

Trigiant Group (1300.HK)

“Buy” rating for underestimated value

Bloomberg | Reuters | POEMS

1300.HK | 1300.HK | 1300.HK

Industry: Telecom Equipment



Phillip Securities (Hong Kong) Ltd

Phillip Securities Research

2014-4-28

Annual report review

Rating: Buy CP: HK\$2.43 TP: HK\$3.00

Company Overview

Founded in 2007, Trigiant is a leading domestic vendor engaged in production of RF coaxial cable. It ranks the first place in sales volume of RF cable products with the market share of 25%. So far, the company's products have been extensively applied in telecom operators, service suppliers, and main equipment manufacturers' transmission systems. In addition to selling products to its main customers like domestic three major telecom operators and telecom equipment vendors (including ZTE and Huawei), the company also exports its products to overseas market.

Investment Summary

According to the financial statement of 2013, Trigiant achieved RMB 2.46 billion yuan (the same below) of turnover with 10.2% growth rate, and its net profit increased 24.3% to 0.31 billion yuan, converting into EPS of 0.31 yuan. It also declared dividend per share of HK\$0.14 for 2013 with the dividend payout ratio of 39%.

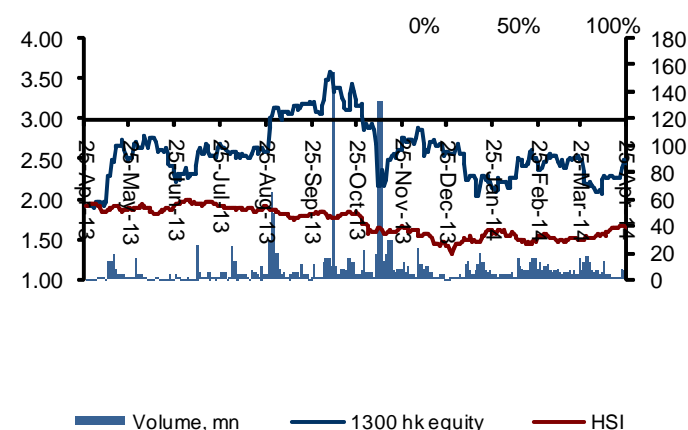
Turnover expanding gently is mainly because the licensing of 4G was later than expected, and the sales volume of radio-frequency coaxial cable was about 128 thousand kilometers, an increase by 11.5% on year-on-year basis. Meanwhile, the average price of copper, the main raw material, decreased by 6.8%, and the pricing of the company was cost-plus mode. In addition, in order to expand the market share, the company also strategically decreased the order price of flame-retardant flexible cables.

The net profit growth greatly exceeded the gross profit, which mainly benefited from the effective cost management and the decrease of financing cost. Although the R&D cost greatly increased by about 65.5% due to 4G network construction, the Group implemented internal cost management to make the sales cost and distribution cost decrease by about 12.4%. In addition, with the benefits from share allotment financing, the financing cost also greatly decreased by 31.2%. Finally, the net profit margin increased by 1.5 percent points to 12.8%.

The radio-frequency coaxial cable, the core product of the company, is the essential component to transport mobile signals in the base stations, and the optical cables can't be replaced. It is worth mentioning that every 2G and 3G base station requires using about 0.5 kilometer of cables, while every 4G base station requires using at least 0.5 kilometer of cables, even 0.6 kilometer of cables. Therefore, 4G investment speeding up will bring practical demand expansion to the company. Currently, 40% of radio-frequency coaxial cables are used in base station construction.

Trigiant Group

Rating	1.00	Buy
- Previous Rating	2.00	Accumulate
Target Price (HKD)	3	
- Previous Target Price (HKD)	4	
Closing Price (HKD)	2.43	
Expected Capital Gains (%)	23.5%	
Expected Dividend Yield (%)	5.3%	
Expected Total Return (%)	28.8%	
Raw Beta (Past 2yrs w weekly data)	0.56	
Market Cap. (HKD bn)	2,709	
Enterprise Value (HKD mn)	2,916	
52 week range (HKD)	1.42 - 3.65	
Closing Price in 52 week range		



Key Financial Summary

FYE	2012	2013	2014F	2015F
Revenue (RMB mn)	2231	2458	2999	3742
Net Profit, adj. (RMB mn)	252	314	384	493
EPS, adj. (RMB)	0.26	0.31	0.34	0.40
P/E (X),adj.	7.3	6.3	5.7	4.8
BVPS (RMB)	1.00	1.35	1.86	2.17
P/B (X)	1.9	1.4	1.0	0.9
DPS (HK\$)	0.10	0.14	0.13	0.15
Div. Yield (%)	4.1%	5.8%	5.3%	6.3%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E (X)

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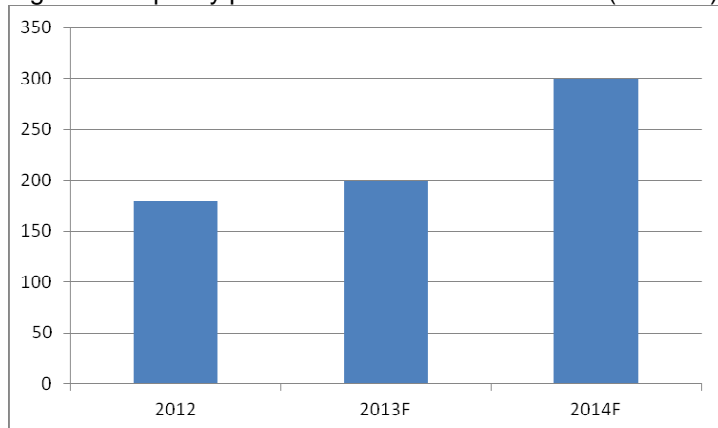
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In addition, the main clients of the company's flame-retardant flexible cables business are China Unicom and China Telecom, respectively accounting for 80% and 20% of the sales proportion of the company. In 2014, the company expects to introduce China Mobile to be the downstream customer of this business, and it is likely to further promote the growth certainty of this business. In 2013, the turnover of flame-retardant flexible cables business greatly increased by 58%, which was far higher than radio-frequency coaxial cables (4%), and increased by 6.1 percent points to 20.4% of the total revenue.

After the last allotment, the asset-liability ratio of the company decreased by 8 percent points. If 0.2 billion warrant shares allotment accomplishes successfully this time, the asset-liability ratio is expected to decrease by over 15 percent points again and the capital structure will be improved obviously. Meanwhile, the finance burden will also fall off obviously.

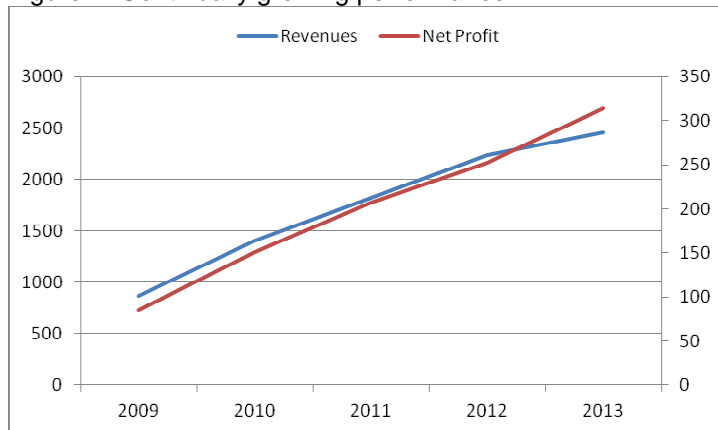
Currently the valuation of the company is just about 6-7 times compared with EPS of 2013, which doesn't correspond with its growth. Even we assume that the PE ratio valuation is 7 times that of EPS in 2014, the target price can reach 3 HKD, which is "Buy" rating.

Figure 1: Capacity plan for RF coaxial cable series ('000 km)



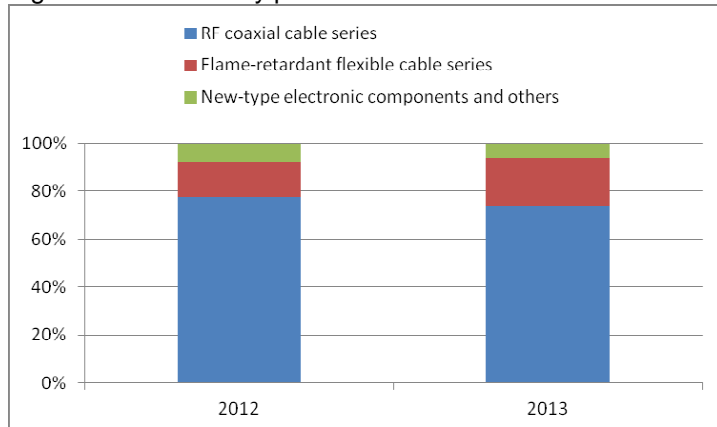
Sources: Company reports, Phillip Securities

Figure 2: Continually growing performance



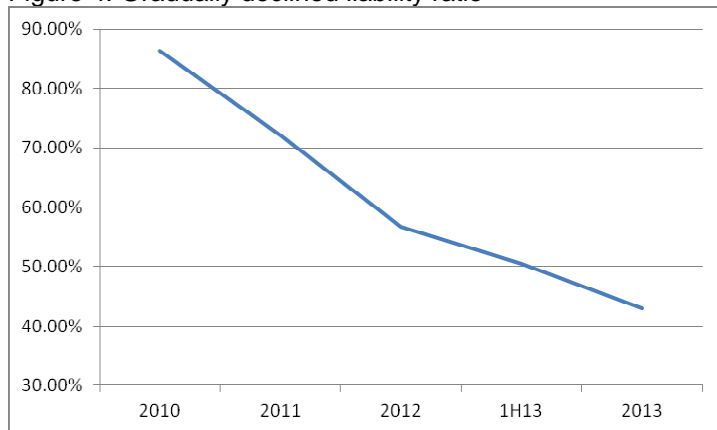
Sources: Company reports, Phillip Securities

Figure 3 Revenues by products



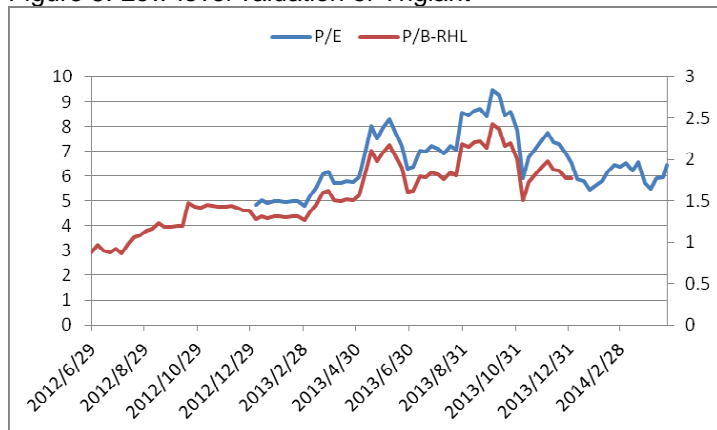
Sources: Company reports, Phillip Securities

Figure 4: Gradually declined liability ratio



Sources: Company reports, Phillip Securities

Figure 5: Low-level valuation of Trigiant

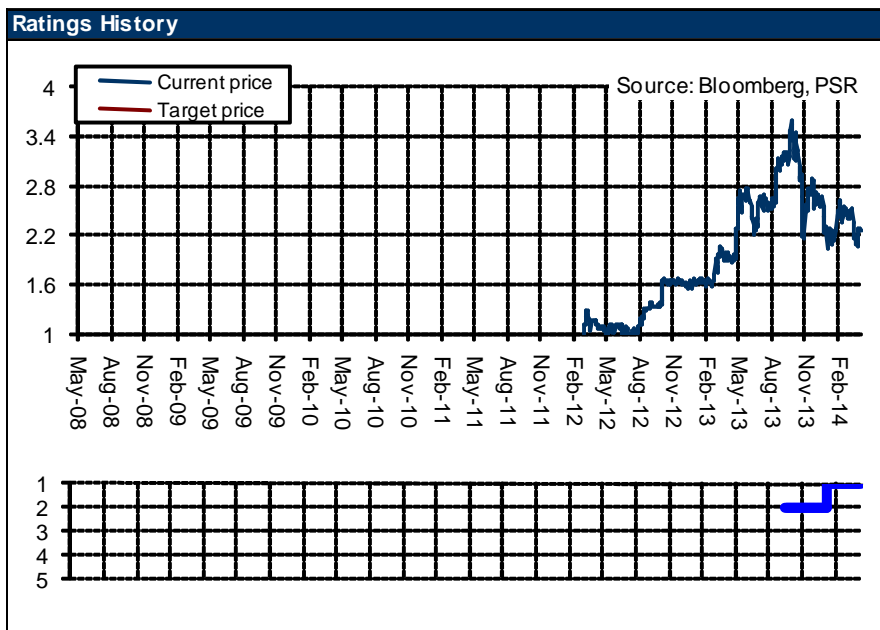


Sources: Bloomberg, Phillip Securities

Financial Status

FYE	2011	2012	2013	2014F	2015F
Valuation Ratios					
Price Earnings	-	7.32	6.31	5.66	4.80
Price to Book	-	1.92	1.43	1.04	0.89
Dividend Yield	-	4.1%	5.8%	5.3%	6.3%
Per share data					
EPS Adjusted(RMB)	20.68	0.26	0.31	0.34	0.40
Book Value Per Share(RMB)	-	1.00	1.35	1.86	2.17
Dividends Per Share(HK\$)	-	0.10	0.14	0.13	0.15
Growth & Margin					
Revenue growth	29.7%	22.4%	10.2%	22.0%	24.8%
Gross Profit growth	37.6%	31.3%	8.3%	21.0%	24.3%
Net Profit growth	-	22.0%	24.5%	22.1%	28.5%
Gross Margin	21.8%	23.4%	23.0%	22.8%	22.7%
Net Profit Margin	11.3%	11.3%	12.8%	12.8%	13.2%
Dividend Payout Ratio %	0.0%	31.7%	39.0%	30.0%	30.0%
Key Ratios					
Return on Assets	11.0%	11.2%	12.7%	13.5%	14.6%
Return on Equity	49.9%	31.2%	20.9%	20.3%	20.0%
Tax ratio	16.2%	16.7%	17.6%	17.8%	17.8%
Liability ratio	72.1%	56.7%	42.9%	25.5%	28.0%
Income Statement(RMB:mn)					
Revenue	1,823	2,231	2,458	2,999	3,742
- Cost of Goods Sold	1,425	1,709	1,893	2,315	2,893
Gross Income	397	522	565	684	850
- Selling, General & Admin Expenses	107	153	140	172	215
Operating Income	292	374	439	511	634
- Interest Expense	57	80	55	40	30
Pretax Income	247	303	380	466	599
- Income Tax Expense	40	51	67	83	106
Net Profit	207	252	314	384	493

Source: Company reports, Phillip Securities



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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