revenue breakdown by products for major metal casings suppliers in 2015E

Sales exposure	Metal and composite casing business					Top clients	Other business
	Smartphone	Tablet	NB	Other	Total		
Hon Hai/FIH	3%	2%	0%	0%	5%	Apple, Xiaomi, Amazon, Nokia	95%
Catcher	61%	12%	26%	0%	98%	Apple, HTC, Sony, Dell	2%
Foxconn Tech	40%	9%	9%	3%	58%	Apple, Nintendo	42%
BYDE	20%	3%	0%	0%	23%	Huawei, TCL and other China vendors	77%
Casetek	14%	56%	19%	3%	92%	Apple, Asustek, Xiaomi	8%
Jabil/Green Point	4%	2%		2%	8%	Apple	92%
Ju Teng	7%	17%	22%	4%	50%	Microsoft, HP, Dell, Acer, Lenovo/Moto, Asustek	50%
Waffer	0%	10%	75%	1%	86%	HP, Acer, Lenovo	14%

Source: Deutsche Bank estimates, Company data, Bloomberg Finance LP



Figure 24: The type of product forming and secondary operations for metal casings

Product forming and surface (2nd operation) treatments	
Die casting	This is the main liquid type forming process. Die casting involves injecting alloys – such as aluminum, zinc, magnesium and copper – into heat-resistant steel molds and then lowering the temperature of the molds for forming raw parts or final products. The characteristics of die-castings are high productivity, excellent dimensional accuracy, smooth surface, high mechanical strength, and thin walls.
Metal stamping	The manufacturing process to use machines to stamp and create the desired shape of products without change the thickness of raw materials. The stamping process is widely used in engineering applications to manufacture three-dimensional parts with a large area.
Extrusion	Extrusion process involves pressing the heated raw material through a die under an extruding force to produce uniform and expected shape. The conditions – such as die temperature, preheated temperature, container temperature, and tight speed – are related to the surface quality and dimension tolerance of the product.
Forging	A solid form shaping process for metals. The pre-heated or non-heated raw material is shaped by plastic deformation with compressive force. A solid flow can form the near-shape part, save the machining time and result in good mechanical properties. Grain flow is the direction of the stress pattern during plastic deformation. The physical properties (strength, ductility, toughness) of products are better in forging than for a similar product produced by casting, stamping, or machining.
Plastic injection	The process to heat the plastic feedstock to above the glass transition temperature, and then to use screw to feed the plastic into the mold. The plastic is expected to cool to below the glass transition temperature and solidify instantly. The runner and gate are removed after the injection.
Metal Injection Molding	The technology used to mix polymer or organic binder with metal powder at a high temperature and inject it to form green parts. The green parts are de-binding by using chemical solvents or the heat decomposition method. In the following high-temperature vacuum sintering furnace, the residual binder is removed and the brown part becomes denser with the liquid phase sintering phenomenon.
CNC Machining	The CNC machine can use the HSS or WC tool to machine the metals. The CNC machine's spindle speed can be up to 12,000 RPM. Besides, CNC centers with 4th axis machining are available, enabling precise cutting purpose and saving time for exchanging the fixtures. To design each jig for different products is very important.
Blasting	The blasting process uses the air pressure to carry the media, such as iron, steel or oxides, and hit the surface. The final texture is decided by the particle size and pressure.
Thixomolding	A high-speed, semi-solid magnesium injection molding process. The process transforms room-temperature magnesium chips, heated to a semi-solid slurry inside a barrel and screw, into precision-molded components. Secondary de-binding or sintering is not necessary, and this technique combines the best of plastic injection molding and die-casting.
Anodize Treatment	An aluminum or aluminum alloy work-piece is placed in an electrolyte solution to form a thin layer of aluminum oxide on the surface of the work-piece through electrolysis. The work-piece can be dyed various colors for aesthetic purposes. The technology offers a high-quality surface texture, strong resistance to corrosion, high degree of hardness and good heat dissipation.
Laser Technologies	Also called oxygen-breaking technology. Aluminum cosmetic parts are anodized in automated anodizing tanks to provide resistance to corrosion, strengthened surface and are dyed with color when needed. By using an automated line with PLC, manufacturers can control the thin and layer to precise specifications, providing the texture, feel and function to meet customer needs.
Stamping Logo	This involves removing the film, checking the product quality and then stamping a logo with a specific stamping machine. It includes checking the exterior for any defect in the product.

Source: Deutsche Bank, Company data



Rating
Buy

Asia
Taiwan

Technology
Hardware & Equipment

Company
Casetek

Reuters
5264.TW

Bloomberg
5264 TT

Price at 19 Sep 2014 (TWD)	184.00
Price target - 12mth (TWD)	248.00
52-week range (TWD)	191.82 - 134.84
Taiwan Stock Exchange (TWSE)	9,237

Andrew-C Chang

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More exciting Apple orders ahead; initiating with Buy

Initiating with Buy; 37% upside potential from our NT\$248 target price

We are optimistic on the metal casings business outlook and think Casetek is one of the key beneficiaries of the strong momentum in Apple's iPad, Macbook and iPhone order gains, as well as new non-Apple smartphone metal casings. We expect Casetek's 2015E revenue (NT\$41.7bn), operating income (NT\$9.2bn) and EPS (NT\$20.6) to grow 24%, 33% and 24% YoY, respectively, with OPM of 21.9% and ROE of 23.3%. While some investors are concerned about slowing sales and earnings growth from the iPad and iPad mini business, the contributions from the bigger-panel-screen iPad (from 2Q15) and new iPhone (from 3Q15) metal casings should ease concerns considerably.

Four factors underlining our more bullish estimates vs. consensus

(1) Penetrating the iPhone metal casing business: we believe Casetek can leverage Pegatron (which produces 20%+ of iPhone 6 casings for Apple) to supply 10% of iPhone casings starting in 3Q15, helping to drive Casetek's sales growth by 18% YoY and increase its OPM/EPS in 2015.

(2) New 12.9" iPad orders easing impact of slower iPad Air/mini demand: we expect Casetek to ship 23% of the new 12.9" iPad casings for Apple from late 1Q15, helping to increase sales (NT\$2.4bn) by 7% from 2014, raise the utilization rate and accelerate earnings growth in 2015.

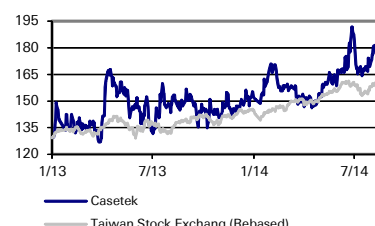
(3) Progress on order gains from non-Apple clients: we expect Casetek to win orders from Xiaomi (power bank), Lenovo (metal casings) and Samsung (metal injection molding components), and rapidly grow its non-Apple business in 2015 (from just a 14% revenue share in 2014E). This should help reduce its risk of a high sales concentration from one client (Apple).

(4) Improved product mix and rising in-house surface treatment ratio: Casetek's decreasing dependency on tablets, helped by the new iPhone and non-Apple orders, could reduce the volatility of the quarterly utilization rate and earnings. Its rising in-house anodizing rate (surface treatment) from 40-50% in 2014 to 60-70% in 2015 should also help boost margins and EPS momentum. Our 2015 EPS estimate (NT\$20.57) is 11% ahead of consensus.

Valuation and risks

We base our valuation on 12x our target P/E multiple for 2015E EPS, which is in line with the peer average P/E (8-14x). Downside risks: loss of orders for tablets and NBs; higher initial costs for new products and inventory.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.6	11.7	25.0
Taiwan Stock Exchange (TWSE)	-0.1	-0.9	12.5

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	21.4
Net debt/equity (%)	-39.7
Book value/share (TWD)	80.66
Price/book (x)	2.28
Net interest cover (x)	-
Operating profit margin (%)	20.4

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (TWDm)	33,079.9	36,544.0	33,711.0	41,724.2	46,626.2
Reported NPAT (TWDm)	3,235.8	6,123.2	5,614.0	6,974.0	8,267.5
DB EPS FD(TWD)	10.25	18.06	16.56	20.57	24.39
PER (x)	-	8.0	11.1	8.9	7.5

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close



Model updated: 18 September 2014

Running the numbers

Asia

Taiwan

Hardware & Equipment

Casetek

Reuters: 5264.TW

Bloomberg: 5264 TT

Buy

Price (19 Sep 14) TWD 184.00

Target Price TWD 248.00

52 Week range TWD 134.84 - 191.82

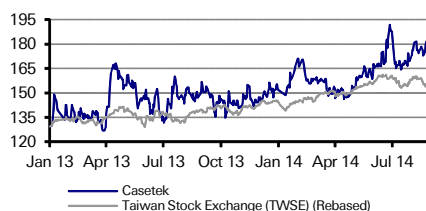
Market Cap (m) TWDm 62,376

USDm 2,063

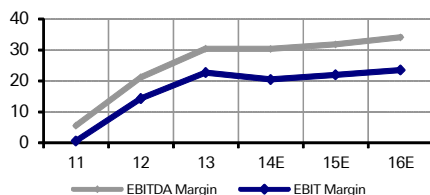
Company Profile

Casetek Holdings Limited is a manufacturer of metal structural parts. The Company's metal structural parts products are mainly used in computer, communication and consumer electronic (3C) products, such as notebook computers (NBs), tablet personal computers (TPCs), desktop PCs and other terminal products.

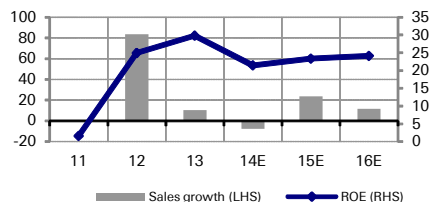
Price Performance



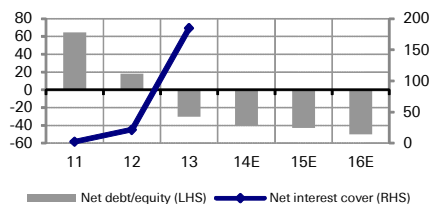
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (TWD)	0.65	10.25	18.06	16.56	20.57	24.39
Reported EPS (TWD)	0.65	10.25	18.06	16.56	20.57	24.39
DPS (TWD)	0.33	1.50	9.00	8.28	10.29	12.19
BVPS (TWD)	41.2	51.1	73.8	80.7	95.6	106.7
Weighted average shares (m)	240	316	339	339	339	339
Average market cap (TWDm)	na	na	49,162	62,376	62,376	62,376
Enterprise value (TWDm)	na	na	41,647	51,509	48,501	44,267

Valuation Metrics

P/E (DB) (x)	na	na	8.0	11.1	8.9	7.5
P/E (Reported) (x)	na	na	8.0	11.1	8.9	7.5
P/BV (x)	0.00	0.00	2.01	2.28	1.93	1.72
FCF Yield (%)	na	na	23.3	10.5	9.1	12.7
Dividend Yield (%)	na	na	6.2	4.5	5.6	6.6
EV/Sales (x)	nm	nm	1.1	1.5	1.2	0.9
EV/EBITDA (x)	nm	nm	3.8	5.0	3.7	2.8
EV/EBIT (x)	nm	nm	5.0	7.5	5.3	4.0

Income Statement (TWDm)

Sales revenue	18,021	33,080	36,544	33,711	41,724	46,626
Gross profit	2,663	10,040	14,097	13,068	16,614	19,472
EBITDA	991	6,991	11,105	10,231	13,274	15,889
Depreciation	382	1,681	2,365	2,865	3,532	4,282
Amortisation	501	587	462	472	584	653
EBIT	109	4,723	8,277	6,894	9,158	10,954
Net interest income(expense)	-48	-220	-45	12	-6	4
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	108	8	-104	61	-61	-147
Profit before tax	169	4,511	8,128	6,967	9,091	10,811
Income tax expense	96	1,275	2,005	1,353	2,117	2,544
Minorities	-84	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	157	3,236	6,123	5,614	6,974	8,268
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	157	3,236	6,123	5,614	6,974	8,268

Cash Flow (TWDm)

Cash flow from operations	-1,158	4,839	12,377	9,564	9,659	12,417
Net Capex	-6,197	-7,335	-930	-2,995	-3,992	-4,493
Free cash flow	-7,355	-2,496	11,447	6,569	5,667	7,924
Equity raised/(bought back)	9,111	3,454	2,160	0	0	0
Dividends paid	0	0	-340	-3,049	-2,807	-3,487
Net inc/(dec) in borrowings	6,530	-1,551	-6,375	5	11	25
Other investing/financing cash flows	-3,322	-42	-389	-410	-428	-446
Net cash flow	4,964	-635	6,502	3,115	2,443	4,016
Change in working capital	0	0	0	0	0	0

Balance Sheet (TWDm)

Cash and other liquid assets	4,823	4,054	10,793	14,144	16,823	21,075
Tangible fixed assets	14,417	15,682	15,062	15,197	15,665	15,883
Goodwill/intangible assets	2,511	2,342	1,206	1,206	1,206	1,206
Associates/investments	0	0	0	0	0	0
Other assets	9,398	15,046	15,027	14,257	16,486	17,587
Total assets	31,148	37,124	42,088	44,804	50,180	55,751
Interest bearing debt	11,205	7,013	3,279	3,277	2,948	2,966
Other liabilities	10,073	13,989	13,804	14,183	14,830	16,603
Total liabilities	21,278	21,002	17,083	17,460	17,778	19,570
Shareholders' equity	9,871	16,121	25,006	27,344	32,401	36,182
Minorities	0	0	0	0	0	0
Total shareholders' equity	9,871	16,121	25,006	27,344	32,401	36,182
Net debt	6,382	2,959	-7,514	-10,867	-13,875	-18,109

Key Company Metrics

Sales growth (%)	nm	83.6	10.5	-7.8	23.8	11.7
DB EPS growth (%)	na	1,468.7	76.2	-8.3	24.2	18.5
EBITDA Margin (%)	5.5	21.1	30.4	30.3	31.8	34.1
EBIT Margin (%)	0.6	14.3	22.6	20.4	21.9	23.5
Payout ratio (%)	50.0	14.6	49.8	50.0	50.0	50.0
ROE (%)	1.6	24.9	29.8	21.4	23.3	24.1
Capex/sales (%)	34.5	22.2	2.6	8.9	9.6	9.7
Capex/depreciation (x)	7.0	3.2	0.3	0.9	1.0	0.9
Net debt/equity (%)	64.7	18.4	-30.0	-39.7	-42.8	-50.0
Net interest cover (x)	2.3	21.5	184.7	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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Investment thesis

Outlook

Casetek is one of the major metal casing suppliers for Apple's iPad (Air and mini) and Macbook (Air and Pro). While its sales contribution from the iPad is more than 60-65% currently, the weaker demand for Apple's iPad and the company's higher design and initial costs for new products have resulted in negative impacts on Casetek's revenue and EPS momentum in 2014. However, we expect its shipments, margins and earnings to recover rapidly from 2015, given its order gains for the iPhone and the 12.9" iPad, as well as potential upside from non-Apple clients. We believe its improved business outlook will support its share price performance.

- **New iPhone orders to support 2015 momentum:** given its aggressive capex expansion (to add 1,500 CNC machines in 2015, according to management) and leveraging of Pegatron's (which produces 20%+ iPhone 6 casings for Apple) partnership with Apple, we believe Casetek will gain 10% of iPhone metal casing orders starting in 3Q15, helping to increase sales by NT\$6.2bn, or +18% YoY, and to significantly lift OPM and EPS in 2015.
- **Launch of 12.9" iPad to ease impact of weaker iPad Air/mini demand:** we expect Casetek to support 23% of Apple's new 12.9" iPad metal casings manufacturing from late 1Q15, and believe it can lift 2015 sales by NT\$2.4bn, or +7%, from 2014, helping to reduce some investor concern about its slowing iPad Air and iPad mini order momentum, and improve its utilization rate and earnings performance.
- **Stable business outlook for Macbook metal casings:** following the US\$100 price cut and several spec upgrades, Apple's shipment momentum for the Macbook Air and Pro is recovering. This could support Casetek's NB casings sales performance, even though its sales contribution from the business will likely decline slightly from 19% in 2013 to 17% in 2015E.
- **Rising orders from non-Apple vendors:** most investors are concerned about Casetek's overly high reliance on Apple, accounting for almost 86% of its total sales in 2014E. We believe investor concern is exaggerated, given Apple's robust shipment momentum and ongoing preference to use metal casings on its mobile devices. In addition, we are upbeat on the group's outlook, as the company gained orders recently from new, non-Apple customers, including Xiaomi for a battery power bank, Lenovo for NB and tablet casings and Samsung for MIM (Metal Injection Molding) components for the Galaxy Gear. This should help to gradually reduce the risk of high order concentration from one client (Apple).
- **New orders and rising in-house anodize capacity to boost 2015E EPS growth by 24% YoY:** with its new orders for the iPhone, 12.9" iPad metal casings and rising non-Apple sales, we believe Casetek will be able not only to enhance its product mix (sales contribution for tablets will likely decline from 72% in 2013 to 56% in 2015E), but also improve the volatility of its quarterly utilization rate and earnings



performance from 2015. We also view its increasing in-house rate for anodizing (surface treatment) from 40-50% in 2013 to more than 60-70% in 2015 and enhanced surface treatment capability as potential sources of earnings upside as its margins improve. Our 2015 revenue, operating income and EPS assumptions are 6%, 9% and 11% higher than consensus estimates, respectively.

Valuation

We base our target price of NT\$248 on 12x our 2015E EPS to reflect Casetek's solid iPad and Macbook metal casings business momentum and new orders for the iPhone, 12.9" iPad and from non-Apple vendors. Our target P/E multiple assumption is in line with its peer average (8-14x), given its robust smartphone shipment growth, improved tablet and NB business momentum and better cash dividend payout, but also its overly high sales exposure from one customer (Apple). The valuation assumption is higher than the historical average P/E multiple (10x), given our high confidence for robust EPS recovery from NT\$16.56 (-8% YoY) in 2014 to NT\$20.57 (+24% YoY) in 2015 and NT\$24.39 (+19% YoY) in 2016, and improved ROE from 21.4% in 2014 to 23.3% in 2015 and 24.1% in 2016. We also believe the shorter history for the stock trading since its IPO in January 2013 may not reflect its rising cash dividend payout ratio (15% in 2012 to 50%+ since 2013) and improved net cash position (from net debt in 2012).

We believe the Street may still be underestimating the outlook for the metal casings business and Casetek's execution and progress in diversifying its customer and product portfolios. Given Apple's clear ongoing preference for the use of metal casings, we think the concern about Casetek's overly high sales exposure from Apple is overdone.

Risks

- Loss of orders for NBs, tablets and smartphones to its peer competitors would adversely affect our revenue and EPS assumptions.
- Potential risks in component inventory and higher initial costs for new product design could affect its financial performance.
- NT dollar appreciation could lead to a margin decline or currency loss.



Valuation and risks

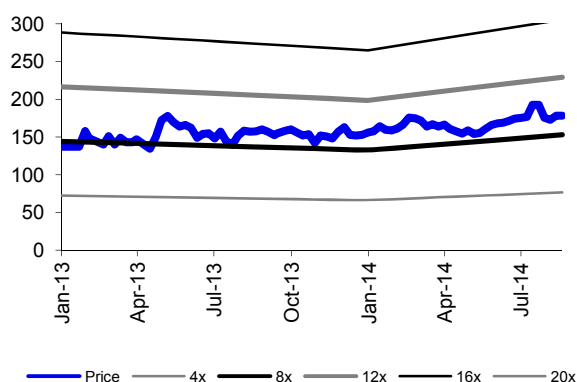
Initiating with Buy and a 12-month target price of NT\$248

Target price basis

We use a P/E methodology for our valuation, as we believe it better reflects Casetek's solid iPad and Macbook metal casings business growth and order gains for the iPhone and from other new non-Apple brand clients. Our target price of NT\$248 for Casetek is based on 12x our 2015E EPS (NT\$20.6), which is in line with that for its peer average (8-14x), and for peers such as Catcher (14x, TWD290.50), Foxconn Tech (12x, TWD74.60) and Ju Teng (8x, HKD4.35). This is, however, higher than its historical average P/E multiple (10x), as we have an optimistic assumption for its robust ESP expansion from NT\$16.56 (-8% YoY) in 2014 to NT\$20.57 (+24% YoY) in 2015 and NT\$24.39 (+19% YoY) in 2016, and improved ROE from 21.4% in 2014 to 23.3% in 2015 and 24.1% in 2016, helping its higher valuation. We also believe the shorter history for the stock trading since its IPO in January 2013 may not reflect its rising cash dividend payout ratio (15% in 2012 to 50%+ since 2013) and improved net cash position (from net debt in 2012).

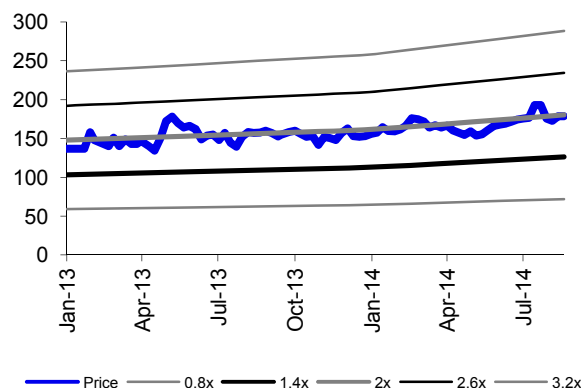
While we think its historical P/E data since the IPO on 25 January 2013 are not yet sufficient to reflect the group's true valuation and competitiveness, the Street is overly concerned about its high sales and earnings exposure to Apple, in our view, given Apple's remaining solid orders to Casetek.

Figure 25: Forward P/E band for Casetek



Source: Deutsche Bank, Company data, TEJ

Figure 26: Forward P/B band for Casetek



Source: Deutsche Bank, Company data, TEJ

Sensitivity analysis of target price

Our analysis indicates a favorable risk/reward for Casetek, with 86% upside potential under a bull-case valuation of NT\$337, if we assume 2015 sales growth of 32% YoY and a consolidated operating margin (OPM) of 27.9%. Our target price of NT\$248 is based on a 2015 sales growth rate of 24% YoY and a consolidated OPM of 21.9%. On the downside, 2015 sales growth of 16% YoY and OPM of 15.9% would generate a valuation of NT\$168. These sensitivities assume the same target P/E in each case.



Figure 27: EPS sensitivity analysis based on 2015E assumptions

		2015E Sales growth (%)				
		16%	20%	24%	28%	32%
2015 OPM (%)	15.9%	13.9	14.4	14.9	15.4	15.9
	18.9%	16.6	17.2	17.7	18.3	18.9
	21.9%	19.3	19.9	20.6	21.3	22.0
	24.9%	21.9	22.6	23.4	24.2	24.9
	27.9%	24.5	25.4	26.2	27.1	27.9

Source: Deutsche Bank estimates

Figure 28: Target price sensitivity analysis based on 2015E assumptions

		2015E Sales growth (%)				
		16%	20%	24%	28%	32%
2015 OPM (%)	15.9%	168	174	179	185	191
	18.9%	200	207	213	221	228
	21.9%	232	240	248	256	265
	24.9%	264	273	281	291	300
	27.9%	296	306	316	326	337

Source: Deutsche Bank estimates

Risks

- Weaker orders for NBs, tablets, smartphones and MIM components from its brand vendors could lead to negative impacts to our shipment, margin and EPS assumptions.
- Market share loss to its peer competitors or new suppliers.
- Lower-than-expected demand from customers could lead to inventory correction risks for its component procurement, which would result in lower gross and operating margins and downside risks to our earnings forecasts.
- Higher initial costs and/or lower yield rate for new product design and mass production.
- NT dollar appreciation could lead to a margin decline or currency loss.



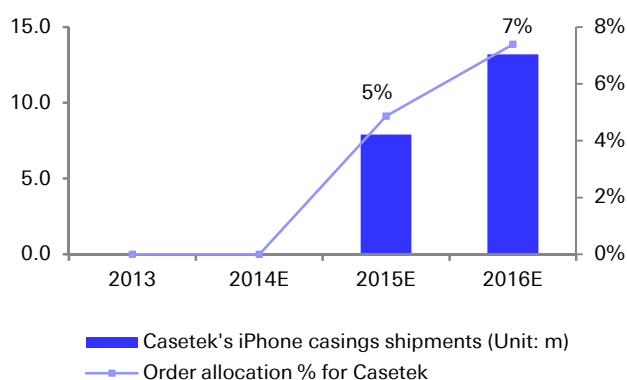
Strong 2015E EPS growth

Robust business momentum from Apple

New iPhone orders to boost sales and earnings from 2015

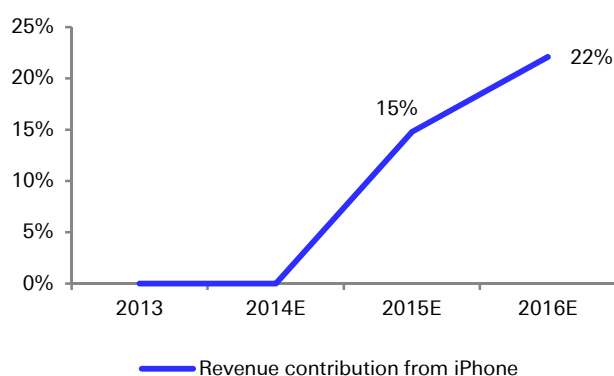
We believe Casetek will become more aggressive with its capex in 2015. We expect the company to purchase 1,500 units of CNC (Computer Numerical Control) machines (vs. the purchase of 500 units in 2014) and to reallocate 20-25% capacity from tablet casing production to support its aggressive expansion in the smartphone metal casings business in 2015. By leveraging Pegatron's assembly orders for Apple (which accounts for 20%+ of Apple's iPhone 6 casing shipments), we think Casetek could gain a 10% order allocation for iPhone metal casings starting 3Q15, representing 5% of Apple's total iPhone 6 order share in 2015 (Figure 29, given only a half year of supply). We believe this could lift Casetek's 2015 revenue by NT\$6.2bn, or 18% YoY, and help its margins and EPS growth significantly in 2015. According to our assumptions, Casetek's sales contribution from the new iPhone business will come in at 15% in 2015 (Figure 30).

Figure 29: iPhone casing shipments and order allocation for Casetek



Source: Deutsche Bank estimates, Company data

Figure 30: Casetek's sales contribution from iPhone casings business



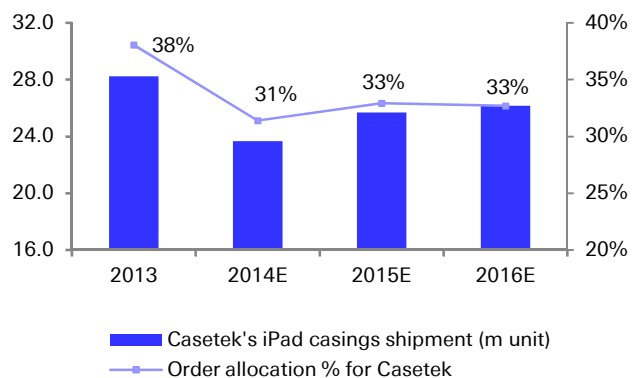
Source: Deutsche Bank estimates, Company data

New driver of growth for iPad from the 12.9" iPad launch

According to our industry study, Casetek could benefit from the launch of the bigger-panel-screen (12.9") iPad in 2Q15. We forecast Casetek to supply 23% of Apple's new iPad metal casings from late 1Q15, which could lift its 2015 revenue by NT\$2.4bn, or representing a 7% increase from 2014. This will help not only to ease the Street's concerns about weaker iPad and iPad mini demand but also to improve Casetek's utilization rate and earnings performance. We assume that its order allocation for total iPad metal casing shipments (Figure 31) will recover slightly, from 31% in 2014 to 33% in 2015, with the sales contribution (Figure 32) decreasing from 64% to 56% over the same period. The lower reliance on the iPad Air/mini business for Casetek could ease the order concentration risk for the single product seen by investors.

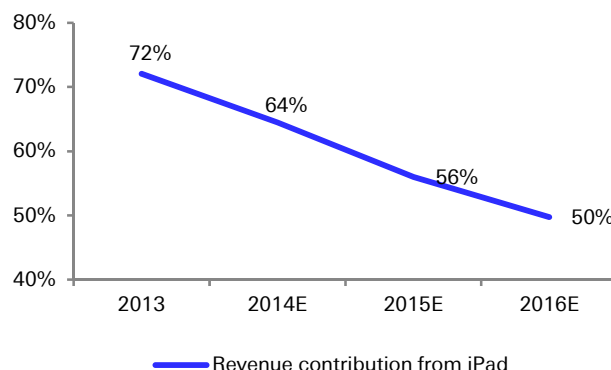


Figure 31: iPad casing shipments and order allocation for Casetek



Source: Deutsche Bank estimates, Company data

Figure 32: Casetek's sales contribution from iPad casings

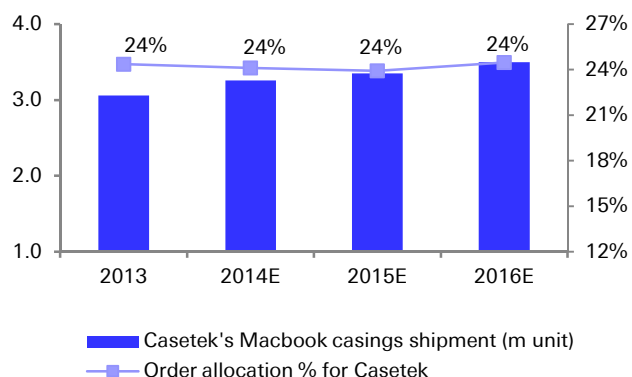


Source: Deutsche Bank estimates, Company data

Stable shipment growth for Macbook metal casings business

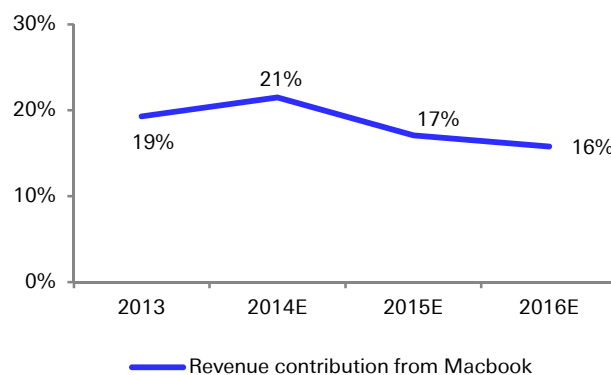
We are expecting Apple to take more aggressive strategies, including a cut to the selling price by US\$100 and several spec upgrades, to push its refresh of the Macbook Air and Pro in 2014. This could help stabilize Casetek's sales and profit performance from the business, with its order allocation unchanged at 24% in 2015E. However, owing to its rapidly growing iPhone orders, we assume Casetek's sales contribution from this Macbook business will decline from 21% in 2014 to 17% in 2015. We also factor in some negative impacts on shipments for the possible sales cannibalization from the new 12.9" iPad from 2015.

Figure 33: Macbook casing shipments and order allocation for Casetek



Source: Deutsche Bank estimates, Company data

Figure 34: Casetek's sales contribution from Macbook casings



Source: Deutsche Bank estimates, Company data



The concern about its high business exposure to Apple appears overdone

It is understandable that some investors are worried about Casetek's overly high reliance on Apple orders, which will account for 86% and 88% of its sales in 2014 and 2015, respectively. However, we believe the concerns are overdone, given Apple's strong sales momentum and consistent support to metal casings on its iPhone, iPad and Macbook products. We think it will be challenging for Apple to adopt a new alternative material to replace its design for metal casings that meets the following requirements:

- sufficient capacity for Apple's need for volume;
- higher yield rate and easier learning curve for mass production from longer adoption history for metal casings usage;
- competitive costs vs. the current technology and materials;
- unique surface and user interface for consumers; and
- higher barriers to entry in design, manufacturing, assembly and pattern for competitors to follow up quickly.

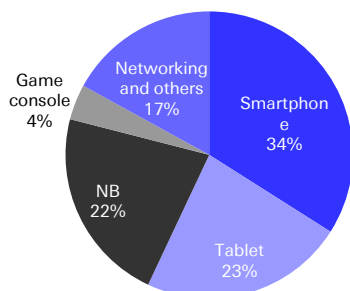
Potential upside from its non-Apple business

Leveraging Pegatron to gain more business

Pegatron is Casetek's parent company, with ownership of 60.73% (under Asustek Corporation). Given Pegatron's leading global ODM/EMS position, well diversified product portfolio (Figure 35) and solid partnership with major brand vendors in the NB, tablet, smartphone, game console and networking spaces (Figure 36), we believe Casetek will gain new orders with Pegatron for the metal casings business going forward.

Casetek's new orders from Xiaomi for a battery power bank, Lenovo for NB and tablet metal casings and Samsung for MIM (Metal Injection Molding) components for Galaxy Gear support our positive view. This should also gradually help reduce Casetek's operational risk and volatile utilization rate and earnings performance related to the high order concentration from a single client (Apple).

Figure 35: Pegatron's 2015E revenue by product



Source: Deutsche Bank estimates, Company data

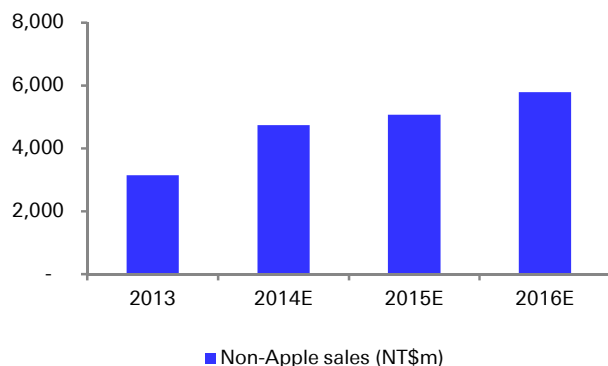
Figure 36: Pegatron's major brand clients by product

Product	Key brand customers
Smartphone	Apple, Asustek
Tablet	Apple, Asustek, Lenovo, Microsoft
NB	Apple, Asustek, Toshiba, Lenovo, Acer
Game console	Sony
TV	Toshiba, local China vendors
Auto	
Networking and others	Nokia, HTC, Apple, RIM, Xiaomi, Asustek Samsung, Acer, Asustek, Dell, HP, Sony,

Source: Deutsche Bank, Company data

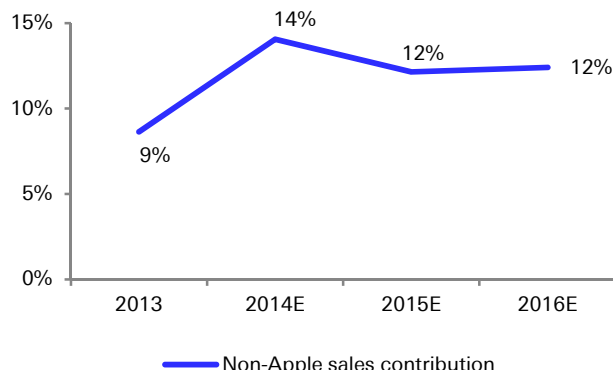


Figure 37: Casetek's sales from non-Apple clients



Source: Deutsche Bank estimates, Company data

Figure 38: Casetek's sales contribution from non-Apple clients



Source: Deutsche Bank estimates, Company data

2015E net income and EPS forecasts 11% above consensus

Casetek is one of the leading metal casing suppliers for Apple's iPad (Air and moni) and Macbook (Air and Pro). Its revenue contribution from Apple's iPad orders is more than 60-65% currently. We forecast Casetek's 2014 revenue (NT\$33.7bn) and net income (NT\$5.6bn) to decline 8% YoY, due to the weaker demand for the iPad and its increasing design and initial costs to trial-produce new products.

However, we are optimistic for its 2015 business outlook. We expect Casetek's 2015 revenue, operating income and net income to grow 24%, 33% and 24% YoY, respectively, from NT\$33.7bn, NT\$6.9bn and NT\$5.6bn in 2014 to NT\$41.7bn, NT\$9.2bn and NT\$7.0bn in 2015. We attribute its robust growth in 2015E to new orders for the iPhone, 12.9" iPad metal casings and rising non-Apple business, and we believe these orders will help boost Casetek's gross and operating margin recovery from 28.9% and 20.4% in 2014, respectively, to 30% and 21.9% in 2015 (Figure 42 and Figure 43). Rising utilization rates, improved operational efficiency and automation investment could also help lift its margins and earnings going forward. On our estimates, its EPS and ROE will also increase from NT\$16.6 and 21.4% in 2014 to NT\$20.6 and 23.3% in 2015, respectively (Figure 44 and Figure 45).

Our 2015 revenue, operating income and EPS assumptions are 6%, 9% and 11% higher than consensus forecasts, respectively (Figure 39).

We also see potential upside for Casetek's business momentum in 2015, from

- rising in-house capacity for anodized surface treatment (higher margins than its corporate average) from 40-50% in 2013 to more than 60-70% in 2015, helping its margins and earnings growth,
- higher order allocation for the iPad, Macbook and iPhone from Apple given its closer relationship with the client, and
- offering a one-stop shopping service for its existing brand customers, including MIM components, a battery power bank, metal main frame and the whole set of metal casing products, with higher selling prices and margins.

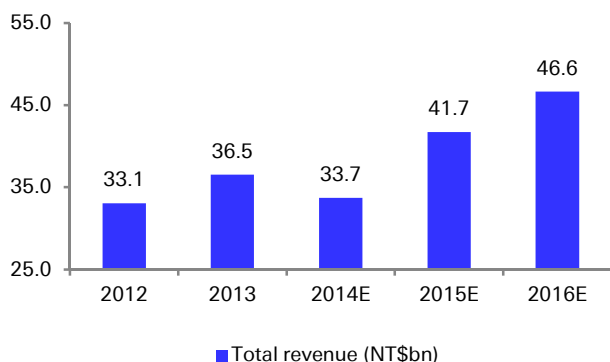


Figure 39: Our 2014 and 2015 P&L assumptions for Casetek vs. consensus estimates

(NT\$m)	2014E				2015E			
	DBe	Consensus*	Diff	YoY	DBe	Consensus*	Diff	YoY
Sales	33,711	34,598	-3%	-8%	41,724	39,326	6%	24%
Gross profit	9,730	9,989	-3%	-14%	12,497	11,640	7%	28%
Operating expenses	2,837	2,835	0%	-5%	3,340	3,264	2%	18%
Operating profit	6,894	7,154	-4%	-17%	9,158	8,376	9%	33%
Net income	5,614	5,618	0%	-8%	6,974	6,276	11%	24%
EPS (NT\$)	16.57	16.69	-1%	-8%	20.57	18.54	11%	24%
Outstanding shares (mn)	339				339			
Financial ratio								
Gross margin	28.9%	28.9%	0.0%	-2.0%	30.0%	29.6%	0.4%	1.1%
Opex ratio	8.4%	8.2%	0.2%	0.2%	8.0%	8.3%	-0.3%	-0.4%
Operating margin	20.4%	20.7%	-0.2%	-2.2%	21.9%	21.3%	0.6%	1.5%
Net margins	16.7%	16.2%	0.4%	-0.1%	16.7%	16.0%	0.8%	0.1%

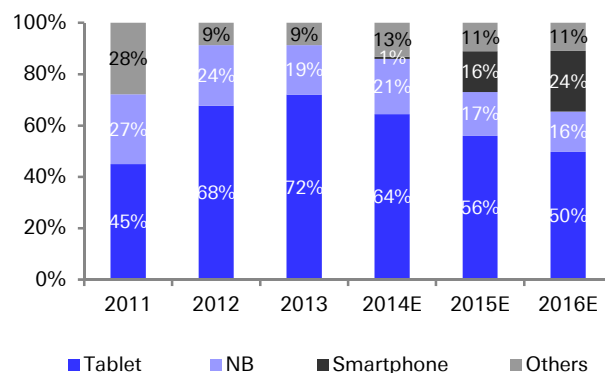
Source: Deutsche Bank estimates, Bloomberg Finance LP

Figure 40: Casetek's revenue trend



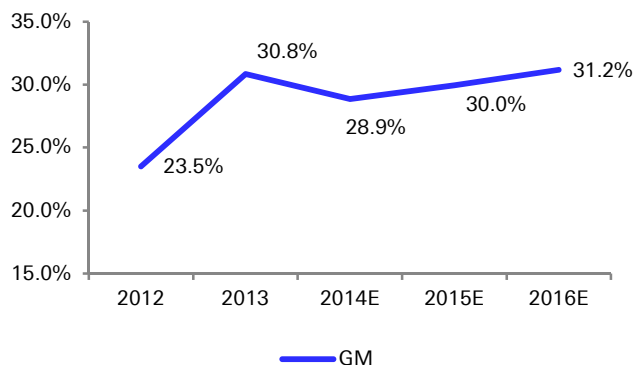
Source: Deutsche Bank estimates, Company data

Figure 41: Casetek's product mix



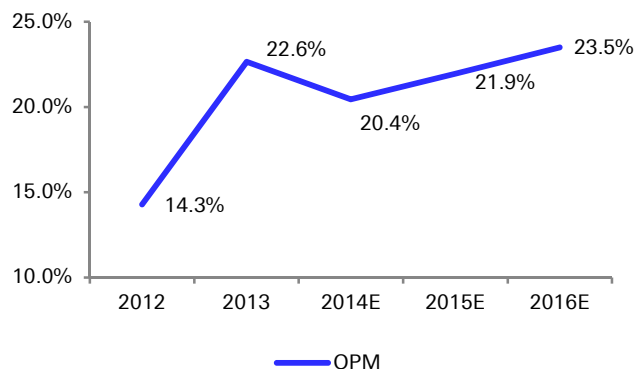
Source: Deutsche Bank estimates, Company data

Figure 42: Casetek's GM trend



Source: Deutsche Bank estimates, Company data

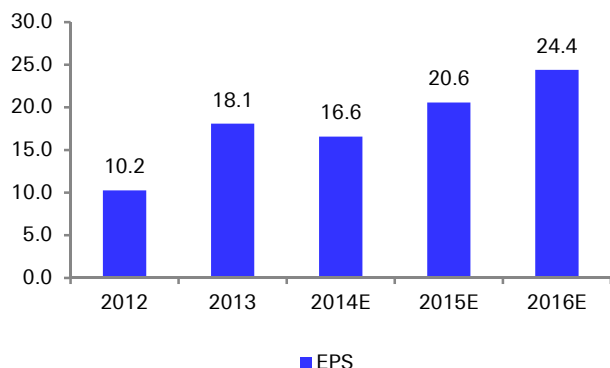
Figure 43: Casetek's OPM trend



Source: Deutsche Bank estimates, Company data

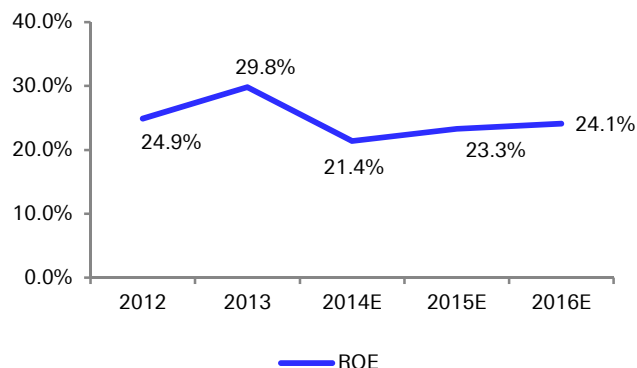


Figure 44: Casetek's EPS trend



Source: Deutsche Bank estimates, Company data

Figure 45: Casetek's ROE trend



Source: Deutsche Bank estimates, Company data

3Q14 preview and 4Q14 outlook

We expect Casetek's 3Q14 revenue to reach NT\$8.1bn, or +18% QoQ. The revenue increase we estimate for 3Q14 is based on our assumption of rising iPad and iPad mini shipments for the clients' refresh of models and new orders for MIM component parts and smartphone metal mainframe/casings. Given its improved utilization rate and shipment scale, as well as its progress in operational efficiency, we forecast gross and OP margins to recover from 25.6% and 16.9% in 2Q14 to 29.6% and 21.7% in 3Q14, with net income and EPS at NT\$1,359m and NT\$4.0, respectively (+3% QoQ, +33% YoY). We believe the trend of robust shipments and margin improvement will continue in 4Q14. We forecast 4Q14 sales and net income to reach NT\$11.1bn (+37% QoQ) and NT\$2.1bn (+56% QoQ), respectively, with OPM and EPS at 24% and NT\$6.24.

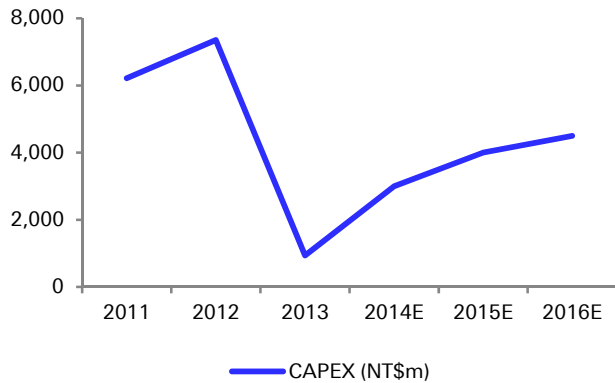
Balance sheet and dividend policy

We forecast that Casetek will increase its capex from NT\$3bn in 2014 to NT\$4bn in 2015 and NT\$4.5bn in 2016 (Figure 46) for capacity expansion on the new iPhone metal casings business. We also assume that Casetek will purchase 1,500 more CNC machines in 2015 and another 1,500 units in 2016, with total CNC machine numbers reaching 7,500 in 2015 and 9,000 in 2016 (Figure 47). Even under our assumption of capex expansion in 2015 and 2016, the trends of Casetek's free cash flow (Figure 48) and net cash position (Figure 49) are still healthy, thanks to its robust sequential revenue and earnings growth.

For its dividend policy, management also announced, at its 2014 shareholders' meeting, a plan to distribute at least 50% of annual earnings as the cash dividend for shareholders in the future, which is higher than its peers' cash dividend payout ratio (15-40%) and implies more than a 4.5-5% cash dividend yield based on the current share price.

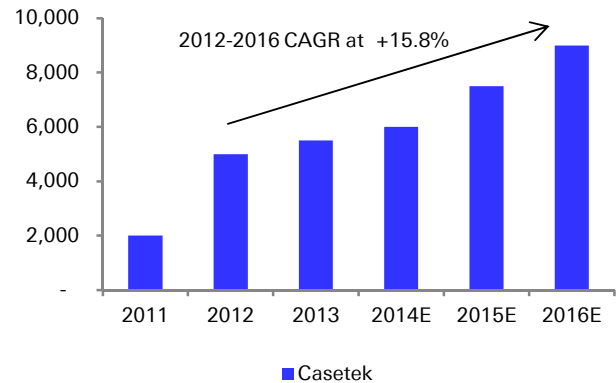


Figure 46: Casetek's capex



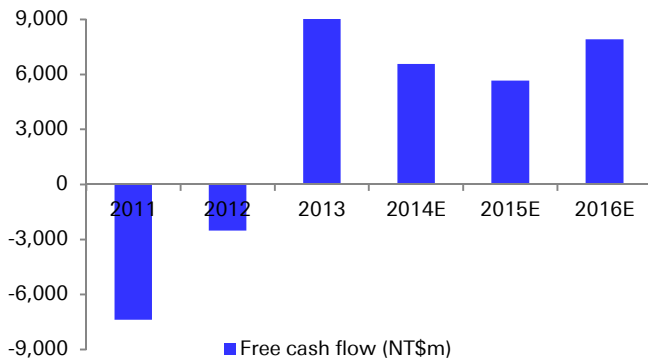
Source: Deutsche Bank estimates, Company data

Figure 47: Casetek's number of CNC machines



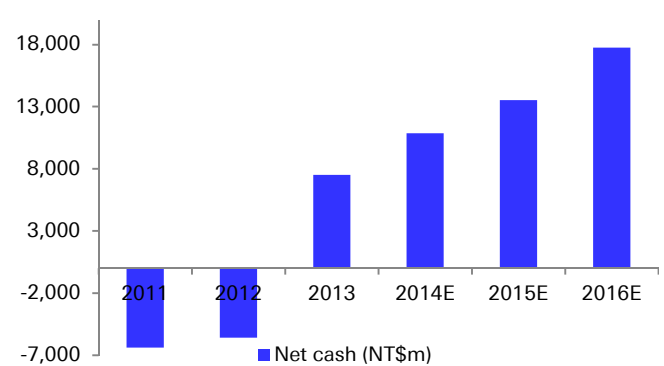
Source: Deutsche Bank estimates, Company data

Figure 48: Casetek's free cash flow



Source: Deutsche Bank estimates, TEJ, Company data

Figure 49: Casetek's net cash position



Source: Deutsche Bank estimates, TEJ, Company data



Figure 50: Casetek's quarterly P&L highlights

Unit: NT\$m	1Q 14	2Q 14	3Q 14 E	4Q 14 E	20 14 E	1Q 15 E	2Q 15 E	3Q 15 E	4Q 15 E	20 15 E
Sales	7,573	6,903	8,121	11,114	33,711	7,458	7,816	11,574	14,876	41,724
Gross profit	2,049	1,764	2,403	3,514	9,730	2,100	2,207	3,491	4,700	12,497
Operating profit	1,300	1,166	1,762	2,666	6,894	1,479	1,558	2,588	3,532	9,158
Non-operating items	9	42	12	10	73	-21	-23	-12	-11	-67
Pre-tax income	1,309	1,208	1,774	2,676	6,967	1,458	1,535	2,576	3,521	9,091
Net profit	1,122	1,021	1,357	2,114	5,614	1,123	1,182	1,958	2,711	6,974
EPS (NT\$)	3.31	3.01	4.00	6.24	16.56	3.31	3.49	5.78	8.00	20.57
No. of shares (m)	339	339	339	339	339	339	339	339	339	339
Margin analysis (%)										
Gross margin	27.1%	25.6%	29.6%	31.6%	28.9%	28.2%	28.2%	30.2%	31.6%	30.0%
Operating margin	17.2%	16.9%	21.7%	24.0%	20.4%	19.8%	19.9%	22.4%	23.7%	21.9%
Pre-tax margin	17.3%	17.5%	21.8%	24.1%	20.7%	19.6%	19.6%	22.3%	23.7%	21.8%
Net margin	14.8%	14.8%	16.7%	19.0%	16.7%	15.1%	15.1%	16.9%	18.2%	16.7%
Tax rate	14%	15%	24%	21%	19%	23%	23%	24%	23%	23%
YoY growth (%)										
Sales	-23%	-4%	-2%	-1%	-8%	-2%	13%	43%	34%	24%
Gross profit	-37%	-14%	3%	-4%	-14%	2%	25%	45%	34%	28%
Operating profit	-48%	-21%	5%	2%	-17%	14%	34%	47%	32%	33%
Pre-tax income	-46%	-21%	9%	7%	-14%	11%	27%	45%	32%	30%
Net profit	-36%	-21%	3%	20%	-8%	0%	16%	44%	28%	24%
QoQ growth (%)										
Sales	-33%	-9%	18%	37%		-33%	5%	48%	29%	
Gross profit	-44%	-14%	36%	46%		-40%	5%	58%	35%	
Operating profit	-50%	-10%	51%	51%		-45%	5%	66%	36%	
Pre-tax income	-48%	-8%	47%	51%		-46%	5%	68%	37%	
Net profit	-37%	-9%	33%	56%		-47%	5%	66%	38%	
Sales breakdown (%)										
Tablet	65%	62%	61%	68%	64%	66%	67%	47%	52%	56%
NB	23%	25%	21%	18%	21%	21%	20%	17%	14%	17%
Smartphone	0%	0%	2%	1%	1%	0%	0%	25%	25%	16%
Wearable device	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Others	11%	13%	16%	13%	13%	12%	12%	11%	9%	11%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Deutsche Bank estimates, Company data



Company profile

Company background

Established in August 2010 in the British Cayman Islands, Casetek is one of the leading metal casing manufacturers for NB, tablet and consumer electronics. While its revenue contribution from tablets, NB and other products is about 64%, 21% and 15% currently, respectively, Apple is its largest brand customer and accounts for almost 86% of its total sales (other clients include, among others, Asustek, Lenovo and Xiaomi).

Casetek became the listed company (ticker: 5264 TW) on the Taiwan Stock Exchange with paid-in capital of NT\$3,397m in January 2013. Pegatron is its largest shareholder, with ownership of 60.73% (August 2013).

Figure 51: Company milestones

Time	Event
Oct 1999	RIH LI, a subsidiary of Samoa, was established.
Dec 2004	RIH LI re-invested to establish Ri-Teng Computer
2005	Ri-Teng Computer officially established its Plant No. 1 in Shanghai, and started a trial production
Jul 2006	RIH LI re-invested to establish Ri-Gui Precision Ri-teng Computer officially began mass production, progressing from delivering internal metal parts to providing cosmetic enclosure products
2007	Ri-Teng Computer introduced the laser etching technology and precision drilling technology Ri-Teng Computer completed R&D of the entire manufacturing process of cosmetic enclosure parts
2008	Ri-Teng Computer develops tailored precision automatic equipment, including automatic bending equipment, laminating equipment, robotic arm laser spot welding machine, automatic hole measuring machine
2009	Ri-Teng Computer introduced the 2D & 3D etching process and successfully mass produced a revolutionary new generation product – the enclosure of the most advanced tablet to date
Jan 2010	Established PLUS (Cayman)
Feb 2010	Ri-Teng Computer established its Plant No. 2
Aug 2010	Applied Casetek Holdings Limited for the primary OTC listing in Cayman and began an organizational restructuring Pegatron Corporation purchased RIH LI and Ri-Teng Computer and Ri-Gui Precision, 100% held by RIH LI
Jan 2011	Purchased all stock equities of RIH LI held by Pegatron and indirectly held Ri-Teng Computer & Ri-Gui Precision, 100% held by RIH LI
Mar 2011	Established Ri-Kuan Metal Corp in Taiwan, for all purchases for the Group
Apr 2011	Established Ri-Ming Computer for the manufacturing of precision stamping dies and metal dies
May 2011	Established Sheng-Rui Electronic and expanded in-house production capacity of anodized parts
Aug 2011	Obtained all stock equities of MEGA, a subsidiary of Samoa, and assigned it for sales activities and purchases of electronic materials for affiliated companies
2011	Purchase 100% stock equity of APLUS, indirectly own the stock equity of AVY Precision. 100% held by UNITED
June 2012	paid-in capital reached NT\$3.157 billion
Jan-13	Casetek began listing on the Taiwan Stock Exchange and the paid-in capital reached NT\$3.397 billion Sheng-Rui Electronic began mass production, enhancing our technical and production capability for anodized parts

Source: Deutsche Bank, Company data



Management profile

Figure 52: Casetek's management

Name	Position	Experience
Tong, Tzu-Hsien	Chairman	CEO of Pegatron Group
Chuang, Yu-Chih	CEO	CEO of Ri-teng (subsidiary of Casetek)
Liao, To-Kuang	Vice president	Vice president of Catcher Tech
Chang, Wu-Min	Vice president	Vice president of Ri-teng (Shanghai)
Lin, Ming-Liang	Vice president	Vice president of Ri-teng (Shanghai)
Huang, Chia-Pin	Vice president	Vice president of Ri-teng (Shanghai)
Chang, Jonathan	CFO and spokesman	Senior management of Pegatron

Source: Deutsche Bank, Company data

Shareholding structure

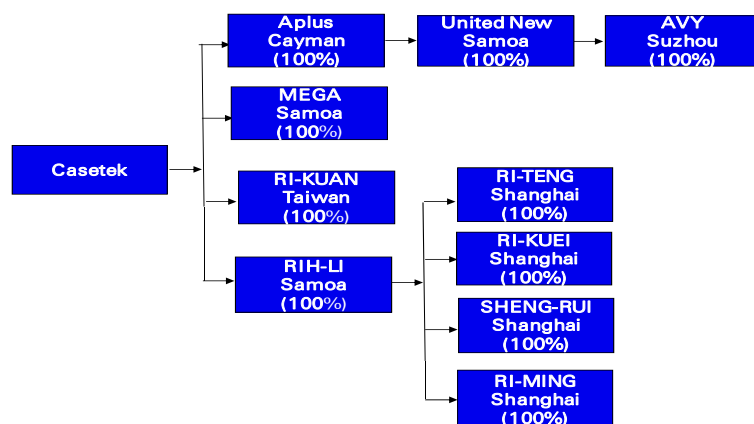
Figure 53: Casetek's top 10 shareholders

Name	Stake (%)
Asuspower Corporation (Pegatron Group)	60.73
Bright Profits Investing Limited	8.45
Sunrise Profit Investment Limited	5.68
Kenstand Investment Ltd.	4.42
Barlet Group Management Limited	3.53
Shin Kong Life Insurance Co., Ltd.	3.07
Cathay Life Insurance Co., Ltd.	1.67
AVY Precision Technology Inc	1.56
Yuanta Securities Investment Trust Co., Ltd.	1.19
Nomura International Corporation	0.87

Source: Deutsche Bank, Company data

Company holding structure

Figure 54: Casetek's key direct holding subsidiaries



Source: Deutsche Bank, Company data



Rating
Buy

Asia
Hong Kong

Technology
Hardware & Equipment

Company
Ju Teng

Reuters
3336.HK

Bloomberg
3336 HK

Price at 19 Sep 2014 (HKD)	4.35
Price target - 12mth (HKD)	7.20
52-week range (HKD)	6.24 - 4.16
HANG SENG INDEX	24,169

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A leader in the non-Apple camp; initiating with Buy

Initiating with Buy; target price of HK\$7.2 offers 73% potential upside

While we are positive on robust metal casings demand, the street may underestimate Ju Teng's OPM and EPS growth from its rising metal casings for NB, new tablet order from Microsoft and expansion into the smartphone segment. We expect Ju Teng's 2015E sales (HK\$10.9bn), operating income (HK\$1.49bn) and EPS (HK\$0.9) to grow +12%, +22% and +26% YoY, with OPM increasing from 12.5% in 2014 to 13.7%, thanks to higher shipment scale, better product mix, and operational efficiency. Some investors are worried about Ju Teng's slowing plastic casing sales for NB, but we believe its rising metal casing mix for NB and non-NB orders can help reduce the risks.

We have more positive views than the street on Ju Teng

(a) Becoming the sole supplier for Microsoft's tablet: We forecast Ju Teng will produce 80%+ of unibody casings for Surface Po from 2H14, helping to grow its sales contribution from tablets up from 11% in 2013 to 17% in 2015. This is the key driver for Ju Teng's margins and EPS given that tablets offer a higher ASP (US\$29-30) and GM (29-30%) than NB (US\$18-30 and 19-20%).

(b) Rising metal casing orders for NB business: We expect Ju Teng's rising metal casing orders from HP, Lenovo and Dell for commercial NB to improve its metal/plastic casing mix from 19/81% in 2013 to 34/66% in 2015. The higher GM and ASP for metal (28-29%, US\$29-30) than plastic models (15-18%, US\$18-21) should help stabilize its revenue and margins in the NB business, despite NB's sales contribution declining from 76% in 2013 to 64% in 2015.

(c) Potential upside from smartphone: In addition to Moto X composite (Motorola) and Zenfone plastic (Asustek) casings, Ju Teng should be able to leverage its cost advantages and partnerships with NB/TV clients to grow smartphone business rapidly from 2015. We expect the sales contribution from smartphone to lift from 3% in 2013 to 10% in 2015, with higher GM (22-23%).

Overall, a better NB casing mix and higher tablet/smartphone sales lead to our 2015E operating income/EPS estimates 14%/11% above consensus.

Valuation and risks

We base our valuation on 8x our 2015E EPS, which is at the low end of its peers' average P/E range (8-14x) given its higher NB sales exposure and lower ROE. Downside risks: inventory and loss of orders.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-17.3	-19.7	-3.0
HANG SENG INDEX	-3.8	4.3	2.8

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	12.7
Net debt/equity (%)	34.6
Book value/share (HKD)	5.85
Price/book (x)	0.74
Net interest cover (x)	-
Operating profit margin (%)	12.5

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (HKDm)	9,201.3	9,256.8	9,723.1	10,884.1	11,798.9
EBIT (HKDm)	850.3	1,194.0	1,220.1	1,492.3	1,697.2
Reported NPAT (HKDm)	601.4	762.3	832.7	1,052.3	1,201.6
DB EPS FD(HKD)	0.52	0.65	0.71	0.90	1.03
PER (x)	4.4	6.7	6.1	4.8	4.2

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close



Model updated: 09 September 2014

Running the numbers

Asia

Hong Kong

Hardware & Equipment

Ju Teng

Reuters: 3336.HK

Bloomberg: 3336 HK

Buy

Price (19 Sep 14) HKD 4.35

Target Price HKD 7.20

52 Week range HKD 4.16 - 6.24

Market Cap (m) HKDm 5,078
USDm 655

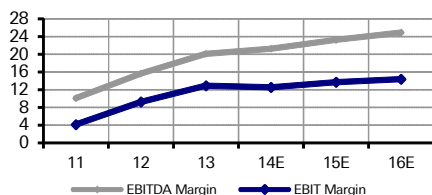
Company Profile

Ju Teng International Holdings Limited is a Hong Kong-based investment holding company. The Company, together with its subsidiaries, is engaged in the design, manufacturing and sale of notebook computer casings. The Company provides notebook computer casings, television casings, hand-held products casings and casings for customized products, among others.

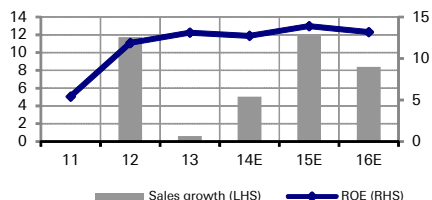
Price Performance



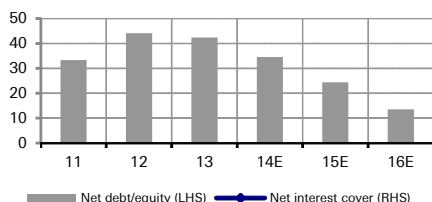
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (HKD)	0.23	0.52	0.65	0.71	0.90	1.03
Reported EPS (HKD)	0.23	0.52	0.65	0.71	0.90	1.03
DPS (HKD)	0.08	0.12	0.15	0.16	0.21	0.24
BVPS (HKD)	4.2	4.7	5.3	5.9	7.1	8.5
Weighted average shares (m)	1,119	1,150	1,167	1,167	1,167	1,167
Average market cap (HKDm)	2,160	2,618	5,093	5,078	5,078	5,078
Enterprise value (HKDm)	5,260	6,735	9,683	9,392	9,011	8,272

Valuation Metrics

P/E (DB) (x)	8.4	4.4	6.7	6.1	4.8	4.2
P/E (Reported) (x)	8.4	4.4	6.7	6.1	4.8	4.2
P/BV (x)	0.19	0.74	0.94	0.74	0.61	0.51
FCF Yield (%)	nm	nm	nm	nm	0.3	7.9
Dividend Yield (%)	4.2	5.3	3.4	3.8	4.8	5.4
EV/Sales (x)	0.6	0.7	1.0	1.0	0.8	0.7
EV/EBITDA (x)	6.3	4.7	5.2	4.5	3.6	2.8
EV/EBIT (x)	15.5	7.9	8.1	7.7	6.0	4.9

Income Statement (HKDm)

Sales revenue	8,235	9,201	9,257	9,723	10,884	11,799
Gross profit	1,358	1,991	2,541	2,774	3,262	3,705
EBITDA	830	1,440	1,862	2,068	2,530	2,937
Depreciation	491	589	668	848	1,038	1,240
Amortisation	0	0	0	0	0	0
EBIT	339	850	1,194	1,220	1,492	1,697
Net interest income(expense)	17	13	7	13	12	15
Associates/affiliates	-7	-4	-8	-6	-5	-6
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-62	-71	-61	-92	-89	-88
Profit before tax	287	788	1,132	1,135	1,410	1,618
Income tax expense	50	128	255	220	275	324
Minorities	-20	59	115	83	83	93
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	257	601	762	833	1,052	1,202
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	257	601	762	833	1,052	1,202

Cash Flow (HKDm)

Cash flow from operations	687	411	1,056	1,716	1,911	2,413
Net Capex	-1,438	-1,224	-1,626	-1,795	-1,894	-2,013
Free cash flow	-751	-813	-571	-79	17	400
Equity raised/(bought back)	-19	39	17	0	0	0
Dividends paid	-91	-91	-138	-175	-192	-242
Net inc/(dec) in borrowings	509	1,460	216	35	35	35
Other investing/financing cash flows	117	-120	334	579	604	640
Net cash flow	-235	475	-142	359	465	833
Change in working capital	0	0	0	0	0	0

Balance Sheet (HKDm)

Cash and other liquid assets	654	1,163	1,061	1,460	1,965	2,838
Tangible fixed assets	5,974	6,377	7,291	8,243	9,107	9,887
Goodwill/intangible assets	38	40	40	40	40	40
Associates/investments	25	31	44	38	33	27
Other assets	4,682	5,638	6,282	5,941	6,441	7,040
Total assets	11,373	13,249	14,718	15,722	17,587	19,832
Interest bearing debt	2,622	4,082	4,298	4,333	4,368	4,403
Other liabilities	2,852	2,551	2,787	3,076	3,357	3,854
Total liabilities	5,474	6,633	7,085	7,408	7,725	8,257
Shareholders' equity	4,742	5,386	6,236	6,834	8,298	9,920
Minorities	1,157	1,230	1,397	1,480	1,563	1,656
Total shareholders' equity	5,899	6,617	7,633	8,314	9,861	11,576
Net debt	1,967	2,919	3,236	2,873	2,403	1,565

Key Company Metrics

Sales growth (%)	nm	11.7	0.6	5.0	11.9	8.4
DB EPS growth (%)	na	127.7	24.9	9.2	26.4	14.2
EBITDA Margin (%)	10.1	15.6	20.1	21.3	23.2	24.9
EBIT Margin (%)	4.1	9.2	12.9	12.5	13.7	14.4
Payout ratio (%)	35.2	22.9	23.0	23.0	23.0	23.0
ROE (%)	5.4	11.9	13.1	12.7	13.9	13.2
Capex/sales (%)	17.6	14.1	18.7	18.5	17.5	17.1
Capex/depreciation (x)	3.0	2.2	2.6	2.1	1.8	1.6
Net debt/equity (%)	33.4	44.1	42.4	34.6	24.4	13.5
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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Investment thesis

Outlook

- **Exciting story for Microsoft's tablet casings business:** We expect Ju Teng to become the sole metal casings supplier for Microsoft's Surface Pro 3 tablets, with its order allocation increasing from 45-55% in 2013 to more than 80% from 2H14, thanks to its better yield rates and more competitive costs than other suppliers. Given a gross margin (GM) of 29-30% and an average selling price (ASP) of US\$29-30 (for one piece) for this unibody casings order, higher than for NB (19-20% and US\$18-30 for four pieces), we expect the business to drive Ju Teng's robust margin and EPS growth from 2H14, with its sales contribution rising from 11% in 2013 to 17% in 2015.
- **Improved mix for NB metal/plastic casing shipments:** With rising metal casing orders from HP, Lenovo and Dell for their commercial NB clients, we expect Ju Teng's metal and plastic casings mix for NB to shift from 19% and 81% in 2013 to 34% and 66% in 2015. The higher GM (28-29%) and ASP (US\$29-30) for metal casings than plastic models (15-18%, US\$18-21) for NB orders can support Ju Teng's revenue and earnings growth in this business and ease the street's concerns about its weakening NB shipment growth, though its sales contribution from NB will still decline from 76% in 2013 to 64% in 2015 due to its robust tablet and smartphone shipments.
- **Upside from smartphone business:** Ju Teng is currently the sole supplier for Motorola's Moto X (composite material) and Asustek's Zenfone (plastic casing) smartphone casings. We hold a more optimistic view than the street for the company to gain more orders from its existing or new smartphone brand customers to help its sales contribution from the business improve from only 3% in 2013 to 10% in 2015 with GM of 22-23%, which is higher than NB and its corporate average level.
- Based on our assumptions of a changing metal/plastic casings mix for NB and robust tablet and smartphone orders, we expect Ju Teng's revenue, operating income and EPS to grow +12%, +22% and +26% YoY from HK\$9.7bn, HK\$1.2bn and HK\$0.71 in 2014 to HK\$10.9bn, HK\$1.49bn and HK\$0.9 in 2015E, with OPM rising from 12.5% to 13.7%. We believe the street is too concerned about its slowing NB business momentum and underestimates its improved non-NB orders. Our 2015E operating income and EPS assumptions are 14% and 11% higher than consensus estimates.

Valuation

We base our target price of HK\$7.2 on 8x our 2015E EPS to reflect Ju Teng's metal and plastic casings business momentum for NB, tablet and smartphone. Our target P/E multiple is lower than the peer average (8-14x), mainly due to Ju Teng's higher sales exposure to the slow NB sector, lower ROE and weaker cash position and dividend payout. However, we use a higher target P/E multiple for the stock than its historical trading data (6-7x) since 2011 to reflect its improved ROE (up from 5-13% during 2011-2014 to 13-14% in 2015-2016)



and our more positive outlook for the entire metal casings sector. Its cash dividend yield of 3.7%-5.4% for 2014-2016, based on the current share price, is higher than Asian sector peers' average of 2.6%-3.7%.

We believe the street could still underestimate the demand for metal casings for mobile devices and Ju Teng's improved product mix and operational efficiency, which can support the outperformance of its share price going forward.

Risks

- Weaker-than-expected orders for NB, tablet and smartphone casings from its major brand customers could have a negative impact on our shipment, margin and earnings forecasts.
- Rising material and labor costs would result in lower margins and EPS than our assumptions.
- Higher inventory.



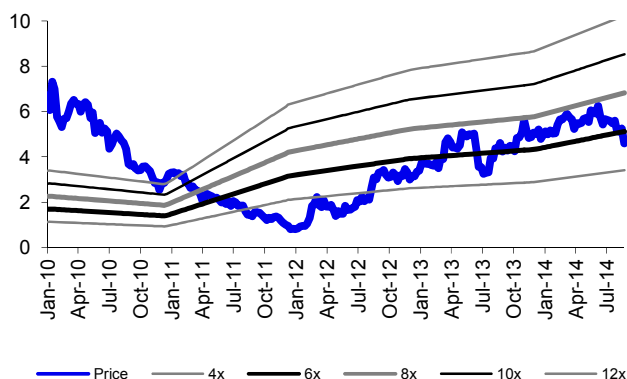
Valuation and risks

Initiating with Buy and a 12-month target price of HK\$7.2

Target price base

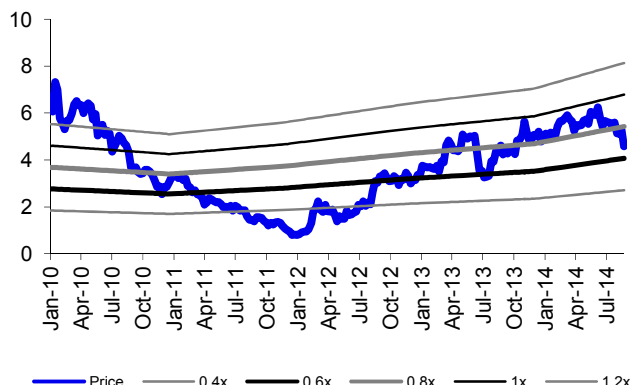
We adopt a P/E methodology for our valuation as we believe this better reflects Ju Teng's metal and plastic casings business growth for NB, smartphone and tablets. Our target price of HK\$7.2 for Ju Teng is based on 8x our 2015E EPS (HK\$0.9), which is lower than the peer average (8-14x) given Ju Teng's higher sales exposure to slowing NB business, lower ROE and weaker balance sheet (net debt position). However, we assign a higher target P/E multiple than its historical trading data (6-7x) since 2011 (following its aggressive expansion and capex plans to grow the metal casings business) to reflect its improved ROE (up from 5-13% during 2011-2014 to 13-14% in 2015-2016) and our more positive outlook on the entire metal casings sector. Though its 23% payout ratio for cash dividend is not high compared to Catcher (40%), Casetek (50%+), and other sector peers (20-70%), Ju Teng's dividend yield of 3.7%-5.4% for 2014-2016, based on the current share price, is better than its Asian sector peers' average of 2.6%-3.7%. The street may still underestimate the business outlook for metal casings demand and Ju Teng's improved product mix, cost structure and operational efficiency, which will help its share price performance going forward.

Figure 55: Forward P/E band for Ju Teng



Source: Deutsche Bank estimates, Company data, TEJ

Figure 56: Forward P/B band for Ju Teng



Source: Deutsche Bank estimates, Company data, TEJ

Sensitivity analysis of target price

Our analysis indicates attractive risk/reward for Ju Teng with 157% upside potential under a bull-case valuation of HK\$10.7, if we assume 2015 sales growth of 16% YoY and a consolidated operating margin (OPM) of 17.7%. Our target price of HK\$7.2 is based on a 2015 sales growth rate of +12% YoY and a consolidated OPM of 13.7%. On the downside, 2015 sales growth of 8% YoY and OPM of 9.7% would generate a valuation of HK\$4.0. These sensitivities assume the same target P/E in each case.



Figure 57: EPS sensitivity analysis based on 2015 assumptions

		2015E Sales growth (%)				
		8%	10%	12%	14%	16%
2015 OPM (%)	9.7%	0.50	0.51	0.53	0.54	0.56
	11.7%	0.68	0.70	0.71	0.73	0.75
	13.7%	0.86	0.88	0.90	0.92	0.95
	15.7%	1.04	1.06	1.09	1.11	1.14
	17.7%	1.22	1.24	1.27	1.30	1.33

Source: Deutsche Bank estimates

Figure 58: Target price sensitivity analysis based on 2015 assumptions

		2015E Sales growth (%)				
		8%	10%	12%	14%	16%
2015 OPM (%)	9.7%	4.0	4.1	4.2	4.4	4.5
	11.7%	5.4	5.6	5.7	5.9	6.0
	13.7%	6.9	7.0	7.2	7.4	7.6
	15.7%	8.3	8.5	8.7	8.9	9.1
	17.7%	9.7	10.0	10.2	10.4	10.7

Source: Deutsche Bank estimates

Risks

- Loss of orders to its major competitors for NB, tablet and smartphone casings business would result in lower revenue, margins and EPS vs. our forecasts.
- Weaker demand for NB, tablet and smartphone from distribution channels and consumers could lead to an inventory correction and margin downside risks.
- Higher costs for labor requirements in China.
- Rising material prices.
- Lower yield rate for new product manufacturing or assembly.



Business outlook

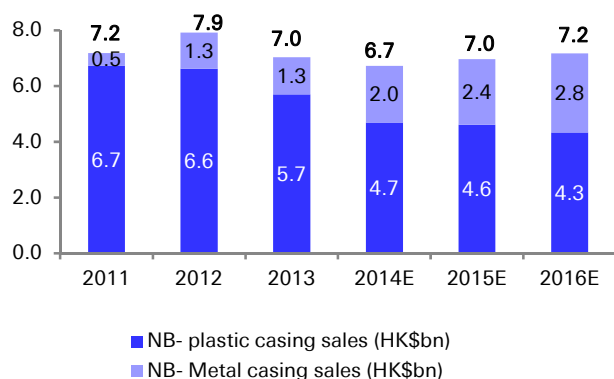
Market appears overly concerned about its slowing business momentum

Improved metal/plastic casing mix for NB business

Some investors may hold cautious views on Ju Teng's business outlook given the slow demand recovery and intensified competition in the NB space and the company's very high sales exposure to NB casings business. We think the market may underestimate Ju Teng's operational improvement on rising metal casing orders from HP, Lenovo, and Dell for their commercial NB models, as the margins (GM of 28-29%, Figure 61) and selling price (ASP of US\$29-30) are higher for metal casings than plastic products (GM of 15-18%, ASP of US\$18-21). We forecast Ju Teng to improve its metal and plastic casing shipment mix for NB from 19% and 81% in 2013 to 34% and 66% in 2015 and expect the rising metal casing sales to help its total NB revenue increase from HK\$6.7bn, or 69% of total sales, in 2014 to HK\$7.0bn, or 64% of total sales, in 2015, with GM for the business easily maintained at 19% (Figure 62).

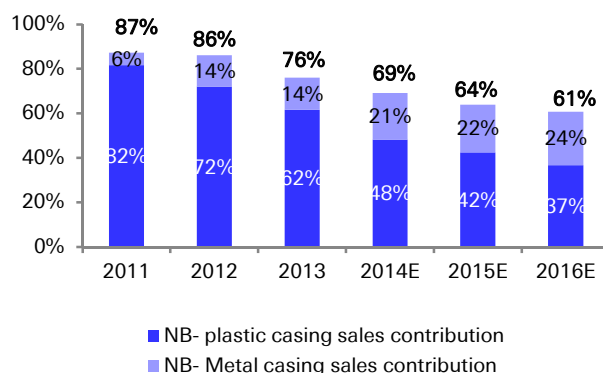
We also believe that the further consolidation of the plastic casing supply chain and higher entry barriers for metal casing business will gradually lead to less competition in the sector, which could help Ju Teng's ongoing market share gains and provide earnings upside from this cash cow business going forward. The declining NB sales contribution from 76% in 2013 to 64% in 2015 (Figure 60), due to its new tablet and smartphone orders, should also ease the street's concerns about its high concentration risk in one single product with weakening NB sales growth.

Figure 59: NB casings revenue for Ju Teng



Source: Deutsche Bank estimates, Company data

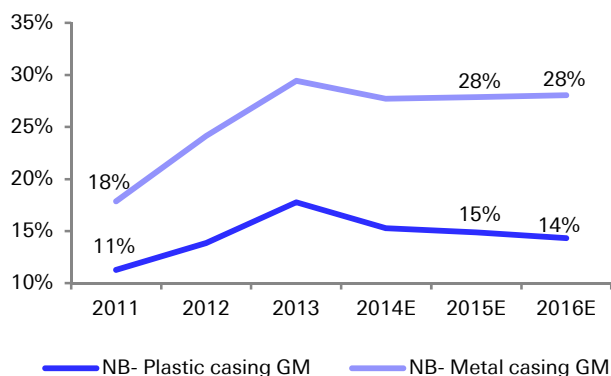
Figure 60: Ju Teng's sales contribution from NB



Source: Deutsche Bank estimates, Company data

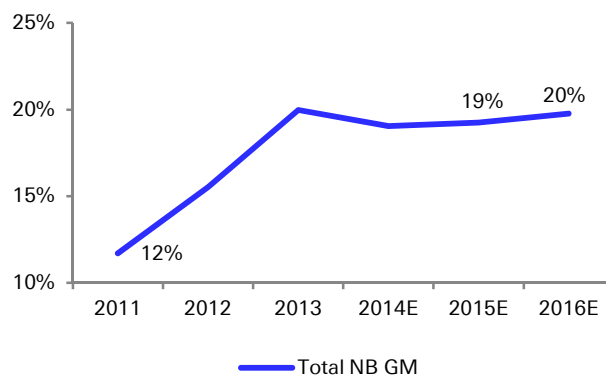


Figure 61: GM trend for Ju Teng's NB business



Source: Deutsche Bank estimates, Company data

Figure 62: Improved GM for NB helped by rising metal casings sales

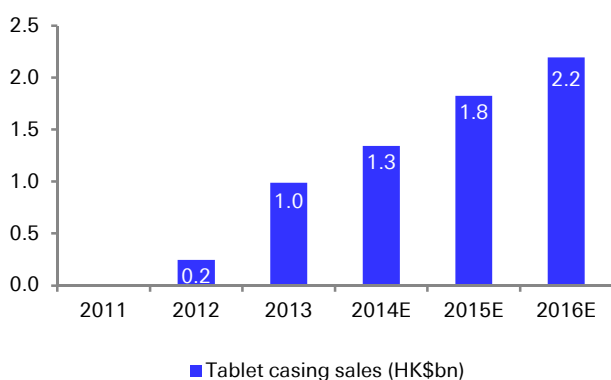


Source: Deutsche Bank estimates, Company data

Exciting tablet business orders

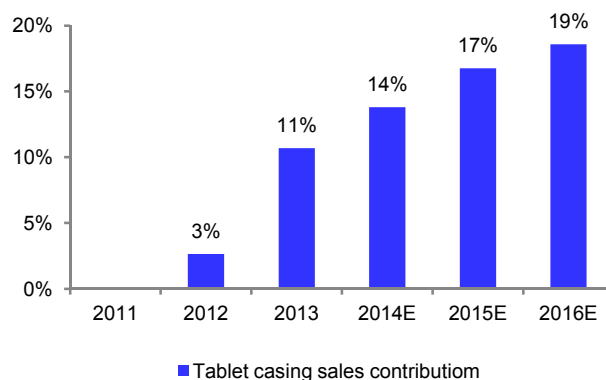
Ju Teng has been one of the major (unibody) metal casing suppliers for Microsoft's Surface tablet since 2013. Thanks to its higher yield rate, more competitive cost structure and better service than its competitors, we expect Ju Teng to become the major supplier of Microsoft's Surface casings, with its order allocation increasing from 45-55% in 2013 to more than 80% from 2H14. We assume a higher GM (29-30%) and ASP (US\$29-30 for one piece) for this unibody casing than for NB (19-20% and US\$18-30 for four pieces) and think the order could not only boost Ju Teng's margins and EPS growth from 2H14 but also provide proof of its improved capabilities in producing high-end metal casings to other brand vendors. We estimate its sales contribution from the tablet business will increase from 11% in 2013 to 17% in 2015. Ju Teng can also leverage its solid relationships with PC/NB brand vendors to grow more tablet products together, which should offer business upside for the company.

Figure 63: Tablet casings revenue for Ju Teng



Source: Deutsche Bank estimates, Company data

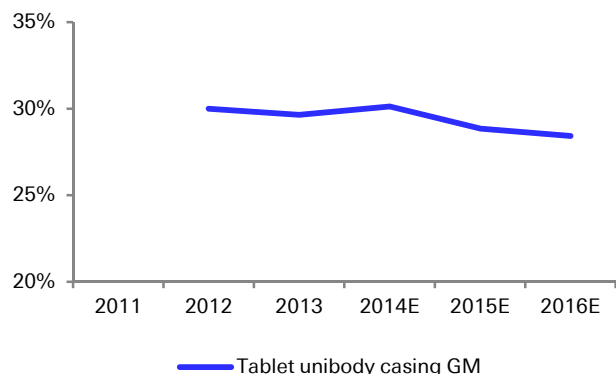
Figure 64: Sales contribution from tablet



Source: Deutsche Bank estimates, Company data

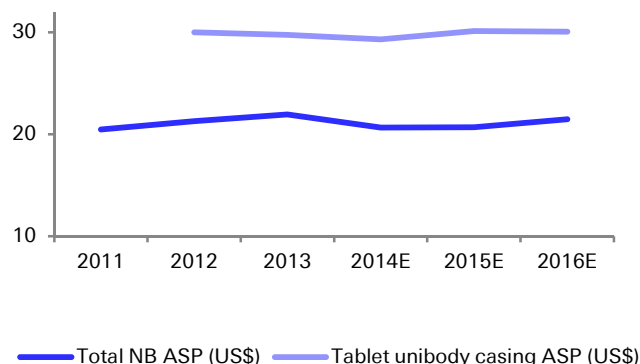


Figure 65: GM trend for Ju Teng's tablet



Source: Deutsche Bank estimates, Company data

Figure 66: Higher ASP for unibody tablet casing vs. NB

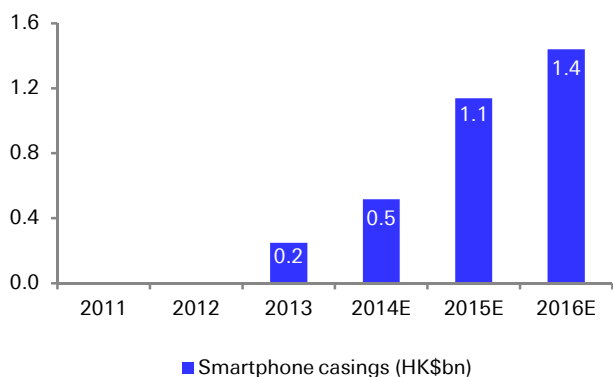


Source: Deutsche Bank estimates, Company data

Progress in smartphone casing orders

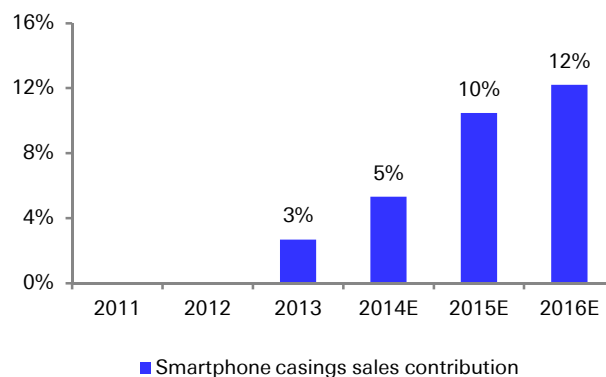
To diversify its product portfolio and reduce operational risks for NB business, Ju Teng began its first smartphone (composite material) casing order from Motorola (Moto X) in 2013 and also successfully penetrated into Asustek's supply chain for Zenfone (plastic casings) from 2014. Although the ASP (US\$5-11, Figure 70) for its smartphone casings is currently lower than for NB and tablet products, its GM of 22-23% (Figure 69) is better than NB (19-20%) and the corporate average (20-21%). As long as Ju Teng can cooperate with more customers to increase the shipments and sales contribution from a low base (3% in 2013, Figure 68), we believe it can easily beat the street's very low expectations for the business from 2015.

Figure 67: Smartphone casings revenue for Ju Teng



Source: Deutsche Bank estimates, Company data

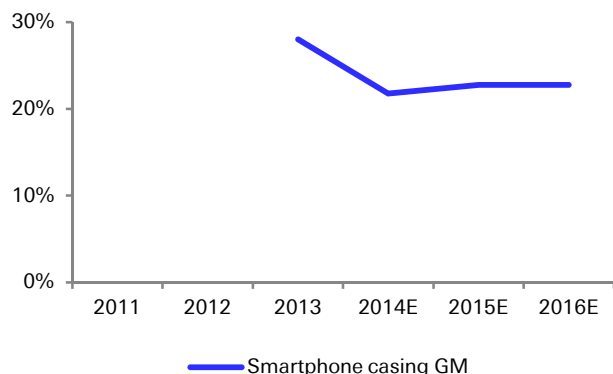
Figure 68: Sales contribution from smartphone



Source: Deutsche Bank estimates, Company data

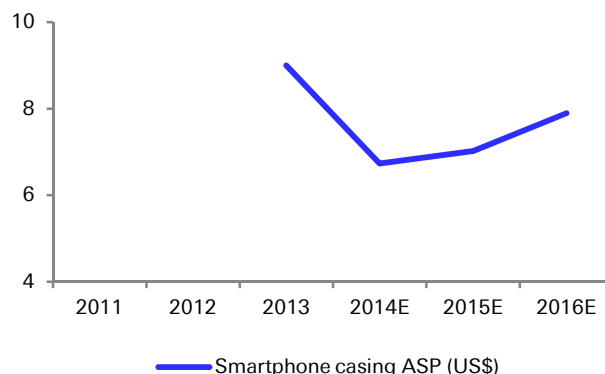


Figure 69: GM trend for smartphone business



Source: Deutsche Bank estimates, Company data

Figure 70: ASP trend for smartphone



Source: Deutsche Bank estimates, Company data

Our 2015E net income and EPS are 11% above consensus

We estimate that Ju Teng's revenue, operating and net income will increase +12%, +22% and +26% YoY from HK\$9.7bn, HK\$1.2bn and HK\$833m in 2014 to HK\$10.9bn, HK\$1.49bn and HK\$1.05bn in 2015 (Figure 71), respectively. We attribute its rapid sales growth in 2015 to higher order allocation for Microsoft's Surface tablet shipments, rising metal casings orders for NB business and new orders from smartphone clients, which we believe will help boost Ju Teng's GM and OPM from 19.8% and 12.5% in 2014 to 20.4% and 13.7% in 2015 (Figure 74 and Figure 75). Its EPS and ROE should also improve from HK\$0.71 and 12.9% in 2014 to HK\$0.90 and 13.9% in 2015 (Figure 76 and Figure 77).

Our 2015 revenue, operating income and EPS forecasts are 6%, 14% and 11% higher than consensus expectations (Figure 71).

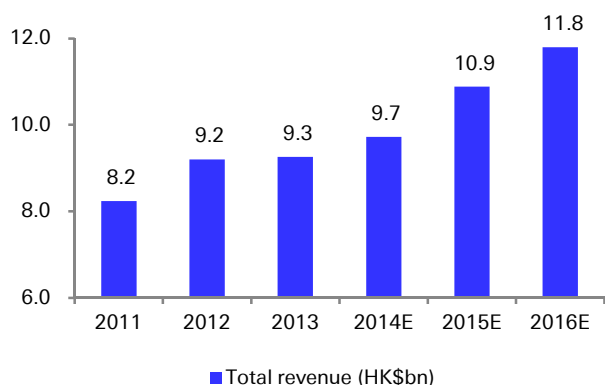
Figure 71: Our 2014E and 2015E P&L assumption for Ju Teng vs. consensus estimates

(Hk\$m)	2014E				2015E			
	DBe	Consensus*	Diff	YoY	DBe	Consensus*	Diff	YoY
Sales	9,723	9,561	2%	5%	10,884	10,226	6%	12%
Gross profit	1,926	1,834	5%	3%	2,225	2,077	7%	15%
Operating expenses	706	724	-3%	4%	732	766	-4%	4%
Operating profit	1,220	1,110	10%	2%	1,492	1,311	14%	22%
Net income	833	801	4%	9%	1,052	948	11%	26%
EPS (HK\$)	0.71	0.68	5%	9%	0.90	0.81	11%	26%
Outstanding shares (mn)	1,167							
Financial ratio								
Gross margin	19.8%	19.2%	0.6%	-0.4%	20.4%	20.3%	0.1%	0.6%
Opex ratio	7.3%	7.6%	-0.3%	-0.1%	6.7%	7.5%	-0.8%	-0.5%
Operating margin	12.5%	11.6%	0.9%	-0.3%	13.7%	12.8%	0.9%	1.2%
Net margins	8.6%	8.4%	0.2%	0.3%	9.7%	9.3%	0.4%	1.1%

Source: Deutsche Bank estimates, Bloomberg Finance LP

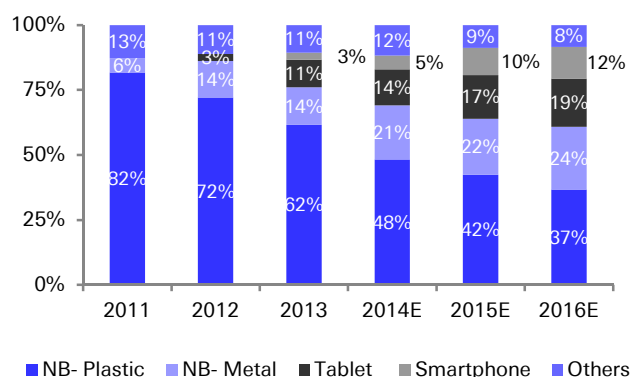


Figure 72: Ju Teng's revenue trend



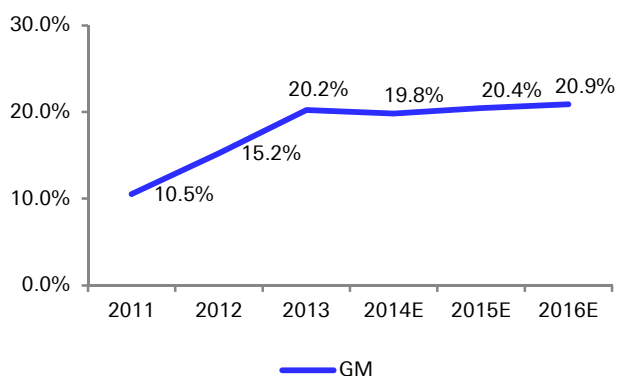
Source: Deutsche Bank estimates, Company data

Figure 73: Ju Teng's product mix



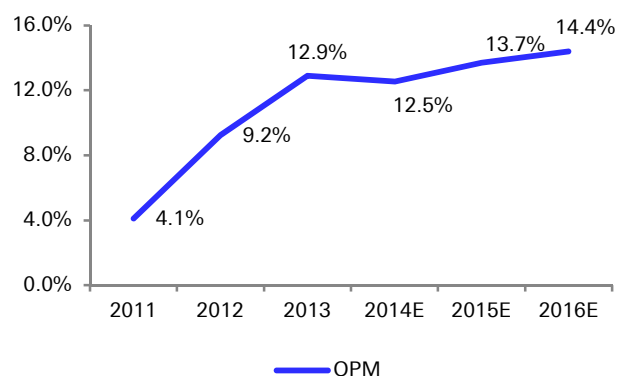
Source: Deutsche Bank estimates, Company data

Figure 74: Ju Teng's GM trend



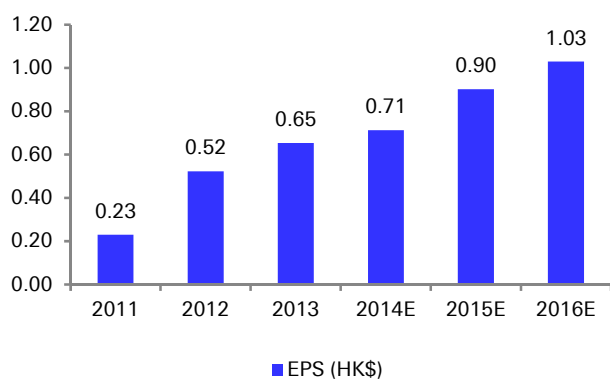
Source: Deutsche Bank estimates, Company data

Figure 75: Ju Teng's OPM trend



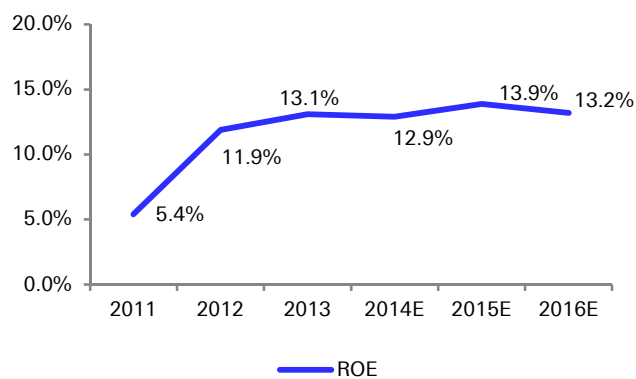
Source: Deutsche Bank estimates, Company data

Figure 76: Ju Teng's EPS trend



Source: Deutsche Bank estimates, Company data

Figure 77: Ju Teng's ROE trend



Source: Deutsche Bank estimates, Company data



2H14 business outlook

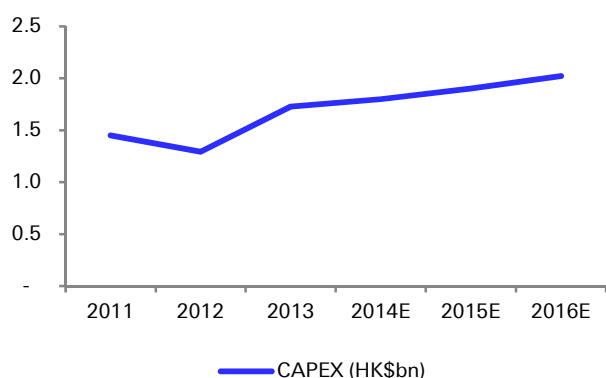
We forecast Ju Teng's 2H14 revenue at HK\$5.3bn, or +21% HoH. The robust sales growth is mainly due to its rising NB metal casing orders from brand vendors and the mass production for new Surface Pro 3 model since July. Because of its higher shipment scale, improved utilization rate, and tight control of costs, we expect its 2H14 GM and OPM to rise from 17.6% and 10.9% in 1H14 to 21.6% and 13.9%, with net income and EPS at HK\$522m and HK\$0.45 (+68% QoQ, +4% YoY). We also see a growing opportunity for Ju Teng to gain orders from new smartphone clients, although its sales and earnings contribution in 2H14 will not be significant.

Balance sheet and dividend policy

In 2013, Ju Teng outlined an aggressive capex plan for the purchase of new CNC machines (Figure 79) and its business expansion from plastic to metal casings for NB, tablet and smartphone. Given that we assume a +15.2% 2012-2015 CAGR in the number of CNC machines, we expect its capex to rise from HK\$1.3bn in 2012 to HK\$1.9bn in 2015. However, we expect its free cash flow (Figure 80) to improve from being negative in 2011-2013 to a break-even level in 2014-2015, thanks to robust earnings growth in higher-margin business (metal casings for NB, unibody casings for tablet and new smartphone orders). Its improved earnings should help to gradually reduce its net debt position (Figure 81).

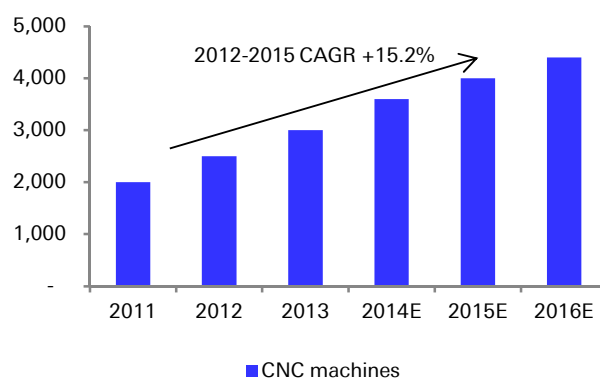
We are positive about management's intention and efforts to strengthen Ju Teng's financial structures, helping to ease some investors' concerns about its weaker balance sheet, although its net debt and need for higher working capital for its joint-venture operations with Compan and Wistron will not ease immediately. This explains why Ju Teng's dividend payout ratio of 23% is significantly lower than Catcher's (40%) and Casetek's (50%).

Figure 78: Ju Teng's capex



Source: Deutsche Bank estimates, Company data

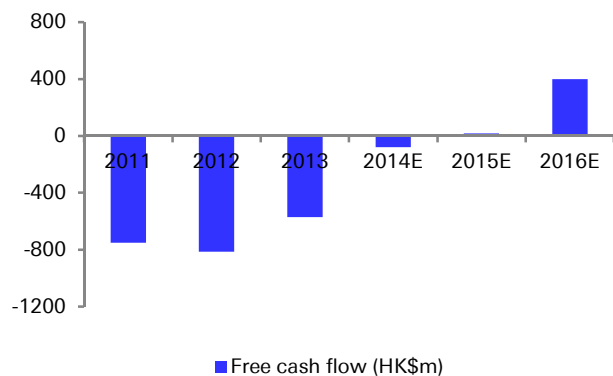
Figure 79: Ju Teng's number of CNC machines



Source: Deutsche Bank estimates, Company data

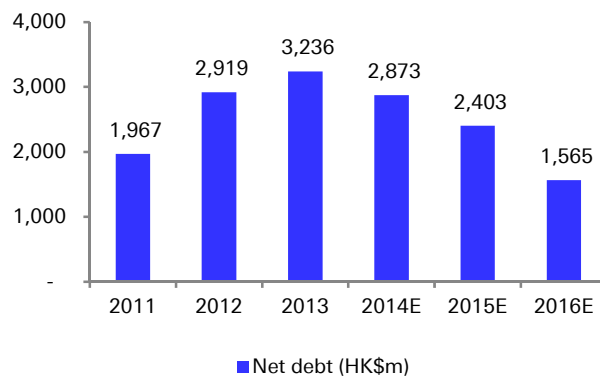


Figure 80: Ju Teng's free cash flow



Source: Deutsche Bank estimates, Company data, TEJ

Figure 81: Ju Teng's net debt position



Source: Deutsche Bank estimates, Company data, TEJ



Figure 82: Ju Teng's quarterly P&L highlights

Unit: HK\$mn	1H13	2H13	2013	1H14	2H14E	2014E	1H15E	2H15E	2015E
Sales	4,299	4,958	9,257	4,399	5,324	9,723	4,781	6,103	10,884
Gross profit	793	1,080	1,873	774	1,152	1,926	912	1,313	2,225
Operating profit	485	709	1,194	478	742	1,220	591	901	1,492
Non-operating items	22	40	62	47	38	85	41	42	82
Pre-tax income	463	669	1,132	431	704	1,135	551	860	1,410
Net profit	260	502	762	311	522	833	404	648	1,052
EPS (NT\$)	0.22	0.43	0.65	0.27	0.45	0.71	0.35	0.56	0.90
No. of shares (m)	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167
Margin analysis (%)									
Gross margin	18.4%	21.8%	20.2%	17.6%	21.6%	19.8%	19.1%	21.5%	20.4%
Operating margin	11.3%	14.3%	12.9%	10.9%	13.9%	12.5%	12.4%	14.8%	13.7%
Pre-tax margin	10.8%	13.5%	12.2%	9.8%	13.2%	11.7%	11.5%	14.1%	13.0%
Net margin	6.1%	10.1%	8.2%	7.1%	9.8%	8.6%	8.5%	10.6%	9.7%
Tax rate	31%	17%	23%	19%	20%	19%	20%	20%	20%
YoY growth (%)									
Sales	0%	1%	1%	2%	7%	5%	9%	15%	12%
Gross profit	34%	33%	34%	-2%	7%	3%	18%	14%	15%
Operating profit	43%	39%	40%	-1%	5%	2%	24%	21%	22%
Pre-tax income	50%	39%	44%	-7%	5%	0%	28%	22%	24%
Net profit	7%	41%	27%	19%	4%	9%	30%	24%	26%
HoH growth (%)									
Sales	-12%	15%		-11%	21%		-10%	28%	
Gross profit	-2%	36%		-28%	49%		-21%	44%	
Operating profit	-5%	46%		-33%	55%		-20%	52%	
Pre-tax income	-4%	45%		-36%	64%		-22%	56%	
Net profit	-27%	93%		19%	68%		30%	60%	
Sales breakdown (%)									
NB - Plastic casings	68%	56%	62%	54%	43%	48%	45%	40%	42%
NB - Metal casings	14%	15%	14%	20%	22%	21%	21%	22%	22%
Tablet casings	8%	13%	11%	10%	17%	14%	15%	18%	17%
Smartphone casings	0%	5%	3%	3%	7%	5%	10%	11%	10%
Others	10%	11%	11%	13%	10%	12%	9%	9%	9%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Deutsche Bank estimates, company data



Company profile

Company background

Established in 2000, Ju Teng is the leading plastic casings manufacturer for NB, with a 40-50% market share globally. Its major brand customers include Lenovo, HP, Dell, Asustek, Acer, and Toshiba. Ju Teng became a listed company in Hong Kong (3336.HK) and issued TDR (Taiwan Depository Receipt, 9136.TW) in 2009.

In order to reduce operational risks for slow NB demand and decreasing trend of ASP for plastic casings, management turned aggressive in diversifying its product portfolio from plastic casings to metal casings for NB, with its metal/plastic shipment mix lifting from 19%/81% in 2013 to 34%/66% in 2015, according to our forecast. The company has also expanded its business scope from NB to tablet and smartphone since 2012, helping reduce its sales exposure for NB business from 76% in 2013 to 64% in 2015, while for tablet and smartphone it will increase from 11% and 3% in 2013 to 17% and 10% in 2015, respectively.

Figure 83: Company milestones

2000	Established by three individuals with three extensive industry experience: Li-Yen Cheng, Li-Yu Cheng and Tsai-Chin Hong.
2001	The first production plant in Suzhou, China was established
2002	The second production plant in Suzhou, China was established
2003	The second production base (Suzhou Dazhi) began mass production.
2004	Ju Teng Electronics (Shanghai) was acquired to expand the Group's production capacity.
2004	The group established its own mould department in the Suzhou Dazhi plant
2005	Listed on the Main Board of Hong Kong Stock Exchange.
2006	Acquisition of a 70% interest in WIS Precision (a joint venture with Wistron), and acquisition of 36.5% interest in Chengyang Precision Mold.
2007	Increase of equity interest in Chengyang Precision Mold (Kunshan) to 74%.
2008	Increase of equity interest in Chengyang Precision Mold to 100% and acquisition of 71% interest in Lian-Yi Precision (a joint venture with Wistron).
2009	Acquisition of 53.44% interest in Compal Precision Module (a joint venture with Compal).
2009	Listed on the Taiwan Stock Exchange by way of Taiwan depository receipts ("TDR").
2010	Increase of equity interest in Compal Precision Module to 57.62%. Establishment of production plant in Neijiang, China.
2011	Increase of equity interest in Compal Precision Module (Jiangsu) to 59.28%.
2012	Acquisition of plant & equipment of San Li (Taipei).

Source: Deutsche Bank, Company data

Management profile

■ Mr. Cheng Li-Yu (Executive Chairman of the Board)

Mr. Cheng started working at San Li Industrial Company Limited, which is engaged in spray painting, 25 years ago. He is currently also the director of Southern Asia Management Limited.

■ Mr. Tsui Yung Kwok (Chief Financial Officer)

Mr. Tsui Yung Kwok, CPA, is also an Executive Director of Ju Teng. He has over 20 years of experience in accounting and finance. Mr. Tsui holds a master's degree in corporate governance and a bachelor's degree in business (accounting).

■ Mr. Cheng Li-Yu (Executive Director)



Mr. Cheng is one of the founders of the Group. He started working at San Li Industrial Company Limited over 19 years ago and later joined the management of Sunrise Plastic Injection Company Limited in 2000. Mr. Cheng is responsible for the Group's overall management of resource planning, as well as plant expansion, development and construction.

■ **Mr. Hsieh Wan-Fu (Executive Director)**

Mr. Hsieh joined the Group as senior vice president in 2003. He is responsible for the establishment of quality control systems, supervision of the Group's production in spray painting, development of new technology in dust-free spray painting and promotion of the application of relevant technology in dust-free spray painting to customers.

■ **Mr. Huang Kuo-Kuang (Executive Director)**

Mr. Huang joined the Group in February 2001. He is responsible for the Group's daily operations and for overseeing its procurement. He is also responsible for operational management of two of its operating subsidiaries in the PRC, namely Everyday Computer Components (Suzhou) Co., Ltd. (Everyday Computer) and Suzhou Dazhi Communication Accessory Co., Ltd (Suzhou Dazhi).

■ **Mr. Lo Jung-Te (Executive Director)**

Mr. Lo joined the Group as senior vice president in 2004. He is responsible for the supervision and development of the Group's automatic manufacturing processes and investment in manufacturing technology for injection molding development. He also oversees expansion into new markets and product design of non-notebook computer casing.

Shareholding structure

Figure 84: Shareholding structure

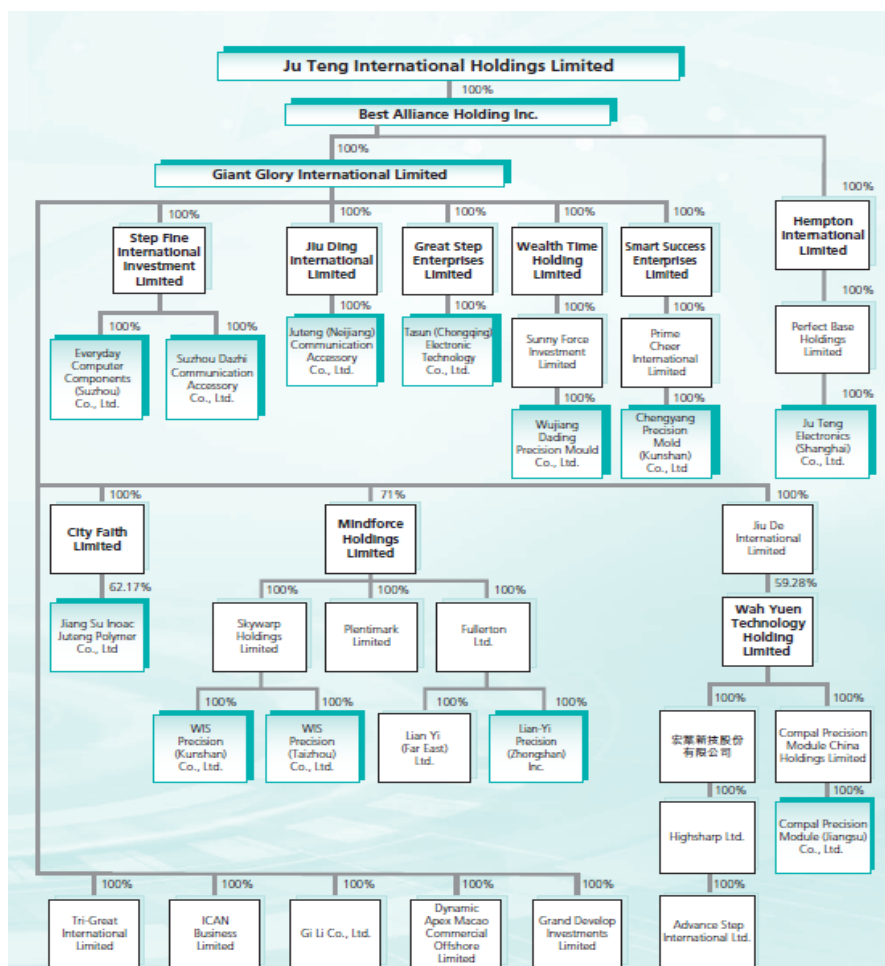
Name	Stake (%)
Southern Asia Management Ltd.	23.4
AllianceBernstein L.P.	5.1
RCM Asia Pacific Ltd.	4.7
Templeton Asset Management Ltd.	4.5
Cheng (Li Yu)	3.1
Dimensional Fund Advisors, L.P.	2.0
CI Investments Inc.	1.1
JK Capital Management Limited	1.0
Lin (Mei Li)	0.9
Norges Bank Investment Management (NBIM)	0.8

Source: Deutsche Bank, Company data, Bloomberg Finance LP



Company's holding structure

Figure 85: Ju Teng's organizational structure



Source: Deutsche Bank, Company data



Rating
Buy

Asia
Hong Kong

Technology
Hardware & Equipment

Company
Tongda Group

Reuters
0698.HK

Bloomberg
698 HK

Price at 19 Sep 2014 (HKD)	1.07
Price target - 12mth (HKD)	1.43
52-week range (HKD)	1.32 - 0.40
HANG SENG INDEX	24,169

Birdy Lu, CFA

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Local leader with high-end skills and solid track record

Local leader with a high-flying client base

We initiate coverage on Tongda with a Buy rating and target price of HKD1.43. Tongda is the leading plastic casing maker for Chinese smartphones. All the leading Chinese brands are its clients. Huawei and Xiaomi are its top-two clients, accounting for 35%-40% of 2H14 sales. We forecast Tongda can post an EPS CAGR of 26% (owing to ASP increase, market share gain and organic growth of its clients) with GPM rising from 22% in 2013 to 24.7% in 2016 (driven by advanced surface treatment technologies and a growing metal casing business). Our 2015/16 EPS forecasts are 5%/12% above consensus.

Long-term ASP upside: consumers want larger, prettier and faster phones

The display size of Chinese smartphones has grown quickly, from sub-3.5" to 5" or even bigger. ASP for plastic casings is correlated to the phone size. Also, the leading Chinese brands are focusing more on the industrial design of their devices (such as Xiaomi's Mi4 and Huawei's P7). As a result, demand is high for unibody metal casing and plastic casing with advanced surface treatments (IML, IMR, IMT, HTVM, etc.). In addition, 4G smartphones are quickly replacing 3G phones in China. An increasing number of Chinese 4G smartphones are using a "plastic casing + LDS antenna" design to save PCB space and reduce signal interference. Tongda has a broad product line and technology portfolio that can fulfill these emerging demands from clients.

Solid track record: not just top-line growth, margin/ROE also trending up

During 2009-13, Tongda posted 19% sales CAGR and 30% EPS CAGR with GPM/OPM/ROE growing from 16.8%/8.4%/7.8% to 22.0%/12.9%/15.3%. Top-line growth is nothing special for the Chinese smartphone supply chain, but consistent YoY margin expansion is a rare case. We attribute this feat to Tongda's continuous product upgrades and aggressive technology migration. We believe the margin/ROE uptrend will continue in 2015 and 2016, given the rising adoption of high-end plastic casings (with LDS antenna and IMT/HTVCM technology), metal casings, and automation efforts.

Trading at an attractive 12x 2015 EPS (0.46 PEG)

Our target price is based on 12x 2015 EPS; 12x FW P/E implies 0.46x PEG, in line with its historical trading average. We expect 2H14 handset casing sales to grow 58% HoH, driven by IMT casings for new Xiaomi phones and metal casings for Huawei (Honor 6/Ascend Mate). Risks include market share loss, price competition and forex fluctuation.

Forecasts And Ratios

Year End Dec 31	2012A	2013A	2014E	2015E	2016E
Sales (HKDm)	3,408.1	3,627.1	4,698.9	5,746.3	6,742.1
EBIT (HKDm)	448.1	467.8	656.1	844.8	1,049.0
Reported EPS FD(HKD)	0.06	0.07	0.09	0.12	0.15
DB EPS FD(HKD)	0.06	0.07	0.09	0.12	0.15
DB EPS growth (%)	18.7	17.2	20.9	32.1	26.2
ROE (%)	15.3	15.9	16.3	17.5	19.3
PER (x)	4.2	6.0	11.8	9.0	7.1

Source: Deutsche Bank estimates, company data

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-4.4	0.0	143.7
HANG SENG INDEX	-3.8	4.3	2.8

Source: Deutsche Bank

Stock data

Market cap (HKDm)	5,902
Market cap (USDm)	762
Shares outstanding (m)	5,465.2
Major shareholders	The Wang family
Free float (%)	65
Avg daily value traded (USDm)	79.1

Source: Deutsche Bank

2015 EPS: DBE vs consensus

(HK mn)	DBE	Bloomberg	% of diff
Sales	5746	5651	2%
Operating profit	845	816	4%
EBITDA	1051	983	7%
EPS (HKD)	0.119	0.113	5%

Source: Deutsche Bank, Bloomberg



Model updated: 19 September 2014

Running the numbers

Asia

Hong Kong

Hardware & Equipment

Tongda Group

Reuters: 0698.HK

Bloomberg: 698 HK

Buy

Price (19 Sep 14)	HKD 1.07
Target Price	HKD 1.43
52 Week range	HKD 0.40 - 1.32
Market Cap (m)	HKDm 5,731
	USDm 739

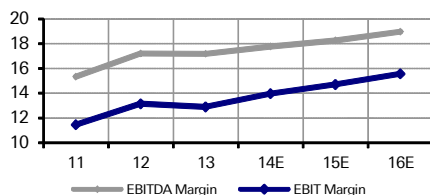
Company Profile

Tongda Group is a leading consumer electronics casing manufacturer for a diversified applications including smartphone, notebook, communication facilities, home appliances, and etc. The company has a diversified customer mix including both international (HP, Dell, Toshiba, Nokia) and Chinese (Xiaomi, Huawei, ZTE, Lenovo, OPPO, TCL, Haier) consumer electronics brands.

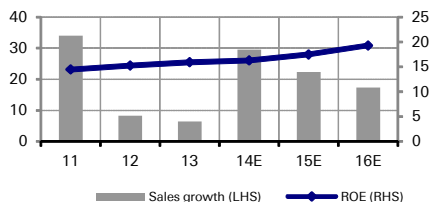
Price Performance



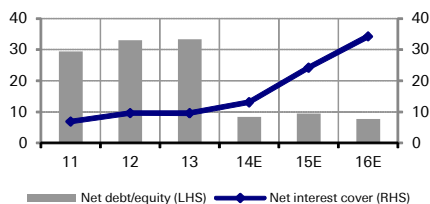
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2011	2012	2013	2014E	2015E	2016E
DB EPS (HKD)	0.05	0.06	0.07	0.09	0.12	0.15
Reported EPS (HKD)	0.05	0.06	0.07	0.09	0.12	0.15
DPS (HKD)	0.02	0.02	0.02	0.03	0.04	0.06
BVPS (HKD)	0.4	0.4	0.5	0.6	0.7	0.8
Weighted average shares (m)	4,678	4,742	4,859	5,356	5,465	5,465
Average market cap (HKDm)	1,312	1,261	2,188	5,731	5,731	5,731
Enterprise value (HKDm)	1,883	2,026	3,079	6,065	6,141	6,109

Valuation Metrics

P/E (DB) (x)	5.2	4.2	6.0	11.8	9.0	7.1
P/E (Reported) (x)	5.2	4.2	6.0	11.8	9.0	7.1
P/BV (x)	0.47	0.82	1.00	1.68	1.47	1.28
FCF Yield (%)	nm	nm	0.0	0.9	1.6	4.6
Dividend Yield (%)	6.1	7.6	5.6	2.8	3.9	5.6
EV/Sales (x)	0.6	0.6	0.8	1.3	1.1	0.9
EV/EBITDA (x)	3.9	3.5	4.9	7.3	5.8	4.8
EV/EBIT (x)	5.2	4.5	6.6	9.2	7.3	5.8

Income Statement (HKDm)

Sales revenue	3,147	3,408	3,627	4,699	5,746	6,742
Gross profit	727	869	953	1,272	1,585	1,893
EBITDA	483	587	623	835	1,051	1,279
Depreciation	122	138	155	179	206	230
Amortisation	0	0	0	0	0	0
EBIT	361	448	468	656	845	1,049
Net interest income(expense)	-52	-47	-49	-50	-35	-31
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	30	2	-1	-5	-5	-5
Profit before tax	338	403	418	601	805	1,013
Income tax expense	77	67	46	108	145	182
Minorities	9	34	9	9	8	8
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	251	302	363	484	652	823
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	251	302	363	484	652	823

Cash Flow (HKDm)

Cash flow from operations	124	138	188	402	396	551
Net Capex	-174	-268	-187	-350	-300	-280
Free cash flow	-49	-130	1	52	96	271
Equity raised/(bought back)	23	25	34	672	0	0
Dividends paid	-80	-95	-121	-163	-228	-329
Net inc/(dec) in borrowings	202	129	82	-134	-134	-152
Other investing/financing cash flows	-26	39	-39	-12	47	83
Net cash flow	70	-32	-44	416	-219	-128
Change in working capital	-249	-303	-331	-261	-461	-502

Balance Sheet (HKDm)

Cash and other liquid assets	254	221	178	593	374	247
Tangible fixed assets	1,112	1,263	1,362	1,532	1,627	1,676
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	51	52	54	64	74	84
Other assets	2,322	2,667	3,064	3,654	4,417	5,176
Total assets	3,739	4,204	4,657	5,844	6,492	7,183
Interest bearing debt	818	947	1,029	895	761	609
Other liabilities	1,005	1,064	1,079	1,366	1,659	1,907
Total liabilities	1,823	2,011	2,108	2,261	2,420	2,516
Shareholders' equity	1,858	2,102	2,455	3,487	3,974	4,567
Minorities	57	91	94	96	98	100
Total shareholders' equity	1,915	2,193	2,549	3,583	4,072	4,667
Net debt	564	726	851	302	386	362

Key Company Metrics

Sales growth (%)	34.0	8.3	6.4	29.5	22.3	17.3
DB EPS growth (%)	16.3	18.7	17.2	20.9	32.1	26.2
EBITDA Margin (%)	15.3	17.2	17.2	17.8	18.3	19.0
EBIT Margin (%)	11.5	13.1	12.9	14.0	14.7	15.6
Payout ratio (%)	31.7	31.5	33.5	33.7	35.0	40.0
ROE (%)	14.5	15.3	15.9	16.3	17.5	19.3
Capex/sales (%)	5.5	7.9	5.2	7.4	5.2	4.2
Capex/depreciation (x)	1.4	1.9	1.2	2.0	1.5	1.2
Net debt/equity (%)	29.5	33.1	33.4	8.4	9.5	7.8
Net interest cover (x)	6.9	9.6	9.6	13.1	24.2	34.2

Source: Company data, Deutsche Bank estimates

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Investment Thesis

Outlook

Tongda is the leading plastic casing maker for Chinese smartphones. All the Chinese leading brands are its clients. Huawei and Xiaomi are the top two accounts, which should claim 35%-40% of 2H14 sales. We forecast that Tongda can post an EPS three-year CAGR of 26% (owing to ASP increase, market share gain and organic growth of its clients) with operating margin rising from 22% in 2013 to 24.7% in 2016 (driven by advanced surface treatment technologies and an increasing metal casing business).

We expect smartphone casing ASP to go up by 2%-4% before 2016, and believe Tongda can benefit from this. Leading Chinese brands are placing more focus on the industrial design of their devices (such as Xiaomi's Mi4, Huawei's P7, etc). As a result, unibody metal casing and plastic casing with advanced surface treatments (IMT, HTVM, etc) are in strong demand. In addition, 4G smartphones are now quickly replacing 3G phones in China. A high percentage of 4G smartphones will use a "plastic casing + LDS antenna" design to reduce signal interference. Tongda has a comprehensive product/technology portfolio that can fulfill all the aforementioned demands from clients.

Near-term share price catalysts: 1) market share gain with Xiaomi (supplying 4+ models in 2H14 vs. only one model in 1H14) and 2) a rising contribution from metal casings (from Huawei and Xiaomi). As a result, we expect 2H14 handset casing sales to grow 58% HoH, with gross margin rising by 0.5ppt HoH.

Valuation

Our target price of HKD1.43 is based on 12x 2015 P/E, which is higher than the stock's historical trading average of 8x over the past four years. We believe Tongda's valuation will be re-rated, given accelerated EPS growth (2014-16 EPS CAGR of 26% vs. 2010-13 EPS CAGR of 17%) and continued ROE expansion (15% in 2013 vs. 19% in 2016). 12x P/E multiple implies 0.46x PEG, which is in line with its historical PEG trading average (8x P/E over 15.3% EPS growth). We use discounted cash flow (DCF) as the secondary valuation methodology. Our three-stage DCF valuation model (with COE of 7.8%, WACC of 6.9%, and perpetual growth of 1%) suggests a fair value of HKD1.6, which is 12% higher than our P/E-based target price.

Risks

Risks to our positive view include: 1) weaker-than-expected demand for PCs and smartphones; 2) aggressive price competition from local competitors; 3) market share loss of its key clients (Huawei, Xiaomi, etc), and 4) forex fluctuation (USD depreciation against RMB).



Valuation and risks

Buy rating with a 12-month target price of HKD1.43

Target price of HKD1.43, based on 12x 2015 P/E (0.46x PEG)

We initiate coverage on Tongda with a Buy rating and set our target price at HKD1.43, which is based on 12x 2015 P/E. We anticipate that Tongda can consistently post 19%-22% YoY sales growth (ASP upside and market share gain) and expand gross margin by 0.5-1.0ppt per annum (better product mix) before 2017. As a result, we forecast Tongda to post an EPS CAGR of 26% (2014-2016).

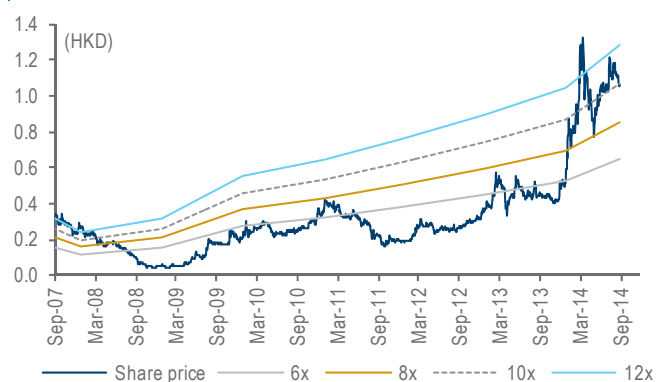
12x P/E is higher than the stock's historical trading average of 8x over the past four years. We believe Tongda's valuation will be re-rated, given accelerated EPS growth (2014-16 EPS CAGR of 26% vs. 2010-13 EPS CAGR of 17%) and continued ROE expansion (15.3% in 2013 vs. 19.0% in 2016). 12x P/E multiple implies 0.46x PEG, which is in line with its historical PEG trading average (8x P/E over 15.3% EPS growth).

12x PER is in line with the trading average of regional handset mechanical component peers.

Key share price catalysts for Tongda include new product launches from key clients (Huawei and Xiaomi) and the rise of the metal casing business, which helps to drive up product ASP and gross margin.

Long-term growth drivers are derived from gross margin expansion (as a result of favorable product mix change), Tongda's market share gain in the Chinese smartphone space, and the organic growth of Chinese smartphones.

Figure 86: Forward P/E band



Source: Deutsche Bank

Figure 87: Forward P/B band



Source: Deutsche Bank

Figure 88: Peer Comparison Table

Name	Ticker	Target price (local cur.)	PX_Last (local cur.)	Market Cap (US\$m)	DB rating	PE		EPS YoY		PB		ROE		Dividend Yield	
						2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Asian components															
Catcher	2474 TT	350	290	7,239	Buy	12.9	10.7	23%	20%	2.5	2.2	21.2%	21.8%	3.1%	3.7%
Casetek	5264 TT	248	181.5	2,035	Buy	11.0	8.8	-8%	24%	2.3	1.9	21.4%	23.3%	4.6%	5.7%
Ju Teng	3336 HK	7.2	4.16	627	Buy	5.8	4.6	9%	27%	0.7	0.6	12.7%	13.9%	3.9%	5.0%
Tongda	0698 HK	1.43	1.06	762	Buy	11.7	8.9	21%	32%	1.7	1.5	16.3%	17.5%	2.9%	3.9%
Foxconn Tech	2354 TT	64	73	3,235	Sell	14.5	13.7	-4%	6%	1.3	1.2	9.3%	9.2%	1.0%	1.1%
BYDE (*)	0285 HK	n.a.	8.09	2,461	NR	13.2	11.5	67%	14%	1.3	1.4	11.2%	11.4%	1.2%	1.3%
Largan	3008 TT	2900	2350	10,509	Buy	17.3	13.0	91%	33%	7.0	5.1	48.6%	45.5%	2.3%	3.5%
AAC	2018 HK	46	45.3	7,288	Hold	18.4	14.3	-5%	29%	5.1	4.1	30.2%	31.8%	2.2%	2.8%
Delta	2308 TT	225	196.5	15,616	Buy	21.3	17.3	25%	23%	5.5	5.0	27.3%	30.3%	3.8%	4.6%
Simplo	6121 TT	178	154.5	1,580	Buy	13.1	11.7	13%	11%	2.3	2.1	18.6%	19.1%	4.6%	5.1%
Average						17.1	13.8	32%	24%	4.5	3.8	28.5%	29.2%	2.9%	3.7%
Asian brands															
Lenovo	992 HK	13.2	12.02	16,553	Buy	17.8	14.6	11%	22%	4.8	4.0	28.5%	30.2%	2.1%	2.6%
Acer	2353 TT	22.5	23.15	2,169	Hold	39.9	31.1	n.a.	28%	1.1	1.0	2.8%	3.3%	0.0%	0.0%
Asustek	2357 TT	260	309	7,594	Sell	11.7	11.9	-9%	-2%	1.6	1.5	14.0%	13.3%	5.8%	5.7%
Average						17.9	15.2	5%	16%	3.6	3.0	22.2%	23.1%	3.0%	3.3%
Asian ODM/EMS															
Hon Hai	2317 TT	116	101	50,784	Buy	12.5	10.6	2%	18%	1.9	1.7	15.6%	17.0%	1.8%	2.1%
Pegatron	4938 TT	73	57.3	4,472	Buy	11.7	9.7	21%	21%	1.2	1.1	10.4%	12.3%	5.8%	7.0%
Quanta	2382 TT	88	78.6	10,108	Buy	14.0	12.5	17%	11%	2.3	2.2	17.1%	17.8%	5.0%	5.6%
Wistron	3231 TT	30	32.3	2,577	Hold	15.0	10.9	-10%	37%	1.3	1.2	8.4%	11.5%	3.3%	4.6%
Compal	2324 TT	26	25.25	3,573	Hold	17.2	9.8	160%	76%	1.2	1.1	6.7%	11.8%	3.2%	5.6%
Average						13.0	10.8	13%	21%	1.9	1.7	14.8%	16.4%	2.6%	3.2%
US peers															
Apple	AAPL US	105	101.58	620,032	Buy	16.1	15.0	11%	8%	5.2	4.6	31.7%	32.1%	1.8%	1.9%
IBM	IBM US	200	192.8	192,491	Hold	10.9	9.8	9%	11%	8.4	6.6	74.1%	76.1%	2.2%	2.4%
HP	HPQ US	40	36.67	69,727	Buy	9.9	9.4	5%	6%	2.3	2.0	18.7%	20.7%	2.3%	2.0%
Average						14.5	13.4	10%	8%	5.7	4.8	39.9%	40.8%	1.9%	2.0%

Source: Deutsche Bank estimates, (price as at 18 September, 2014)
Note: * Consensus forecast according to Bloomberg Finance LP





Alternative valuation – discounted cash flow (DCF)

We use discounted cash flow (DCF) as the secondary valuation metric to value the firm. Our three-stage DCF valuation model (with COE of 7.8%, WACC of 6.9%, and perpetual growth of 1%) suggests a fair value of HKD1.6, which is 12% higher than our P/E-based target price.

Figure 89: Discounted cash flow

Discount free cash flow model (HK\$ mn)									
	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e 0
EBITDA	1,051	1,279	1,435	1,478	1,523	1,568	1,616	1,664	1,714
Less change in working capital	-461	-502	-359	-377	-396	-416	-436	-458	-481
Less capex (& long-term investme)	-300	-280	-300	-315	-331	-347	-365	-383	-402
Less tax	-145	-182	-218	-223	-227	-232	-236	-241	-246
Free cash flow (FCF)	134	305	548	554	559	563	567	571	574
Discount factor	0.97	0.91	0.85	0.80	0.74	0.70	0.65	0.61	0.57
PV of FCF	131	277	467	441	416	392	369	348	327
Corporate Value	8,727								
Debt & Preferred Stock	-895								
Excess Cash	593								
Minority Interest	0								
Equity value	8,425								
Value per share (HK\$)	1.6								
Shares outstanding	5,356								

Assuming a perpetual growth rate of 1.0%

PV of CFs beyond last forecast period

Source: Deutsche Bank

Investment risks and sensitivity analysis

Risks to our positive view could include gross margin decline as a result of intensified competition from local peers and slower-than-expected product upgrades, and/or slower sales growth due to weak demand for smartphones and market share loss.

In order to assess key risks, we have conducted a sensitivity analysis with regard to changes to ASPs and gross margins, and their impact on our 2014 and 2015 EPS assumptions.

Figure 90: 2014 EPS sensitivity analysis

2014E EPS		% change in ASP assumption								
% change in gross margin assumption		-12.0%	-9.0%	-6.0%	-3.0%	0.0%	3.0%	6.0%	9.0%	12.0%
	-2.0%	0.060	0.064	0.067	0.071	0.075	0.079	0.083	0.087	0.091
	-1.5%	0.063	0.067	0.071	0.075	0.079	0.083	0.087	0.090	0.094
	-1.0%	0.066	0.070	0.074	0.078	0.082	0.086	0.090	0.094	0.098
	-0.5%	0.069	0.073	0.077	0.081	0.086	0.090	0.094	0.098	0.102
	0.0%	0.072	0.076	0.080	0.085	0.090	0.093	0.098	0.102	0.106
	0.5%	0.075	0.079	0.084	0.088	0.093	0.097	0.101	0.106	0.110
	1.0%	0.078	0.083	0.087	0.092	0.096	0.101	0.105	0.109	0.114
	1.5%	0.081	0.086	0.090	0.095	0.099	0.104	0.109	0.113	0.118
	2.0%	0.084	0.089	0.094	0.098	0.103	0.108	0.112	0.117	0.122

Source: Deutsche Bank estimates

Note 1: The column and row in blue represent the base-case scenario in our earnings model

Note 2: Other assumptions include: (1) 70% of opex is fixed and 30% is variable (in proportion to sales growth or decline); (2) non-op gain/loss (interest income/expense, forex gain/loss, etc), and tax rate are unchanged in our sensitivity analysis



Figure 91: 2015 EPS sensitivity analysis

2015E EPS		% change in ASP assumption								
% change in gross margin assumption		-12.0%	-9.0%	-6.0%	-3.0%	0.0%	3.0%	6.0%	9.0%	12.0%
	-2.0%	0.083	0.088	0.092	0.097	0.102	0.107	0.112	0.117	0.122
	-1.5%	0.086	0.091	0.096	0.101	0.107	0.112	0.117	0.122	0.127
	-1.0%	0.090	0.095	0.100	0.106	0.111	0.116	0.121	0.126	0.131
	-0.5%	0.094	0.099	0.104	0.110	0.115	0.120	0.126	0.131	0.136
	0.0%	0.098	0.103	0.108	0.114	0.119	0.125	0.130	0.136	0.141
	0.5%	0.101	0.107	0.112	0.118	0.124	0.129	0.135	0.140	0.146
	1.0%	0.105	0.111	0.116	0.122	0.128	0.133	0.139	0.145	0.151
	1.5%	0.109	0.115	0.120	0.126	0.132	0.138	0.144	0.149	0.155
	2.0%	0.113	0.119	0.124	0.130	0.136	0.142	0.148	0.154	0.160

Source: Deutsche Bank estimates

Note 1: The column and row in blue represent the base-case scenario in our earnings model

Note 2: Other assumptions include: (1) 70% of opex is fixed and 30% is variable (in proportion to sales growth or decline); (2) non-op gain/loss (interest income/expense, forex gain/loss, etc), and tax rate are unchanged in our sensitivity analysis



Local leader

Local leader with a high-flying client base

Leading smartphone casing maker for Chinese smartphones

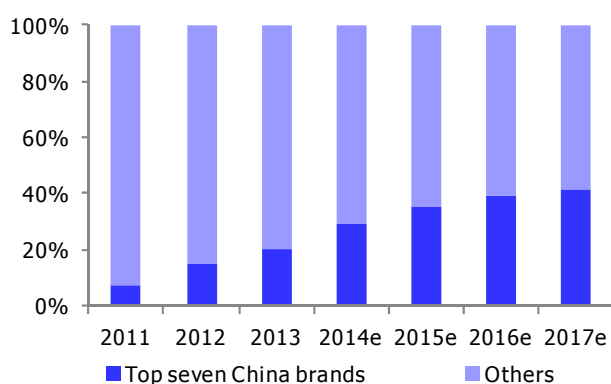
We estimate Tongda has around 15% market share in China for the smartphone casings business. All leading Chinese brands (Huawei, Lenovo, Xiaomi, ZTE, Coolpad, TCL and Oppo) are Tongda's clients. They account for 50%+ of Tongda's total revenue.

Particularly, Tongda is the largest casing supplier for Huawei smartphones with around 30%-40% market share, mainly supplying Huawei's high-end models (Ascend series and European models) and Honor series (Huawei's high cost-performance products to compete with Xiaomi). In addition, Tongda has been quickly gaining market share with Xiaomi since late 2Q14.

Riding on the strong growth momentum of its Chinese clients

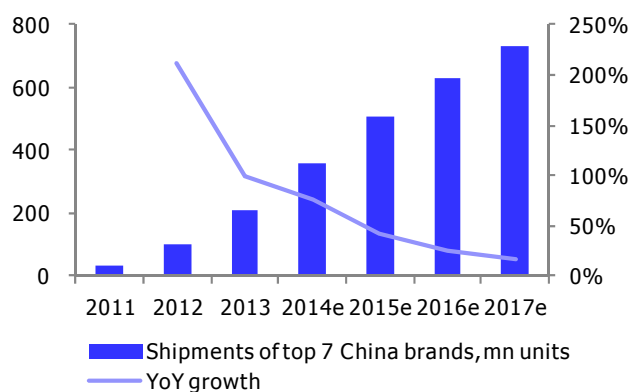
Chinese smartphone vendors have been outgrowing global peers over the past three years, owing to cost advantage, quick time-to-market and a clear focus on high cost/performance devices that appeal to consumers in emerging countries. The combined market share of leading Chinese vendors jumped from 7% in 2011 to 20% in 2013. We estimate their market share will hit 29% in 2014 and approach 40% in 2016.

Figure 92: Global smartphone market share: leading Chinese brands vs. others



Source: Deutsche Bank, Gartner
Note: top seven China brands are Huawei, Lenovo, Xiaomi, ZTE, Coolpad, TCL and Oppo

Figure 93: Shipment growth of top seven Chinese brands



Source: Deutsche Bank, Gartner
Note: top seven China brands are Huawei, Lenovo, Xiaomi, ZTE, Coolpad, TCL and Oppo

Xiaomi, Huawei and metal casings are near-term growth drivers

In 1H14, Tongda's top three clients are Huawei, Lenovo and ZTE, which command ~30%, ~8% and ~8% of Tongda's sales respectively. The sales contribution from the new client, Xiaomi, was very small, as the first project for Xiaomi (RedMi 1S casings) just entered mass production in late 2Q14.

Looking into 2H14, we think that Xiaomi could become Tongda's second-largest client (accounting for 10%-12% of Tongda's sales). Tongda has won more projects, including RedMi 1S, RedMi Note, Mi4 and MiPad, with production quickly ramping since early 3Q14. For 2H14 and 2015, we estimate



Tongda could have about 25% market share for Xiaomi's smartphone/tablet casings.

Tongda derives the majority of its revenues from plastic products. Metal casings only account for 4%-5% of total shipments and 10%-12% of total handset casing sales in 1H14. However, we think that metal casing sales could surge 50%+ HoH in 2H14, driven by new projects from Huawei (Honor 6 and Ascend Mate) and Lenovo. ASP of metal casings is at least 2x higher than that of plastic casings.

The potential industry paradigm shifts to benefit local leader

The history of the tech component industry shows that Japanese firms tend to be the technology innovators and dominate the market in the early stages. However, entering the mass adoption stage, the dominant power will shift to Korean and Taiwanese firms who have better customization and mass production capability. But then, in the final stage of technology maturity, Chinese firms could emerge to be the final winners, leveraging their superior cost structure. We think the smartphone could be soon approaching this final stage, and that history might repeat itself here.

A different kind of entry barrier (for China smartphone business)

Investors might argue that a local leader typically doesn't have the advanced technology and/or innovation capability, compared to global leaders (such as Hon Hai/FIH Mobile, Jabil/Taiwan Green Point, Catcher, Intops, etc). We don't disagree with this.

However, when dealing with Chinese clients, we believe technology/innovation is not the key criterion for winning their orders. After all, they are not yet competing with Apple or Samsung in the premium phone space. Also, their requirement for product quality is not as high as the global brands.

We also think the entry barriers for the Chinese smartphone component business lie in:

- Long-term client relationships – we believe Chinese clients place a higher value on their relationship with their components providers, compared to Western firms.
- Operational flexibility – the product life-cycle of Chinese smartphones could be as short as two to three quarters, vs. three years for iPhone/Galaxy S, or four to five quarters for mid-end phones from global brands.
- Time-to-market – the cycle time of global brands to launch a new model (from the design table to mass production) could take more than a year, but this is as short as four to six months for Chinese brands.

We believe it would be difficult for global peers to compete with a local company like Tongda in these areas.



Larger, prettier and faster smartphones = long-term ASP upside

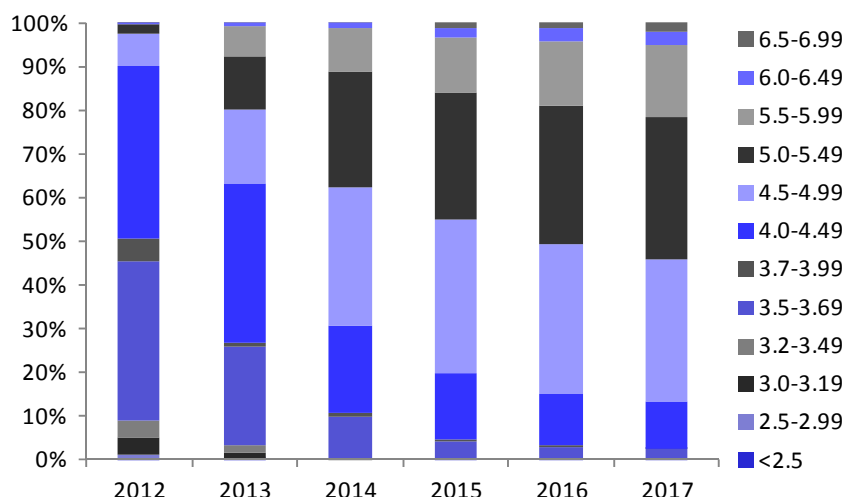
Consumer wants larger, prettier and faster smartphones

We note three emerging trends (with regard to smartphone upgrades) that will help to lift the ASP of smartphone casings in the long term. These trends include large display, better industrial design and the rise of 4G technology (to replace 2G/3G).

Larger phones – smartphones with 5" display are getting popular

The display size of mainstream smartphones (excluding the iPhone) has been growing from 3.5"-4.0" in 2011/2012, and 4.0"-4.5" in 2013 to 4.5"-5.0" in 2014. We believe the size migration will gradually grow to 5.0"-5.5" in 2015 and 2016. A rule of thumb suggests ASPs for plastic casings of 3", 4" and 5" phones are around USD3, USD4 and USD5.

Figure 94: Chinese smartphone market share, by display size



Source: IDC, Deutsche Bank

Prettier smartphones – better surface treatment technologies on premium materials

We believe consumers will be increasingly looking for smartphones with better casings. With smartphone technology maturing, it becomes harder for vendors to differentiate their devices by hard-core specs (such as CPU, memory, display, wireless connectivity, etc). As a result, the exterior design and the build quality of the phones will play a bigger role than ever in product differentiation in the coming years.

This is also true with Chinese brands. Chinese smartphones have long been criticized for being built with cheap materials and not having good industrial design. However, the launch of Xiaomi's Mi4 phone (in August) could change these stereotypes. Compared to its predecessors, the Mi4 looks more like a premium device, by adopting a polished stainless steel frame (made by FIH Mobile) combined with a back cover that uses in-mold decoration (IMD) technology (made by Tongda) to create different texture looks, such as marble, wood, leather, etc.

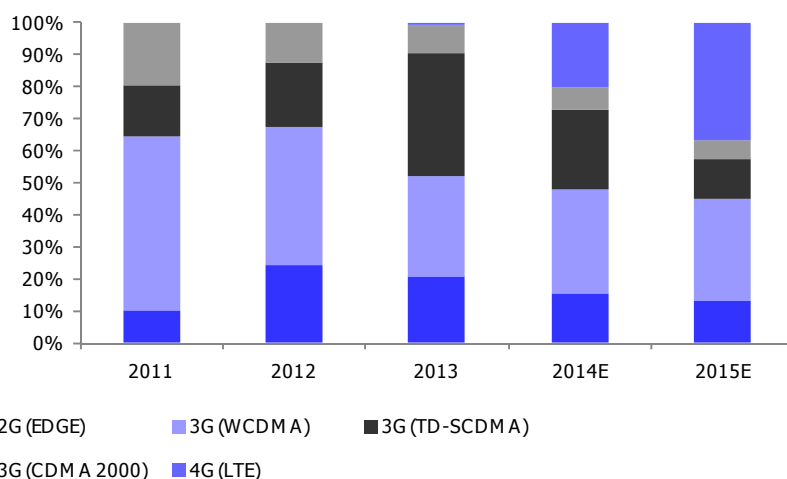


Faster smartphones – 4G LTE smartphone will consume more LDS antenna

4G smartphones will consume 30%+ more antenna than 3G phones, due to the twin supports of MIMO (multiple input/multiple output) technology and wider spectrum/bandwidth (across the globe). A 4G smartphone typically requires at least 6-8 antenna (vs. 4-6 antenna for a 3G phone). To reduce the signal interference resulting from the greater amount of antenna (and also to save total costs), the emerging trend is to use LDS (laser direct structuring) antenna that are printed directly on the inner side of a smartphone casing.

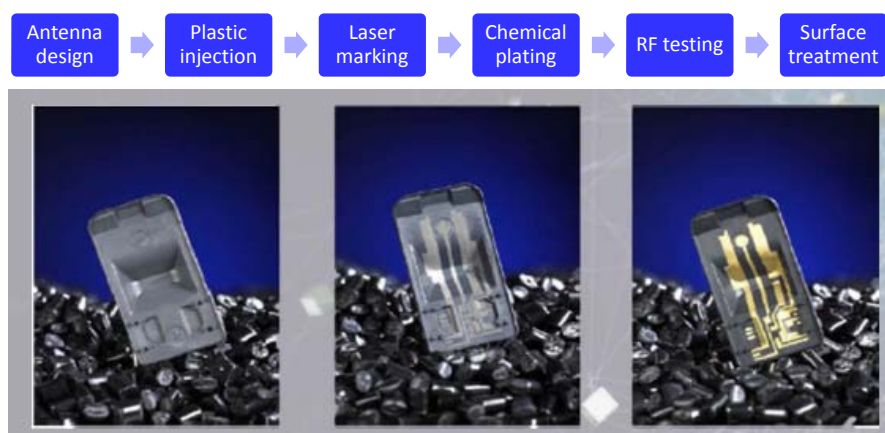
This LDS antenna trend opens a window of opportunity for casing makers. Tongda's LDS + plastic casing product was qualified by key clients (Huawei, Xiaomi, etc) in late 2013 or 1H14, and it will start mass production for their 4G smartphones in 2H14.

Figure 95: China smartphone breakdown by air interface



Source: Deutsche Bank

Figure 96: LDS antenna and manufacturing process



Source: Company data, Deutsche Bank



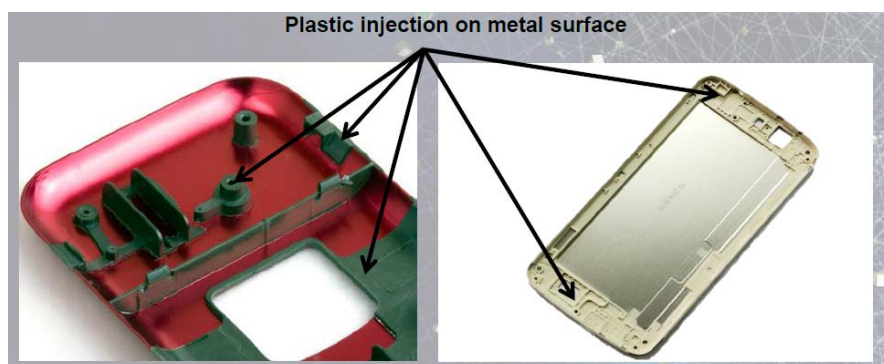
4G LTE smartphone sales in China were slower than expected in 2H14, due to the lack of infrastructure. In addition, the price for 4G smartphones was not cheap enough to entice mass adoption. However, we expect demand to take off in 2H14. The launch of new LTE SoC solutions from Qualcomm and Mediatek could reduce the price gap (between 3G and 4G phones) to 10%-15% in 2H14 from 20%-30% in 1H14. In addition, the 4G infrastructure is expected to cover more tier-two and tier-three cities by the end of the year.

Tongda offers a total solution to address emerging demands from clients

As a dedicated casing maker, Tongda has built a comprehensive product and technology portfolio to provide a one-stop shopping service.

- **In terms of casing materials:** Tongda can produce casings made by plastic, glass (for back-cover) and metals (for inner frames, external frames and back-cover).
- **In terms of material forming technology:** Aside from traditional plastic injection, Tongda can also perform extrusion/stamping for aluminum, MIM (Metal Injection Molding) for steel, and in-mold injection/NMT (Nano Molding Technology) for the connection of metal and plastic materials. In addition, Tongda has 500 CNC machines (most of these are high-precision Japanese machines) for the second operation on metal products.
- **In terms of surface treatment:** Compared to key competitors, Tongda's key strength is in the surface treatment of plastic casings. Aside from traditional painting and coating, Tongda also offers IML (in molding label), IMR (in-molding roller), IMT (in-molding transfer = IML + IMR), and HTVM (High Texture Vacuum Metallization). The combination of these technologies can generate different texture patterns with different touch (piano finish, diamond finish, soft touch, leather touch, etc). For metal products, Tongda offers general solutions, such as painting, electroplating and anodizing.

Figure 97: NMT – an adhesion technology that joins plastic pieces and metal casing (or the other way around)



Source: Company data, Deutsche Bank



Figure 98: Plastic casings with IMT technology to generate different texture pattern



Source: Company data, Deutsche Bank

Figure 99: Plastic casings with HTCMT technology to generate different surface finish and touch



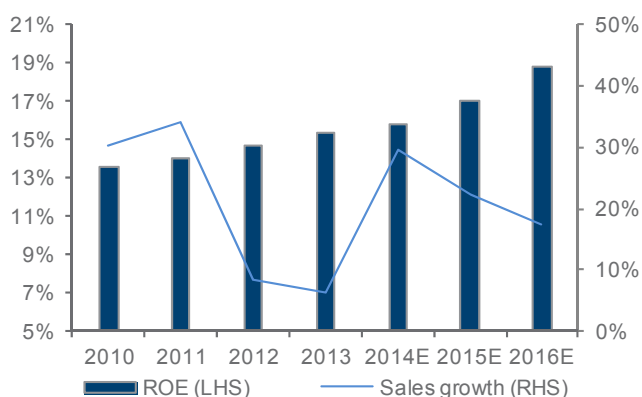
Source: Company data, Deutsche Bank

A China smartphone play with both volume and ASP/margin upside

Solid track records of consistent top-line growth and margin expansion

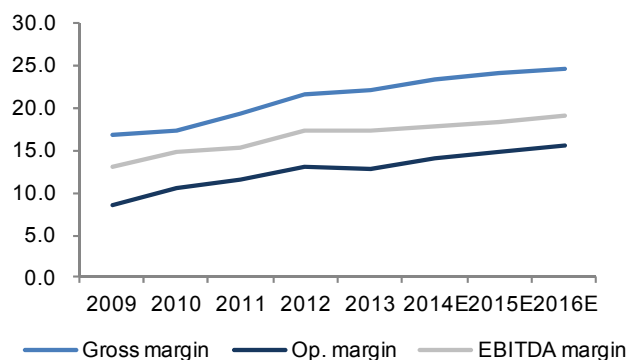
Tongda posted 19% sales CAGR and 30% EPS CAGR during 2009 to 2013, driven by the industry's organic growth and its own market share gain. Meanwhile, Tongda's gross margin, operating margin, and EBITDA margin have been consistently trending up, owing to better product mix and a rising contribution from high value-added casings (IML/IMD casings, MIM components, etc). As a result, ROE expanded from 8% in 2009 to 15% in 2013.

Figure 100: Sales growth with ROE expansion



Source: Company data, Deutsche Bank

Figure 101: Margins on the uptrend



Source: Company data, Deutsche Bank

We expect ASP and margin uptrend to continue in coming years

On the back of a solid track record over a long time, we feel comfortable to assume that Tongda's ASP and margin will continue to trend up in 2015-2016, driven by 1) more clients asking for casings with advanced surface treatment



technologies (IMT and HTVM casings), 2) the rising contribution from metal casings (as the primary metal casing supplier for Huawei) which has a higher gross margin than plastic casings, and 3) continued improvement in production yield rate and efficiency through process automation.

In our earnings model, we expect Tongda's like-for-like ASP to grow by 1%-2% per annum. We also expect its gross margin and operating margin to grow from 22.0% and 12.9% in 2013 to 24.7% and 15.6% in 2016.

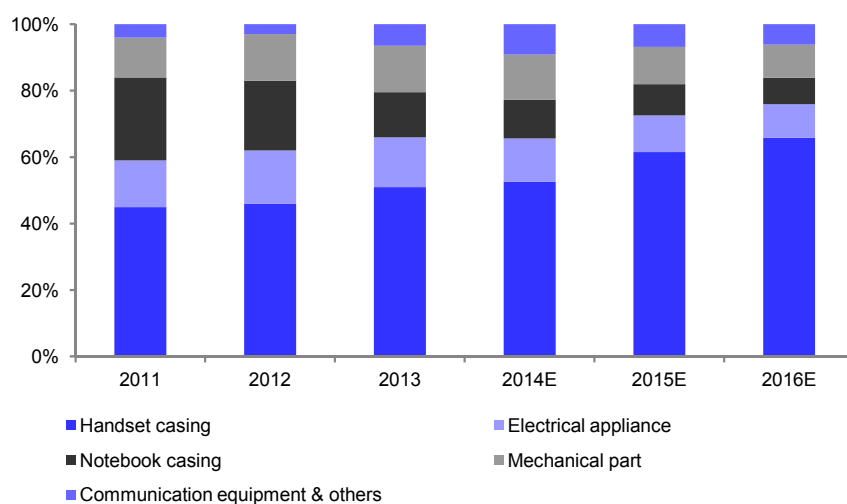
Updates on other businesses

A diversified consumer electronics casing manufacturer

Aside from handset casing, Tongda also make casings and mechanical parts for notebooks, home appliances (air conditioners, fans, refrigerators, washing machines, etc), and communication equipment (set-top boxes, broadband modems, home gateways, etc).

- NB PC casings (11%-13% of sales): key clients are Lenovo, Toshiba, NEC, Fujitsu and HP.
- Home appliance casings (12%-14% of sales): key clients include Haier, Gree, Midea, Panasonic, Electrolux and Dyson.
- Metal mechanical parts, mainly for home appliances (12%-14% of sales): key clients include Gree, Haier, and Midea.
- Casings for communication devices and others (8%-10% of sales): key clients include Cisco, Pace, Ikea and Decathlon.

Figure 102: Well-diversified product sales mix



Source: Company data, Deutsche Bank



Non-handset business: stable cash cow in the long-run

Non-handset business is relatively mature vs. mobile devices. We view the business as a stable cash cow in the long-run (flattish growth with stable gross margin of 20%-22%).

We forecast Tongda's NB PC casing business to post a low single-digit YoY decline in the coming years. Despite having the fast-growing Lenovo as the key client for this business, we believe it is hard for Tongda to defy the long-term declining trend of the industry.

We expect Tongda could deliver mid single-digit sales growth from home appliance-related products. Home appliance is not a growing business from a global perspective. However, Tongda has high sales exposure to leading Chinese brands (Hair, Cree, Midea, etc), which will still enjoy high single-digit growth from the domestic market. In addition, we notice that local brands are increasingly adopting premium casings (such as IML plastic casings with HTVM coating), in order to make their home appliances look prettier and shinier. This will help to increase ASP.

Figure 103: Delicate home appliance products



Source: Company data, Deutsche Bank

Figure 104: IML technology with ITO touch casing



Source: Company data, Deutsche Bank



2014 outlook – a back-end loaded year

Solid YoY growth, despite weaker than expected 4G demand in China

Tongda reported 1H14 net profit of HKD167m (-27% HoH; +29% YoY) and operating profit of HKD270m (-3 % HoH: +42% YoY) on sales of HKD2.1bn (+9% HoH; +24% YoY). 1H14 sales were slightly lower than the Street estimate, owing to weaker-than-expected 4G smartphone demand in China. However, operating profit was in line, owing to strong gross margin.

Tongda was qualified by Xiaomi as a casing supplier in 1Q14, and started to ship plastic casings for Redmi 1S in late 2Q14. However, owing to the relatively tiny shipment at the initial stage, the contribution from Xiaomi was less than 2% in 1H14.

Figure 105: 1H14 P&L snapshot

HKD m	1H14A	2H13	HoH	1H13	YoY
Sales	2,101	1,937	8.5%	1,690	24.3%
Gross profits	482	442	9.0%	356	35.4%
Op. profits	270	277	-2.5%	190	42.1%
Non-op	-35	-37	-5.4%	-15	133.3%
Pre-tax income	235	240	-2.1%	175	34.3%
Net profit	167	230	-27.4%	130	28.5%
EPS (HKD)	0.03	0.04	-27.4%	0.02	28.5%
Margin analysis					
Gross margin	23.0%	22.8%		21.1%	
Operating margin	12.9%	14.3%		11.2%	
Net margin	7.9%	11.9%		7.7%	

Source: Deutsche Bank

2H14 outlook – accelerating momentum on multiple growth drivers ahead

We anticipate Tongda to post net profit of HKD317m (+90% HoH, +38% YoY) and operating profit of HKD386m (+43% HoH, +39% YoY) on sales of HKD2.6bn (+24% HoH, +34% YoY). We forecast GM to increase to 23.5% in 2H14 (+0.5pt HoH) on enlarged sales scale and sequential product mix improvement.

We see several growth drivers in 2H14, including:

- **Robust handset casing order from Xiaomi:** Tongda will start to ship casings to Xiaomi's Redmi Note, Mi Pad, Mi4 in 2H14, we expect its order allocation to ramp up to around 25% (vs. less than 5% in 1H14). Therefore, we forecast significant handset sales growth to boost margin expansion in 2H14.
- **Benefiting from rising 4G smartphone demand in China:** We expect 4G smartphone demand to trend up in 2H14 off a low base in 1H14, which will create strong demand for LDS antennae. Tongda will provide the "plastic casing + LDS antenna" total solution to Huawei, Xiaomi and some other clients.
- **Better operating leverage:** Currently, Tongda has around 300 CNC machines, and it plans to acquire an additional 200 units of CNC machines this year to increase the metal casing capacity. The ramp-up of metal casing revenue will act as a new catalyst to its margin. We



believe the better operating leverage stemming from enlarged production scale will mitigate market concern on increased depreciation expense on its recent aggressive capex expansion.

Figure 106: Semi-annual P&L highlights and sales breakdown

	1H13	2H13	2,013	1H14	2H14E	2014E	1H15	2H15	2015E
Sales	1,690	1,937	3,627	2,101	2,598	4,699	2,564	3,182	5,746
Gross profits	356	442	798	482	611	1,093	604	775	1,379
Op. profits	190	277	468	270	386	656	352	493	845
Non-op	-15	-38	-53	-35	-20	-55	-20	-20	-40
Pre-tax income	175	240	415	235	366	601	332	473	805
Net profit	130	230	360	167	317	484	265	387	652
EPS (HKD)	0.03	0.05	0.07	0.03	0.06	0.09	0.05	0.07	0.13
Margin Analysis (%)									
Gross profits	21.0	22.8	22.0	23.0	23.5	23.3	23.5	24.4	24.0
Op. profits	11.3	14.3	12.9	12.9	14.9	14.0	13.7	15.5	14.7
Pre-tax income	10.4	12.4	11.4	11.2	14.1	12.8	12.9	14.9	14.0
Tax rate	25.7	4.1	13.3	29.0	13.4	19.5	20.0	18.3	19.0
YoY growth (%)									
Sales	21%	-4%	6%	24%	34%	30%	22%	23%	22%
Gross profits	15%	5%	9%	36%	38%	37%	25%	27%	26%
Op. profits	10%	1%	4%	42%	39%	40%	30%	28%	29%
Pre-tax income	12%	-2%	4%	34%	53%	45%	41%	29%	34%
Net profit	15%	23%	20%	28%	38%	34%	59%	22%	35%
HoH growth (%)									
Sales	-16%	15%		8%	24%		-1%	24%	
Gross profits	-16%	24%		9%	27%		-1%	28%	
Op. profits	-31%	46%		-3%	43%		-9%	40%	
Pre-tax income	-28%	37%		-2%	55%		-9%	43%	
Net profit	-30%	76%		-27%	90%		-16%	46%	
Sales breakdown									
Handset casing	48.7%	53.0%	51.0%	45.6%	58.3%	52.6%	60.3%	62.6%	61.6%
Electrical appliance	16.0%	14.1%	15.0%	15.4%	11.2%	13.1%	12.7%	9.7%	11.1%
Notebook casing	13.2%	13.8%	13.5%	13.7%	9.7%	11.5%	8.1%	10.4%	9.4%
Mechanical part	13.3%	14.6%	14.0%	14.9%	12.7%	13.7%	11.4%	11.0%	11.2%
Communication equipment & others	8.8%	4.5%	6.5%	10.4%	8.2%	9.2%	7.4%	6.3%	6.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, Deutsche Bank

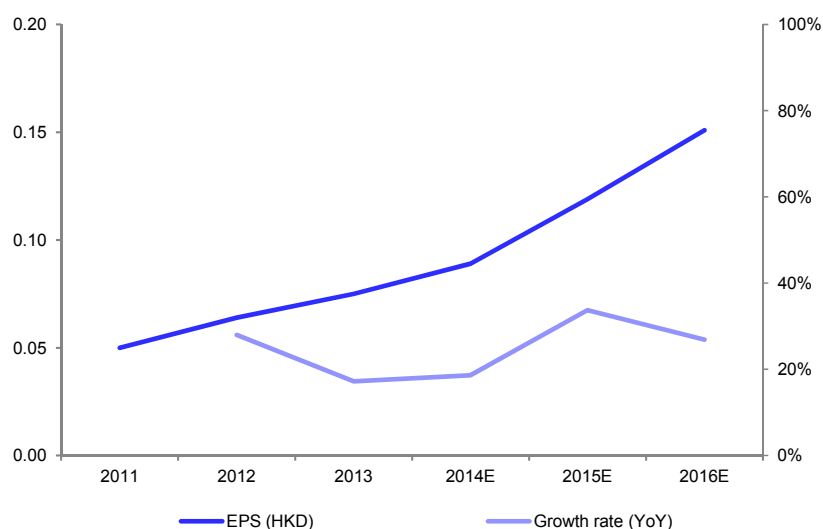


Financial analysis

Meaningful earning growth outlook

We forecast a meaningful earning growth CAGR of 26% in 2014-2016E, driven by 1) significant top-line growth, 2) sequential margin expansion on product mix improvement, and 3) better cost control ability. We expect a rising sales contribution from smartphone casing business which carries a higher margin (~28% vs. corporate average of 24-25%) to boost its earnings growth going forward. As such, we anticipate its net profits to hit HKD823m (EPS of HKD0.15) in 2016E compared to only HKD484m in 2014E (EPS of HKD0.09).

Figure 107: Tongda's EPS forecast



Source: Deutsche Bank, Company data

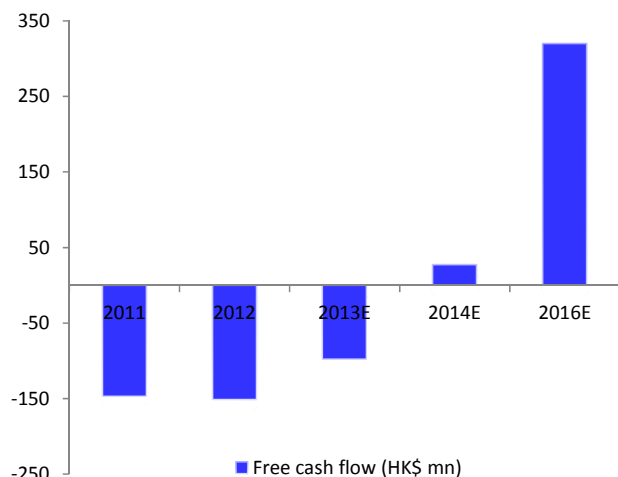
Improving financial structure and cash flow

Tongda plans to allocate capex of HKD350m in 2014E in order to expand its CNC machine capacity metal casings business. The company anticipates 2015E capex could come down slightly YoY. We are comfortable with Tongda's current capex level, and expect its 2014 free cash flow to turn positive for the first time in the past five years, on improving working capital management on top of the strong net profit growth.

Also, Tongda issued 600m new shares (priced at HKD1.12) in March, which further boosted its cash position. As a result of all these efforts, we expect its net debt/equity ratio to decline significantly to 9% in 2014E vs. 33% in 2013. Tongda's management team highlights that they don't have any equity fund raising plan in the coming two years, after the completion of the March 2014 deal.

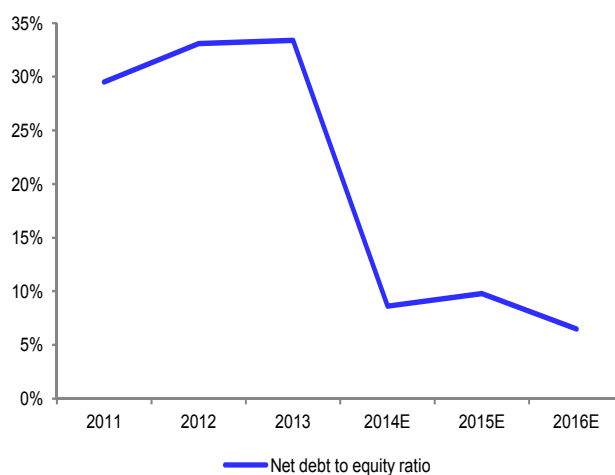


Figure 108: Improving free cash flow



Source: Company data, Deutsche Bank

Figure 109: Net debt to equity ratio forecast

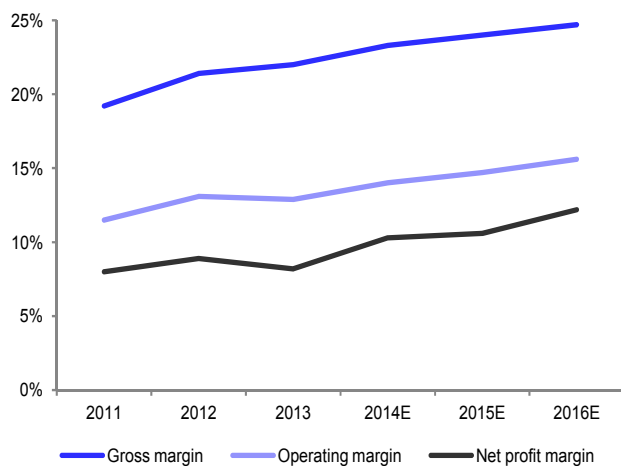


Source: Company data, Deutsche Bank

Stable ROE improvement on persistent margin expansion

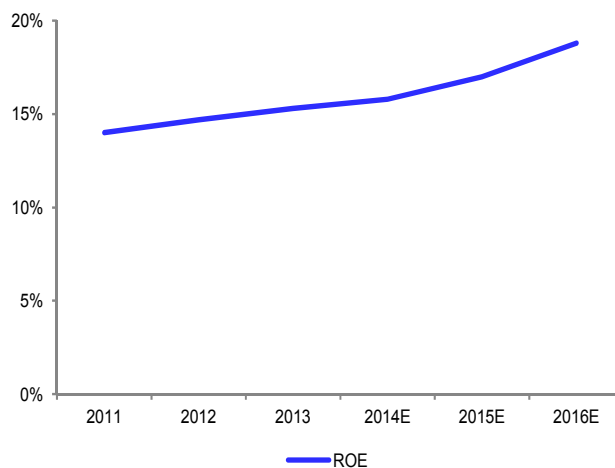
We expect Tongda Group's ROE to ramp up to 18.8% in 2016E vs. 15.3% in 2013, thanks to persistent margin expansion. We anticipate net profit margin to trend up to 12.5% in 2016E compared to 10% in 2013 on 1) enlarged sales scale, and 2) rising contribution from the high-margin smartphone metal casing business.

Figure 110: Persistent margin expansion



Source: Company data, Deutsche Bank

Figure 111: Stable ROE improvement



Source: Company data, Deutsche Bank



SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ► Superior casing technology: Tongda is a leading casing manufacturing with superior self-developed technology including in-mould lamination (IML), in-mould decoration (IMD), and laminated metal filming (LMF), which can meet a variety of customer demands. ► Automated manufacturing process: The company has established automated production lines for its casing products, which enhances both quality and manufacturing efficiency. ► Diversified product mix: Tongda offers various casing products for applications including handset, notebook, electrical appliance, and communication equipment, which can mitigate product concentration risk. 	<ul style="list-style-type: none"> ► Heavy capex investment: Due to the complexity of mechanical casing design which increases the cycle time and CNC usage, substantial capex investment on CNC acquisition remains a concern for Tongda.
Opportunities	Threats
<ul style="list-style-type: none"> ► Tongda has established a solid relationship with leading Chinese smartphone vendors, including Xiaomi, Huawei, and Lenovo. The company is set to benefit from robust orders from these customers, given its major customers' promising growth outlook in both overseas and domestic smartphone markets. ► Tongda has developed its LDS technology recently and may become one of the few beneficiaries able to meet robust antenna demand on the proliferation of 4G smartphone in China. 	<ul style="list-style-type: none"> ► Competition from new casing material: To differentiate their products from peers, brands customers may try to adopt new casing material (carbon fiber, glass fiber, and composite material) which could be a potential threat to traditional (metal and plastic) casing makers.



Company basics

Company background

Established in 1988 and listed in Hong Kong in 2000, Tongda is a leading consumer electronics casing manufacturer for a diversified range of applications including smartphones, notebooks, communication facilities, home appliances, etc. The company has a wide customer mix including both international (HP, Dell, Toshiba, Nokia) and Chinese (Xiaomi, Huawei, ZTE, Lenovo, OPPO, TCL, Haier) consumer electronics brands. In 2014, we forecast handset casings to contribute 53% of its total revenue, followed by electronic appliances (12-14%), notebook casings (11-13%), mechanical parts (13-15%), and communication equipment & others (8-10%).

Figure 112: Company milestones

- 1978 Founders of Tongda Group started the business by establishing an ironware & plastic factory
- 1988 Established a Chinese-Foreign joint venture, Tongda Electronic Company Limited
- 1988 Founded Tongda Electrics Company Limited
- 1988 Invested in construction of Fujian Shishi Shihu Port Tongda Industrial Zone as production base of plastic casing.
- 2000 Established Tongda Group Holdings Limited.
- 2000 Listed on Hong Kong Stock Exchange (listing code: 698.HK) on 20 December.
- 2002 Established Tongda Ironware (Shenzhen) Company Limited Constructed an industrial zone for production of ironware components.
- 2003 Established Xiamen Tongda Technology Company Limited Constructed an industrial zone for production of handset and telecommunication components.
- 2010 Established HT Technology (Suzhou) Company Limited Constructed an industrial zone for production of notebook computer components.
- 2013 Established R&D centres in Jiufu Development Zone, Shanghai, and Zuoying District, Kaohsiung City, Taiwan, for the development of LDS antenna.
- 2013 Constructed a new factory in Shuitou Town, Nan'an City, mainly for production of telecommunication components with LDS antenna.

Source: Deutsche Bank, Company data

Management profile

Mr. Wang Ya Nan (Chief Executive Officer of the Group)

Mr. Wang Ya Nan is Executive Chairman of the Board, and also the Chief Executive Officer of Tongda. Mr. Wang is responsible for the overall strategic planning and business development of the Group, including the development of overseas markets. Mr. Wang joined the Group in December 1988 and has over 20 years of experience in the electronics and electrical industry.

Mr. Wang Ya Hua (General Manager of the Group)

Mr. Wang Ya Hua is Vice Chairman of the Board, General Manager of the Group of Tongda. Mr. Wang is responsible for the overall management of the Group with special focus on product development, preparation and monitoring of annual production plans and operating budget. Mr. Wang is also required to give direction to the day-to-day operations of the operation unit located at Xiamen, Fujian Province. He joined the Group in December 1988 and has over 20 years of experience in the electronics and electrical industry.



Mr. Wong Ah Yeung (Deputy General Manager of the Group)

Mr. Wong Ah Yeung is Executive Director, Deputy General Manager of the Group. Mr. Wong is the general manager of Tongda Ironware (Shenzhen) Company Limited ("Tongda Ironware"). Mr. Wong is responsible for overseeing the operations unit of the Group in Shenzhen, Guangdong. Mr. Wong joined the Group in December 1988 and has over 20 years' experience in the ironware and electrical industry.

Mr. Wong Ah Yu (Deputy General Manager of the Group)

Mr. Wong Ah Yu is Executive Director, Deputy General Manager of the Group of Tongda. Mr. Wong is general manager of Tongda Electrics Company Limited, Shishi City, Fujian. Mr. Wong is responsible for overseeing the operations unit of the Group in Shishi city, Fujian Province ("Shishi"). Mr. Wong joined the Group in December 1988 and has over 20 years' experience in the electronics and electrical industry.

Figure 113: Tongda's top-10 shareholders

Name	Stake (%)
Wang (Ya Nan)	10.16
Choi (Wai Sang)	1.89
CCB International Asset Management Limited	1.25
Wong (Ah Yeung)	1.24
Wong (Ah Yu)	1.12
Wang (Ya Hua)	1.02
Dimensional Fund Advisors, L.P.	0.48
HSBC Global Asset Management (Hong Kong) Limited	0.45
Wang (Ming Che)	0.29
Pheim Asset Management (Asia) Pte. Ltd.	0.24
Nomura Asset Management Hong Kong Ltd.	0.24

Source: Deutsche Bank, Company data



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Ju Teng	3336.HK	4.35 (HKD) 19 Sep 14	NA
Casetek	5264.TW	184.00 (TWD) 19 Sep 14	NA
Catcher Technology	2474.TW	298.50 (TWD) 19 Sep 14	NA
Tongda Group	0698.HK	1.06 (HKD) 19 Sep 14	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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

(as of 9/19/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

Historical recommendations and target price: Casetek (5264.TW)

(as of 9/19/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

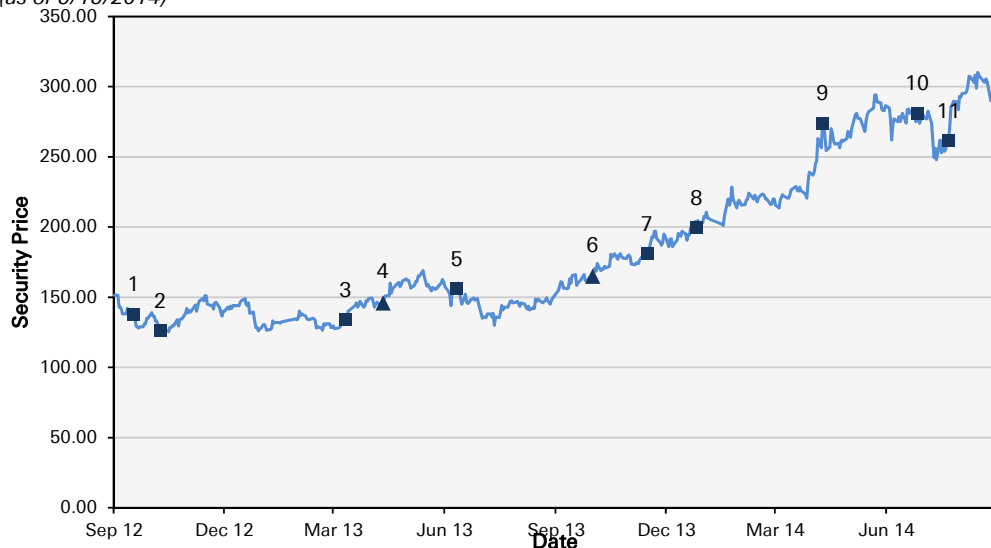
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002



Historical recommendations and target price: Catcher Technology (2474.TW)

(as of 9/19/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002

1. 07/10/2012:	Hold, Target Price Change TWD150.00	7. 05/12/2013:	Buy, Target Price Change TWD230.00
2. 29/10/2012:	Hold, Target Price Change TWD136.00	8. 15/01/2014:	Buy, Target Price Change TWD240.00
3. 31/03/2013:	Hold, Target Price Change TWD150.00	9. 29/04/2014:	Buy, Target Price Change TWD325.00
4. 01/05/2013:	Upgrade to Buy, Target Price Change TWD178.00	10. 16/07/2014:	Buy, Target Price Change TWD333.00
5. 01/07/2013:	No Recommendation, Target Price Change TWD0.00	11. 11/08/2014:	Buy, Target Price Change TWD350.00
6. 21/10/2013:	Upgrade to Buy, Target Price Change TWD215.00		

Historical recommendations and target price: Tongda Group (0698.HK)

(as of 9/19/2014)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure
as of September 9, 2002



Equity rating key

Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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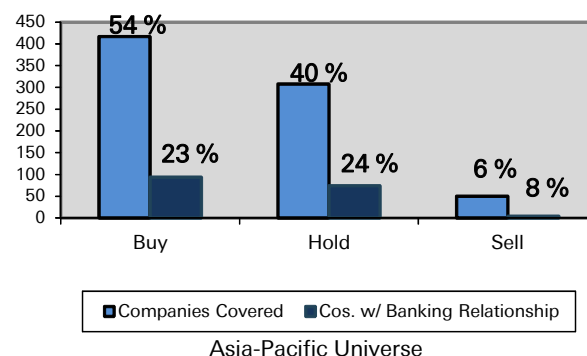
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Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships





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