

Equity Research
Display Module/ China

CH Display OPT (334 HK)

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Company Update

HOLD

UNCHANGED

Close price: HK\$0.56

Target Price: HK\$0.62 (+11%)

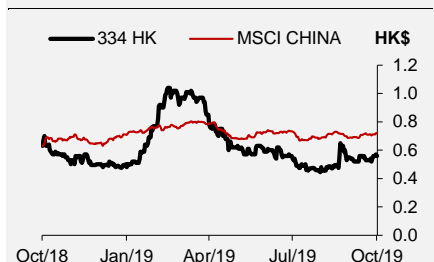
Prior TP: HK\$0.44

Key Data

HKEx code	334
12 Months High (HK\$)	1.07
12 Month Low (HK\$)	0.44
3M Avg Dail Vol. (mn)	2.31
Issue Share (mn)	2,114.12
Market Cap (HK\$mn)	1,183.91
Fiscal Year	12/2018
Major shareholder (s)	Shenzhen China Star (65.05%)

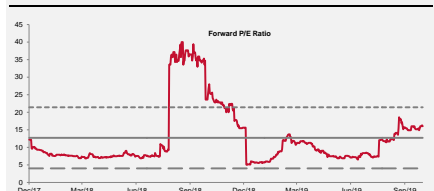
Source: Company data, Bloomberg, OP Research
Closing price are as of 29/10/2019

Price Chart



	1mth	3mth	6mth
Absolute %	1.8	3.7	-25.3
Rel. MSCI CHINA %	-3.1	3.8	-16.5

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.

More shifting to processing mode in 3Q19

- CDOT announced 3Q19 operation updates with revenue down 18.7% yoy to RMB1,049mn as over 65% total shipments shifted to processing mode for pricing.
- We revise up FY19/20E adjusted net profit estimates by 14.3%/39.0% to RMB28mn/RMB78mn respectively.
- Maintain HOLD with TP HK\$0.62 revised up from HK\$0.44 based on same 15x FY20E PE.

Over 65% shipments adopted processing mode in 3Q19, operating margin not affected. CDOT announced 3Q19 operation updates with total shipments up 112.1% yoy/44.2% qoq to 31.9mn units, of which laminated module penetration edged up to historic high of 87.3%. In order to bring down the connected-party transaction volume between CDOT and CSOT, the company has switched the procurement and sales procedure and shifted direct orders from major branded handset clients to processing mode (i.e. charging only module processing fee by unit and excluding the panel procurement in the price) starting from the end of 2Q19. By the end of 3Q19, over 65% of total shipments had changed to processing mode, leading to a decrease of 18.7% yoy/30.1% qoq in quarterly revenue to RMB1,049mn. We believe the change in revenue recognition method will not affect the cooperation strategy between CDOT and CSOT. From the financial perspective, only topline, blended ASP, and gross margin will be affected, while operating profits will be left largely untouched before and after the change in pricing bundle.

We revise up our FY19/20E adjusted net profit estimates by 14.3%/39.0% to RMB28mn/RMB78mn respectively. We revise down our FY19/20E revenue by 44.9%/42.0% to RMB4,030mn/RMB5,077mn respectively to reflect the change in revenue recognition method from purchase and sale mode to processing mode for most branded handset clients except LG. Under processing mode, we estimate processing fee of RMB8-9/unit for non-laminated modules and RMB11-12/unit for laminated modules. Our blended GPM for FY19/20E is revised up by 2.1ppts/2.7ppts to 4.7%/5.9% respectively due to changes in revenue mix. As a result, our FY19/20E adjusted diluted EPS is revised up by 14.3%/39.0% to HK\$0.015/HK\$0.041 respectively.

Maintain HOLD. We maintain HOLD with TP HK\$0.62 revised up from HK\$0.44 based on same 15x FY20E PE.

Risks: (1) CSOT restructuring completed earlier than we expected; (2) CDOT regains its market position KPI on profit instead of revenue growth, (3) Shortage in small mid-size panel market

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 (%)			14.3	39.0	
Consensus EPS (HK\$)			0.040	0.063	
ROE (%)	26.7	15.7	5.0	12.8	10.3
P/E (x)	8.7	12.5	37.9	13.6	15.1
P/B (x)	2.1	1.9	1.8	1.6	1.5
Yield (%)	3.6	0.0	0.0	0.0	0.0
DPS (HK\$)	0.020	0.000	0.000	0.000	0.000

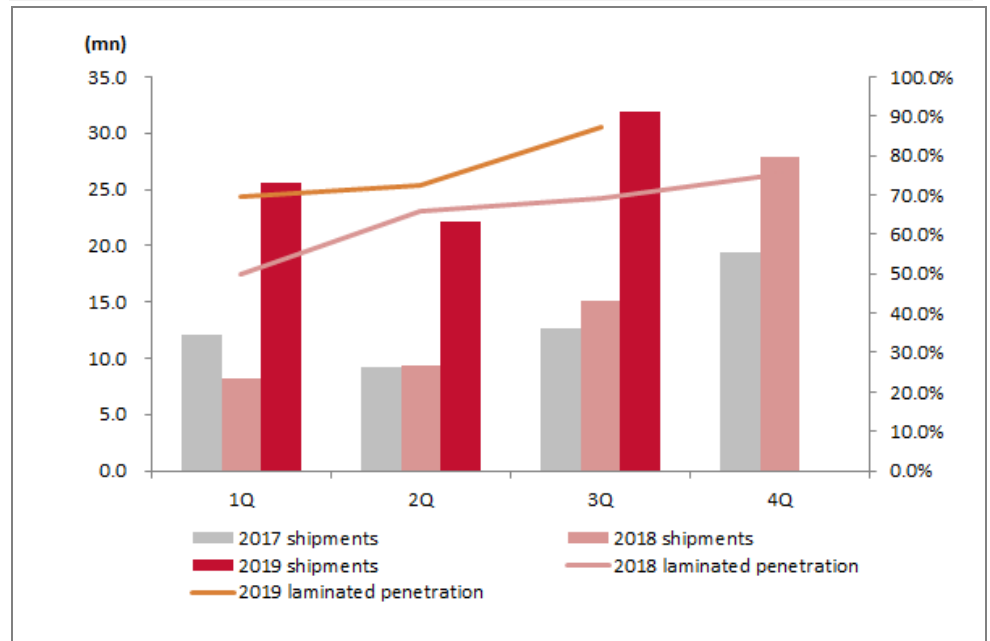
Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

	FY19E			FY20E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue(RMBmn)							
Selling LCD modules	3,491	7,315	(52.3)	4,056	8,749	(53.6)	As most shipments to branded handset customers are changed to processing mode for revenue recognition.
Processing LCS modules	539	0	0.0	1,021	0	0.0	
(RMB mn)							
Revenue	4,030	7,315	(44.9)	5,077	8,749	(42.0)	
Gross profit	188	186	0.9	298	272	9.3	
Gross margin	4.7%	2.5%	2.1	5.9%	3.1%	2.7	
Opex	(133)	(136)	(2.0)	(165)	(164)	0.8	
EBIT	89	85	5.2	167	143	16.9	
Net Profit	28	25	14.3	78	56	39.0	
Diluted EPS (HK\$)	0.015	0.013	14.3	0.041	0.030	39.0	

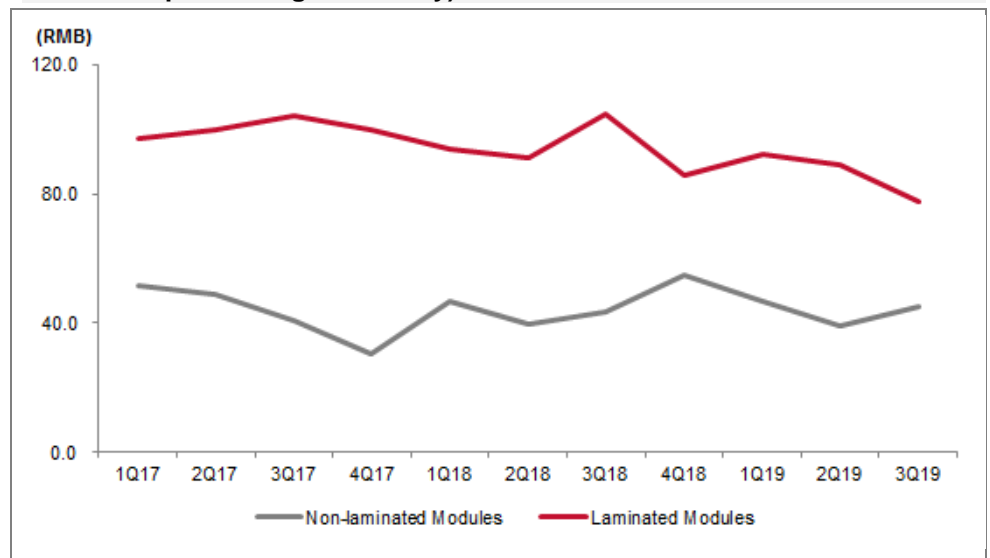
Source: OP Research

Exhibit 3: 2017-2019E quarterly shipments of LCD modules



Source: Company, OP Research

Exhibit 4: ASP of non-laminated and laminated modules (for products under non-processing mode only)



Source: Company, 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 5: Peer Group Comparison

										EPS		EPS		Div yld				EV/		EV/		Net		Gross		Net					
										FY1	FY2	3-Yr	EPS	PEG	Hist	Div yld	P/B	Hist	P/B	FY1	Ebitda	Ebitda	gearing	margin	margin	Hist (%)	Hist (%)	ROE	ROE	Sh px	Sh px
Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER (x)	PER (x)	PER (x)	YoY%	YoY%	Cagr (%)	(x)	(%)	FY1 (%)	(x)	(x)	Hist	Cur Yr	Hist (%)	Hist (%)	Hist (%)	Hist (%)	FY1 (%)	(1-mth %)	3-mth %							
China Display Op	334 HK	0.56	151	0.2	12.5	37.9	13.6	(66.9)	177.8	(5.9)	(6.4)	0.0	0.0	1.9	1.8	5.8	7.3	26.5	(255.9)	60.0	15.7	5.0	1.8	3.7							
HSI		26,786.76			10.4	10.6	10.1	(1.8)	5.6	3.8	2.76	3.7	3.9	1.20	1.15						11.5	10.9	3.2	(4.7)							
HSCEI		10,547.00			8.4	8.3	7.9	0.2	6.2	5.1	1.65	3.7	4.0	1.11	1.07						13.2	12.8	3.9	(2.2)							
CSI300		3,910.23			13.9	12.7	11.2	9.1	13.5			2.2	2.5	1.8	1.7						12.9	13.2	1.5	1.5							
Adjusted sector avg*					22.2	20.7	14.3	(6.5)	45.3	(77.2)	1.2	1.3	1.0	1.1	1.0	6.5	6.6	53.9	11.9	2.0	2.9	3.8	1.0	(6.6)							
Truly Intl Hldgs	732 HK	1.00	420	0.6	42.4	8.0	4.3	429.7	84.0	122.5	0.07	N/A	N/A	0.42	0.43	4.1	3.3	82.7	9.5	0.4	2.7	5.1	(11.5)	(11.5)							
Byd Electronic	285 HK	11.62	3,339	19.3	10.8	14.5	10.4	(25.7)	39.0	6.3	2.31	1.9	1.3	1.48	1.36	4.9	6.1	0.0	10.2	5.3	10.6	9.1	(2.0)	1.8							
Ofilm Group Co-A	002456 CH	10.90	4,188	229.6	N/A	38.4	18.5	N/A	107.4	(245.5)	N/A	N/A	0.2	3.35	2.95	18.8	9.5	175.2	12.1	(1.2)	(17.9)	9.5	(14.6)	32.1							
Boe Technology-A	000725 CH	3.66	17,876	340.1	36.6	37.0	24.9	(1.0)	48.5	24.5	1.51	0.8	0.8	1.47	1.45	11.9	9.9	57.5	20.4	3.5	2.5	3.9	(2.7)	(14.9)							
Tianma-A	000050 CH	13.75	3,988	59.9	29.9	19.6	18.0	52.6	8.5	22.6	0.87	0.5	0.6	1.06	1.04	10.3	11.1	66.7	14.8	3.2	2.6	5.6	(2.3)	(8.8)							
Au Optonics	2409 TT	8.10	2,554	15.3	7.6	N/A	N/A	N/A	N/A	(195.4)	N/A	6.2	2.3	0.41	0.41	3.2	6.0	8.1	9.1	3.3	(0.9)	(5.5)	3.1	(5.0)							
Innolux	3481 TT	6.96	2,269	20.6	31.6	N/A	N/A	N/A	N/A	(271.3)	N/A	0.9	0.1	0.28	0.29	1.4	2.8	0.0	9.6	0.8	(2.2)	(5.6)	5.5	(3.2)							
Japan Display	6740 JP	65.00	505	5.4	N/A	N/A	N/A	N/A	N/A	(80.8)	N/A	N/A	0.0	N/A	1.73	14.9	(48.7)	1,663.9	2.6	(17.2)	N/A	(297.4)	8.3	(14.5)							
Sharp Corp	6753 JP	1,260.00	6,161	24.8	10.8	11.7	11.8	(8.1)	(0.5)	(3.4)	N/A	1.6	1.2	2.77	2.01	7.6	7.3	107.5	17.7	3.1	31.1	18.6	5.6	(7.7)							
Samsung Electron	005930 KS	51,100.00	261,851	402.4	7.9	15.9	12.2	(50.3)	30.1	(4.8)	N/A	2.1	2.8	1.22	1.36	2.8	4.3	0.0	45.7	18.0	11.6	8.6	5.6	10.8							
Lq Display Co Lt	034220 KS	13,700.00	4,208	25.4	N/A	N/A	N/A	N/A	N/A	(223.5)	N/A	N/A	3.6	0.36	0.39	4.1	6.0	41.1	12.7	(0.9)	(3.3)	(11.4)	0.0	(12.7)							

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

Source: Bloomberg, OP Research

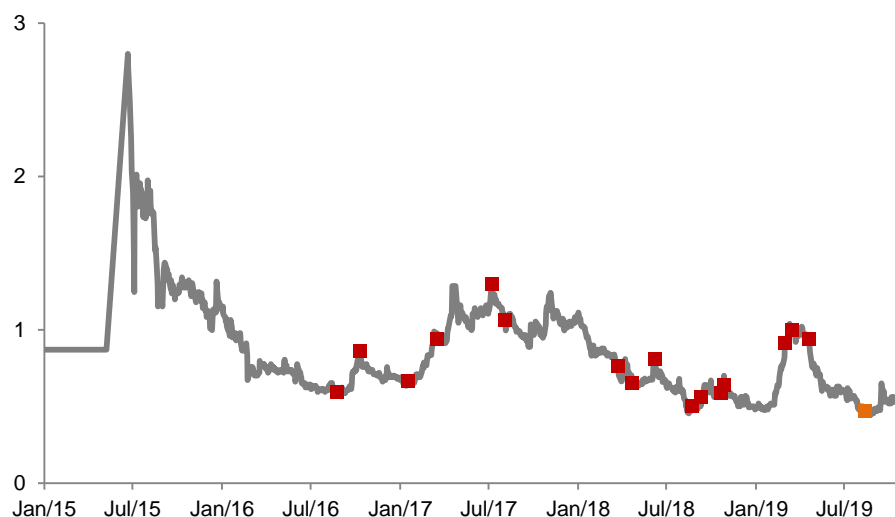
Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
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
02/10/2019	China Prop Mgmt	-	Clear vision of promising secular growth	BUY	Dallas Cai/Yuji Fung
11/09/2019	Q Tech	1478	August saw product mix improving on track	BUY	Yuji Fung/Dallas Cai
10/09/2019	Sunny Optical	2382	Upgrade on HLS market share gain	BUY	Yuji Fung/Dallas Cai
05/09/2019	Sinosoft Tech	1297	1H19 saw softened growth	BUY	Yuji Fung/Dallas Cai
05/09/2019	Truly Int'l	732	1H19 saw loss from associate narrowing on track	BUY	Yuji Fung/Dallas Cai
02/09/2019	TCL Electronics	1070	1H19 earnings beat our expectations	BUY	Yuji Fung/Dallas Cai
27/08/2019	Anta Sports	2020	Positive surprise from OPM and Descente breakeven	BUY	Dallas Cai/Megan Jin
23/08/2019	Tian Lun Gas	1600	1H19 saw growth on track	BUY	Yuji Fung/Dallas Cai
23/08/2019	Ju Teng Intl	3336	1H19 results in line with expectations	BUY	Yuji Fung/Dallas Cai
22/08/2019	Xtep Intl	1368	1H19 earnings beat on non-core items	BUY	Dallas Cai/Megan Jin
22/08/2019	Tongda	698	1H19 saw GPM recovery as expected	BUY	Yuji Fung/Dallas Cai
21/08/2019	Chinasoft Intl	354	1H19 results in line with expectations	BUY	Yuji Fung/Dallas Cai
21/08/2019	361 Degrees Intl	1361	1H19 results in line	BUY	Megan Jin
21/08/2019	Edvantage Group	382	Pathway to the World	NR	Yuji Fung
20/08/2019	Regal Intl Airport	357	Franchise revenue retreated on competition	BUY	Yuji Fung/Dallas Cai
19/08/2019	Ausnutria Dairy	1717	Response to short-sell allegations	BUY	Dallas Cai/Megan Jin
16/08/2019	CH Display OPT	334	Downgrade on robust shipment growth at the cost of squeezed dollar margin	HOLD	Yuji Fung/Dallas Cai
16/08/2019	Kingdee Intl	268	1H19 results in line with previous profit warnings	SELL	Yuji Fung/Dallas Cai
16/08/2019	Sunny Optical	2382	Positive surprise on handset lens sets margin	BUY	Yuji Fung/Dallas Cai
15/08/2019	Ausnutria Dairy	1717	Inventory surge on one-off events	BUY	Dallas Cai/Megan Jin

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

(as of 29/10/2019)

(HK\$)



DATE	RATING	TP	CLOSE	DATE	RATING	TP	CLOSE
1 25 Apr 2018	BUY	HKD1.20	0.67	6 01 Nov 2018	BUY	HKD1.16	0.64
2 11 Jun 2018	BUY	HKD1.20	0.78	7 05 Mar 2019	BUY	HKD1.27	0.82
3 26 Aug 2018	BUY	HKD0.67	0.50	8 20 Mar 2019	BUY	HKD1.20	1.00
4 14 Sep 2018	BUY	HKD1.13	0.56	9 24 Apr 2019	BUY	HKD1.20	0.94
5 26 Oct 2018	BUY	HKD1.16	0.59	10 16 Aug 2019	BUY	HKD0.44	0.46

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