

Wah Lee Industrial (3010 TT)

13 Jun 2014

NT\$59.40

Not Rated

Contacts:	Lulu Huang Special Assistant to the CEO
Sector:	Technology Hardware
Visit Rationale:	Sector Coverage
Market cap	NT\$13.74b / US\$0.46b
Daily volume (3mth)	US\$1.09m
Shares outstanding	231.4m
Free float	68%
Debt /Equity	33.8%
1 yr high	NT\$62.00
1 yr low	NT\$40.70
Major shareholding	6%
Visit date	19 May 14

Price/Volume

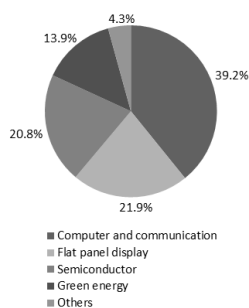


Source: Bloomberg

Company Snapshot

Wah Lee Industrial (WLI), founded in 1968 in Taiwan, distributes various types of industrial materials. WLI supplies materials for printed circuit boards and plastic products for computers, electronic connectors, etc., through its computer and communication business, while it sells backlight modules, diffuser boards, integrated circuit wafers and liquid crystal modules through its flat panel display business. The semiconductor business offers silicon chips and chemicals to integrated circuit makers. WLI also supplies materials for solar cell modules and opto-electronics related products. The company has a strong distribution network across major cities in Southeast Asia, the US, Greater China and Japan. Through joint venture arrangements, WLI has long-term investments in several upstream material, equipment and product manufacturers.

Q1 FY12/14 Sales Breakdown



Source: Company data

SC-Net Coordinator: Yuan Yuan Ji

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S-C Net



Why is this Stock Interesting Now?

Wah Lee Industrial (WLI) is one of the leading industrial materials and solutions providers in Taiwan. The company holds 50–70% market share in timing controller integrated circuits (IC) for large flat panel displays (FPD) in Taiwan. WLI also focuses on the small and medium-sized panel market in China. WLI continues to see growth momentum in revenues after reporting double-digit growth in Q1 FY12/14 led by the semiconductor segment. The company has begun supplying photoresists for foundries' 20nm fabrication process technology. The foundries are likely to commence production with this technology in 2014, providing potential opportunities for WLI to make gains in this field.

Earnings Trend Outlook: Positive

In Q1 FY12/14, WLI's consolidated revenue grew 16.3% YoY to NT\$8,870.9m. Revenue of the computer and communication (C/C) business, including the printed circuit board (PCB) business, increased 10.3% YoY to NT\$3,475.5m in Q1 owing to higher mobile phone sales and increased PC sales in the US and Japan. Semiconductor segment sales surged 43.8% YoY to NT\$1,841m on account of capacity expansion by customers and an increase in their utilization rates. FPD segment revenue rose 9.5% YoY to NT\$1,946.1m on the back of increasing sales of IC products. Green energy (GE) segment revenue grew 21.1% YoY to NT\$1,228.8m due to high demand in solar energy markets in China and Japan. Overall GPM in Q1 FY12/14 remained stable at around 8.9%, while the NPM declined 0.5ppt YoY to 3.3% due to substantial forex losses. Management estimates high single-digit growth in C/C segment revenue in Q2 and Q3 FY12/14 owing to the effect of new product launches in consumer electronics market. WLI expects sales in the semiconductor business to be flat in Q2 compared to Q1, but believes that growth should pick up from Q3 FY12/14. It expects the FPD segment to grow by double-digits in Q2 and Q3 FY12/14, sequentially. Management thinks that GE segment revenue is likely to grow in the high single-digits as a result of strong demand from solar markets in China, Japan and the US.

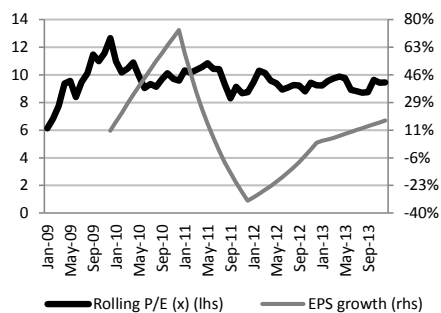
Valuation: Low

According to Bloomberg, as of the last close, WLI's shares trade on a trailing 12-month (TTM) PER of 11.9x, lower than the average of 13.0x for peers Topco Scientific (5434 TT, NT\$60.07, NR), WPG Holdings (3702 TT, NT\$42.60, NR), WT Microelectronics (3036 TT, NT\$44.40, NR) and Chang Wah Electromaterials (8070 TT, NT\$80.50, NR). The company's PBR of 1.54x is similar to the peer average of 1.58x. WLI's TTM ROE of 13.5% and ROA of 5.3% are marginally lower than the respective peer averages of 14.4% and 5.5%.

Short-term Catalyst/News: Likely

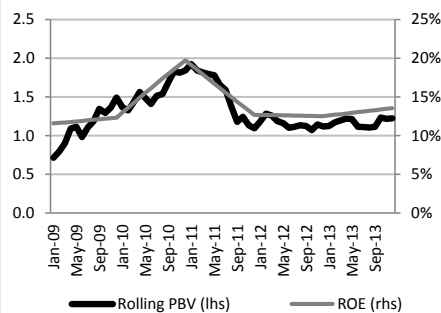
There has been increase in the number of customer approvals for WLI's materials, resulting in an enlarged customer base, which is likely to support C/C segment sales growth, according to the company. It expects increasing penetration of smartphones to boost the company's PCB business. WLI is in discussions with Taiwan Semiconductor Manufacturing Co. (TSMC; 2330 TT, NT\$123.00, Ji BUY) regarding the supply of materials for the 10nm production process. The company's 3MW solar plant (Toyama plant) in Japan has started generating electricity sales. Additionally, more than 50MW capacity projects with investment of around ¥100m are currently under development. Management expects high-resolution and large-size panel products to drive the FPD business in 2014.

P/E (x) vs EPS Growth



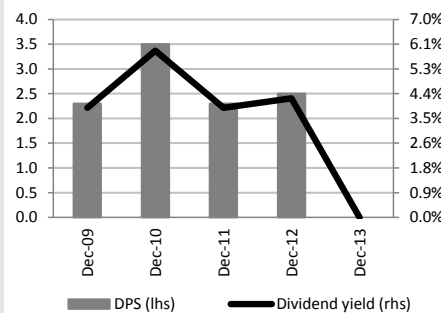
Source: Bloomberg

P/B (x) vs ROE



Source: Bloomberg

Dividend Payout and Yield

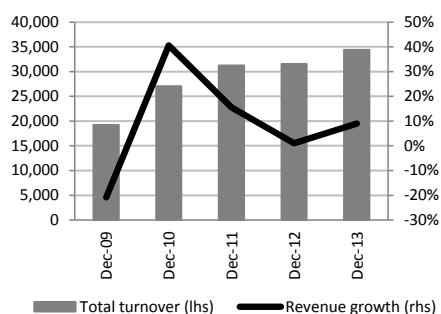


Source: Bloomberg

	Dec-09A	Dec-10A	Dec-11A	Dec-12A	Dec-13A	Trend
Total turnover (NT\$m)	19,226	27,023	31,225	31,545	34,398	▬ ▬ ▬ ▬ ▬
Operating profit (NT\$m)	808	1,172	940	844	1,019	▬ ▬ ▬ ▬ ▬
Pre-tax profit (NT\$m)	1,047	1,812	1,350	1,323	1,639	▬ ▬ ▬ ▬ ▬
Net income to ord equity (NT\$m)	810	1,410	952	988	1,159	▬ ▬ ▬ ▬ ▬
Net profit growth	11.2%	74.0%	(32.4%)	3.7%	17.4%	▬ ▬ ▬ ▬ ▬
P/E (x)	16.92	9.75	14.42	13.91	11.86	▬ ▬ ▬ ▬ ▬
P/B (x)	2.00	1.88	1.81	1.68	1.54	▬ ▬ ▬ ▬ ▬
ROE	12.3%	19.7%	12.7%	12.5%	13.5%	▬ ▬ ▬ ▬ ▬
Dividend yield	3.9%	5.9%	3.9%	4.2%	0.0%	▬ ▬ ▬ ▬ ▬
EPS (NT\$)	3.51	6.09	4.12	4.27	5.01	▬ ▬ ▬ ▬ ▬

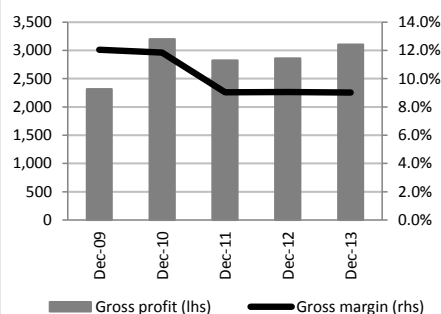
Source: Bloomberg

Turnover and Growth (NT\$m)



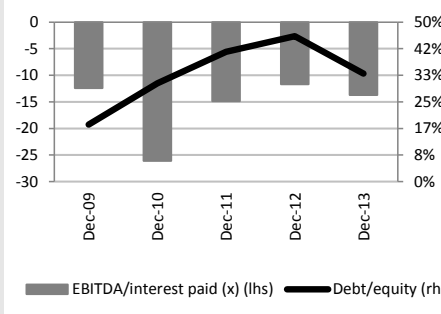
Source: Bloomberg

Gross Profit and Margin (NT\$m)



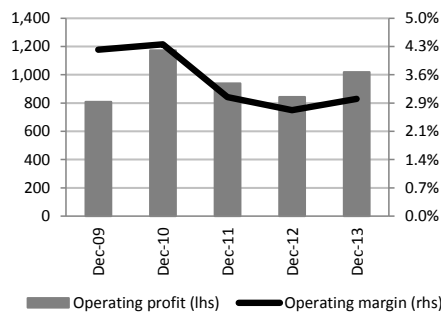
Source: Bloomberg

Net Debt To Equity and Interest Cover



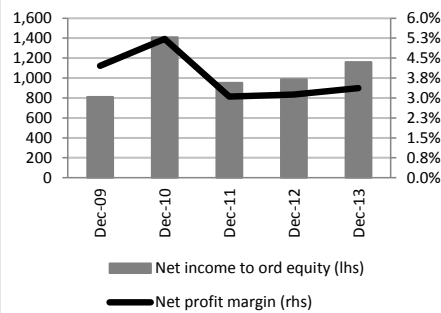
Source: Bloomberg

Operating Profit and Margin (NT\$m)



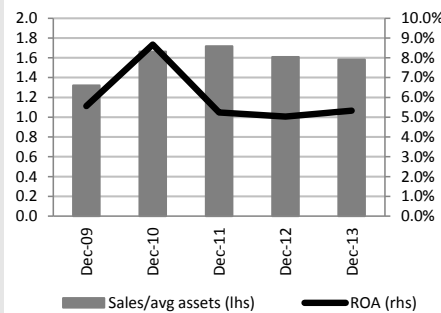
Source: Bloomberg

Net Profit and Margin (NT\$m)



Source: Bloomberg

ROA and Asset Turnover



Source: Bloomberg

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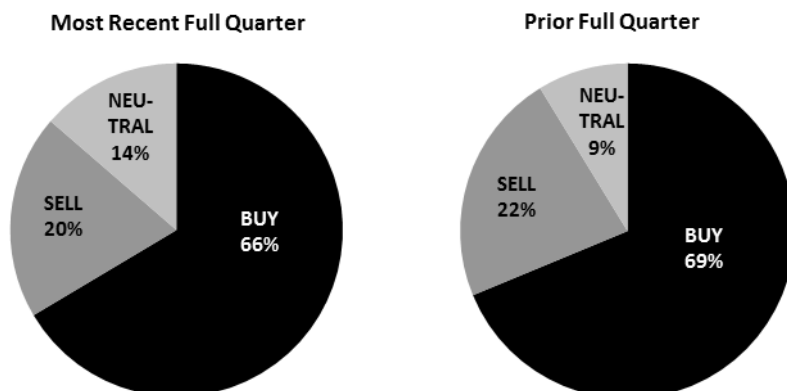
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Ji Asia Coverage as of 2 June 2014

Sam Thawley - Pan Asia Commodities, Shipping

Core Coverage Universe	Non-Coverage Universe
Angang Steel (347 HK)	China Suintien Green Energy (956 HK)
China Shenhua Energy (1088 HK)	Daido Steel (5471 JP)
CNOOC (883 HK)	Iino Kaiun Kaisha (9119 JP)
Hanwa (8078 JP)	IRC (1029 HK)
Kawasaki Kisen (9107 JP)	Maruichi Steel Tube (5463 JP)
Kyoei Steel (5440 JP)	Mongolia Energy (276 HK)
Maanshan Iron & Steel (323 HK)	Nippon Coke & Engineering (3315 JP)
Mitsui O.S.K. Lines (9104 JP)	NS United Kaiun Kaisha (9110 JP)
Nippon Steel & Sumikin Bussan (9810 JP)	Osaka Steel (5449 JP)
PetroChina (857 HK)	Shandong Molong Petroleum Machinery (568 HK)
Sanyo Special Steel (5481 JP)	Shougang Concord International Enterprises (697 HK)
	Yamato Kogyo (5444 JP)

Mark Brown - Japan Construction, Housing & Real Estate

Core Coverage Universe	Non-Coverage Universe
Daito Trust Construction (1878 JP)	Daibiru (8806 JP)
Daiwa House Industry (1925 JP)	Daikyo (8840 JP)
Lixil Group (5938 JP)	Haseko (1808 JP)
Mitsubishi Estate (8802 JP)	Hulic (3003 JP)
Mitsui Fudosan (8801 JP)	Kenedix (4321 JP)
Noritz (5943 JP)	Sumitomo Real Estate Sales (8870 JP)
Obayashi (1802 JP)	
Sekisui House (1928 JP)	
Sumitomo Realty & Development (8830 JP)	
Taisei (1801 JP)	
Tokyo Tatemono (8804 JP)	

Tony Moyer - Japan Machinery

Core Coverage Universe	Non-Coverage Universe
Amada (6113 JP)	Eagle Industry (6486 JP)
Azbil (6845 JP)	Komori (6349 JP)
Chiyoda (6366 JP)	Modec (6269 JP)
Fanuc (6954 JP)	Nachi-Fujikoshi (6474 JP)
JGC (1963 JP)	Toyo Engineering (6330 JP)
KYB (7242 JP)	
Nabtesco (6268 JP)	
SMC (6273 JP)	
Tadano (6395 JP)	
THK (6481 JP)	
Tsugami (6101 JP)	
Yaskawa Electric (6506 JP)	
Yokogawa Electric (6841 JP)	

Steve Myers - Pan Asia Technology

Core Coverage Universe	Non-Coverage Universe
Canon (7751 JP)	Ferrotec (6890 JP)
Fujitsu (6702 JP)	Fujimi (5384 JP)
Hon Hai Precision Industry (2317 TT)	Megachips (6875 JP)
Konica Minolta Holdings (4902 JP)	Ryosan (8140 JP)
LG Electronics (066570 KS)	Shindengen Electric Mfg. (6844 JP)
Nikon (7731 JP)	
Samsung Electronics (005930 KS)	
Taiwan Semiconductor Mfg. Co. (2330 TT)	
Tokyo Electron (8035 JP)	
Toshiba (6502 JP)	

Daniel Wang - Non Japan Asia Technology

Core Coverage Universe	Non-Coverage Universe
Kingsoft (3888 HK)	Boyaa Interactive International (434 HK)
ZTE (763 HK)	Forgame Holdings (484 HK)

Neil Juggins - Pan Asia Telecoms

Core Coverage Universe	Non-Coverage Universe
China Mobile (941 HK)	Centron Telecom International (1155 HK)
China Telecom (728 HK)	China All Access Holdings (633 HK)
China Unicom Hong Kong (762 HK)	O-Net Communications Group (877 HK)
KDDI (9433 JP)	SIM Technology Group (2000 HK)
NTT DoCoMo (9437 JP)	
Softbank (9984 JP)	

Mikihiko Yamato - Pan Asia Consumer/Retail

Core Coverage Universe	Non-Coverage Universe
Aeon (8267 JP)	Aeon Mall (8905 JP)
Asics (7936 JP)	Aoyama Trading (8219 JP)
Calbee (2229 JP)	H2O Retailing (8242 JP)
Chiyoda (8185 JP)	Honeys (2792 JP)
FamilyMart (8028 JP)	JIN (3046 JP)
Fast Retailing (9983 JP)	Parco (8251 JP)
Izumi (8273 JP)	
Japan Tobacco (2914 JP)	
Seven & I Holdings (3382 JP)	
Unicharm (8113 JP)	

Sho Fukuhara - Pan Asia Machinery

Core Coverage Universe	Non-Coverage Universe
Daikin Industries (6367 JP)	Airtac International Group (1590 TT)
First Tractor (38 HK)	Hiwin Technologies (2049 TT)
Hitachi Construction Machinery (6305 JP)	Kato Works (6390 JP)
Komatsu (6301 JP)	Lonking Holdings (3339 HK)
Mitsubishi Heavy Industries (7011 JP)	Mitsui Engineering & Shipbuilding (7003 JP)
Weichai Power (2338 HK)	Nishio Rent All (9699 JP)
Zoomlion Heavy Industry (1157 HK)	Sasebo Heavy Industries (7007 JP)
	Sinotruk Hong Kong (3808 HK)
	Takeuchi Mfg. (6432 JP)

Jean-Louis Lafayeedney - Non-Japan Asia Technology

Core Coverage Universe	Non-Coverage Universe
AAC Technologies Holdings (2018 HK)	Advanced Optoelectronic Technology (3474 TT)
Acer (2353 TT)	Anxin-China Holdings (1149 HK)
Advanced Semiconductor Engineering (2311 TT)	AV Concept Holdings (595 HK)
ASM Pacific Technology (522 HK)	China Fiber Optic Network System Group (3777 HK)
Asustek Computer (2357 TT)	ChipMOS Technologies (8150 TT)
HTC (2498 TT)	Coolpad Group (2369 HK)
Lenovo (992 HK)	FocalTech (5280 TT)
Seoul Semiconductor (046890 KS)	Micro-Star International (2377 TT)
Siliconware Precision Industries (2325 TT)	Solomon Systech International (2878 HK)
Skyworth Digital Holdings (751 HK)	TCL Communication Technology (2618 HK)
	TCL Multimedia Technology Holdings (1070 HK)
	Tonly Electronics Holdings (1249 HK)
	Truly International Holdings (732 HK)
	Unity Opto Technology (2499 TT)
	Varitronix International (710 HK)
	World Wide Touch Technology Holdings (1282 HK)

Wah Lee Industrial (3010 TT)

Ji Asia Coverage as of 2 June 2014

Steve Usher - Pan Asia Autos

Core Coverage Universe	Non-Coverage Universe
Dongfeng Motor Group (489 HK)	Mabuchi Motor (6592 JP)
Fuji Heavy Industries (7270 HK)	Maruwa (5344 JP)
Geely Automobile Holdings (175 HK)	Press Kogyo (7246 JP)
Great Wall Motor (2333 HK)	TPR (6463 JP)
Honda Motor (7267 JP)	TS Tech (7313 JP)
Hyundai Motor (005380 KS)	
Nissan Motor (7201 JP)	
Suzuki Motor (7269 JP)	
Toyota Motor (7203 JP)	
Yamaha Motor (7272 JP)	

Zibo Chen - Non Japan Asia Consumer

Core Coverage Universe	Non-Coverage Universe
Belle International Holdings (1880 HK)	C.banner International Holdings (1028 HK)
Bioptime International Holdings (1112 HK)	King Fook Holdings (280 HK)
China Modern Dairy Holdings (1117 HK)	Le Saunda Holdings (738 HK)
China Resources Enterprise (291 HK)	Sitoy Group Holdings (1023 HK)
Chow Tai Fook (1929 HK)	Tse Sui Luen Jewellery (417 HK)
Golden Eagle Retail Group (3308 HK)	
Hengan International (1044 HK)	
Intime Retail Group (1833 HK)	
Prada (1913 HK)	
Samsonite International (1910 HK)	
Sun Art Retail Group (6808 HK)	
Want Want China Holdings (151 HK)	

Kazuo Yanagisawa - Japan Small Caps

Core Coverage Universe	Non-Coverage Universe
Ain Pharmaciez (9627 JP)	Anritsu (6754 JP)
Daifuku (6383 JP)	Fujiibo Holdings (3104 JP)
Doutor Nichires Holdings (3087 JP)	Monotaro (3064 JP)
FP Corp. (7947 JP)	Nichii Gakkan (9792 JP)
Hikari Tsushin (9435 JP)	Ship Healthcare Holdings (3360 JP)
Hoshizaki Electric (6465 JP)	Weathernews (4825 JP)
Nihon Nohyaku (4997 JP)	
Nihon Parkerizing (4095 JP)	
Nippon Shokubai (4114 JP)	
Polars Orbis (4927 JP)	
Sanrio (8136 JP)	
Shimadzu (7701 JP)	
Sky Perfect JSAT Holdings (9412 JP)	
Sun Frontier Fudousan (8934 JP)	
Takara Leben (8897 JP)	
Tosei (8923 JP)	
Wowow (4839 JP)	
Yumeshin Holdings (2362 JP)	

Latest Additions to Core Coverage

China Pioneer Pharma Holdings (1345 HK)—Yuanyuan Ji
 First Tractor (38 HK)—Sho Fukuhara
 Want Want China Holdings (151 HK)—Zibo Chen

Latest Drops from Core Coverage

Luk Fook Holdings (590 HK)—Zibo Chen

Latest Transfers of Core Coverage

None

Justin Weiss - Pan Asia Internet, Software

Core Coverage Universe	Non-Coverage Universe
CyberAgent (4751 JP)	Bit-isle (3811 JP)
DeNA (2432 JP)	GMO Internet (9449 JP)
Digital Garage (4819 JP)	Gurunavi (2440 JP)
Gree (3632 JP)	Piped Bits (3831 JP)
Kakaku.com (2371 JP)	T-Gaia (3738 JP)
Nexon (3659 JP)	
Naver (035420 KSD)	
Rakuten (4755 JP)	
Start Today (3098 JP)	
Tencent Holdings (700 HK)	
Yahoo Japan (4689 JP)	

Kate Lee - Korea Small Caps

Core Coverage Universe	Non-Coverage Universe
Hansae (105630 KS)	Amorepacific (090430 KS)
Harim (136480 KS)	Biospace (041830 KS)
Hy-Lok (013030 KS)	Dae Hyun (016090 KS)
KCC (002380 KS)	Doosan Engine (082740 KS)
KGMobilians (046440 KS)	Grand Korea Leisure (114090)
Sung Kwang Bend (014620 KS)	Hansol HomeDeco (025750 KS)
TK Corp. (023160 KS)	Hotel Shilla (008770 KS)
Youngone (111770 KS)	Kangwon Land (035250 KS)
	Korea District Heating (071320 KS)
	Korea Kolmar (161890 KS)
	Korea United Pharm (033270 KS)
	LG International (001120 KS)
	Paradise (034230 KS)
	Samchully (004690 KS)
	Taewoong (044490 KS)

Yuanyuan Ji - Greater China Small Caps

Core Coverage Universe	Non-Coverage Universe
Ajisen (China) Holdings (538 HK)	Bolina Holding (1190 HK)
Bosideng International Holdings (3998 HK)	Bonjour Holdings (653 HK)
Changshouhua Food (1006 HK)	Chigo Holding (449 HK)
China Pioneer Pharma Holdings (1345 HK)	China Glass Holdings (3300 HK)
CPMC Holdings (906 HK)	China Huiyuan Juice Group (1886 HK)
Daphne International Holdings (210 HK)	Fountain Set Holdings (420 HK)
Haier Electronics Group (1169 HK)	Hisense Kelon Electrical Holdings (921 HK)
Hengdeli Holdings (3389 HK)	Hosa International (2200 HK)
Labixiaoxin Snacks Group (1262 HK)	Tenwow International Holdings (1219 HK)
NewOcean Energy Holdings (342 HK)	Texhong Textile Group (2678 HK)
Pacific Textiles Holdings (1382 HK)	Time Watch Investments (2033 HK)
Pax Global Technology (327 HK)	Weiqiao Textile (2698 HK)
Sa Sa International Holdings (178 HK)	Welling Holding (382 HK)
Shenzhou International Group (2313 HK)	Xiao Nan Guo Restaurants Holdings (3666 HK)
Sinomedia Holding (623 HK)	
Tianneng Power International (819 HK)	
Wasion Group Holdings (3393 HK)	
Xinyi Glass Holdings (868 HK)	
Yingde Gases Group (2168 HK)	