

BOE Varitronix (710 HK)

Strong FY22 results; Multiple drivers from Chengdu expansion, CMS and US market

BOEVx reported strong revenue/NP growth of 39%/78% YoY in FY22 driven by solid auto display demand, better product mix and economies of scale. Looking into 2023, we expect Chengdu plant fast expansion, CMS and US market will become major growth drivers, while ASP/GPM in 1H23E will be under pressure given near-term auto OEM price war and new biz ramp-up. Therefore, we adjusted our FY23/24E EPS and assigned new TP of HK\$23.69, based on same 25x FY23E P/E. Trading at 16.0x/12.4x FY23/24E, the stock is attractive in our view. Reiterate BUY. Upcoming catalysts include NEV rising penetration, Chengdu plant fast ramp-up, CMS mass production and new market expansion.

- FY22 strong results in-line; China/overseas sales +48%/21% YoY.** BOEVx reported in-line revenue/NP growth of 39%/78% YoY, mainly driven by solid auto display demand, better product mix and economies of scale. By region, China sales grew 48% YoY thanks to rising penetration of NEV and customers' order ramp-up, while overseas sales jumped 21% YoY driven by auto demand recovery, new TFT/touch panel/monochrome display modules mass production and order wins.
- 2023 outlook: Chengdu expansion on fast track; CMS and US market are new growth drivers.** While Chengdu plant Phase I turned profitable in 4Q22, mgmt. expects faster capacity ramp-up to reach maximum of 15mn pieces in FY23E and Phase II preparation to begin in 2H23E. In addition, since BOEVx already collaborated with BAIC motor to develop Camera Monitor System (CMS), mgmt. expects official mass production after regulatory approval in China in July 2023. Furthermore, in addition to positive progress in Europe and Korea market, Mgmt. expects breakthrough of display and system products in the US market in FY23E.
- Near-term ASP/GPM pressure due to OEM price war and new biz ramp.** Given price war among China auto OEM, Chengdu Phase II investment and expansion in Europe and North America, we expect near-term ASP/GPM under pressure in 1H23E, which is reflected in recent stock price correction.
- Maintain BUY with new TP of HK\$23.7.** We adjusted FY23-24E EPS by -9%/-14% to reflect near-term ASP/GPM pressure, and we remain positive on Chengdu plant, CMS and US markets. Trading at 16.0x/12.4x FY23/24E, we think the stock looks attractive. 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\$)	0.45	0.73	0.99	1.35	1.98
P/E (x)	14.2	15.7	16.0	12.4	10.0
P/B (x)	0.8	1.1	1.3	1.0	0.9
Yield (%)	236.7	198.6	187.8	241.4	301.4
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\$26.01**)
 Up/Downside **56.5%**
 Current Price **HK\$15.14**

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Stock Data

Mkt Cap (HK\$ mn)	11,990.9
Avg 3 mths t/o (HK\$ mn)	17.2
52w High/Low (HK\$)	20.00/7.30
Total Issued Shares (mn)	792.0

Source: FactSet

Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%

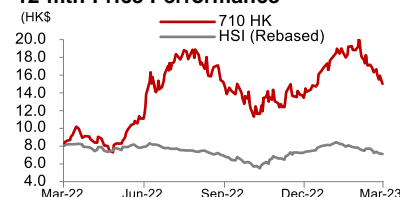
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-24.3%	-19.3%
3-mth	9.2%	8.7%
6-mth	3.1%	-1.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

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

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

3) Global auto display leader riding on smart cockpit trend – 30 Aug 2022 ([link](#))

2H22 Results review

Figure1: Earnings revision

HKD mn	1H21	2H21	Actual				CMBI		Consensus	
			1H22	2H22	HoH	YoY	2H22E	Diff %	2H22E	Diff %
Revenue	3,200	4,538	4,831	5,892	22.0%	29.8%	5,734	3%	5,700	3%
Operating Profit	96	255	275	395	43.8%	55.4%	321	23%	340	16%
Net profit	95	233	251	332	32.2%	42.5%	303	9%	325	2%
EPS (HKD cent)	12.90	32.00	34.50	44.64	29.4%	39.5%	41.6	7%	43.8	2%
Operating Margin	3.0%	5.6%	5.7%	6.7%	1 ppt	4.6 ppt	5.6%	1.1 ppt	6.0%	0.7 ppt
Net Margin	3.0%	5.1%	5.2%	5.6%	0.4 ppt	0.5 ppt	5.3%	0.3 ppt	5.7%	-0.1 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Adjusted FY23/24E EPS to reflect near-term ASP/GPM pressure

We lowered our FY23-24E EPS by 9%/14% to reflect near-term ASP/GPM pressure due to OEM price war and new biz ramp. Our EPS in FY23E is -4% below consensus.

Figure 2: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY23E	2024E	2025E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	13,078	15,977	19,117	14,081	18,011	-	-7.1%	-11.3%	-
Operating profit	805	1,038	1,300	812	1,122	-	-0.8%	-7.4%	-
Net profit	704	905	1,130	756	1,032	-	-6.9%	-12.4%	-
EPS (RMB)	94.77	121.82	152.09	104.04	142.00	-	-8.9%	-14.2%	-
Operating margin	6.2%	6.5%	6.8%	5.8%	6.2%	-	0.4 ppt	0.3 ppt	-
Net Margin	5.4%	5.7%	5.9%	5.4%	5.7%	-	0 ppt	-0.1 ppt	-

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY23E	2024E	2025E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	13,078	15,977	19,117	13,549	16,955	23,544	-3.5%	-5.8%	-18.8%
Operating profit	805	1,038	1,300	835	1,165	1,633	-3.6%	-10.8%	-20.4%
Net profit	704	905	1,130	759	1,028	1,509	-7.3%	-12.0%	-25.2%
EPS (RMB)	94.77	121.82	152.09	98.91	135.45	197.50	-4.2%	-10.1%	-23.0%
Operating margin	6.2%	6.5%	6.8%	6.2%	6.9%	6.9%	0 ppt	-0.4 ppt	-0.1 ppt
Net Margin	5.4%	5.7%	5.9%	5.6%	6.1%	6.4%	-0.2 ppt	-0.4 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

Figure 4: 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

Valuation

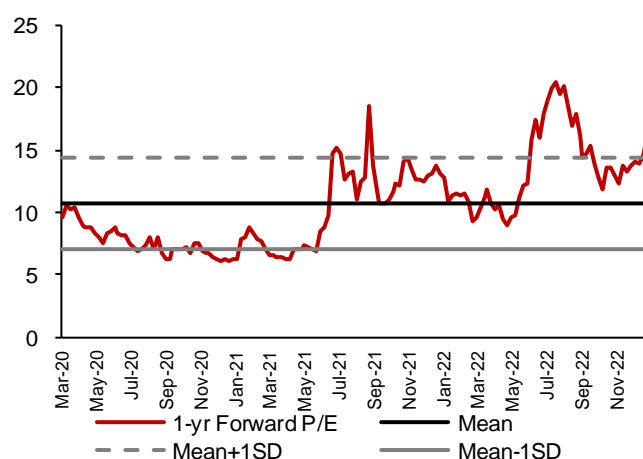
Overall, we remain positive on Chengdu plant, CMS and US market to drive growth. Trading at 16.0x/12.4x FY23/24E, we believe the stock looks attractive. Maintain BUY with new TP HK\$23.69, still based on 25x FY23E PE. Upcoming catalysts include NEV rising penetration, Chengdu plant fast ramp-up, CMS mass production and new market expansion.

Figure 5: Peers' valuation

Company	Ticker	Rating	Market 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	1,527	15.14	23.7	56%	16.0	12.4	1.3	1.0	16.56	19.3
LDG	LPL US	NR	3,954	5.53	NA	NA	-	-	-	-	(14.9)	(22.5)
AUO	2409 TT	NR	4,607	18.25	NA	NA	-	-	0.8	0.9	(10.7)	(12.6)
Tianma	000050 CH	NR	3,622	10.14	NA	NA	39.0	20.5	0.7	0.7	4.0	5.7
Wuhu Token	300088 CH	NR	12,819	91.70	108.6	18%	32.4	23.4	4.0	3.5	12.6	15.3
Infovision	688055 CH	NR	2,469	6.92	NA	NA	20.1	14.8	2.0	1.8	10.0	11.3
Truly	732 HK	NR	2,238	4.62	NA	NA	-	-	-	-	-	-
Average							18.7	17.8	1.6	1.5	2.3	11.5

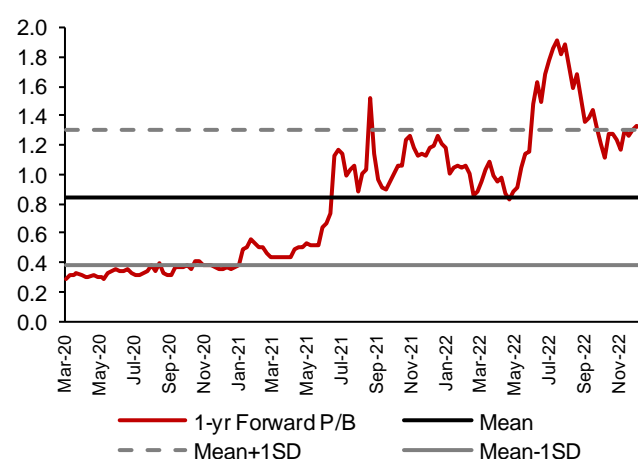
Source: Bloomberg, CMBIGM estimates

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	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	16.0	12.4	10.0
P/B	0.4	0.8	1.1	1.3	1.0	0.9
Div yield (%)	215.8	236.7	198.6	187.8	241.4	301.4
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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