

BOE Varitronix (710 HK)

1H24 revenue back on growth track; Focus on better profitability and overseas expansion in 2H24E

BOEVx's 1H24 revenue growth of 18% YoY was ahead of market expectations, while net profit decline of 15% YoY was largely in-line, mainly dragged by 1) higher expense for Chengdu plant and overseas expansion, 2) subcontracting fee for urgent orders, and 3) less government grants and FX gains. Despite higher expense, we are encouraged by improving GPM and breakthroughs in overseas markets (US/Japan +25%/13% YoY). Looking into 2H24E/2025, we are positive on Chengdu plant's UTR/yield ramp-up, high-end product growth and accelerated overseas strategy (Vietnam plant, Japan/Korea R&D center). We raised FY24-26E EPS by 2-9% to reflect 1H24 results and stronger overseas outlook. Our new TP of HK\$10.48 is based on same 15x FY25E P/E. Trading at 7.7x/6.1x FY24/ 25E P/E, the stock is attractive in our view. Reiterate BUY.

■ **1H24 strong revenue recovery dragged by higher expenses.** BOEV reported strong revenue growth of 18% YoY in 1H24 (vs 0% in 2023), mainly driven by automotive high-end products, system products ramp-up and Chengdu's capacity expansion. By region, Chinese sales climbed 26% YoY (76% mix) thanks to favourable policy and new NEV model launches. For overseas, both revenue and ASP maintained double-digit YoY growth in 1H24. America/Japan sales grew 25%/13% YoY thanks to project wins and new offices in the US/Japan, while Europe/Korea declined 13%/10% YoY on soft demand. BOEVx posted GPM expansion of 2.3ppts YoY to 11.4% for the first time due to Chengdu plant in full operation with better yield.

■ **2H24/2025 outlook: improving profitability, high-end/system products, overseas expansion and Vietnam plant ramp-up.** Looking ahead, mgmt. is positive on overseas markets and opportunities in larger-display and multi-screen display and high-end products (Oxide/LTPs/OLED). Other key guidance includes: 1) overseas market with double-digit growth in FY24E, and target 50% of sales mix in FY27E (vs. 30% in 1H24); 2) system biz to grow 100%+ in 2024; 3) improving NPM in 2H24 vs 1H24 given operational efficiency and Chengdu's plant ramp-up; 4) Japan/Korea order wins to drive growth in 2025-26E; 5) Vietnam plant Phase I under construction, which will contribute to 10-20% additional sales after completion.

■ **Revenue growth back on track; Reiterate BUY.** We raised FY24-26E EPS by 2-9% to reflect 1H24 results, 2H profitability improvement and rapid overseas expansion. Our new TP of HK\$10.48 is based on same 15x FY25E P/E. Trading at 7.7x/6.1x FY24/25E P/E (1-sd below hist. avg), the stock is attractive in our view.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	10,722	10,760	13,099	15,941	18,592
YoY growth (%)	38.6	0.4	21.7	21.7	16.6
EBITDA (HK\$ mn)	841.0	771.0	756.9	925.0	1,096.9
Net profit (HK\$ mn)	582.5	475.3	437.5	549.4	633.0
YoY growth (%)	77.7	(18.4)	(8.0)	25.6	15.2
EPS (Reported) (HK\$)	0.78	0.60	0.56	0.70	0.80
Consensus EPS (HK\$)	0.00	0.00	0.67	0.84	1.01
P/E (x)	5.5	7.1	7.7	6.1	5.3
P/B (x)	0.4	0.3	0.4	0.3	0.3
Yield (%)	572.7	446.9	236.5	489.7	537.0
ROE (%)	15.6	11.1	9.5	11.1	11.7
Net gearing (%)	1.3	27.5	(29.4)	42.4	(13.1)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$10.48**
 (Previous TP) HK\$9.90
Up/Downside **144.8%**
Current Price **HK\$4.28**

China Technology

Alex NG

(852) 3900 0881

alexng@cmbi.com.hk

Hanqing LI

lihanqing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	3,389.8
Avg 3 mths t/o (HK\$ mn)	5.8
52w High/Low (HK\$)	8.58/4.05
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	-1.8%	-2.6%
3-mth	-23.3%	-17.8%
6-mth	-24.1%	-27.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

1) CMBI 1H24 preview: margin weakness priced in; expect gradual ASP/margin recovery in 2H— 24 Jul 2024 ([link](#))

2) CMBI Corp Day takeaways: large-size/high-end display demand, Chengdu plant and overseas orders— 27 Jun 2024 ([link](#))

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

1H24 Results Review

Figure 1: Earnings revision

HKD mn	Actual				CMBI		Consensus	
	1H23	2H23	1H24	YoY	1H24E	Diff %	1H24E	Diff %
Revenue	5,210	5,550	6,157	18.2%	5,982	3%	5,982	3%
Operating profit	241	329	194	-19.6%	215	-10%	215	-10%
Net profit	202.5	273	172	-15.0%	170	1%	170	1%
EPS (HKD cent)	27.26	34.68	21.86	-19.8%	21.6	1%	21.6	1%
Operating margin	4.6%	5.9%	3.1%	-1.5 ppt	3.6%	-0.5 ppt	3.6%	-0.4 ppt
Net margin	3.9%	4.9%	2.8%	-1.1 ppt	2.8%	0 ppt	2.8%	0 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	13,099	15,941	18,592	12,873	15,561	18,114	1.8%	2.4%	2.6%
Operating profit	520	670	781	498	627	761	4.4%	6.9%	2.6%
Net profit	437	549	633	401	519	623	9.1%	5.8%	1.6%
EPS (RMB)	56	70	80	50.98	66.02	79.24	9.1%	5.8%	1.6%
Operating margin	4.0%	4.2%	4.2%	3.9%	4.0%	4.2%	0.1 ppt	0.2 ppt	0 ppt
Net margin	3.3%	3.4%	3.4%	3.1%	3.3%	3.4%	0.2 ppt	0.1 ppt	0 ppt

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	13,099	15,941	18,592	11,920	13,707	15,732	9.9%	16.3%	18.2%
Operating profit	520	670	781	625	726	868	-16.8%	-7.8%	-10.1%
Net profit	437	549	633	531	660	797	-17.5%	-16.8%	-20.5%
EPS (RMB)	55.63	69.86	80.50	67.25	83.75	101.00	-17.3%	-16.6%	-20.3%
Operating margin	4.0%	4.2%	4.2%	5.2%	5.3%	5.5%	-1.3 ppt	-1.1 ppt	-1.3 ppt
Net margin	3.3%	3.4%	3.4%	4.5%	4.8%	5.1%	-1.1 ppt	-1.4 ppt	-1.7 ppt

Source: Company data, CMBIGM estimates

Figure 4: P&L forecast

HK\$ mn	2022	1H23	2H23	2023	1H24	2H24E	2024E	2025E	2026E
Revenue	10,722	5,210	5,550	10,760	6,157	6,942	13,099	15,941	18,592
YoY	38.6%	7.9%	-5.8%	0.4%	18.2%	25.1%	21.7%	21.7%	16.6%
Automotive display	9,577	4,646	5,064	9,710	5,752	6,431	12,183	14,979	17,582
YoY	47.1%	7.2%	-3.4%	1.4%	23.8%	27.0%	25.5%	22.9%	17.4%
Industrial display	1,145	564	486	1,050	406	510	916	962	1,010
YoY	-6.8%	13.7%	-25.1%	-8.3%	-28.0%	5.0%	-12.7%	5.0%	5.0%
Operating profit	670	241	329	570	194	326	520	670	781
OPM (%)	6.3%	4.6%	5.9%	5.3%	3.1%	4.7%	4.0%	4.2%	4.2%
...YoY	91.5%	-12.4%	-16.8%	-15.0%	-19.6%	-0.8%	-8.7%	28.9%	16.6%
Net profit	582	203	273	475	172	265	437	549	633
NPM (%)	5.4%	3.9%	4.9%	4.4%	2.8%	3.8%	3.3%	3.4%	3.4%
...YoY	77.7%	-19.3%	-17.7%	-18.4%	-15.0%	-2.7%	-8.0%	25.6%	15.2%

Source: Company data, CMBIGM estimates

Valuation

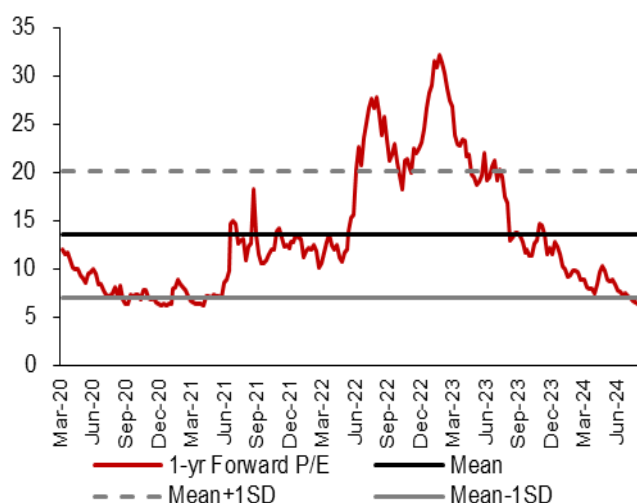
Maintain BUY and our new TP of HK\$10.48 is based on same 15x FY25E PE. We are positive on BOEVx's order wins, Chengdu's UTR ramp-up, overseas expansion and auto display leadership under the smart cockpit trend. Trading at 7.7x/6.1x FY24/25E P/E, the stock is attractive in our view.

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 (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
BOE Varitronix	710 HK	BUY	434	4.28	10.5	145%	7.7	6.1	0.4	0.3	9.5	11.1
LDG	LPL US	NR	4,070	4.07	NA	NA	-	-	-	-	(18.4)	-
AUO	2409 TT	NR	4,071	16.90	NA	NA	-	42.9	0.8	0.8	(2.1)	2.9
Tianma	000050 CH	NR	2,325	6.75	NA	NA	-	337.5	0.6	0.6	(2.2)	0.6
Wuhu Token	300088 CH	NR	1,527	4.44	NA	NA	31.7	21.1	1.3	1.2	4.2	5.7
Infovision	688055 CH	NR	1,313	2.81	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	405	1.00	NA	NA	-	-	-	-	-	-
Average							19.7	101.9	0.8	0.7	(1.8)	5.1

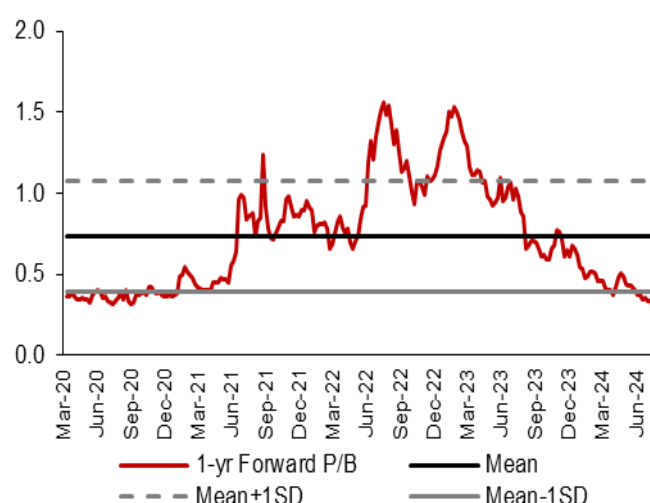
Source: Bloomberg, CMBIGM estimates

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	13,099	15,941	18,592
Operating expenses	7,388	10,052	10,191	12,579	15,271	17,811
Operating profit	350	670	570	520	670	781
EBITDA	513	841	771	757	925	1,097
Other income/expense	(0)	(0)	(4)	(14)	0	0
Others	(1)	(12)	(25)	(9)	0	0
Pre-tax profit	349	658	540	497	646	744
Income tax	(39)	(98)	(59)	(53)	(90)	(104)
After tax profit	328	582	475	437	549	633
Net profit	328	582	475	437	549	633
Adjusted net profit	328	582	475	437	549	633

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	4,853	6,611	8,097	5,271	8,703	5,594
Cash & equivalents	2,267	2,819	3,501	2,355	2,463	1,178
Account receivables	1,744	2,158	2,556	2,387	3,628	3,388
Inventories	833	1,568	1,947	434	2,518	935
Other current assets	9	66	26	26	26	26
Non-current assets	690	1,673	1,937	2,875	3,818	4,919
PP&E	583	1,490	1,760	2,698	3,641	4,742
Other non-current assets	107	182	177	177	177	177
Total assets	5,543	8,283	10,034	8,146	12,521	10,514
Current liabilities	2,168	4,103	5,023	2,771	6,755	4,288
Account payables	2,136	3,390	4,738	2,486	6,470	4,004
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	3,372	7,356	4,890
Share capital	184	198	198	198	198	198
Other reserves	2,848	3,867	4,156	4,514	4,898	5,350
Total shareholders equity	3,346	4,116	4,410	4,774	5,165	5,624
Total equity and liabilities	5,543	8,283	10,034	8,146	12,521	10,514

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	349	658	540	497	646	744
Depreciation & amortization	160	(193)	(224)	(261)	(305)	(358)
Change in working capital	217	105	572	(571)	660	(643)
Others	(10)	(98)	(59)	(53)	(90)	(104)
Net cash from operations	665	471	829	(388)	910	(361)
Investing						
Capital expenditure	(247)	(483)	(430)	(524)	(638)	(744)
Others	(8)	0	0	0	0	0
Net cash from investing	(254)	(483)	(430)	(524)	(638)	(744)
Financing						
Dividend paid	(36)	(182)	(150)	(80)	(165)	(181)
Others	246	0	0	0	0	0
Net cash from financing	210	(182)	(150)	(80)	(165)	(181)
Net change in cash						
Cash at the beginning of the year	1,628	2,267	2,819	3,501	2,355	2,463
Exchange difference	19	745	434	(154)	0	0
Cash at the end of the year	2,267	2,819	3,501	2,355	2,463	1,178
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	70.9%	38.6%	0.4%	21.7%	21.7%	16.6%
Operating profit	397.0%	91.5%	(15.0%)	(8.7%)	28.9%	16.6%
EBITDA	137.5%	63.9%	(8.3%)	(1.8%)	22.2%	18.6%
Net profit	377.6%	77.7%	(18.4%)	(8.0%)	25.6%	15.2%
Adj. net profit	377.6%	77.7%	(18.4%)	(8.0%)	25.6%	15.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Operating margin	4.5%	6.3%	5.3%	4.0%	4.2%	4.2%
EBITDA margin	6.6%	7.8%	7.2%	5.8%	5.8%	5.9%
Adj. net profit margin	4.2%	5.4%	4.4%	3.3%	3.4%	3.4%
Return on equity (ROE)	10.7%	15.6%	11.1%	9.5%	11.1%	11.7%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.3)	0.0	0.3	(0.3)	0.4	(0.1)
Current ratio (x)	2.2	1.6	1.6	1.9	1.3	1.3
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	9.5	5.5	7.1	7.7	6.1	5.3
P/B	0.6	0.4	0.3	0.4	0.3	0.3
Div yield (%)	354.9	572.7	446.9	236.5	489.7	537.0
EV	3,345.6	4,115.8	4,409.7	4,774.1	5,165.2	5,624.1
EV/Sales	0.4	0.4	0.4	0.4	0.3	0.3
EV/EBITDA	6.5	4.9	5.7	6.3	5.6	5.1

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

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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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