

BOE Varitronix (710 HK)

Corp Day Takeaways: Chengdu auto display plant to drive growth in FY23E

We hosted an investor call with BOE Varitronix during our Corporate Day on 1 Dec. BOEVx's strong 1H22 revenue/net profit growth of 51%/164% YoY was mainly driven by solid demand of auto display module, mass production of new capacity and ASP hike of auto display products. Net margin improved 2.2ppts HoH given operating leverage and economies of scale. Looking ahead, mgmt. remains positive on auto display business outlook and expects strong client orders backed by: 1) mass production of high-end display products for both traditional and NEV clients in China and overseas; 2) system products (mainly for China) will start sales contribution in FY23E; and 3) stable industry demand with improving ASP. Reiterate BUY with TP of HK\$26.01.

- **No.1 in global auto display shipment; stable demand and ASP upside to drive profitability in FY23E.** BOE Varitronix maintained No.1 position in global medium-to-large size automobile display modules shipment and in display areas shipment. Auto display shipment also reached No.1 globally with market share of 15.7% in 2Q22, according to Omdia. Looking into 2023, mgmt. expects more order wins in high-end display including OLED, BD-cell, curved-display, AR-HUD and rear-view from domestic & overseas' high-end traditional and NEV customers. In addition, mgmt. expects system product mainly for Chinese customers to contribute sales in FY23E. Overall, mgmt. remains positive on stable demand in auto display market and ASP upside to drive profitability in FY23E.
- **Chengdu auto display plant to fuel growth in FY23E.** Mgmt. expects Chengdu plant to turn profitable due to its fast ramp-up in capacity in 4Q22E. Mgmt. expected maximum capacity of 15mn pieces could generate RMB5bn sales in FY23E. Mgmt. believes the new Chengdu plant will support robust market demand and improve cost efficiency, leading to better profitability in the long term.
- **Limited impact from recent COVID-19.** Mgmt. reiterated limited impact from recent pandemic thanks to strong internal control and supply chain management. Overall, we remain positive on increasing penetration of high-end auto display products, technology upgrade for intelligent cock-pit and new Chengdu plant to meet strong market demand.
- **Valuation/Key risks.** We estimate revenue/ earnings to grow at 33%/47% CAGR over 2021-24E, driven by 37% CAGR in automotive display. Our TP of HK\$26.01 is based on 25x FY23E PE. Upcoming catalysts include NEV booming demand, product penetration and capacity expansion.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (HK\$ mn)	4,527	7,738	10,565	14,081	18,011
YoY growth (%)	26.7	70.9	36.5	33.3	27.9
EBITDA (HK\$ mn)	216	513	760	1,032	1,382
Net profit (HK\$ mn)	68.6	327.8	553.7	756.4	1,032.4
YoY growth (%)	174.3	377.6	68.9	36.6	36.5
EPS (Reported) (HK\$)	0.09	0.45	0.76	1.04	1.42
Consensus EPS (HK\$)	0.00	0.45	0.71	0.98	1.35
P/E (x)	24.9	14.2	18.5	13.5	9.9
P/B (x)	0.4	0.8	1.7	1.3	1.2
Yield (%)	215.8	236.7	88.7	221.7	302.6
ROE (%)	2.5	10.7	15.6	18.8	22.4
Net gearing (%)	(61.6)	(34.3)	(40.1)	(13.5)	(21.1)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$26.01
 (Previous TP HK\$26.01)
Up/Downside 84.7%
Current Price HK\$14.08

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Stock Data

Mkt Cap (HK\$ mn)	10,377.0
Avg 3 mths t/o (HK\$ mn)	13.9
52w High/Low (HK\$)	18.86/5.84
Total Issued Shares (mn)	737.0

Source: FactSet

Shareholding Structure

BOE Technology Group	54.3%
Ko Chun Shun	10.0%

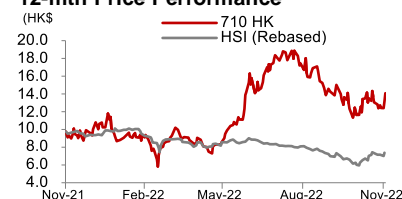
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	21.0%	-4.5%
3-mth	-21.8%	-16.1%
6-mth	48.2%	70.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: P&L forecast

US\$ mn	2021	1H22	2H22E	2022E	1H23E	2H23E	2023E	2024E
Revenue	7,738	4,831	5,734	10,565	6,373	7,708	14,081	18,011
YoY	70.9%	51.0%	26.4%	36.5%	31.9%	34.4%	33.3%	27.9%
Automotive display	6,509	4,335	5,110	9,445	5,852	7,052	12,904	16,776
YoY	88.7%	68.2%	30.0%	45.1%	35.0%	38.0%	36.6%	30.0%
Industrial display	1,228	496	624	1,120	521	655	1,176	1,235
YoY	14.0%	-20.3%	3.0%	-8.8%	5.0%	5.0%	5.0%	5.0%
Operating profit	350	275	321	596	357	455	812	1,122
OPM (%)	4.5%	5.7%	5.6%	5.6%	5.6%	5.9%	5.8%	6.2%
...YoY	397.0%	187.8%	26.2%	70.3%	29.8%	41.6%	36.1%	38.2%
Net profit	328	251	303	554	335	422	756	1,032
NPM (%)	4.2%	5.2%	5.3%	5.2%	5.3%	5.5%	5.4%	5.7%
...YoY	377.6%	163.8%	30.1%	68.9%	33.4%	39.3%	36.6%	36.5%

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	10,565	14,081	18,011	10,303	13,203	16,654	2.5%	6.6%	8.1%
Operating profit	596	812	1,122	564	787	1,078	5.8%	3.2%	4.1%
Net profit	554	756	1,032	524	726	989	5.7%	4.3%	4.4%
EPS (US\$ cents)	76.16	104.04	142.00	70.50	97.63	135.14	8.0%	6.6%	5.1%
Operating margin	5.6%	5.8%	6.2%	5.5%	6.0%	6.5%	0.2 ppt	-0.2 ppt	-0.2 ppt
Net Margin	5.2%	5.4%	5.7%	5.1%	5.5%	5.9%	0.2 ppt	-0.1 ppt	-0.2 ppt

Source: Company data, CMBIGM estimates

Valuation

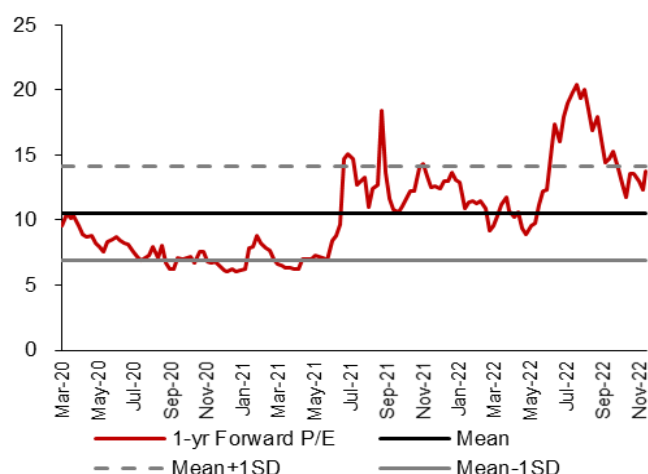
Overall, we remain positive on its auto display products' rising penetration, technology upgrade to meet intelligent cock-pit display demand and Chengdu plant to drive growth. We maintain BUY with TP of HK\$26.01.

Figure 3: Peers' valuation

Company	Ticker	Rating	Market Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
BOE Varitronix	710 HK	BUY	1,419	13.96	26.0	85%	18.5	13.5	1.7	1.3	15.6	18.8
LDG	LPL US	NR	4,093	5.72	NA	NA	-	-	-	-	(14.9)	-
AUO	2409 TT	NR	4,111	16.35	NA	NA	-	-	0.7	0.8	(10.7)	(14.8)
Tianma	000050 CH	NR	3,202	9.19	NA	NA	23.1	17.0	0.7	0.6	3.6	4.2
Wuhu Token	300088 CH	NR	2,234	6.42	NA	NA	16.8	13.6	1.9	1.7	11.6	13.0
Infovision	688055 CH	NR	2,089	4.42	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	561	1.36	NA	NA	4.7	3.9	0.4	0.3	8.2	9.2
Average							18.9	14.1	1.8	1.6	4.0	8.2

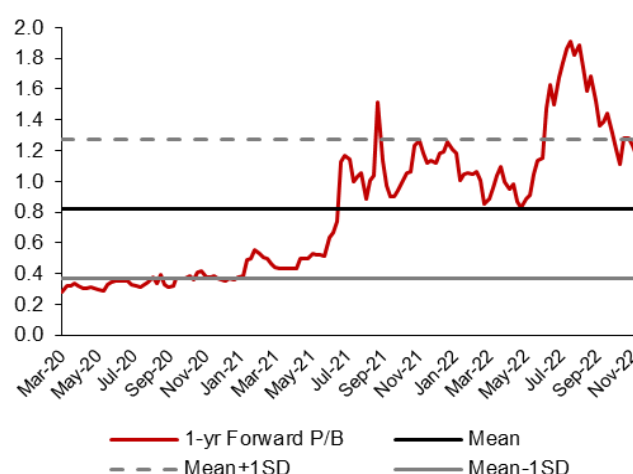
Source: Bloomberg, CMBIGM, * TP under review

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	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (HK\$ mn)						
Revenue	3,574	4,527	7,738	10,565	14,081	18,011
Operating expenses	3,545	4,456	7,388	9,969	13,269	16,889
Operating profit	29	70	350	596	812	1,122
EBITDA	166	216	513	760	1,032	1,382
Other income/expense	(1)	(2)	(0)	0	0	0
Others	(1)	(1)	(1)	(1)	0	0
Pre-tax profit	28	68	349	595	812	1,122
Income tax	(3)	(1)	(39)	(76)	(89)	(123)
After tax profit	25	69	328	554	756	1,032
Net profit	25	69	328	554	756	1,032
Adjusted net profit	25	69	328	554	756	1,032

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (HK\$ mn)						
Current assets	2,974	3,307	4,853	5,063	6,634	7,107
Cash & equivalents	1,538	1,628	2,267	1,717	2,085	1,552
Account receivables	883	1,158	1,744	2,243	3,071	3,726
Inventories	533	503	833	1,094	1,469	1,820
Other current assets	19	18	9	9	9	9
Non-current assets	560	523	690	973	1,329	1,765
PP&E	504	467	583	866	1,223	1,658
Other non-current assets	55	56	107	107	107	107
Total assets	3,533	3,830	5,543	6,035	7,964	8,871
Current liabilities	762	1,037	2,168	2,231	3,665	3,883
Account payables	749	1,023	2,136	2,199	3,632	3,851
Tax payable	1	0	17	17	17	17
Other current liabilities	12	14	15	15	15	15
Non-current liabilities	20	25	29	29	29	29
Other non-current liabilities	20	25	29	29	29	29
Total liabilities	782	1,063	2,198	2,261	3,694	3,913
Share capital	184	184	184	184	184	184
Other reserves	2,568	2,526	2,848	3,311	3,841	4,563
Total shareholders equity	2,751	2,767	3,346	3,774	4,270	4,958
Total equity and liabilities	3,533	3,830	5,543	6,035	7,964	8,871

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	28	68	349	595	812	1,122
Depreciation & amortization	137	147	160	193	234	285
Change in working capital	133	104	217	(696)	230	(787)
Others	(5)	(1)	(10)	(76)	(89)	(123)
Net cash from operations	265	253	665	16	1,187	497
Investing						
Capital expenditure	(69)	(56)	(247)	(475)	(591)	(720)
Others	23	28	(8)	0	0	0
Net cash from investing	(46)	(28)	(254)	(475)	(591)	(720)
Financing						
Dividend paid	(7)	(191)	(36)	(91)	(227)	(310)
Others	(8)	18	246	0	0	0
Net cash from financing	(16)	(174)	210	(91)	(227)	(310)
Net change in cash						
Cash at the beginning of the year	1,340	1,538	1,628	2,267	1,717	2,085
Exchange difference	(6)	38	19	0	0	0
Cash at the end of the year	1,538	1,628	2,267	1,717	2,085	1,552
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	12.5%	26.7%	70.9%	36.5%	33.3%	27.9%
Operating profit	12.5%	139.3%	397.0%	70.3%	36.1%	38.2%
EBITDA	24.8%	30.1%	137.5%	48.2%	35.7%	33.9%
Net profit	46.0%	174.3%	377.6%	68.9%	36.6%	36.5%
Adj. net profit	46.0%	174.3%	377.6%	68.9%	36.6%	36.5%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Operating margin	0.8%	1.6%	4.5%	5.6%	5.8%	6.2%
EBITDA margin	4.6%	4.8%	6.6%	7.2%	7.3%	7.7%
Adj. net profit margin	0.7%	1.5%	4.2%	5.2%	5.4%	5.7%
Return on equity (ROE)	0.9%	2.5%	10.7%	15.6%	18.8%	22.4%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.6)	(0.3)	(0.4)	(0.1)	(0.2)
Current ratio (x)	3.9	3.2	2.2	2.3	1.8	1.8
Receivable turnover days	85.3	82.3	68.5	68.9	68.9	68.9
Inventory turnover days	85.1	51.7	38.9	40.6	40.1	40.1
Payable turnover days	97.2	88.4	91.9	91.3	91.3	91.3
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	61.6	24.9	14.2	18.5	13.5	9.9
P/B	0.4	0.4	0.8	1.7	1.3	1.2
Div yield (%)	47.7	215.8	236.7	88.7	221.7	302.6
EV	2,751.4	2,767.2	3,345.6	3,774.4	4,269.9	4,958.5
EV/Sales	0.8	0.6	0.4	0.4	0.3	0.3
EV/EBITDA	16.6	12.8	6.5	5.0	4.1	3.6

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

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