



Decent Q1-2013 results with signs of strong performance in the quarters to follow

Top-line revenues below estimates, stronger result expected in 2H-2013

Jinpan reported US\$35.2 million in revenues for Q1-2013, which is slightly below our estimate of US\$37.2 million. The lower-than-expected revenues were attributed to lower wind energy-related international sales to its OEM (Original Equipment Manufacturer) clients. Management has reaffirmed that the company is expected to receive more orders from one of its major OEM clients. The domestic China market has stabilized with better-than-expected ASP (Average Selling Price). We expect wind energy product revenues to pick up in the second half of 2013 and revenues for cast resin transformers to experience typical seasonal volatility. Our overall revenue forecast for 2013 is US\$233.6 million, at the lower end of the US\$231.0 million to US\$241.0 million management guidance.

Gross margin and ASP stabilized; higher-margin OEM products expected in the quarters to follow

As mentioned above, ASP for the domestic China market has stabilized, which resulted in gross margin of 33.3%, better than our 31.0% estimate. We see two factors that will improve the gross margin for Jinpan for the remainder of 2013 and 2014: 1. The trend for stabilized ASP is expected to continue, and 2. Increase in international OEM wind energy product sales, which typically have higher gross margin when compared to standardized domestic products. Our gross margin forecast for 2013 and 2014 are 34.8% and 35.7% respectively.

Expect to meet 2014 net income guidance of US\$14.0 to US\$14.5 million

Adjusted net income for Q1-2013 was US\$0.8 million versus our estimate of US\$1.1 million. The lower-than-expected result is mainly driven by lower international sales and higher SG&A expenses. Despite the disappointing numbers, we are quite confident that Jinpan will achieve its 2013 net income guidance of US\$14.0 million to US\$14.5 million due to the increase in OEM sales and stabilized ASP in the domestic China market. Our net income forecast for 2013 is US\$14.2 million, and adjusted net income forecast is US\$13.8 million.

July 29, 2013

OVERWEIGHT

Target Price US\$9.97
Upside 76.8%

Company data

Price (US\$)	5.64
Market cap. (US\$m)	91.3
Shares OS (mn)	16.2
52-week range (\$)	4.35 – 6.44
Dividend yield (%)	2.48
EV/EBITDA 2013E	3.67x
P/tangible BV 2013E	0.48x
Sector	Industrial
Industry	Electrical equipment

Note: Market data as of July 26, 2013

Financials

FYE Dec; US\$m	2012A	2013E	2014E
Sales	210.5	233.6	253.6
Gross margin	32.7%	34.8%	35.7%
Net income (adj.)	11.3	13.8	21.9
Net margin (adj.)	5.4%	5.9%	8.6%
ROE	7.3%	6.9%	10.5%
ROA	4.5%	4.1%	6.6%
D/E	22.8%	30.5%	21.2%

Source: BlackOre Research, company filings

Share price history



All figures in the report are in US\$ unless otherwise stated

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Guilin facility on schedule and commenced production

The Guilin facility came into production at the end of Q1-2013 as expected. We anticipate that the facility will achieve close to full capacity, approximately 6 million KVA, in 2014. The capacity of the facility can be further expanded to 12 million KVA, creating additional room for further growth.

Valuation – Maintaining Overweight rating with US\$9.97 target price

We have maintained our Overweight rating and US\$9.97 target price. Although the weighted average valuation per share for Jinpan has increased as a result of potentially better margins and stable ASP, we see that the recent slowdown in China is likely to increase uncertainty for the company (Jinpan generates over 85% of its revenues within China). We are confident that Jinpan's long-term valuation remains attractive. A table of our valuation summary is presented below.

Exhibit 2 – Valuation summary

	Valuation factor	Weight	Price	Upside*
DCF	6.0% ^(A) 2.0% ^(B)	35.0%	\$20.56	264.5%
Historical implied multiples**				
EV/sales (1-year forward)	1.19x	-	\$15.47	174.3%
EV/EBITDA (1-year forward)	6.5x	35.0%	\$10.54	86.9%
EV/EBIT (1-year forward)	8.0x	-	\$8.35	48.0%
P/E (1-year forward)	9.50x	-	\$8.08	43.3%
P/tangible BV (1-year forward)	1.00x	-	\$15.95	182.8%
EV/sales (2-year forward)	0.70x	-	\$9.50	68.4%
EV/EBITDA (2-year forward)	5.5x	-	\$14.33	154.1%
EV/EBIT (2-year forward)	7.0x	-	\$12.36	119.1%
P/E (2-year forward)	7.90x	-	\$11.26	99.6%
P/tangible BV (2-year forward)	0.80x	20.0%	\$14.41	155.5%
Peer comparable				
EV/EBITDA (1-year forward)	14.34x ^(C)	10.0%	\$24.61	336.3%
EV/EBITDA (2-year forward)	13.88x ^(C)	-	\$23.78	321.6%
Weighted average valuation per share			\$16.23	187.7%
Discount			38.6%	
Target price			\$9.97	76.8%

Source: Thomson One and BlackOre Research estimates; market values as of July 26, 2013

Note: * Upside based on current Jinpan share price of US\$5.64 as of July 26, 2013

** Historical implied multiples are forward multiples derived from historical market prices and actual sales, EBITDA, or BV figures reported in company's filings

(A) Terminal growth for China with 88.3% weight

(B) Terminal growth for rest of the world with 11.7% weight

(C) Multiples based on average of domestic and international peers

Exhibit 3 – Peer multiples

	Ticker	Exchange	Mkt cap	EV/sales		EV/EBITDA		P/E		P/BV
				FY2013E	FY2014E	FY2013E	FY2014E	FY2013E	FY2014E	Latest
Jinpan International	JST	NASDAQ	91	0.47x	0.43x	3.7x	2.3x	6.4x	3.8x	0.34x
<i>Domestic</i>										
Jiangsu Expressway	600377	SHSE	4,440	4.11x	3.72x	7.3x	6.7x	10.5x	9.6x	1.62x
China XD Electric	601179	SHSE	2,454	0.93x	0.83x	15.1x	14.3x	35.9x	23.6x	1.02x
XJ Electric	000400	SZSE	2,213	1.80x	1.54x	13.6x	10.5x	24.6x	17.7x	3.48x
Shanghai Zhixin Electric	600517	SHSE	1,466	2.33x	1.66x	14.2x	9.8x	19.5x	13.2x	4.09x
Baoding Tianwei Baobian	600550	SHSE	1,295	3.62x	3.09x	69.3x	18.4x	NM	104.6x	1.75x
Qingdao TGOOD Electric	300001	SZSE	519	2.86x	2.15x	17.3x	13.2x	22.5x	16.1x	2.01x
Shenzhen INVT Electric	002334	SZSE	451	2.64x	2.31x	42.2x	30.0x	26.7x	21.9x	2.60x
HUAYI ELECTRIC	600290	SHSE	343	-	-	-	-	-	-	1.44x
Fujian Cee Installations	300062	SZSE	197	-	-	-	-	-	-	1.78x
San Bian Sci-Tech	002112	SZSE	148	-	-	-	-	-	-	1.93x
MIG Technology	300242	SZSE	127	-	-	-	-	-	-	2.44x
Average			1,241	2.61x	2.19x	25.6x	14.7x	23.3x	29.5x	2.20x
Median			519	2.64x	2.15x	15.1x	13.2x	23.6x	17.7x	1.93x
<i>International</i>										
Siemens	SIE	DB	90,503	1.08x	1.04x	9.2x	7.4x	14.5x	10.9x	2.72x
ABB	ABBN	SWX	50,233	1.28x	1.22x	8.5x	7.7x	14.7x	12.8x	3.01x
Tenaga Nasional Berhad	TENAGA	KLSE	16,681	1.80x	1.72x	6.3x	6.1x	12.6x	11.8x	1.32x
Alstom	ALO	ENXTPA	10,226	0.47x	0.46x	5.1x	4.7x	8.6x	7.5x	1.95x
SPX Corporation	SPW	NYSE	3,510	0.87x	0.90x	9.8x	8.6x	17.4x	13.4x	1.79x
Tatung	2371	TSEC	585	-	-	-	-	-	-	0.50x
Average			28,623	1.10x	1.07x	7.8x	6.9x	13.6x	11.3x	1.88x
Median			13,454	1.08x	1.04x	8.5x	7.4x	14.5x	11.8x	1.87x

Source: Thomson One and BlackOre Research estimates, market value as of July 26, 2013

FINANCIAL SUMMARY

Income Statement										
	Dec-31 FY2011A	Dec-31 FY2012A	Mar-31 Q1A	Jun-30 Q2E	Sep-30 Q3E	Dec-31 Q4E	Dec-31 FY2013E	Dec-31 FY2014E	2012 - 2013 growth rates	2013 - 2014 growth rates
Sales	218.9	210.5	35.2	53.4	66.1	78.9	233.6	253.6	10.9%	8.6%
COGS	(138.6)	(141.7)	(23.5)	(35.1)	(43.0)	(50.9)	(152.4)	(163.1)	7.5%	7.0%
Gross profit	80.3	68.8	11.7	18.3	23.1	28.0	81.2	90.5	18.1%	11.5%
<i>Gross margin (%)</i>	<i>36.7%</i>	<i>32.7%</i>	<i>33.3%</i>	<i>34.3%</i>	<i>35.0%</i>	<i>35.5%</i>	<i>34.8%</i>	<i>35.7%</i>		
Depreciation	(4.3)	(5.2)	(1.6)	(2.0)	(3.1)	(3.4)	(10.2)	(14.7)	94.7%	44.4%
EBITDA	30.3	20.1	3.0	6.5	8.4	12.1	30.0	47.0	49.0%	56.5%
<i>EBITDA margin (%)</i>	<i>13.8%</i>	<i>9.6%</i>	<i>8.5%</i>	<i>12.1%</i>	<i>12.8%</i>	<i>15.3%</i>	<i>12.8%</i>	<i>18.5%</i>		
SG&A	(54.3)	(53.9)	(10.4)	(13.9)	(17.8)	(19.3)	(61.4)	(58.3)	14.0%	-5.1%
EBIT	26.0	14.9	1.3	4.4	5.3	8.7	19.8	32.2	32.9%	62.8%
<i>EBITDA margin (%)</i>	<i>11.9%</i>	<i>7.1%</i>	<i>3.8%</i>	<i>8.3%</i>	<i>8.0%</i>	<i>11.0%</i>	<i>8.5%</i>	<i>12.7%</i>		
Interest expenses	(1.3)	(1.8)	(0.3)	(0.7)	(0.6)	(0.6)	(2.3)	(3.0)	28.0%	31.3%
EBT before non-operating items	24.7	13.1	1.1	3.7	4.7	8.1	17.5	29.2	33.5%	66.9%
Other non-operating income, net	2.4	3.2	0.4	0.1	0.1	0.1	0.6	2.5	-82.3%	343.8%
EBT	27.2	16.3	1.5	3.8	4.7	8.1	18.1	31.8	10.7%	75.6%
Taxes	(3.3)	(2.3)	(0.3)	(0.8)	(1.0)	(1.7)	(3.9)	(7.9)	69.3%	105.7%
Net income	23.9	14.1	1.1	3.0	3.7	6.4	14.2	23.8	1.2%	67.5%
<i>Net margin (%)</i>	<i>10.9%</i>	<i>6.7%</i>	<i>3.2%</i>	<i>5.5%</i>	<i>5.6%</i>	<i>8.1%</i>	<i>6.1%</i>	<i>9.4%</i>		
Basic EPS	1.48	0.87	0.07	0.18	0.23	0.40	0.88	1.47	1.1%	67.5%
Diluted EPS	1.45	0.84	0.07	0.18	0.22	0.38	0.85	1.43	1.2%	67.5%
Shares outstanding										
Basic	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	0.1%	0.0%
Diluted	16.5	16.7	16.7	16.7	16.7	16.7	16.7	16.7	0.0%	0.0%
Adj. net income	21.7	11.3	0.8	2.9	3.7	6.3	13.8	21.9	22.1%	59.1%
<i>Adj. net margin</i>	<i>9.9%</i>	<i>5.4%</i>	<i>2.4%</i>	<i>5.5%</i>	<i>5.6%</i>	<i>8.0%</i>	<i>5.9%</i>	<i>8.6%</i>		
Adj. basic EPS	1.34	0.70	0.05	0.18	0.23	0.39	0.85	1.35	21.9%	59.1%
Adj. diluted EPS	1.32	0.68	0.05	0.17	0.22	0.38	0.82	1.31	22.0%	59.1%

Cash flow statement

	Dec-31 FY2011A	Mar-31 Q1A	Jun-30 Q2A	Sep-30 Q3A	Dec-31 Q4A	Dec-31 FY2012A	Mar-31 Q1A	Jun-30 Q2E	Sep-30 Q3E	Dec-31 Q4E	Dec-31 FY2013E	Dec-31 FY2014E
Operating activities												
Net income	23.9	4.0	2.4	3.9	3.8	14.1	1.1	3.0	3.7	6.4	14.2	23.8
Non-cash items												
Depreciation	4.3	1.2	0.9	1.7	1.4	5.2	1.6	2.0	3.1	3.4	10.2	14.7
Stock-based compensation	0.4	0.0	0.1	0.1	0.2	0.4	0.0	0.0	0.0	0.0	0.1	0.1
Other non-cash items	1.1	0.9	2.6	0.7	(1.7)	2.5	0.4	-	-	-	0.4	-
Total non-cash items	5.8	2.1	3.6	2.5	(0.1)	8.2	2.1	2.0	3.2	3.4	10.7	14.8
Change in NWC												
Restricted cash	0.8	0.3	(0.0)	(0.8)	0.0	(0.5)	0.2	-	-	-	0.2	-
AR	(31.1)	(4.8)	(7.9)	(11.6)	7.7	(16.7)	(0.5)	7.5	(14.8)	(5.9)	(13.7)	36.7
Notes receivable	(13.1)	9.3	(1.3)	0.9	(5.4)	3.4	4.8	0.1	(0.4)	(1.4)	3.1	(1.1)
Inventories	(5.9)	(7.5)	(0.9)	7.9	7.6	7.1	(3.4)	(9.0)	5.6	3.4	(3.4)	(14.7)
Prepaid expenses	16.7	1.3	1.7	(1.1)	8.9	10.7	(3.0)	(2.5)	(5.2)	5.3	(5.4)	(13.4)
Other receivables	(0.5)	(1.7)	(0.8)	(1.5)	3.6	(0.4)	(1.4)	(0.8)	(0.6)	0.7	(2.1)	2.8
AP	8.5	(0.9)	2.4	2.7	(2.7)	1.5	4.3	(4.9)	(0.9)	(0.7)	(2.2)	(9.2)
Notes payable	(14.5)	(11.4)	3.8	4.3	(4.3)	(7.6)	(1.1)	1.0	(0.8)	1.0	0.1	19.0
Income tax	0.6	0.5	(1.3)	0.5	(0.1)	(0.5)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	-
Advance from customers	6.9	1.2	0.6	1.5	(2.4)	1.0	2.0	(2.5)	1.9	0.2	1.6	(4.3)
Other payables	6.1	(6.2)	1.1	5.0	(0.9)	(0.9)	(3.1)	1.7	0.9	0.9	0.4	1.9
Total change in NWC	(25.6)	(20.0)	(2.6)	7.8	11.9	(2.9)	(1.1)	(9.4)	(14.4)	3.5	(21.5)	17.6
Cash flow from operations	4.1	(14.0)	3.4	14.2	15.7	19.3	2.1	(4.4)	(7.5)	13.3	3.5	56.2
Investing activities												
Purchases of PP&E	(7.3)	(4.2)	(1.1)	(1.0)	(2.5)	(8.8)	(6.0)	(10.0)	(10.0)	(10.0)	(36.1)	(9.4)
Proceeds from sales of PP&E	0.0	0.0	0.0	(0.0)	0.0	0.0	-	-	-	-	-	-
Other investing activities	(7.4)	(1.0)	(2.6)	(10.7)	(20.0)	(34.3)	11.1	0.1	0.1	0.1	11.4	0.3
Cash flow from investing	(14.7)	(5.2)	(3.7)	(11.7)	(22.5)	(43.1)	5.1	(9.9)	(9.9)	(10.0)	(24.7)	(9.1)
Financing activities												
Proceeds from bank loans	46.8	11.8	25.6	9.5	16.3	63.2	8.1	12.0	8.0	-	28.1	-
Repayment of bank loans	(38.4)	(3.2)	(11.8)	(20.9)	(6.4)	(42.3)	(7.3)	-	-	-	(7.3)	(14.5)
Other financing activities	-	-	0.0	0.0	(0.0)	0.0	0.1	-	-	-	0.1	-
Dividend paid	(2.3)	(1.1)	0.0	(1.1)	(0.6)	(2.9)	(0.5)	-	(1.1)	-	(1.6)	(2.3)
Cash flow from financing	6.1	7.5	13.8	(12.6)	9.2	18.0	0.4	12.0	6.9	-	19.3	(16.7)
FX effect	1.2	0.0	(0.1)	0.0	0.1	0.0	0.1	-	-	-	0.1	-
Net change in cash	(3.3)	(11.6)	13.4	(10.1)	2.6	(5.7)	7.8	(2.4)	(10.6)	3.4	(1.9)	30.4
Cash at beginning of period	27.5	24.2	12.6	26.0	16.0	24.2	18.5	26.3	23.9	13.2	18.5	16.6
Cash at ending of period	24.2	12.6	26.0	16.0	18.5	18.5	26.3	23.9	13.2	16.6	16.6	47.0

Balance sheet

	Dec-31 FY2011A	Mar-31 Q1A	Jun-30 Q2A	Sep-30 Q3A	Dec-31 Q4A	Dec-31 FY2012A	Mar-31 Q1A	Jun-30 Q2E	Sep-30 Q3E	Dec-31 Q4E	Dec-31 FY2013E	Dec-31 FY2014E
Current assets												
Cash and cash equivalents	24.2	12.6	26.0	16.0	18.5	18.5	26.3	23.9	13.2	16.6	16.6	47.0
Restricted cash	0.3	0.0	0.0	0.9	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.6
Investments available for sale	-	-	-	-	11.1	11.1	-	-	-	-	-	-
Notes receivable	19.1	9.9	11.1	10.2	15.7	15.7	11.0	10.9	11.3	12.7	12.7	13.7
AR	110.4	114.4	121.7	132.8	124.6	124.6	124.9	117.4	132.2	138.1	138.1	101.4
Inventories	36.7	44.2	44.9	37.1	29.6	29.6	33.0	42.1	36.5	33.1	33.1	47.8
Prepaid expenses	13.3	11.9	10.2	11.3	2.5	2.5	5.6	8.0	13.2	7.9	7.9	21.3
Other receivables	3.9	5.6	6.4	7.9	5.9	5.9	7.2	8.0	8.6	7.9	7.9	5.1
Total current assets	207.8	198.6	220.3	216.1	208.8	208.8	208.5	210.8	215.7	216.8	216.8	237.0
Net PP&E	37.1	40.1	40.1	39.4	41.4	41.4	45.9	84.2	91.0	97.7	97.7	92.4
Construction in progress	2.4	3.5	6.2	17.0	29.2	29.2	30.4	-	-	-	-	-
Goodwill	13.4	13.4	13.3	13.3	13.4	13.4	13.4	13.4	13.4	13.4	13.4	13.4
Deferred tax assets	1.0	1.0	1.2	1.3	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Land use right	15.5	15.4	15.3	15.2	15.1	15.1	15.1	15.0	14.9	14.9	14.9	14.6
Other assets	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Total assets	277.4	272.2	296.5	302.4	309.3	309.3	315.0	325.1	336.7	344.4	344.4	359.0
Current liabilities												
ST bank loans	21.4	30.1	35.9	15.0	17.3	17.3	13.3	17.1	19.6	19.6	19.6	15.1
AP	22.8	21.9	24.3	27.0	25.0	25.0	29.4	24.5	23.6	22.9	22.9	13.7
Notes payable	13.6	2.2	6.0	10.3	6.0	6.0	4.9	6.0	5.2	6.1	6.1	25.1
Income tax	2.3	2.8	1.5	2.0	1.9	1.9	1.8	1.8	1.8	1.7	1.7	1.7
Advance from customers	12.6	13.8	14.4	15.9	13.6	13.6	15.7	13.1	15.0	15.3	15.3	11.0
Other payables	22.1	15.9	17.0	22.0	22.8	22.8	19.8	21.6	22.5	23.3	23.3	25.3
Total current liabilities	94.9	86.8	98.9	92.2	86.7	86.7	85.1	84.1	87.6	88.9	88.9	91.8
LT bank loans	1.6	1.5	9.4	18.9	26.6	26.6	31.6	37.7	43.2	43.2	43.2	33.3
Deferred income	-	-	2.6	2.9	3.1	3.1	4.2	6.3	6.3	6.3	6.3	6.3
Total liabilities	96.5	88.3	111.0	113.9	116.4	116.4	120.9	128.0	137.1	138.3	138.3	131.3
Shareholders' equity												
Common stock - par value	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Common stock-warrants	0.9	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in-capital	36.1	37.0	37.1	37.2	37.4	37.4	37.5	37.5	37.5	37.5	37.5	37.6
Reserves	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Retained earnings	111.9	114.7	117.1	121.0	123.1	123.1	123.7	126.7	129.3	135.7	135.7	157.2
Accumulated OCI	20.4	20.5	19.6	18.6	20.8	20.8	21.3	21.3	21.3	21.3	21.3	21.3
Treasury stock	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Total shareholders' equity	180.9	183.9	185.5	188.5	192.9	192.9	194.1	197.1	199.7	206.1	206.1	227.7
Total liabilities and SE	277.4	272.2	296.5	302.4	309.3	309.3	315.0	325.1	336.7	344.4	344.4	359.0

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