

BOE Varitronix (710 HK)

NDR takeaway: Chengdu plant, system biz and overseas market to drive growth

We hosted BOEVx at 4Q outlook investor call this week. Mgmt. is positive on demand recovery in both domestic and overseas markets as well as rapid growth in system business in 2H24E. As for Chengdu plant, mgmt. guided UTR to improve to 70-80% in the near term (vs. 60-70% now) given larger orders and better sales in 2H24E. As for overseas markets, mgmt. stated Japan/Korea/Europe project wins are on track in FY25-26E and reiterated 50% overseas sales mix guidance in FY27E. Trading at 9.7x/7.7x FY24/25E P/E (1-sd below hist. avg), the stock is attractive given margin recovery and rapid overseas expansion in 2H24E/2025, in our view. Reiterate BUY.

- **Domestic/overseas demand recovery on track; system biz fast growth.** Mgmt. stated that while domestic auto market recovery stayed at slow pace, overseas' demand remains encouraging after the US rate cuts. Mgmt. remains positive on overseas project wins and order stability to drive capacity ramp-up and better yield. While market competition may weigh on ASP, mgmt. reiterated that strong partnership with major customers, BOEVx's global No.1 market position, new products' breakthrough (e.g. OLED, flexible and foldable display) and effective cost controls will allow BOEVx to outperform peers despite intense competition. In addition, mgmt. expected system biz to stay fast growth and sales mix to reach 7-8% in FY24E, which will enable BOEVx to cope with fierce competition in auto display market.
- **Chengdu capacity ramp-up and better UTR in 2H24E.** As global largest and most advanced auto display module plant, BOEVx Chengdu factory's UTR now reached 60-70% and target 70-80% in the near term, thanks to more complex and larger orders from major customers. Mgmt. commented that Chengdu plant showed improving inventory days, reduction in inventory and better sales growth in 2H24E. Overall, mgmt. expected a better 2H24E thanks to Chengdu's plant ramp-up and improving inventory level.
- **Overseas sales mix to reach 50% in FY27E; limited impact from the US new tariff plan.** For overseas markets, mgmt. reiterated 50% overseas sales mix target in FY27E, backed by project wins in Japan/Korea/Europe in FY25-26E. In addition, mgmt. expected limited impact from the US new tariff plan given that its US orders are manufactured in Vietnam plant, and BOEVx will closely monitor the dynamics and adjust strategy with suppliers.

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\$)	-	-	0.67	0.84	1.01
P/E (x)	6.9	9.0	9.7	7.7	6.7
P/B (x)	0.5	0.4	0.5	0.3	0.4
Yield (%)	453.1	353.5	187.1	387.4	424.8
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
Up/Downside 93.7%
Current Price HK\$5.41

China Technology

Alex NG

(852) 3900 0881

alexng@cmbi.com.hk

Hanqing LI

lihanqing@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	4,284.7
Avg 3 mths t/o (HK\$ mn)	13.9
52w High/Low (HK\$)	8.17/4.05
Total Issued Shares (mn)	792.0

Source: FactSet

Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%

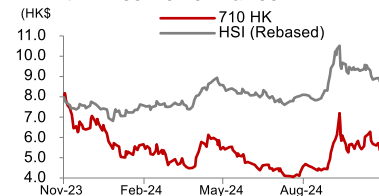
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-3.4%	3.8%
3-mth	18.6%	10.2%
6-mth	0.0%	-1.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports:

- 1) 1H24 revenue back on growth track; Focus on better profitability and overseas expansion in 2H24E– 26 Aug 2024 ([link](#))
- 2) CMBI 1H24 preview: margin weakness priced in; expect gradual ASP/margin recovery in 2H– 24 Jul 2024 ([link](#))
- 3) CMBI Corp Day takeaways: large-size/high-end display demand, Chengdu plant and overseas orders– 27 Jun 2024 ([link](#))

Earnings forecasts

Figure 1: 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

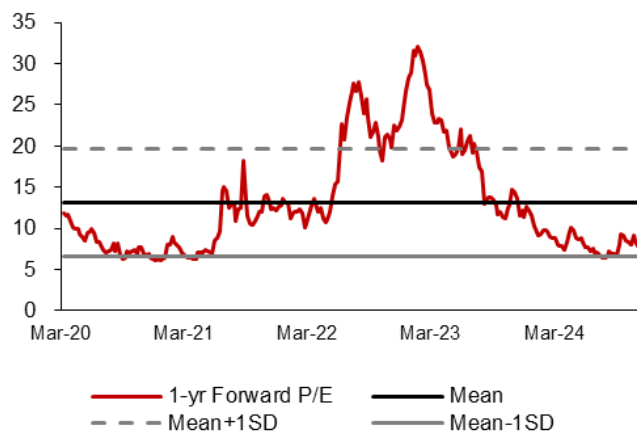
Maintain BUY and our TP of HK\$10.48 is based on 15x FY25E P/E. We are positive on BOEVx's order wins, Chengdu UTR ramp-up, overseas expansion and auto display market leadership. Trading at 9.7x/7.7x FY24/25E P/E, the stock is attractive in our view.

Figure 2: 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	535	5.41	10.48	93%	9.7	7.7	0.5	0.3	9.5	11.1
LDG	LPL US	NR	3,480	3.48	NA	NA	-	-	-	-	-	-
AUO	2409 TT	NR	3,739	15.85	NA	NA	-	49.2	0.8	0.8	(2.5)	1.9
Tianma	000050 CH	NR	2,852	8.64	NA	NA	-	41.5	0.7	0.7	(1.4)	1.7
Wuhu Token	300088 CH	NR	2,199	6.71	NA	NA	28.3	17.6	1.8	1.7	6.8	10.2
Infovision	688055 CH	NR	1,883	4.19	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	410	1.02	NA	NA	-	-	-	-	-	-
Average							19.0	29.0	1.0	0.9	3.1	6.2

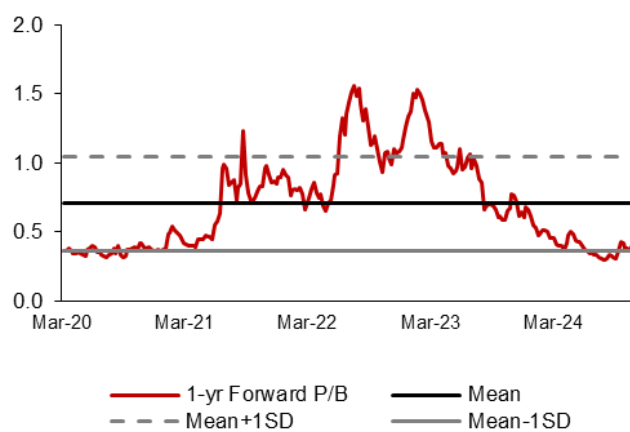
Source: Bloomberg, CMBIGM estimates

Figure 3: 12M forward P/E band



Source: Company data, CMBIGM estimates

Figure 4: 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	12.0	6.9	9.0	9.7	7.7	6.7
P/B	0.7	0.5	0.4	0.5	0.3	0.4
Div yield (%)	280.8	453.1	353.5	187.1	387.4	424.8
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.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.