

BOE Varitronix (710 HK)

CMBI Corp Day takeaways: large-size/high-end display demand, Chengdu plant and overseas orders

We hosted BOEVx at CMBI Technology Corporate Day on 26 Jun. Overall, mgmt. expects larger and high-end displays remain the major upgrade trend and BOEVx is well positioned to benefit given its industry leadership position. Mgmt. guided overall sales growth to outperform the market and NPM recovery on track in FY24E driven by ASP hikes, better operating efficiency, overseas orders and rapid growth of system products. Trading at 6.5x/5.7x FY24/25E (1-sd below avg.), we think the stock's risk-reward is attractive. Maintain BUY with TP of HK\$10.94 based on 15x FY24E P/E.

■ **Large displays and high-end display products to drive ASP/NPM recovery; system biz maintains high growth.** Mgmt. believes large displays, high-end displays and more complex modules remain the major upgrade trends, and reiterated guidance of 8%+ YoY sales growth, outperforming the industry average of 4% YoY. Specifically, mgmt. expects high-end products (Oxide/LTPS/OLED) to achieve 200%+ YoY growth with a rising sales contribution in FY24E. In addition, mgmt. stated overseas demand for high-end products is rapidly growing, and is positive on large displays and high-end products to drive ASP upside and NPM recovery. For system business, mgmt. guided 100%+ YoY growth in FY24E with sales contribution to exceed 5%/5-10% in FY24/25E. Mgmt. also expects overseas market will achieve double-digit growth on overseas project wins.

■ **Chengdu plant update: full capacity of 15mn+ pieces/month; Expect UTR to recover on a stabilising market in 2H24E.** Mgmt. shared latest updates on Chengdu plant progress and key highlights include: 1) the plant is now running at full capacity with over 15mn pieces/month; 2) no new depreciation added to the plant; 3) 1H24 UTR is less than 100% due to production line shifting to small and rush orders (rather than demand slowdown) and mgmt. expects UTR to recover once the market stabilizes in 2H24E.

■ **NPM expected to recover in 2H24E; Maintain BUY.** Overall, while macro weakness and customers' order slowdown will weigh on 1H24E profit, we expect margin recovery in 2H24E given less domestic capacity investment, better operation efficiency at Chengdu plant, ASP upside and more order wins on Parentco support. Maintain BUY and our TP of HK\$10.94 is based on 15x FY24E P/E.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	10,722	10,760	11,699	13,067	14,372
YoY growth (%)	38.6	0.4	8.7	11.7	10.0
EBITDA (HK\$ mn)	841.0	771.0	865.7	947.7	1,071.0
Net profit (HK\$ mn)	582.5	475.3	573.5	657.7	748.1
YoY growth (%)	77.7	(18.4)	20.7	14.7	13.7
EPS (Reported) (HK\$)	0.78	0.60	0.73	0.84	0.95
Consensus EPS (HK\$)	0.78	0.65	0.90	1.26	0.00
P/E (x)	6.1	7.9	6.5	5.7	5.0
P/B (x)	0.4	0.4	0.5	0.3	0.4
Yield (%)	513.9	401.0	458.7	526.0	561.4
ROE (%)	15.6	11.1	12.4	13.0	13.5
Net gearing (%)	1.3	27.5	(45.8)	22.3	(42.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$10.94**
 Up/Downside **129.3%**
 Current Price **HK\$4.77**

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Stock Data

Mkt Cap (HK\$ mn)	3,777.8
Avg 3 mths t/o (HK\$ mn)	10.9
52w High/Low (HK\$)	12.52/4.40
Total Issued Shares (mn)	792.0

Source: FactSet

Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%

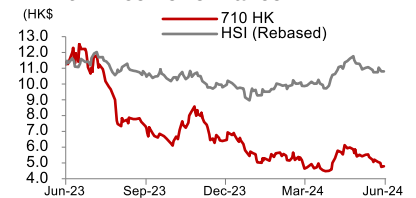
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-11.8%	-8.2%
3-mth	0.6%	-7.6%
6-mth	-25.4%	-32.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1) Focus on high-end demand and overseas demand to drive recovery – 27 Mar 2024 ([link](#))

2) Positive on shipment recovery and capacity expansion in 2H23E – 24 Aug 2023 ([link](#))

3) Strong FY22 results; Multiple drivers from Chengdu expansion, CMS and US market – 22 Mar 2023 ([link](#))

4) NDR Takeaways: Chengdu auto display capacity ramp-up on track; auto intelligence to drive growth – 13 Jan 2023 ([link](#))

Earnings forecasts

Figure 1: P&L forecast

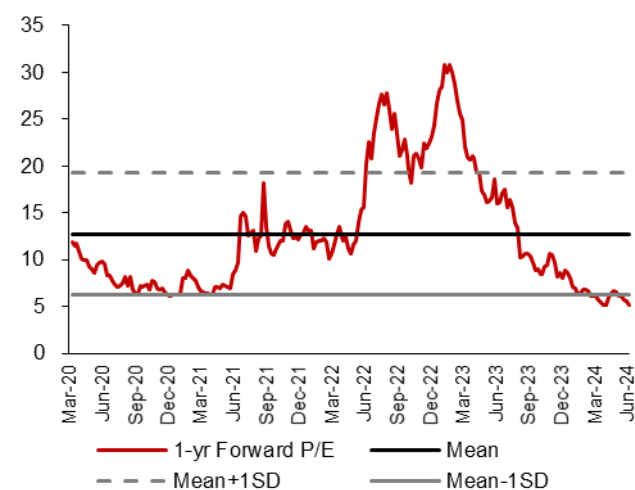
HK\$ mn	2022	1H23	2H23	2023	1H24E	2H24E	2024E	2025E
Revenue	10,722	5,210	5,550	10,760	5,517	6,182	11,699	13,067
YoY	38.6%	7.9%	-5.8%	0.4%	5.9%	11.4%	8.7%	11.7%
Automotive display	9,577	4,646	5,064	9,710	4,925	5,672	10,596	11,910
YoY	47.1%	7.2%	-3.4%	1.4%	6.0%	12.0%	9.1%	12.4%
Industrial display	1,145	564	486	1,050	592	510	1,103	1,158
YoY	-6.8%	13.7%	-25.1%	-8.3%	5.0%	5.0%	5.0%	5.0%
Operating profit	670	241	329	570	314	352	667	765
OPM (%)	6.3%	4.6%	5.9%	5.3%	5.7%	5.7%	5.7%	5.9%
...YoY	91.5%	-12.4%	-16.8%	-15.0%	30.6%	7.1%	17.0%	14.7%
Net profit	582	203	273	475	270	303	573	658
NPM (%)	5.4%	3.9%	4.9%	4.4%	4.9%	4.9%	4.9%	5.0%
...YoY	77.7%	-19.3%	-17.7%	-18.4%	33.5%	11.1%	20.7%	14.7%

Source: Company data, CMBIGM estimates

Valuation

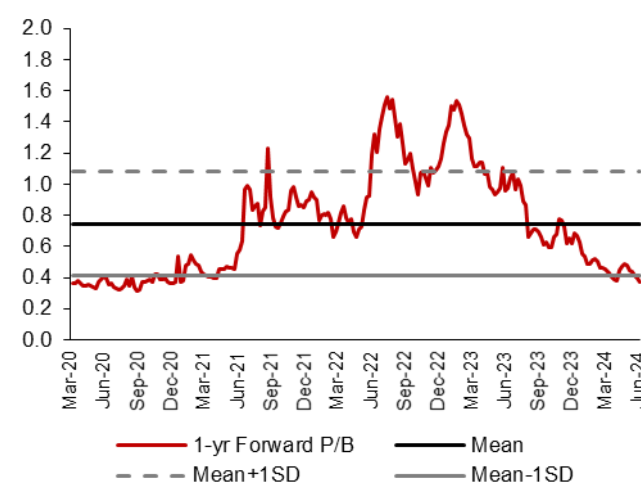
Maintain BUY and our TP of HK\$10.94 is based on 15x FY24E P/E. We are positive on BOEVx's order wins, Chengdu UTR ramp-up, overseas expansion and auto display leadership under the smart cockpit trend. Trading at 6.5x/5.7x FY24/25E P/E (1-sd below 4-year avg.), the stock is attractive in our view.

Figure 2: 12M forward P/E band



Source: Company data, CMBIGM

Figure 3: 12M forward P/B band



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	7,738	10,722	10,760	11,699	13,067	14,372
Operating expenses	7,388	10,052	10,191	11,032	12,303	13,503
Operating profit	350	670	570	667	765	870
EBITDA	513	841	771	866	948	1,071
Other income/expense	(0)	(0)	(4)	0	0	0
Others	(1)	(12)	(25)	0	0	0
Pre-tax profit	349	658	540	667	765	870
Income tax	(39)	(98)	(59)	(93)	(107)	(122)
After tax profit	328	582	475	573	658	748
Net profit	328	582	475	573	658	748
Adjusted net profit	328	582	475	573	658	748

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	4,853	6,611	8,097	4,602	8,086	4,625
Cash & equivalents	2,267	2,819	3,501	2,467	2,703	1,750
Account receivables	1,744	2,158	2,556	1,859	3,072	2,352
Inventories	833	1,568	1,947	182	2,218	429
Other current assets	9	66	26	26	26	26
Non-current assets	690	1,673	1,937	2,815	3,631	4,540
PP&E	583	1,490	1,760	2,638	3,454	4,363
Other non-current assets	107	182	177	177	177	177
Total assets	5,543	8,283	10,034	7,417	11,717	9,165
Current liabilities	2,168	4,103	5,023	2,004	5,845	2,754
Account payables	2,136	3,390	4,738	1,720	5,560	2,470
Tax payable	17	65	14	14	14	14
Other current liabilities	15	648	271	271	271	271
Non-current liabilities	29	64	601	601	601	601
Other non-current liabilities	29	33	218	218	218	218
Total liabilities	2,198	4,167	5,624	2,606	6,446	3,356
Share capital	184	198	198	198	198	198
Other reserves	2,848	3,867	4,156	4,557	5,018	5,555
Total shareholders equity	3,346	4,116	4,410	4,811	5,272	5,809
Total equity and liabilities	5,543	8,283	10,034	7,417	11,717	9,165

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	349	658	540	667	765	870
Depreciation & amortization	160	(193)	(224)	(257)	(293)	(334)
Change in working capital	217	105	572	(557)	591	(581)
Others	(10)	(98)	(59)	(93)	(107)	(122)
Net cash from operations	665	471	829	(240)	956	(167)
Investing						
Capital expenditure	(247)	(483)	(430)	(468)	(523)	(575)
Others	(8)	0	0	0	0	0
Net cash from investing	(254)	(483)	(430)	(468)	(523)	(575)
Financing						
Dividend paid	(36)	(182)	(150)	(172)	(197)	(211)
Others	246	0	0	0	0	0
Net cash from financing	210	(182)	(150)	(172)	(197)	(211)
Net change in cash						
Cash at the beginning of the year	1,628	2,267	2,819	3,501	2,467	2,703
Exchange difference	19	745	434	(154)	0	0
Cash at the end of the year	2,267	2,819	3,501	2,467	2,703	1,750
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	70.9%	38.6%	0.4%	8.7%	11.7%	10.0%
Operating profit	397.0%	91.5%	(15.0%)	17.0%	14.7%	13.7%
EBITDA	137.5%	63.9%	(8.3%)	12.3%	9.5%	13.0%
Net profit	377.6%	77.7%	(18.4%)	20.7%	14.7%	13.7%
Adj. net profit	377.6%	77.7%	(18.4%)	20.7%	14.7%	13.7%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Operating margin	4.5%	6.3%	5.3%	5.7%	5.9%	6.1%
EBITDA margin	6.6%	7.8%	7.2%	7.4%	7.3%	7.5%
Adj. net profit margin	4.2%	5.4%	4.4%	4.9%	5.0%	5.2%
Return on equity (ROE)	10.7%	15.6%	11.1%	12.4%	13.0%	13.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.3)	0.0	0.3	(0.5)	0.2	(0.4)
Current ratio (x)	2.2	1.6	1.6	2.3	1.4	1.7
Receivable turnover days	68.5	66.4	68.9	68.9	68.9	68.9
Inventory turnover days	38.9	50.0	40.1	40.1	40.1	40.1
Payable turnover days	91.9	115.1	121.7	121.7	121.7	121.7
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	10.6	6.1	7.9	6.5	5.7	5.0
P/B	0.6	0.4	0.4	0.5	0.3	0.4
Div yield (%)	318.5	513.9	401.0	458.7	526.0	561.4
EV	3,345.6	4,115.8	4,409.7	4,811.1	5,271.5	5,809.0
EV/Sales	0.4	0.4	0.4	0.4	0.4	0.4
EV/EBITDA	6.5	4.9	5.7	5.6	5.6	5.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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