

# Karrie International (1050.HK)

## Leading Manufacturer of Server Casing

Hong Kong | IT Hardware | Company report

15 September 2017

### Business Overview

Karrie International was listed in 1996 and the company was listed in Hong Kong for more than 20 years. Karrie International has several well-known clients, namely Lenovo, IBM, HP, Konica Minolta and NEC etc. and these clients contribute more than 90% of the company's total revenue. Karrie International mainly engages in metal and plastic business, electronic manufacturing business, consumer and service business, and real estate business. According to the annual report of FY2017, metal and plastic business and electronic manufacturing business are the largest businesses of Karrie International, contributing 52.9% and 46.3% of the revenue respectively. Although the company has a long history of operations, the company reacts promptly to the market, as evident in the company adopting plant integration and automation in manufacturing, allowing the company to improve operation efficiency and reduce staff cost. These innovation at the same time allows the company to conduct real-time quality identification, monitoring and improvement for its production, improving the competitiveness of the company's products.

### Metal & Plastic Business & Electronic Manufacturing Business

The major products of the company's metal and plastic business and electronic manufacturing business are magnetic tape data storage, POS system, medical products and metal & plastic products such as server casings, moulds, and plastic & metal parts for self-brand household products. In particular, server casing is the major product of these two segments and the server casing produced by the company is very competitive worldwide. In terms of the international server shipment, the company has a market share of 10%. Moreover, the company has successfully obtained orders of the new generation of server casings project and has completed moulds manufacturing and trial production. Some of the orders have even started to deliver already. These orders provide a good foundation for future revenue of the company. The company has a further milestone by successfully obtaining orders from a well-known enterprise in China for manufacturing servers and expanding its new business to medical products. These business and orders will provide additional growth momentum for the company.

The company also evolves as time passes. Throughout the past years, the company has been actively integrating its plants and adopting automation for its production to improve operation efficiency and reduce cost. Before adopting automation, each manufacturing process and machines require staff to monitor and operate and the switch in processes was time-consuming. However, after adopting automation, each staff can operate and monitor several machines at the same time, and the process is now switched using versatile industrial robots. Automation successfully reduce time cost and manpower cost and at the same time reduce the number of defect products. The number of workers in the company reduced from 6,465 in FY2012 to 4,160 in FY2017. Although the number of workers reduced, the production size increased. In terms of revenue, the company's revenue increased from HK\$2.29Bn in FY2012 to HK\$2.72Bn in FY2017. From the profitability point of view, gross profit margin improved from 8.2% in FY2012 to 13.5% in FY2017 and net profit margin improved from 1.8% in FY2012 to 6.2% in FY2017.

### No Rating

CMP: HKD 1.24

(Closing price as at 13 Sep 2017)

TARGET: HKD N/A

#### COMPANY DATA

O/S SHARES (MN) :	1,996
MARKET CAP (HKDMN) :	2,475
52 - WK HI/LO (HKD):	1.448 / 0.538

#### SHARE HOLDING PATTERN • %

Ho Cheuk Fai	73.47
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#### PRICE PERFORMANCE • %

	1M	3M	1Y
Karrie International	11.91	12.93	119.47
HSI	2.96	8.00	18.38

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

HKD mn	FY14	FY15	FY16	FY17
Net Sales	2,033	2,591	2,898	2,716
Net Profit	33	76	117	168
EPS, HKD	0.0170	0.0380	0.0590	0.0840
PER, x	23.24	13.68	21.69	14.88
BVPS, HKD	0.4706	0.4950	0.5096	0.5403
P/BV, x	0.84	1.05	2.51	2.31
ROE, %	3.65	7.72	11.51	15.61

Source: Company reports, Phillip Securities Est.

#### Research Team

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Apart from adopting automation, the company has invested in Guangdong Cuifeng Robotics Technology Ltd, with the company having 30% interest in the company. Guangdong Cuifeng Robotics Technology is currently listed in National Equities Exchange and Quotations. It mainly engages in research, production and sales of industrial robots, the equipment related to automation and robots and provide solutions for automations. This investment is expected to benefit the company in terms of enhancing its automated production processes.

### **Real Estate Business**

In responding to the government's urban renewal policy and to efficiently allocate its land resources, the company relocated its production facility from the Guanjingtou Plant to the Yuquan Plant. The Guanjingtou Plant has been demolished and will be developed into residential building, with a GFA of 120,000 square metres. This project is expected to start in late 2017 and will start its pre-sales in 2H2018. Besides, the company has another plant in Fenggang and the land has a size of 20,000 square metres. The company is currently negotiating with the government in regard to change the land use for residential building development and a consensus has been reached.

## Financials

FYE	FY2013	FY2014	FY2015	FY2016	FY2017
<b>Valuation Ratios</b>					
Price Earnings (P/E)	17.50	23.24	13.68	21.69	14.88
Price to Book (P/B)	0.76	0.84	1.05	2.51	2.31
<b>Per Share Data (HKD)</b>					
EPS	0.0200	0.0170	0.0380	0.0590	0.0840
Book Value Per Share	0.4630	0.4706	0.4950	0.5096	0.5403
Dividend Per Share	0.0120	0.0100	0.0330	0.0350	0.0650
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	0.1	(11.3)	27.4	11.8	(6.3)
Operating Income	355.7	29.1	(8.3)	164.7	18.3
Net Profit	65.5	(22.3)	132.3	54.1	44.2
<b>Margins</b>					
Gross Profit Margin	10.6	14.3	11.0	12.1	13.1
Operating Profit Margin	2.3	3.3	2.4	5.7	7.1
Net Profit Margin	1.8	1.6	2.9	4.0	6.2
<b>Key Ratios</b>					
ROE (%)	4.25	3.65	7.72	11.51	15.61
ROA (%)	2.31	2.06	3.88	5.63	7.20
<b>Income Statement (HKD Mn)</b>					
<b>Revenue</b>	2,291	2,033	2,591	2,898	2,716
- Cost of Goods Sold	(2,049)	(1,742)	(2,307)	(2,546)	(2,361)
<b>Gross Income</b>	242	291	284	352	355
- Operating Expenses	(190)	(223)	(222)	(188)	(161)
<b>Operating Income</b>	52	68	62	164	194
- Net Non-Operating Gain	6	(23)	22	(28)	(5)
<b>Pretax Income</b>	58	45	84	136	189
- Income Tax Expenses	(17)	(12)	(8)	(19)	(21)
<b>Net Profit</b>	41	33	76	117	168

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 13 Sep 2017)

**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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