

Equity Research
Display Module/ China

CH Display OPT (334 HK)

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Company Update

HOLD

UNCHANGED

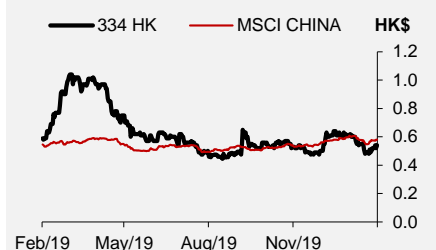
Close price: **HK\$0.55**
Target Price: **HK\$0.62 (+12%)**
Prior TP: **HK\$0.62**

Key Data

HKEx code	334
12 Months High (HK\$)	1.07
12 Month Low (HK\$)	0.44
3M Avg Dail Vol. (mn)	2.79
Issue Share (mn)	2,114.12
Market Cap (HK\$m)	1,162.76
Fiscal Year	12/2018
Major shareholder (s)	Shenzhen China Star (65.05%)

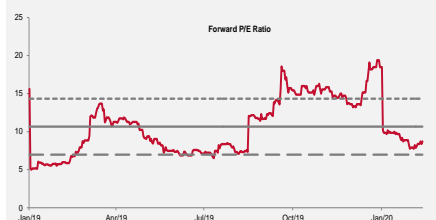
Source: Company data, Bloomberg, OP Research
Closing price are as of 12/02/2020

Price Chart



	1mth	3mth	6mth
Absolute %	-11.5	1.9	14.9
Rel. MSCI CHINA %	-7.0	-7.7	-0.9

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.

Better than feared coronavirus impacts, for now

- We see better than feared impacts from coronavirus on operation, esp. for Wuhan Fab. For Huizhou site, we expect work resumption rate to climb to above 50% from ~30% in the upcoming 2 weeks.
- We see the month to come critical due to potential under-supply of non-panel parts and challenging returning worker mgmt, which may temporarily drag shipments/inflate procurement & admin costs.
- Maintain HOLD with TP HK\$0.62 unchanged based on same 15x FY20E PE.

Better than feared in Wuhan production base. The Company has two major production bases, one in Wuhan (Wuhan CDOT, a JV with CSOT, the Company's major shareholder and panel supplier), and one in Huizhou.

Current operation in Wuhan base is not seriously impacted as: (1) the Fab gets stable panel supply from CSOT T3, whose highly automated production lines have been kept under operation throughout the Chinese New Year, and (2) closed-off factory management together with CSOT reduces risks of incoming infection. For Huizhou site, we estimate ~30% workers are at work now with the work resumption rate to slowly recover to above 50% as more are coming back from other places in Guangdong Province in the next 2 weeks.

Refill of non-panel inventory and returning worker management are critical in near term. The Company routinely keeps one-month inventory for non-panel module parts. With the uncertain recovery of local logistics and unclear resumption timeline for small-scale upstream suppliers, shortage of LCD module parts is likely to drag shipments/boost near-term procurement costs during late Q1 and early Q2. In addition, the additional administrative work for returning worker management could be a challenge as many back office staff are under quarantine themselves. That said, we believe the above mentioned challenges are common for the entire industry and the large-scale players would get priority from local governments in terms of work resumption arrangements.

Meanwhile, due to the disruption of coronavirus, we expect a slower ramp-up of CSOT T4 Fab and thus a likely postponed rollout of flexible OLED products of the Company.

Maintain HOLD. We will keep an eye on the aftershock of virus outbreak. Maintain HOLD with TP HK\$0.62 unchanged based on same 15x FY20E PE.

Risks: (1) Worse/better control of coronavirus; (2) Severe undersupply of key module parts, (3) Worse/better than expected cost control

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	3,464.6	5,280.9	4,029.9	5,077.5	5,208.9
Growth (%)	(5.8)	52.4	(23.7)	26.0	2.6
Net Profit	115.7	81.8	28.1	78.2	70.8
Growth (%)	27.0	(29.3)	(65.6)	177.8	(9.5)
Diluted EPS (HK\$)	0.064	0.045	0.015	0.041	0.037
EPS growth (%)	32.0	(30.7)	(66.9)	177.8	(9.5)
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			0.037	0.070	
ROE (%)	26.7	15.7	5.0	12.8	10.3
P/E (x)	8.5	12.3	37.2	13.4	14.8
P/B (x)	2.0	1.9	1.8	1.6	1.4
Yield (%)	3.6	0.0	0.0	0.0	0.0
DPS (HK\$)	0.020	0.000	0.000	0.000	0.000

Source: Bloomberg, OP Research

Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Income Statement (RMB mn)					
Selling LCD modules	3,465	5,281	3,491	4,056	4,201
Processing LCS modules	0	0	539	1,021	1,008
Turnover	3,465	5,281	4,030	5,077	5,209
YoY%	(6)	52	(24)	26	3
COGS	(3,185)	(5,033)	(3,842)	(4,780)	(4,911)
Gross profit	280	248	188	298	298
Gross margin	8.1%	4.7%	4.7%	5.9%	5.7%
Other income	45	39	34	34	34
Selling & distribution	(42)	(27)	(34)	(43)	(45)
Admin	(115)	(97)	(96)	(118)	(125)
R&D	0	0	0	0	0
Listing expenses	0	0	0	0	0
Other opex	(9)	(12)	(3)	(4)	(4)
Total opex	(166)	(137)	(133)	(165)	(174)
Operating profit (EBIT)	159	150	89	167	158
Operating margin	4.6%	2.8%	2.2%	3.3%	3.0%
Provisions	0	0	0	0	0
Interest Income	4	6	5	9	9
Finance costs	(31)	(18)	(54)	(84)	(84)
Profit after financing costs	132	138	40	92	83
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	132	138	40	92	83
Tax	(20)	(36)	(12)	(14)	(12)
Minority interests	5	(20)	0	0	0
Adj. net profit	116	82	28	78	71
YoY%	27	(29)	(66)	178	(9)
Net margin	3.3%	1.5%	0.7%	1.5%	1.4%
Reported net profit	116	82	28	78	71
EBITDA	207	228	180	269	273
EBITDA margin	6.0%	4.3%	4.5%	5.3%	5.2%
EPS (RMB)	0.057	0.039	0.013	0.036	0.033
YoY%	32	(31)	(67)	178	(9)
DPS (HK\$)	0.020	0.000	0.000	0.000	0.000
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Cash Flow (RMB mn)					
EBITDA	207	228	180	269	273
Chg in working cap	(233)	(175)	53	(64)	(4)
Others	72	12	0	0	0
Operating cash	46	65	233	205	270
Tax	(34)	(26)	(48)	(12)	(14)
Net cash from operations	12	39	185	193	256
Capex	(319)	(196)	(121)	(152)	(156)
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	4	6	5	9	9
Others	0	0	0	0	0
Investing cash	(314)	(191)	(115)	(143)	(147)
FCF	(302)	(152)	70	49	108
Issue of shares	5	2	0	0	0
Buy-back	(5)	(2)	0	0	0
Minority interests	120	0	0	0	0
Dividends paid	(35)	(34)	0	0	0
Net change in bank loans	294	(29)	1,005	0	0
Interest paid	(27)	(15)	(54)	(84)	(84)
Others	0	0	0	0	0
Financing cash	351	(78)	951	(84)	(84)
Net change in cash	49	(230)	1,021	(34)	25
Exchange rate or other Adj	(7)	(0)	0	0	0
Opening cash	465	508	277	1,298	1,264
Closing cash	508	277	1,298	1,264	1,289
CFPS (HK\$)	0.008	0.024	0.097	0.101	0.134

Source: Company, OP Research

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	8.1	4.7	4.7	5.9	5.7
Operating margin (%)	4.6	2.8	2.2	3.3	3.0
Net margin (%)	3.3	1.5	0.7	1.5	1.4
Selling & dist'n exp/Sales (%)	1.2	0.5	0.8	0.8	0.9
Admin exp/Sales (%)	3.3	1.8	2.4	2.3	2.4
Payout ratio (%)	28.1	0.0	0.0	0.0	0.0
Effective tax (%)	15.5	26.2	30.0	15.0	15.0
Total debt/equity (%)	89.9	77.4	249.0	219.1	197.6
Net debt/equity (%)	Net cash	26.5	22.5	25.0	19.1
Current ratio (x)	1.1	1.0	1.0	1.0	1.0
Quick ratio (x)	1.0	0.8	0.9	0.9	0.9
Inventory T/O (days)	26	42	42	42	42
AR T/O (days)	117	148	148	148	148
AP T/O (days)	129	164	164	164	164
Cash conversion cycle (days)	14	26	26	26	26
Asset turnover (x)	1.5	1.7	1.0	1.1	1.1
Financial leverage (x)	5.3	6.0	7.2	7.3	7.0
EBIT margin (%)	4.6	2.8	2.2	3.3	3.0
Interest burden (x)	0.8	0.9	0.5	0.6	0.5
Tax burden (x)	0.9	0.6	0.7	0.9	0.9
Return on equity (%)	26.7	15.7	5.0	12.8	10.3
ROIC (%)	41.7	15.9	7.3	15.7	13.7
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Balance Sheet (RMB mn)					
Fixed assets	463	603	634	685	728
Intangible assets & goodwill	6	6	4	3	1
Associated companies & JVs	0	0	0	0	0
Long-term investments	15	18	18	18	18
Other non-current assets	38	61	61	61	61
Non-current assets	522	686	716	766	807
Inventories	225	575	439	546	561
AR	1,115	2,145	1,637	2,063	2,116
Prepayments & deposits	91	129	99	124	127
Other current assets	1	0	0	0	0
Cash	508	277	1,298	1,264	1,289
Current assets	1,938	3,127	3,473	3,997	4,093
AP	1,128	2,257	1,723	2,144	2,202
Tax	36	48	12	14	12
Accruals & other payables	207	372	284	358	367
Bank loans & leases	390	361	1,366	1,366	1,366
CB & other debts	0	0	0	0	0
Other current liabilities	1	0	0	0	0
Current liabilities	1,760	3,037	3,385	3,881	3,947
Bank loans & leases	0	0	0	0	0
CB & other debts	59	61	61	61	61
Deferred tax & others	28	34	34	34	34
MI	115	135	135	135	135
Non-current liabilities	201	231	231	231	231
Total net assets	498	545	573	651	722
Shareholder's equity	498	545	573	651	722
Share capital	170	170	170	170	170
Reserves	329	375	403	482	552
BVPS (HK\$)	0.30	0.33	0.31	0.35	0.39
Total debts	448	422	1,427	1,427	1,427
Net cash/(debts)	60	(145)	(129)	(163)	(138)

Exhibit 2: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER	PER	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
								FY1	FY2		PEG	Hist	Div yld	P/B	Hist P/B	FY1	Ebitda	Ebitda	gearing					
					Hist (x)	FY1 (x)	FY2 (x)	YoY%	YoY%		(x)	(%)	FY1 (%)	(x)	(x)	Hist	Cur Yr	Hist (%)	Hist (%)	Hist (%)	FY1 (%)	FY1 (%)	1-mth %	3-mth %
China Display Op	334 HK	0.55	150	0.2	12.3	37.2	13.4	(66.9)	177.8	(5.9)	(6.3)	0.0	0.0	1.9	1.8	5.7	7.2	26.5	(255.9)	60.0	15.7	5.0	(9.8)	3.8
HSI		27,823.66			10.9	10.6	9.8	2.1	8.2	8.2	1.30	3.6	3.9	1.21	1.12						11.1	10.6	(2.8)	2.8
HSCEI		10,884.69			8.6	8.3	7.6	3.7	8.9	3.2	2.59	3.5	4.0	1.17	1.03						13.6	12.5	(3.4)	1.8
CSI300		3,984.43			14.2	11.6	10.3	21.9	12.5			2.1	2.7	1.8	1.6						12.9	13.6	(4.3)	2.1
Adjusted sector avg*					31.0	23.0	20.0	7.6	40.4	(29.1)	1.6	1.1	0.7	1.2	1.3	7.6	8.0	53.9	11.5	0.5	3.1	4.2	(0.9)	18.4
Truly Intl Hldgs	732 HK	1.07	453	1.2	45.3	8.2	4.9	450.8	69.2	122.5	0.07	N/A	N/A	0.45	0.46	4.2	3.4	82.7	9.5	0.4	2.7	5.2	(19.5)	2.9
Byd Electronic	285 HK	16.32	4,734	24.0	15.1	21.8	15.1	(30.6)	44.4	5.0	4.32	1.4	0.9	2.07	1.93	7.1	9.3	0.0	10.2	5.3	10.6	9.0	(6.6)	11.6
Ofilm Group Co-A	002456 CH	17.00	6,612	369.9	N/A	83.7	30.7	N/A	172.9	(256.8)	N/A	N/A	0.2	5.23	5.02	26.2	14.6	175.2	12.3	(1.2)	(17.9)	6.0	6.2	44.7
Boe Technology-A	000725 CH	4.76	23,476	541.3	47.6	58.0	33.1	(18.0)	75.6	27.0	2.15	0.6	0.6	1.91	1.90	13.8	13.1	57.5	20.4	3.5	2.2	2.9	(3.8)	30.1
Tianma-A	000050 CH	15.64	4,593	77.8	34.0	23.1	19.6	47.0	18.3	23.5	0.98	0.4	0.5	1.19	1.17	10.9	10.3	66.7	15.2	3.2	2.6	5.1	(6.7)	10.6
Au Optonics	2409 TT	11.10	3,560	29.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.5	0.5	0.57	0.63	4.1	7.6	8.1	9.1	(7.1)	(5.2)	(6.5)	10.4	42.1
Innolux	3481 TT	9.34	3,022	45.2	42.5	N/A	N/A	N/A	N/A	(271.4)	N/A	0.6	0.0	0.40	0.39	2.1	5.0	0.0	9.6	0.8	(4.5)	(6.4)	4.2	39.2
Japan Display	6740 JP	74.00	570	5.1	N/A	N/A	N/A	N/A	N/A	(75.3)	N/A	N/A	0.0	N/A	1.97	17.2	(52.5)	1,663.9	2.6	(17.2)	N/A	(939.3)	(5.1)	2.8
Sharp Corp	6753 JP	1,526.00	7,393	33.7	13.1	13.2	13.5	(1.3)	(1.9)	(0.9)	N/A	1.3	1.3	2.64	2.54	8.6	8.4	107.5	17.7	3.1	17.3	20.0	(12.0)	(8.9)
Samsung Electron	005930 KS	60,500.00	305,790	659.7	19.1	13.6	9.9	41.0	36.8	36.8	0.37	2.3	2.6	1.41	1.50	3.3	4.2	0.0	36.1	9.3	8.8	11.2	1.7	15.0
Lg Display Co Lt	034220 KS	16,350.00	4,953	27.7	N/A	N/A	33.6	N/A	N/A	(143.7)	N/A	N/A	3.1	0.45	0.53	4.9	4.5	41.1	8.0	(12.1)	(6.6)	(4.3)	2.8	12.4

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

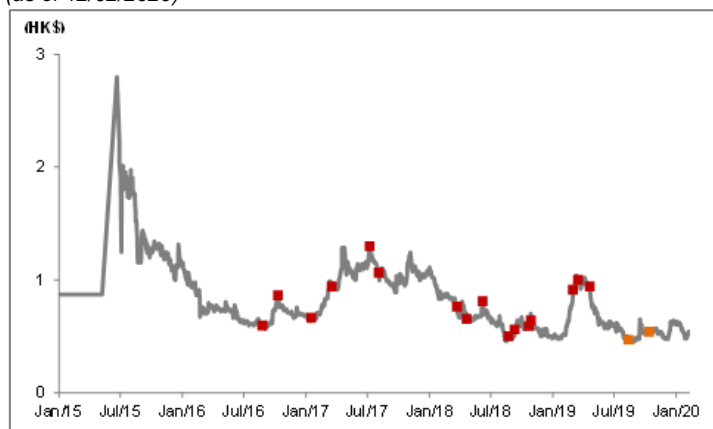
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
10/02/2020	TCL Electronics	1070	FY19E earnings beat expectations	BUY	Dallas Cai
05/02/2020	Xtep Intl	1368	4Q19 in line with expectations	BUY	Dallas Cai/Megan Jin
17/01/2020	Edvantage Group	382	FY20/21E saw a good start	BUY	Yuji Fung/Dallas Cai
17/01/2020	361 Degrees Intl	1361	4Q19 retail sales on track	BUY	Megan Jin
15/01/2020	Anta Sports	2020	Issuance of CB to optimize financial structure	BUY	Dallas Cai/Megan Jin
10/01/2020	Sunny Optical	2382	2019 shipment targets met - as expected	BUY	Yuji Fung/Dallas Cai
08/01/2020	Q Tech	1478	2019 full year shipments meet OP targets	BUY	Yuji Fung/Dallas Cai
31/12/2019	GT Service	2869	Introducing Longfor as 3rd largest shareholder	BUY	Dallas Cai/Yuji Fung
20/12/2019	Q Tech	1478	Top-up placement for CCM capacity expansion	BUY	Yuji Fung/Dallas Cai
17/12/2019	Aidigong	286	Transforming into a leading postpartum care player in China	NR	Yuji Fung
13/12/2019	Anta Sports	2020	Revealing higher visibility of post-M&A roadmap	BUY	Dallas Cai/Megan Jin
10/12/2019	Sunny Optical	2382	November saw strong HCM shipment growth	BUY	Yuji Fung/Dallas Cai
10/12/2019	Q Tech	1478	November shipments maintain full steam	BUY	Yuji Fung/Dallas Cai
03/12/2019	Xtep Intl	1368	Update on winter sales and new brand	BUY	Dallas Cai/Megan Jin
28/11/2019	Edvantage Group	382	Advantageous Educator in Greater Bay Area	BUY	Yuji Fung/Dallas Cai
14/11/2019	Ausnutria Dairy	1717	3Q results up to expectations	BUY	Dallas Cai/Megan Jin
14/11/2019	Anta Sports	2020	Dispose 5% of Amer for introduction of experienced investors	BUY	Dallas Cai/Megan Jin
11/11/2019	Sunny Optical	2382	October shipments in line with expectations	BUY	Yuji Fung/Dallas Cai
11/11/2019	Q Tech	1478	Another month of robust growth in October	BUY	Yuji Fung/Dallas Cai
30/10/2019	CH Display OPT	334	More shifting to processing mode in 3Q19	HOLD	Yuji Fung/Dallas Cai
22/10/2019	Li-Ning	2331	3Q19 saw solid retail performance	BUY	Dallas Cai/Megan Jin
21/10/2019	Q Tech	1478	Upgrade on diversified global footprint	BUY	Yuji Fung/Dallas Cai
18/10/2019	Xtep Intl	1368	3Q19 operations in line	BUY	Dallas Cai/Megan Jin
17/10/2019	Anta Sports	2020	3Q19 retail performance up to expectations	BUY	Dallas Cai/Megan Jin
17/10/2019	361 Degrees Intl	1361	3Q19 operations in line with expectations	BUY	Megan Jin
14/10/2019	Sunny Optical	2382	Another month of robust HLS growth	BUY	Yuji Fung/Dallas Cai
11/10/2019	Q Tech	1478	September saw robust shipment growth momentum	BUY	Yuji Fung/Dallas Cai

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

(as of 12/02/2020)



DATE	RATING	TP (HK\$)	CLOSE (HK\$)	DATE	RATING	TP (HK\$)	CLOSE (HK\$)
1 11 Jun 2018	BUY	1.20	0.78	6 05 Mar 2019	BUY	1.27	0.82
2 26 Aug 2018	BUY	0.67	0.50	7 20 Mar 2019	BUY	1.20	1.00
3 14 Sep 2018	BUY	1.13	0.56	8 24 Apr 2019	BUY	1.20	0.94
4 26 Oct 2018	BUY	1.16	0.59	9 16 Aug 2019	HOLD	0.44	0.46
5 01 Nov 2018	BUY	1.16	0.64	10 29 Oct 2019	HOLD	0.62	0.56

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