

BOE Varitronix (710 HK)

Limited impact from tariff given low US exposure

We hosted an investor call with BOEVx regarding the recent US reciprocal tariffs. Overall, mgmt. believes there is limited impact on their financials given low US sales exposure. Regionally, BOEVx is positive on Vietnam's capacity ramp-up in 2025 and already received orders from the US and South Korean customers. In addition, mgmt. believes Mexico is a sweet spot under USMCA and they will work with Parentco to lower tariff risks in the future. Additionally, BOEVx will focus on overseas market expansion and adjust product mix in the longer term. BOEVx also announced a share repurchase plan on 11 Apr, demonstrating mgmt.'s confidence in the business outlook. Overall, we are positive on system biz, high-end auto display and overseas expansion to drive growth. Maintain BUY.

- Limited impact on financials given low US sales mix. Mgmt. believes that there is limited impact on its financials from the US reciprocal tariff given that its direct export to US market's sales mix is very low (2.6% in FY23) and even lower contribution in terms of earnings. Mgmt. reiterated that they can supply the US markets through Mexico and Vietnam to avoid tariffs, and Mexico is the sweet spot under USMCA. In addition, mgmt. believes that US auto manufacturers' OEMs are located in tariff-friendly zones and BOEVx can directly supply these OEMs according to customers' demand.
- Regional capacity allocation and adjust product mix to avoid tariff risks. Mgmt. is positive on Vietnam's plant construction to accelerate and expect mass production in 2025 with US/South Korean customers order wins. In Mexico, mgmt. is encouraged on its capacity ramp-up, and the plant can currently supply up to 62% of US local market demand. In addition, mgmt. expects BOEVx to adjust customer and product mix to diversity tariff's risk in the longer term, including non-auto biz expanding into Al hardware and industrial equipment. In addition, mgmt. aimed to lower single customer's sales mix from 34% to 25% or lower.
- Other highlights. 1) Limited impact on raw material procurement given that core materials such as backlight modules and display panels are sourced mostly from domestic suppliers with only a small amount of IC chips from the US but actual production in Southeast Asia; 2) limited impact on technical upgrade in production lines since key equipment is not exclusively supplied by the US; 3) BOEVx will continue to expand in the US market but will prioritize markets including Japan and South Korea markets; 4) cooperation with the Parentco's assembly plant in Mexico to avoid tariff risks.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (HK\$ mn)	10,760	13,449	16,274	19,404	22,228
YoY growth (%)	0.4	25.0	21.0	19.2	14.6
EBITDA (HK\$ mn)	771.0	686.0	895.1	1,097.2	1,256.8
Net profit (HK\$ mn)	475.3	391.3	506.1	625.6	738.7
YoY growth (%)	(18.4)	(17.7)	29.4	23.6	18.1
EPS (Reported) (HK\$)	0.60	0.50	0.64	0.79	0.94
Consensus EPS (HK\$)	na	na	0.72	0.90	1.31
P/E (x)	8.3	10.1	7.8	6.3	5.4
P/B (x)	0.4	0.3	0.3	0.3	0.2
Yield (%)	3.8	3.4	3.8	4.2	4.7
ROE (%)	11.1	8.7	10.6	12.0	12.9
Net gearing (%)	(65.3)	(50.5)	(39.0)	(54.2)	(41.9)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$9.63
Up/Downside 91.8%
Current Price HK\$5.02

China Technology

Alex NG

(852) 3900 0881 alexng@cmbi.com.hk

Hanging LI

lihanqing@cmbi.com.hk

Stock Data

35.3
7.87/4.05
792.0

Source: FactSet

Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-30.9%	-21.4%
3-mth	-17.4%	-24.7%
6-mth	-17.6%	-16.2%

Source: FactSet

12-mth Price Performance



Source: FactSet



Valuation

Maintain BUY and our unchanged TP of HK\$9.63 is based on 15x FY25E P/E. We are positive on BOEVx's order wins, system product tamp, overseas expansion and auto display market leadership. Trading at 7.8x/6.3x FY25/26E P/E, the stock is attractive in our view.

Figure 1: Peers' valuation

			Mkt Cap	Price	TP	Up/Down	P/E	(x)	P/B	(x)	ROE	(%)
Company	Ticker	Rating	US\$(mn)	(LC)	(LC)	-side	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
BOE Varitronix	710 HK	BUY	512	5.02	9.6	92%	7.8	6.3	0.3	0.3	4.0	4.2
LDG	LPL US	NR	2,800	2.80	NA	NA	-	-	-	-	-	-
AUO	2409 TT	NR	2,797	11.85	NA	NA	30.6	17.3	0.6	0.6	0.6	3.2
Tianma	000050 CH	NR	2,460	7.30	NA	NA	40.6	23.2	0.6	0.6	1.5	2.6
Wuhu Token	300088 CH	NR	1,829	5.34	NA	NA	-	-	-	-	-	-
Infovision	688055 CH	NR	1,472	3.22	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	379	0.93	NA	NA	-	-	-	-	-	-
			Average				26.3	15.6	0.5	0.5	2.0	3.4

Source: Bloomberg, CMBIGM estimates

Figure 2: 12M forward P/E band

Figure 3: 12M forward P/B band 35 2.0 1.8 30 1.6 25 1.4 1.2 20 1.0 15 0.8 0.6 10 0.4 5 0.2 0.0 0 Mar.20 1-yr Forward P/E 1-yr Forward P/B Mean Mean - - - Mean+1SD Mean-1SD - - - Mean+1SD Mean-1SD

Source: Company data, CMBIGM estimates

Source: Company data, CMBIGM estimates



Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Revenue	10,722	10,760	13,449	16,274	19,404	22,228
Operating expenses	10,052	10,191	13,011	15,670	18,655	21,347
Operating profit	670	570	437	604	750	881
EBITDA	841	771	686	895	1,097	1,257
Depreciation	(166)	(202)	(244)	(292)	(348)	(376)
Other income/expense	(445)	(466)	(671)	(846)	(1,009)	(1,156)
Others	427	437	651	823	970	1,111
Pre-tax profit	658	540	422	580	711	836
Income tax	98	59	21	60	71	84
After tax profit	560	481	402	520	640	753
Net profit	582	475	391	506	626	739
Adjusted net profit	582	475	391	506	626	739
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Current assets	6,611	8,097	9,195	9,990	11,926	12,535
Cash & equivalents	2,819	3,501	2,700	2,312	3,323	2,893
Account receivables	2,158	2,556	3,326	3,599	4,658	4,801
Inventories	1,568	1,947	1,778	2,688	2,554	3,451
Other current assets	66	94	1,391	1,391	1,391	1,391
Non-current assets	1,673	1,937	2,270	2,564	2,929	3,344
PP&E	1,490	1,760	2,060	2,355	2,720	3,135
Other non-current assets	182	177	209	209	209	209
Total assets	8,283	10,034	11,465	12,554	14,855	15,880
Current liabilities	4,103	5,023	6,500	7,220	9,049	9,509
Account payables	3,390	4,738	6,228	6,949	8,777	9,237
Tax payable	65	14	23	23	23	23
Other current liabilities	648	271	248	248	248	248
Non-current liabilities	64	601	365	365	365	365
Long-term borrowings	31	383	170	170	170	170
Other non-current liabilities	33	218	194	194	194	194
Total liabilities	4,167	5,624	6,864	7,585	9,414	9,874
Share capital	198	198	198	198	198	198
Other reserves	3,867	4,156	4,337	4,692	5,150	5,701
Total shareholders equity	4,116	4,410	4,600	4,969	5,441	6,006
Total equity and liabilities	8,283	10,034	11,465	12,554	14,855	15,880



YE 31 Dec (HK\$ mn) Operating Profit before taxation 658 540 422 580 711 Depreciation & amortization 166 202 237 356 411 Change in working capital (194) 564 888 (462) 904 Others 144 (120) (21) (60) (71) Net cash from operations 774 1,186 1,527 414 1,955 Investing Capital expenditure (1,176) (502) (538) (651) (776) Others 7 278 0 0 0 Net cash from investing (1,170) (224) (538) (651) (776)	836 474 (580) (84) 646 (889) 0 (889)
Profit before taxation 658 540 422 580 711 Depreciation & amortization 166 202 237 356 411 Change in working capital (194) 564 888 (462) 904 Others 144 (120) (21) (60) (71) Net cash from operations 774 1,186 1,527 414 1,955 Investing Capital expenditure (1,176) (502) (538) (651) (776) Others 7 278 0 0 0 Net cash from investing (1,170) (224) (538) (651) (776)	474 (580) (84) 646 (889) 0 (889)
Depreciation & amortization 166 202 237 356 411 Change in working capital (194) 564 888 (462) 904 Others 144 (120) (21) (60) (71) Net cash from operations 774 1,186 1,527 414 1,955 Investing Capital expenditure Capital expenditure (1,176) (502) (538) (651) (776) Others 7 278 0 0 0 Net cash from investing (1,170) (224) (538) (651) (776)	474 (580) (84) 646 (889) 0 (889)
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Net cash from investing (1,170) (224) (538) (651) (776)	(188) 0
	(188)
Financing	0
	0
Dividend paid (109) (181) (135) (152) (167)	
Others 1,207 (83) 0 0 0	(188)
Net cash from financing 1,098 (263) (135) (152) (167)	
Net change in cash	
Cash at the beginning of the year 2,267 2,819 3,501 2,700 2,312	3,323
Exchange difference (151) (17) 0 0	0
Others 702 698 (801) (388) 1,012	(430)
Cash at the end of the year 2,819 3,501 2,700 2,312 3,323	2,893
GROWTH 2022A 2023A 2024A 2025E 2026E	2027E
YE 31 Dec	
Revenue 38.6% 0.4% 25.0% 21.0% 19.2%	14.6%
Operating profit 91.5% (15.0%) (23.2%) 38.0% 24.2%	17.5%
EBITDA 63.9% (8.3%) (11.0%) 30.5% 22.6%	14.6%
Net profit 77.7% (18.4%) (17.7%) 29.4% 23.6%	18.1%
Adj. net profit 77.7% (18.4%) (17.7%) 29.4% 23.6%	18.1%
PROFITABILITY 2022A 2023A 2024A 2025E 2026E	2027E
YE 31 Dec	4.00/
Operating margin 6.3% 5.3% 3.3% 3.7% 3.9%	4.0%
EBITDA margin 7.8% 7.2% 5.1% 5.5% 5.7% Adj. net profit margin 5.4% 4.4% 2.9% 3.1% 3.2%	5.7%
Adj. net profit margin 5.4% 4.4% 2.9% 3.1% 3.2% Return on equity (ROE) 15.6% 11.1% 8.7% 10.6% 12.0%	3.3% 12.9%
GEARING/LIQUIDITY/ACTIVITIES 2022A 2023A 2024A 2025E 2026E	2027E
YE 31 Dec	20212
Net debt to equity (x) (0.5) (0.7) (0.5) (0.4) (0.5)	(0.4)
Current ratio (x) 1.6 1.6 1.4 1.4 1.3	1.3
Receivable turnover days 66.4 79.9 79.8 77.7 77.7	77.7
Inventory turnover days 50.0 74.7 61.9 60.8	60.8
Payable turnover days 115.1 172.8 182.5 182.5	182.5
VALUATION 2022A 2023A 2024A 2025E 2026E	2027E
YE 31 Dec	20272
P/E 6.4 8.3 10.1 7.8 6.3	5.4
P/B 0.5 0.4 0.3 0.3 0.3	0.2
Div yield (%) 4.9 3.8 3.4 3.8 4.2	4.7
EV 4,115.8 4,409.7 4,600.5 4,968.8 5,441.2	6,006.3
EV/Sales 0.4 0.4 0.3 0.3 0.3	0.3
EV/EBITDA 4.9 5.7 6.7 5.6 5.0	4.8

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



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Stock with potential return of +15% to -10% over next 12 months

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Stock with potential loss of over 10% over next 12 months

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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