

BOE Varitronix (710 HK)

A clear 2025 strategic roadmap; Reiterate BUY on recent correction

BOEVx hosted an investor call on 9 Jun regarding business update and 3-year strategy roadmap. Mgmt. shared its 2025 guidance for the first time: 1) revenue target of HK\$20bn in 2025 (23% FY22-25E CAGR), 2) global market share to reach 25% in 2025 (vs ~20% in 2022), 3) Overseas sales mix of 50% by 2025 (vs 30% in FY23E), and 4) new technology (OLED/mini/LTOP) sales mix to target 50% in 2025. In near term, despite margin pressure on automobile price cut and Chengdu capacity ramp-up in 1Q23, mgmt. expects strong new orders and Chengdu UTR ramp-up (100% in 3Q23E) will drive margin recovery in 2H23E. In longer term, overseas share gain and high-end product launches will continue to drive ASP/ NPM expansion. After recent correction, the stock trades at 11.7x/9.1x FY23/24E, which is attractive in our view. Maintain BUY with TP HK\$23.69 (25x FY23E P/E).

■ **Strong client orders and Cheungdu plant ramp-up to boost share gain; ASP/margin pressure to ease in 2H23E.** Despite auto OEM's intensified competition in 1Q23, mgmt. expects industry competition to alleviate in 2H23E and remain positive on share gain on strong orders from leading auto OEM/NEV clients. Mgmt. also expected ASP/GPM pressure to ease in 2H23E thanks to semi shortage easing, cost-down on material localization, established pricing adjustment strategy and resource support from parentco. In addition, mgmt. guided Chengdu plant's UTR to reach 100% in 3Q23E after mass production in 1Q23, thanks to parentco's order migration, recent plant qualification and new order wins.

■ **2025 roadmap: Overseas expansion and OLED/Mini/LTOP products as growth drivers.** Mgmt. outlined a clear business roadmap and shared its 2025 guidance for the first time: 1) HK\$20bn revenue target in 2025 (23% CAGR in FY22-25E); 2) overseas sales mix to reach 50% in 2025; 3) global market share of 25% in 2025 (e.g. 50% share in BYD/Changan/Geely now). In terms of growth drivers, BOEVx expected that 1) display system will ramp up on overseas expansion (e.g. US tier-1 client win in 1Q23) and 2) high-end LTOP/OLED products will penetrate into Chinese and overseas clients.

■ **Reiterate BUY with TP of HK\$23.69.** We believe 1Q23 margin pressure has been priced in given 36% correction in past three months, and order wins and Chengdu plant ramp-up will boost margin recovery in 2H23E. In long term, we think BOEVx will benefit from auto display upgrade and overseas expansion given auto intelligence and smart cockpit trend. Trading at 11.7x/9.1x FY23/24E, we think the stock is attractive (vs 21%/29% EPS growth). Reiterate BUY.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	7,738	10,722	13,078	15,977	19,117
YoY growth (%)	70.9	38.6	22.0	22.2	19.7
EBITDA (HK\$ mn)	513	841	995	1,310	1,568
Net profit (HK\$ mn)	327.8	582.5	703.9	904.8	1,129.7
YoY growth (%)	377.6	77.7	20.9	28.5	24.9
EPS (Reported) (HK\$)	0.45	0.78	0.95	1.22	1.52
Consensus EPS (HK\$)	na	na	0.96	1.31	1.67
P/E (x)	14.2	15.7	11.7	9.1	7.3
P/B (x)	0.8	1.1	0.9	0.8	0.7
Yield (%)	236.7	198.6	256.1	329.2	411.1
ROE (%)	10.7	15.6	16.6	19.3	21.0
Net gearing (%)	(34.3)	1.3	5.4	15.7	11.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$23.69
 (Previous TP HK\$23.69)
Up/Downside 113.5%
Current Price HK\$11.10

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Stock Data

Mkt Cap (HK\$ mn)	8,791.2
Avg 3 mths t/o (HK\$ mn)	25.5
52w High/Low (HK\$)	20.00/10.24
Total Issued Shares (mn)	792.0

Source: FactSet

Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%

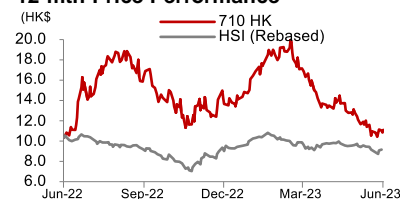
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-13.7%	-10.1%
3-mth	-36.0%	-31.7%
6-mth	-18.7%	-20.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

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

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

3) Corp Day Takeaways: Chengdu auto display plant to drive growth in FY23E – 2 Dec 2022 ([link](#))

4) Global auto display leader riding on smart cockpit trend; Initiate BUY – 30 Aug 2022 ([link](#))

Earnings Forecasts

Figure 1: P&L forecast

HK\$ mn	2021	1H22	2H22	2022	1H23E	2H23E	2023E	2024E
Revenue	7,738	4,831	5,892	10,722	5,896	7,182	13,078	15,977
YoY	70.9%	51.0%	29.8%	38.6%	22.1%	21.9%	22.0%	22.2%
Automotive display	6,509	4,335	5,242	9,577	5,375	6,500	11,875	14,714
YoY	88.7%	68.2%	33.4%	47.1%	24.0%	24.0%	24.0%	23.9%
Industrial display	1,228	496	649	1,145	521	681	1,202	1,262
YoY	14.0%	-20.3%	7.1%	-6.8%	5.0%	5.0%	5.0%	5.0%
Operating profit	350	275	395	670	360	445	805	1,038
OPM (%)	4.5%	5.7%	6.7%	6.3%	6.1%	6.2%	6.2%	6.5%
...YoY	397.0%	187.8%	55.4%	91.5%	30.8%	12.6%	20.1%	29.0%
Net profit	328	251	332	582	315	389	704	905
NPM (%)	4.2%	5.2%	5.6%	5.4%	5.3%	5.4%	5.4%	5.7%
...YoY	377.6%	163.8%	42.5%	77.7%	25.6%	17.2%	20.9%	28.5%

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	13,078	15,977	19,117	13,532	16,709	20,208	-3.4%	-4.4%	-5.4%
Operating profit	805	1,038	1,300	834	1,149	1,479	-3.5%	-9.6%	-12.1%
Net profit	704	905	1,130	733	990	1,252	-4.0%	-8.6%	-9.8%
EPS (US\$ cents)	94.77	121.82	152.09	95.75	131.25	167.25	-1.0%	-7.2%	-9.1%
Operating margin	6.2%	6.5%	6.8%	6.2%	6.9%	7.3%	0 ppt	-0.4 ppt	-0.5 ppt
Net Margin	5.4%	5.7%	5.9%	5.4%	5.9%	6.2%	0 ppt	-0.3 ppt	-0.3 ppt

Source: Company data, CMBIGM estimates

Valuation

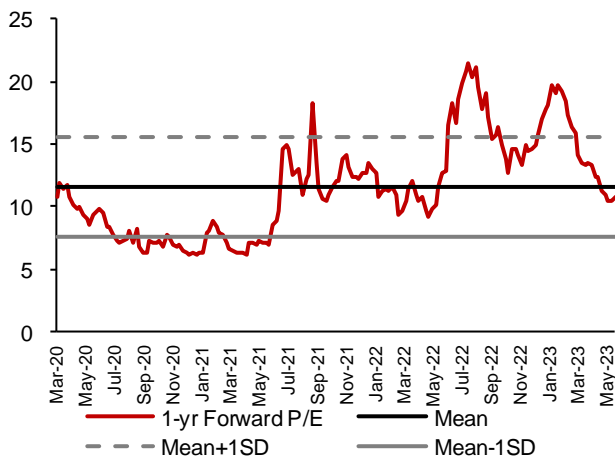
We are positive on BOEVx's order wins, Chengdu capacity expansion, overseas expansion and auto display leadership under smart cockpit trend. Trading at 11.7x/9.1x FY23/24E, the stock is attractive in our view. Reiterate BUY with TP HK\$23.69. Upcoming catalysts include order wins, Chengdu plant ramp-up, and overseas market expansion.

Figure 3: 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	1,155	11.44	23.7	107%	11.7	9.1	0.9	0.9	16.6	19.3
LDG	LPL US	NR	4,544	6.35	NA	NA	-	-	-	-	(32.1)	-
AUO	2409 TT	NR	4,571	18.25	NA	NA	-	-	0.9	0.9	(13.9)	(0.3)
Tianma	000050 CH	NR	3,222	9.35	NA	NA	-	-	0.7	0.6	5.7	6.0
Wuhu Token	300088 CH	NR	2,038	5.92	NA	NA	14.2	14.2	1.6	1.5	10.0	11.5
Infovision	688055 CH	NR	1,972	4.22	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	351	0.87	NA	NA	-	-	-	-	-	-
Average							13.1	11.5	1.3	1.2	(2.7)	9.4

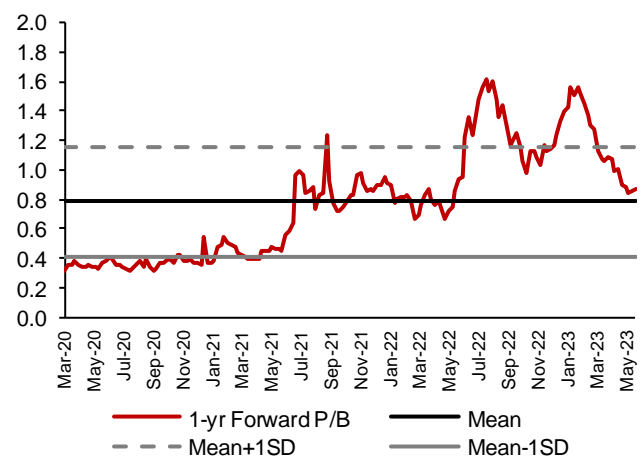
Source: Bloomberg, CMBIGM estimates

Figure 4: 12M forward P/E band



Source: Company data, CMBIGM estimates

Figure 5: 12M forward P/B band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Revenue	4,527	7,738	10,722	13,078	15,977	19,117
Operating expenses	4,456	7,388	10,052	12,273	14,938	17,817
Operating profit	70	350	670	805	1,038	1,300
EBITDA	216	513	841	995	1,310	1,568
Other income/expense	(2)	(0)	(0)	0	0	0
Others	(1)	(1)	(12)	0	0	0
Pre-tax profit	68	349	658	805	1,038	1,300
Income tax	(1)	(39)	(98)	(113)	(145)	(182)
After tax profit	69	328	582	704	905	1,130
Net profit	69	328	582	704	905	1,130
Adjusted net profit	69	328	582	704	905	1,130

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Current assets	3,307	4,853	6,611	6,773	7,651	7,998
Cash & equivalents	1,628	2,267	2,819	3,120	2,236	2,555
Account receivables	1,158	1,744	2,158	2,777	3,252	3,962
Inventories	503	833	1,568	810	2,097	1,414
Other current assets	18	9	66	66	66	66
Non-current assets	523	690	1,673	2,195	3,109	4,203
PP&E	467	583	1,490	2,013	2,927	4,021
Other non-current assets	56	107	182	182	182	182
Total assets	3,830	5,543	8,283	8,968	10,760	12,200
Current liabilities	1,037	2,168	4,103	4,538	5,708	6,370
Account payables	1,023	2,136	3,390	3,824	4,995	5,656
Tax payable	0	17	65	65	65	65
Other current liabilities	14	15	648	648	648	648
Non-current liabilities	25	29	64	64	64	64
Other non-current liabilities	25	29	33	33	33	33
Total liabilities	1,063	2,198	4,167	4,602	5,772	6,434
Share capital	184	184	198	198	198	198
Other reserves	2,526	2,848	3,867	4,129	4,762	5,553
Total shareholders equity	2,767	3,346	4,116	4,366	4,987	5,767
Total equity and liabilities	3,830	5,543	8,283	8,968	10,760	12,200

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	68	349	658	805	1,038	1,300
Depreciation & amortization	147	160	(193)	(230)	(275)	(329)
Change in working capital	104	217	105	573	(591)	634
Others	(1)	(10)	(98)	(113)	(145)	(182)
Net cash from operations	253	665	471	1,035	27	1,423
Investing						
Capital expenditure	(56)	(247)	(483)	(523)	(639)	(765)
Others	28	(8)	0	0	0	0
Net cash from investing	(28)	(254)	(483)	(523)	(639)	(765)
Financing						
Dividend paid	(191)	(36)	(182)	(211)	(271)	(339)
Others	18	246	0	0	0	0
Net cash from financing	(174)	210	(182)	(211)	(271)	(339)
Net change in cash						
Cash at the beginning of the year	1,538	1,628	2,267	2,819	3,120	2,236
Exchange difference	38	19	745	0	0	0
Cash at the end of the year	1,628	2,267	2,819	3,120	2,236	2,555
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	26.7%	70.9%	38.6%	22.0%	22.2%	19.7%
Operating profit	139.3%	397.0%	91.5%	20.1%	29.0%	25.2%
EBITDA	30.1%	137.5%	63.9%	18.3%	31.6%	19.7%
Net profit	174.3%	377.6%	77.7%	20.9%	28.5%	24.9%
Adj. net profit	174.3%	377.6%	77.7%	20.9%	28.5%	24.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Operating margin	1.6%	4.5%	6.3%	6.2%	6.5%	6.8%
EBITDA margin	4.8%	6.6%	7.8%	7.6%	8.2%	8.2%
Adj. net profit margin	1.5%	4.2%	5.4%	5.4%	5.7%	5.9%
Return on equity (ROE)	2.5%	10.7%	15.6%	16.6%	19.3%	21.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.3)	0.0	0.1	0.2	0.1
Current ratio (x)	3.2	2.2	1.6	1.5	1.3	1.3
Receivable turnover days	82.3	68.5	66.4	68.9	68.9	68.9
Inventory turnover days	51.7	38.9	50.0	40.1	40.1	40.1
Payable turnover days	88.4	91.9	115.1	121.7	121.7	121.7
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	24.9	14.2	15.7	11.7	9.1	7.3
P/B	0.4	0.8	1.1	0.9	0.8	0.7
Div yield (%)	215.8	236.7	198.6	256.1	329.2	411.1
EV	2,767.2	3,345.6	4,115.8	4,365.8	4,987.5	5,766.5
EV/Sales	0.6	0.4	0.4	0.3	0.3	0.3
EV/EBITDA	12.8	6.5	4.9	4.4	3.8	3.7

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

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