

CH Display OPT (334 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$0.82

Target Price: HK\$1.27 (+55%)

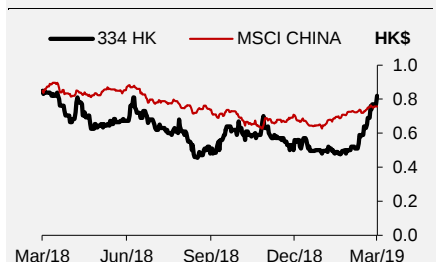
Prior TP: HK\$1.16

Key Data

HKEx code	334
12 Months High (HK\$)	0.88
12 Month Low (HK\$)	0.44
3M Avg Dail Vol. (mn)	2.32
Issue Share (mn)	2,086.80
Market Cap (HK\$mn)	1,711.17
Fiscal Year	12/2017
Major shareholder (s)	Shenzhen China Star (65.05%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 04/03/2019

Price Chart



	1mth	3mth	6mth
Absolute %	64.0	46.4	60.8
Rel. MSCI CHINA %	59.8	39.2	55.2

PE Chart



Company Profile

CDOT provides small-to-medium-sized display modules. The Company is primarily engaged in the R&D, manufacturing, and sales and distribution off LCD modules for handheld mobile devices on an ODM basis. CDOT has operations throughout Asia and sells its products globally.

Foldable smartphone play backed by CSOT

- We estimate CDOT FY18E revenue to be up by 36.4% yoy to RMB4,725mn and expect a turnaround to full-year net profit of RMB87mn thanks to newly secured Korean orders.
- We see CDOT as a direct beneficiary of foldable smartphone display theme though meaningful contribution is not likely until 2020E.
- Reiterate BUY with TP revised up to HK\$1.27 from HK\$1.16 based on 10x FY20E P/E (previously 12x FY19E P/E).

We expect solid turnaround to be profitable in 2H18E thanks to Korean client order contribution kicked in since Sept 2018. We expect CDOT FY18E revenue to be up 36.4% yoy to RMB4,725mn mainly thanks to the new Korean client which we estimate will contribute 30.5% of revenue. We expect FY18E GPM to see 2.9ppts yoy decline to 5.2% due to the drag of sluggish 1H18 shipments and increased raw material costs. Besides, we expect a turnaround in full-year earnings from CDOT's JV with CSOT given on-track ramp-up of utilization and yield (~100% and ~95% respectively by the end of 2018). Overall, we estimate FY18E core net profits to see turnaround from RMB11.9mn net loss in 1H18 to RMB86.7mn full-year net profits.

We cut our FY19E core earnings estimate by -32.1% to RMB150mn. We revise down FY19E revenue by 29.2% to RMB6,044mn mainly on conservative estimate of low-end smartphone display orders from the Korean client. We now forecast FY19E fully diluted EPS to be HK\$0.087.

Direct beneficiary of foldable display trend. Recent unveiling of Samsung Galaxy Fold (in-house panel supply) and Huawei Mate X (panel supplied by BOE) reaffirms the industry trend of adopting foldable smartphone display. We believe CSOT will be a direct beneficiary and investment proxy in this theme given it is a display module maker allied with CSOT, the third largest smartphone display maker in China with 14% market share in global panel capacity. The flexible AMOLED production line in CSOT's Gen6 T4 factory has been commissioned by 1H19 and will start mass production in 1H20E with design capacity of 45k/month. We estimate foldable display penetration to kick off from 1H20E onwards given high BOM cost due to low-yield of AMOLED panel at the moment.

Reiterate BUY. We reiterate our BUY rating on CDOT with TP HK\$1.27 revised up from HK\$1.16 based on 10x FY20E P/E vs previously 12x FY19E P/E, as we believe CDOT will be among the Top 3 foldable display module suppliers in China thanks to its advantage in vertical integration with CSOT and strong back up from TCL Group.

Risks: (1) Lower than expected shipments to the new client; (2) Slower than expected ramp-up of Wuhan factory, (3) Higher than expected ASP pressure in LCD module market.

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	3,678.2	3,464.6	4,725.0	6,044.0	7,806.5
Growth (%)	64.0	(5.8)	36.4	27.9	29.2
Adj. net Profit	91.1	115.7	86.7	150.4	219.3
Growth (%)	25.5	27.0	(25.1)	73.6	45.8
Diluted EPS (HK\$)	0.054	0.071	0.050	0.087	0.127
EPS growth (%)	2.3	32.0	(29.3)	73.6	45.8
Change to previous EPS (%)			86.2	(32.1)	
Consensus EPS (HK\$)			0.028	0.091	
ROE (%)	38.5	26.7	16.5	24.5	28.6
P/E (x)	15.2	11.5	16.3	9.4	6.4
P/B (x)	3.6	2.7	2.5	2.0	1.6
Yield (%)	2.4	2.4	1.7	3.0	4.4
DPS (HK\$)	0.020	0.020	0.014	0.025	0.036

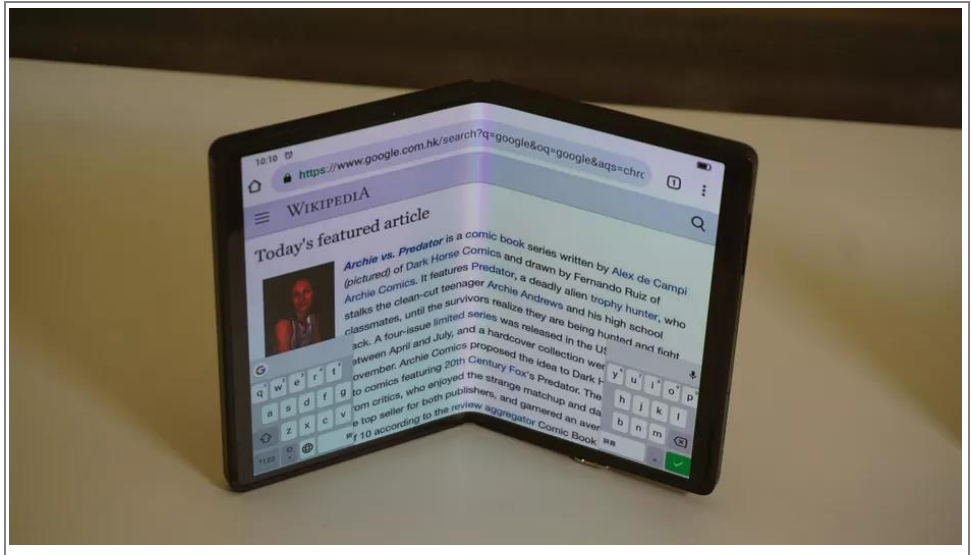
Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

	FY18E			FY19E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue(RMBmn)							
Non-laminated Modules	817	817	0.0	578	743	(22.2)	
Laminated Modules	2,468	2,468	0.0	3,186	3,186	0.0	
Orders for tier-one brand	1,440	1,440	0.0	2,280	4,608	(50.5)	As we take a more conservative estimate
(RMB mn)							
Revenue	4,725	4,725	0.0	6,044	8,537	(29.2)	
Gross profit	246	200	22.8	378	499	(24.3)	
Gross margin	5.2%	4.2%	1.0	6.2%	5.8%	0.4	
Opex	(187)	(187)	0.0	(228)	(246)	(7.1)	
EBIT	111	65	69.9	189	293	(35.4)	
Net Profit	87	47	86.2	150	222	(32.1)	
Diluted EPS (HK\$)	0.050	0.027	86.2	0.087	0.129	(32.1)	

Source: OP Research

Exhibit 3: TCL's low-cost foldable display products is likely to hit the market in 2020E.



Source: CNET

Exhibit 4: The prototypes of foldable devices presented by TCL at this year's MWC use flexible AMOLED displays from CSOT.



Source: CNET

Financial Summary

Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Income Statement (RMB mn)					
Non-laminated Modules	1,331	1,292	817	578	409
Laminated Modules	2,347	2,173	2,468	3,186	3,977
Orders from tier-one client			1,440	2,280	3,420
Turnover	3,678	3,465	4,725	6,044	7,806
YoY%	64	(6)	36	28	29
COGS	(3,473)	(3,185)	(4,479)	(5,666)	(7,313)
Gross profit	206	280	246	378	494
Gross margin	5.6%	8.1%	5.2%	6.2%	6.3%
Other income	47	45	52	40	40
Selling & distribution	(36)	(42)	(48)	(59)	(67)
Admin	(74)	(115)	(129)	(158)	(179)
R&D	0	0	0	0	0
Listing expenses	0	0	0	0	0
Other opex	(5)	(9)	(10)	(11)	(13)
Total opex	(115)	(166)	(187)	(228)	(259)
Operating profit (EBIT)	138	159	111	189	275
Operating margin	3.8%	4.6%	2.4%	3.1%	3.5%
Provisions	0	0	0	0	0
Interest Income	5	4	2	1	2
Finance costs	(20)	(31)	(15)	(11)	(11)
Profit after financing costs	122	132	99	179	265
Associated companies & JVs	0	0	0	2	0
Pre-tax profit	122	132	99	181	265
Tax	(31)	(20)	(15)	(36)	(53)
Minority interests	0	5	3	5	7
Adj. net profit	91	116	87	150	219
YoY%	25	27	(25)	74	46
Net margin	2.5%	3.3%	1.8%	2.5%	2.8%
Reported net profit	91	116	87	150	219
EBITDA	183	207	191	286	390
EBITDA margin	5.0%	6.0%	4.0%	4.7%	5.0%
EPS (RMB)	0.043	0.057	0.040	0.070	0.102
YoY%	2	32	(29)	74	46
DPS (HK\$)	0.020	0.020	0.014	0.025	0.036
Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Cash Flow (RMB mn)					
EBITDA	183	207	191	286	390
Chg in working cap	(31)	(233)	4	(43)	(41)
Others	40	72	0	0	0
Operating cash	191	46	194	243	349
Tax	(9)	(34)	(36)	(15)	(36)
Net cash from operations	182	12	158	228	313
Capex	(107)	(319)	(250)	(181)	(234)
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	5	4	2	1	2
Others	0	0	0	0	0
Investing cash	(102)	(314)	(248)	(180)	(233)
FCF	80	(302)	(89)	48	80
Issue of shares	137	5	0	0	0
Buy-back	0	(5)	0	0	0
Minority interests	0	120	0	0	0
Dividends paid	0	(35)	(34)	(24)	(41)
Net change in bank loans	(17)	294	(165)	0	0
Interest paid	(16)	(27)	(15)	(11)	(11)
Others	(3)	0	0	0	0
Financing cash	100	351	(215)	(35)	(52)
Net change in cash	180	49	(304)	13	28
Exchange rate or other Adj	(2)	(7)	0	0	0
Opening cash	287	465	508	204	217
Closing cash	465	508	204	217	245
CFPS (HK\$)	0.108	0.008	0.092	0.132	0.182

Source: Company, OP Research

Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Ratios					
Gross margin (%)	5.6	8.1	5.2	6.2	6.3
Operating margin (%)	3.8	4.6	2.4	3.1	3.5
Net margin (%)	2.5	3.3	1.8	2.5	2.8
Selling & dist'n exp/Sales (%)	1.0	1.2	1.0	1.0	0.9
Admin exp/Sales (%)	2.0	3.3	2.7	2.6	2.3
Payout ratio (%)	37.1	28.1	28.1	28.1	28.1
Effective tax (%)	25.6	15.5	15.5	20.0	20.0
Total debt/equity (%)	49.6	89.9	51.4	41.7	33.0
Net debt/equity (%)	Net cash	Net cash	14.3	9.7	4.4
Current ratio (x)	1.1	1.1	1.0	1.0	1.0
Quick ratio (x)	0.9	1.0	0.9	0.9	0.9
Inventory T/O (days)	39	26	26	26	26
AR T/O (days)	98	117	117	117	117
AP T/O (days)	139	129	129	129	129
Cash conversion cycle (days)	(2)	14	14	14	14
Asset turnover (x)	2.1	1.5	1.8	1.9	2.0
Financial leverage (x)	7.3	5.3	5.1	5.2	5.1
EBIT margin (%)	3.8	4.6	2.4	3.1	3.5
Interest burden (x)	0.9	0.8	0.9	1.0	1.0
Tax burden (x)	0.7	0.9	0.9	0.8	0.8
Return on equity (%)	38.5	26.7	16.5	24.5	28.6
ROIC (%)	203.3	41.7	14.5	19.0	23.8
Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Balance Sheet (RMB mn)					
Fixed assets	193	463	635	720	841
Intangible assets & goodwill	0	6	4	3	2
Associated companies & JVs	0	0	0	2	2
Long-term investments	18	15	15	15	15
Other non-current assets	43	38	38	38	38
Non-current assets	254	522	692	778	897
Inventories	367	225	316	400	516
AR	990	1,115	1,520	1,944	2,511
Prepayments & deposits	44	91	123	158	204
Other current assets	0	1	1	1	1
Cash	465	508	204	217	245
Current assets	1,867	1,938	2,164	2,720	3,477
AP	1,320	1,128	1,586	2,006	2,589
Tax	52	36	15	36	53
Accruals & other payables	192	207	282	360	465
Bank loans & leases	120	390	224	224	224
CB & other debts	0	0	0	0	0
Other current liabilities	0	1	1	1	1
Current liabilities	1,684	1,760	2,108	2,627	3,332
Bank loans & leases	0	0	0	0	0
CB & other debts	63	59	59	59	59
Deferred tax & others	6	28	28	28	28
MI	0	115	112	107	100
Non-current liabilities	68	201	198	193	186
Total net assets	368	498	550	677	856
Shareholder's equity	368	498	550	677	856
Share capital	165	170	170	170	170
Reserves	203	329	381	508	686
BVPS (HK\$)	0.23	0.30	0.33	0.41	0.51
Total debts	183	448	283	283	283
Net cash/(debts)	282	60	(79)	(66)	(38)

Exhibit 5: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER			EPS		3-Yr EPS Cagr (%)	Div yld		P/B	Hist P/B	FY1	EV/		Net margin	Gross margin	Net margin	ROE	ROE	Sh px	Sh px
					Hist (x)	FY1 (x)	FY2 (x)	FY1	FY2		PEG (x)	Hist (%)	Div yld P/B	Hist P/B	FY1	Ebitda	Ebitda	gearing						
China Display Op	334 HK	0.82	218	0.2	9.0	12.7	7.3	(29.3)	73.6	21.4	0.59	3.1	2.2	2.14	1.94	6.1	7.4	Net cash	8.1	3.3	26.7	16.5	57.7	46.4
HSI		28,959.59			11.0	11.1	10.2	(0.6)	9.1	4.0	2.81	3.5	3.7	1.37	1.23						12.4	11.1	3.5	6.2
HSCEI		11,575.53			9.0	8.5	7.8	5.6	9.4	4.0	2.11	3.7	3.9	1.17	1.02						13.0	11.9	4.9	6.1
CSI300		3,794.10			14.4	12.1	10.6	19.0	13.9			2.1	2.6	1.8	1.6						12.7	13.1	16.8	16.1
Adjusted sector avg*					22.3	13.2	15.2	18.6	14.1	(45.0)	1.1	2.3	1.1	1.0	1.0	5.0	5.5	35.2	12.7	4.7	9.2	7.6	7.3	6.8
Truly Intl Hldgs	732 HK	1.40	587	2.9	65.7	10.0	5.6	557.3	78.6	119.4	0.08	N/A	1.9	0.56	0.53	6.0	4.1	68.1	9.8	0.3	4.1	2.6	27.3	14.8
Byd Electronic	285 HK	10.46	3,003	13.2	7.8	8.6	7.8	(10.1)	10.5	3.7	2.32	2.6	2.0	1.36	1.22	3.7	4.0	0.0	11.0	6.7	17.3	14.6	5.7	(10.4)
O-Film Tech Co-A	002456 CH	14.20	5,752	139.3	46.2	20.0	14.9	131.1	34.2	57.9	0.35	0.3	0.6	3.68	3.54	20.0	11.3	107.2	13.5	2.4	12.1	18.6	36.8	22.5
Boe Technology-A	000725 CH	4.32	22,233	427.7	19.9	35.4	29.6	(43.8)	19.7	(0.3)	N/A	1.2	1.1	1.75	1.68	9.9	11.3	43.5	24.5	8.1	5.3	4.2	64.9	52.1
Tianma-A	000050 CH	16.21	4,958	104.9	28.1	20.4	18.9	38.0	7.9	21.3	0.96	0.4	0.6	1.26	1.42	21.9	13.3	30.4	20.5	5.8	6.5	8.6	69.4	48.7
Au Optronics	2409 TT	11.40	3,561	12.8	10.8	N/A	N/A	N/A	N/A	(191.4)	N/A	13.2	1.9	0.54	0.55	3.5	4.4	8.1	9.1	3.3	4.9	(1.9)	(4.2)	(10.6)
Innolux	3481 TT	10.10	3,262	8.5	45.9	N/A	N/A	N/A	N/A	(198.5)	N/A	7.9	0.3	0.39	0.40	1.6	2.2	0.0	9.6	0.8	0.9	(2.0)	(3.3)	(4.7)
Japan Display	6740 JP	70.00	529	19.7	N/A	N/A	44.7	N/A	N/A	(86.3)	N/A	N/A	0.0	0.58	0.58	6.5	4.4	130.7	(0.4)	(34.5)	(95.3)	(10.0)	(5.4)	0.0
Sharp Corp	6753 JP	1,352.00	6,434	31.3	12.7	10.2	10.8	24.9	(5.1)	5.3	1.92	0.7	0.7	1.97	2.09	7.7	7.0	53.6	16.7	2.9	25.2	20.3	2.9	(16.9)
Samsung Electron	005930 KS	44,850.00	237,672	489.4	6.9	9.7	8.3	(28.6)	17.6	(1.5)	N/A	3.2	3.3	1.12	1.15	2.2	2.8	0.0	45.7	18.0	17.3	12.1	(3.2)	6.4
Lg Display Co Lt	034220 KS	20,800.00	6,607	29.2	N/A	N/A	25.7	N/A	N/A	(225.0)	N/A	N/A	2.2	0.53	0.54	4.0	3.3	41.1	12.7	(0.9)	(1.5)	(1.2)	9.2	17.8

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
27/02/2019	Anta Sports	2020	FY18 revenue strong beat, profits in-line	BUY	Dallas Cai/Megan Jin
22/02/2019	Ausnutria Dairy	1717	FY18 profit surprise on margin expansion	BUY	Dallas Cai
20/02/2019	Q Tech	1478	Jan shipments growth was solid	BUY	Yuji Fung/Dallas Cai
19/02/2019	Tongda	698	FY18E profit warning	BUY	Yuji Fung/Dallas Cai
18/02/2019	Sunny Optical	2382	Earnings growth momentum likely resume in 2019	BUY	Yuji Fung/Dallas Cai
30/01/2019	Li Ning	2331	FY18E results preview	HOLD	Dallas Cai
30/01/2019	Anta Sports	2020	FY18E results preview	BUY	Dallas Cai
15/01/2019	361 Degrees Intl	1361	FY18E results preview	BUY	Yuji Fung/Dallas Cai
15/01/2019	Xtep Intl	1368	FY18E results preview	BUY	Dallas Cai
14/01/2019	Sinosoft Tech	1297	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Sunny Optical	2382	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Q Tech	1478	FY18E results preview	BUY	Yuji Fung/Dallas Cai
11/01/2019	Tian Lun Gas	1600	FY18E results preview	BUY	Yuji Fung/Dallas Cai
08/01/2019	Chinasoft Intl	354	FY18E results preview	BUY	Yuji Fung/Dallas Cai
20/12/2018	Tian Lun Gas	1600	A different coal-to-gas tale from Henan	BUY	Yuji Fung/Dallas Cai
11/12/2018	Sunny Optical	2382	November saw resilient shipments	BUY	Yuji Fung/Dallas Cai
11/12/2018	Q Tech	1478	November shipments in line with expectations	BUY	Yuji Fung/Dallas Cai
10/12/2018	Anta Sports	2020	Acquisition of Amer comes to a deal	BUY	Dallas Cai
03/12/2018	China Youzan	8083	December foresight bears fruit	BUY	Yuji Fung/Dallas Cai
03/12/2018	Ju Teng Intl	3336	Positive profit alert for FY18E	BUY	Yuji Fung/Dallas Cai
26/11/2018	Truly Intl	732	3Q18 turnover flat as expected	BUY	Yuji Fung/Dallas Cai
19/11/2018	Ausnutria Dairy	1717	Nurturing by global layout	BUY	Dallas Cai
13/11/2018	361 Degrees Intl	1361	Introduce new investor to kids' wear business	BUY	Yuji Fung/Dallas Cai
12/11/2018	Sunny Optical	2382	Oct shipments up to expectations	BUY	Yuji Fung/Dallas Cai
12/11/2018	Q Tech	1478	Shipment growth looms on horizon	BUY	Yuji Fung/Dallas Cai
07/11/2018	China Youzan	8083	3Q18 results in line with expectations	BUY	Yuji Fung/Dallas Cai
02/11/2018	CH Display OPT	334	TCL Group ups stakes for turnaround and advance on opportunities	BUY	Yuji Fung/Dallas Cai

Historical recommendations and target price: CH Display OPT (334 HK)

(as of 04/03/2019)

(HK\$)



DATE	RATING	TP	CLOSE	DATE	RATING	TP	CLOSE
1 22 Mar 2017	BUY	HKD1.34	0.96	6 11 Jun 2018	BUY	HKD1.20	0.78
2 12 Jul 2017	BUY	HKD1.50	1.33	7 26 Aug 2018	BUY	HKD0.67	0.50
3 08 Aug 2017	BUY	HKD1.55	1.09	8 14 Sep 2018	BUY	HKD1.13	0.56
4 27 Mar 2018	BUY	HKD1.20	0.78	9 26 Oct 2018	BUY	HKD1.16	0.59
5 25 Apr 2018	BUY	HKD1.20	0.67	10 01 Nov 2018	BUY	HKD1.16	0.64

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