

BOE Varitronix (710 HK)

Focus on high-end demand and overseas demand to drive recovery

BOEVx delivered flattish revenue in 2023 while net profit dropped 18% YoY due to EBITDA margin pressure on lower ASP and higher depreciation. For 2H23, we are encouraged by its NPM recovery to 4.9% (vs 3.9% in 1H23), given improving yield and operation efficiency at the Chengdu plant. For 2024, mgmt. is positive on high-end product growth, rising UTR and expansion of overseas customers. We lowered our FY24-25E EPS by 28-32% to reflect on-going auto OEM price war but steady NPM. Trading at 6.5x/5.7x FY24/25E (1-sd below 4-year avg.), we think risk-reward is attractive. Maintain BUY with a new TP of HK\$10.94 based on lowered 15x FY24E P/E (vs 20x prior) for near-term industry headwinds.

■ **FY23 earnings below market expectation due to ASP/margin pressure despite improving yield and efficiency.** BOEVx revenue was up 0.4% YoY in 2023 driven by stable growth in TFT products, touch panel display modules and automotive system products, offset by RMB depreciation of 8.5% and passive products' sales decline. EBITDA margin dropped 0.6ppt due to ASP adjustment and higher costs such as staff cost, PP&E depreciation and the Chengdu plant's marginal cost. 2H23 net margin of 4.9% showed positive signs of improvement (vs 3.9% in 1H23) given better yield and operation efficiency at the Chengdu plant.

■ **2024 outlook: rapid growth in LTPS/Oxide/OLED products, rising UTR at Chengdu plant, and overseas expansion on track.** For 2024, mgmt. is positive on sales growth to outperform industry average (Omdia: 5% YoY). By product, mgmt. expected 1) Oxide: double-digit growth, 2) LTPS: higher shipments, 3) OLED: 200%+ YoY on high-end customers' demand, 4) a-Si: high shipment growth with stable share, and 5) mid-to-large-sized products: double-digit shipment growth. In addition, system business is expected to achieve 100% YoY in FY24E. As for the Chengdu plant, mgmt. guided a solid backlog in 1H24E and rising UTR on production optimization. For overseas market, mgmt. expected customer expansion to be on track and guided double-digit YoY growth on new order wins.

■ **NPM recovery on track despite overhang from price war; maintain BUY.** We expect near-term ASP/GPM will still be under pressure given the on-going price war among China auto OEM. However, we remain positive on margin recovery in FY24-25E given less domestic capacity investment and better operation efficiency at the Chengdu plant. We lower our FY24-25E EPS by 28-32% to factor in more conservative ASP on auto price war. Maintain BUY and cut TP to HK\$10.94 based on lowered 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)	15.7	19.0	6.5	5.7	5.0
P/B (x)	1.1	0.9	0.5	0.3	0.4
Yield (%)	198.6	166.9	461.6	529.3	564.9
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
(Previous TP)	HK\$21.53
Up/Downside	130.8%
Current Price	HK\$4.74

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Stock Data

Mkt Cap (HK\$ mn)	3,754.1
Avg 3 mths t/o (HK\$ mn)	11.1
52w High/Low (HK\$)	14.46/4.64
Total Issued Shares (mn)	792.0

Source: FactSet

Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%

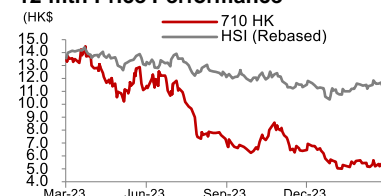
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-16.3%	-16.2%
3-mth	-25.8%	-27.1%
6-mth	-34.1%	-30.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

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

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

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

2H23 Results Review

Figure 1: 2H23 results

HKD mn	Actual				HoH	YoY	CMBI		Consensus	
	1H22	2H22	1H23	2H23			2H23E	Diff %	2H23E	Diff %
Revenue	4,831	5,892	5,210	5,550	-11.6%	7.9%	7,077	-22%	6,918	-20%
Operating profit	275	395	241	329	-39.1%	-12.4%	517	-36%	517	-36%
Net profit	251	332	202.5	273	-38.9%	-19.3%	445	-39%	415	-34%
EPS (HKD cent)	34.50	44.64	27.26	34.68	-38.9%	-21.0%	59.9	-42%	58.0	-40%
Operating margin	5.7%	6.7%	4.6%	5.9%	-2.1 ppt	-1.1 ppt	7.3%	-2.7 ppt	7.5%	-2.9 ppt
Net margin	5.2%	5.6%	3.9%	4.9%	-1.7 ppt	-1.3 ppt	6.3%	-2.4 ppt	6.0%	-2.1 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 2: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	11,699	13,067	14,372	14,981	17,898	na	-21.9%	-27.0%	na
Operating profit	667	765	870	929	1,130	na	-28.2%	-32.3%	na
Net profit	573	658	748	800	973	na	-28.3%	-32.4%	na
EPS (RMB)	73	84	95	107.67	131.00	na	-32.3%	-36.2%	na
Operating margin	5.7%	5.9%	6.1%	6.2%	6.3%	na	-0.5 ppt	-0.5 ppt	na
Net Margin	4.9%	5.0%	5.2%	5.3%	5.4%	na	-0.4 ppt	-0.4 ppt	na

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	11,699	13,067	14,372	14,598	17,921	21,189	-19.9%	-27.1%	-32.2%
Operating profit	667	765	870	809	1,115	1,470	-17.5%	-31.4%	-40.8%
Net profit	573	658	748	714	988	1,401	-19.7%	-33.4%	-46.6%
EPS (RMB)	72.93	83.64	95.13	90.44	126.30	-	-19.4%	-33.8%	-
Operating margin	5.7%	5.9%	6.1%	5.5%	6.2%	6.9%	0.2 ppt	-0.4 ppt	-0.9 ppt
Net Margin	4.9%	5.0%	5.2%	4.9%	5.5%	6.6%	0 ppt	-0.5 ppt	-1.4 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: 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 new TP of HK\$10.94 is based on lowered 15x FY24E P/E (vs 20x prior) for near-term industry headwinds. We are positive on BOEVx's order wins, the Chengdu plant's 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.

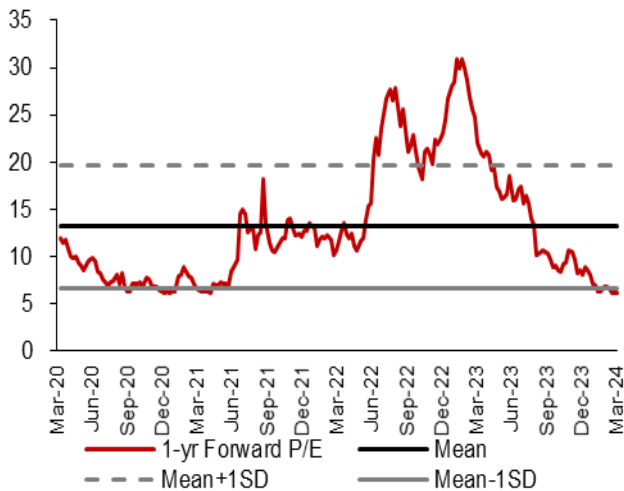
Figure 5: Peers' valuation

Company	Ticker	Rating	Mkt Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
BOE Varitronix	710 HK	BUY	480	4.74	10.94	131%	19.0	6.5	0.9	0.5	11.1	12.4
LDG	LPL US	NR	4,100	4.0	NA	NA	-	-	-	-	(26.4)	-
AUO	2409 TT	NR	4,366	18.10	NA	NA	-	-	0.9	0.8	(10.6)	(1.6)
Tianma	000050 CH	NR	2,843	8.35	NA	NA	-	-	0.7	0.7	-	-
Wuhu Token	300088 CH	NR	1,806	5.31	NA	NA	31.2	19.8	1.5	1.4	4.5	6.9
Infovision	688055 CH	NR	1,625	3.52	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	315	0.78	NA	NA	-	-	-	-	-	-
Average							14.0	13.2	1.0	0.9	(5.4)	9.0

Source: Bloomberg, CMBIGM estimates

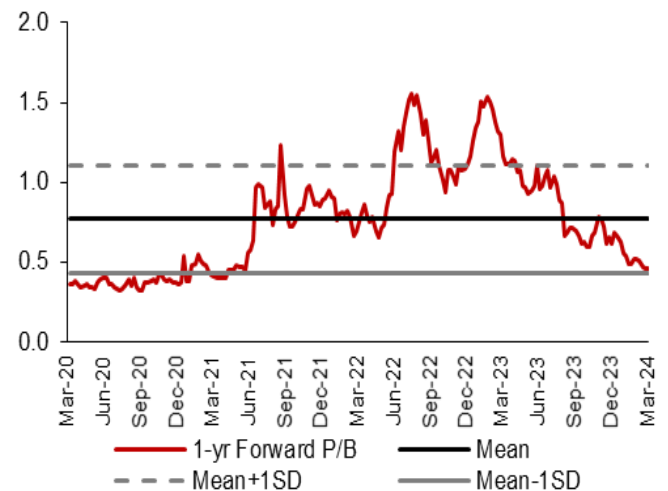
Note: Data as of 26 Mar 2024

Figure 6: 12M forward P/E band



Source: Company data, CMBIGM estimates

Figure 7: 12M forward P/B band



Source: Company data, CMBIGM estimates

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	14.2	15.7	19.0	6.5	5.7	5.0
P/B	0.8	1.1	0.9	0.5	0.3	0.4
Div yield (%)	236.7	198.6	166.9	461.6	529.3	564.9
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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