

TCL Electronics (1070 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$3.48

Target Price: HK\$5.80 (+67%)

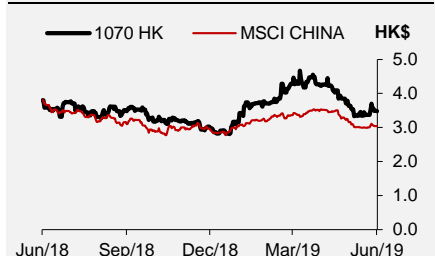
Prior TP: HK\$5.80

Key Data

HKEx code	1070
12 Months High (HK\$)	4.75
12 Month Low (HK\$)	2.79
3M Avg Dail Vol. (mn)	4.57
Issue Share (mn)	2,360.55
Market Cap (HK\$mn)	8,214.72
Fiscal Year	4.75
Major shareholder (s)	TCL Corp (52.82%)

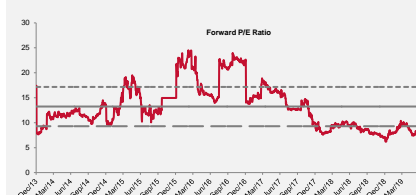
Source: Company data, Bloomberg, OP Research
Closing price are as of 17/06/2019

Price Chart



	1mth	3mth	6mth
Absolute %	-4.4	-18.6	17.3
Rel. MSCI CHINA %	-0.6	-7.3	11.5

PE



Company Profile

TCL Electronics is a TV manufacturer with vertically integrated business model. It ranks among top 3 in Global LCD TV market and No. 3 in the PRC.

Overseas shipments keep steam

- TCL saw 5M19 shipments up 24.2% yoy, well ahead of its FY19E target of upping 12%, mainly thanks to robust growth in overseas markets.
- Internet business is likely to come as a surprise thanks to TCLE's further partnership with Google and Roku.
- Maintain BUY with TP HK\$5.80 unchanged based on same 12x FY20E PE.

Overseas shipments keep steam backed by abundant production flexibility. TCL Electronics (TCLE) released May business update with 5M19 cumulative shipments up 24.2% yoy to 13.41mn sets, well ahead of its full year target of up 12% yoy. The growth is mainly driven by 42.1% yoy increase from overseas market, which now takes up over 70% of total sales volume.

The company has ready-to-adjust production base in regard to the overhang of potential US-Mexico tariff, including but not limited to (1) Vietnam: new factory with capacity of 3mn is expected to be operational from Oct 2019E with current factory of 1mn capacity likely to be disposed thereafter; (2) India: 3mn capacity from Factory Phase I to be operational from May 2020E with total project capacity of 6mn; (3) Portland: current capacity of 1mn sets can be expanded to 3mn. We estimate the current production costs in Mexico to be low single-digit ppts higher than that in China before additional tariff. In the case of 25% additional tariff, the burden will be shared between the company, local distributors in the US market and US consumers.

Internet business likely a surprise thanks to partnership with Google and Roku. Since 1Q19E TCLE has further forged the cooperation with Roku, a top player in the online streaming market of Northern America and with Google in European market, which we believe can help TCLE better monetize its smart TV user base through pre-setting charges and revenue sharing. We believe the positives in overseas Internet business have not yet been counted in current guidance for Internet business unit (i.e. RMB430mn revenue for FY19E).

Maintain BUY. We maintain our BUY rating with TP HK\$5.80 unchanged based on same 12x FY20E PE given (1) resilient growth in overseas market; (2) promising outlook for Internet business, which contributes more than 10% FY19E net earnings in our current model and if the growth continues, may trigger our potential re-rating.

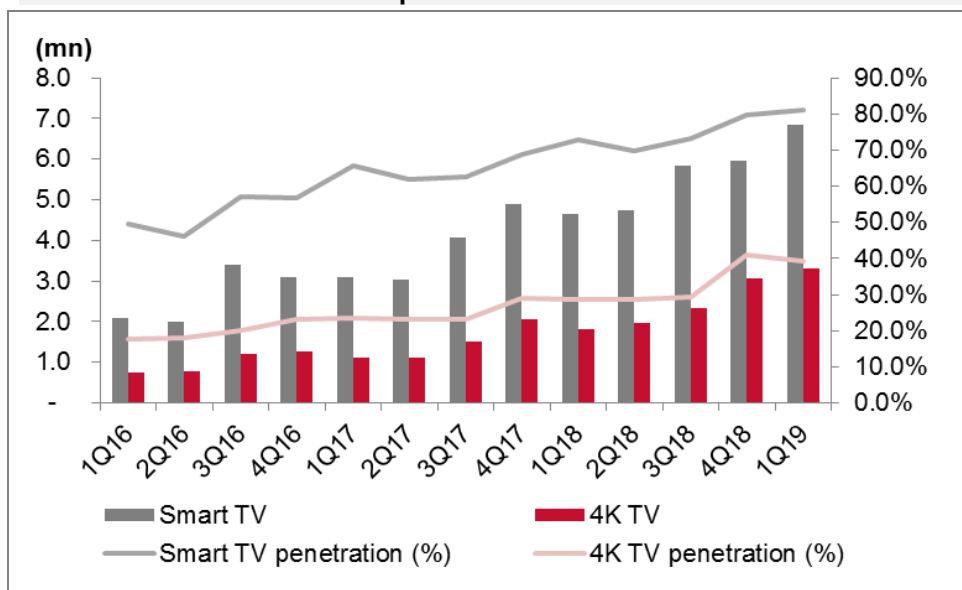
Risks: (1) ASP erosion may be faster than expected (2) exchange rate and execution risks in overseas expansion (3) growth of smart TV platform business may be below expectations

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	40,822	45,582	51,054	56,145	61,852
Growth(%)	22.4	11.7	12.0	10.0	10.2
Adjusted Net Profit	594.6	778.2	1,003.7	1,187.5	1,330.1
Growth (%)	69.0	30.9	29.0	18.3	12.0
Diluted EPS (HK\$)	0.466	0.416	0.406	0.481	0.539
EPS growth (%)	310.0	(10.7)	(2.3)	18.3	12.0
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			0.443	0.508	0.597
ROE (%)	11.6	10.8	10.0	11.1	11.6
P/E (x)		8.4	8.6	7.2	6.5
P/B (x)	0.8	0.8	0.8	0.7	0.7
Yield (%)	5.5	5.5	5.3	6.2	7.0
DPS (HK\$)	0.190	0.192	0.183	0.216	0.242

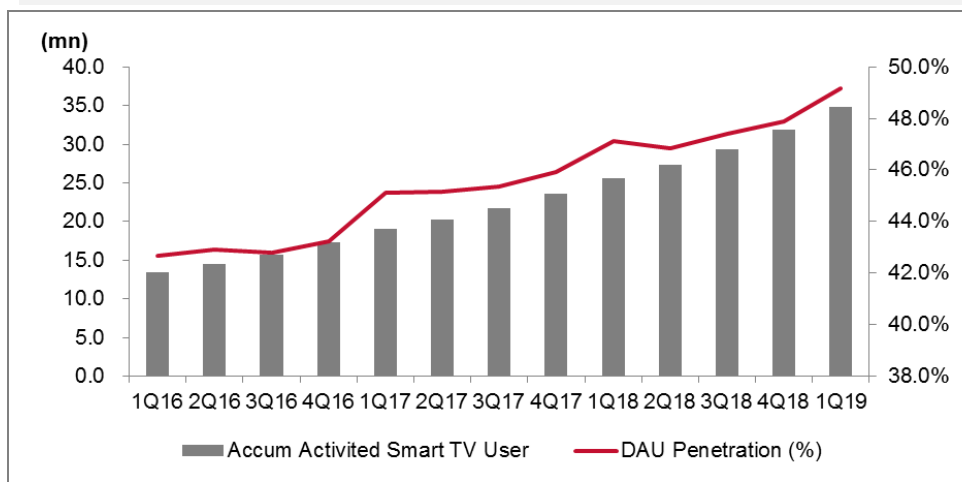
Source: Bloomberg, OP Research

Exhibit 2: TCLE 4K/Smart TV penetration



Source: Company, OP Research

Exhibit 3: DAU and accumulative active smart TV user of TCLE



Source: Company, OP Research

Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Income Statement HK\$mn					
Television-PRC	19,774	18,371	19,336	19,756	19,923
Television-Overseas	20,949	26,602	29,677	33,409	38,165
Smart TV Platform & Others	99	610	2,041	2,980	3,764
Turnover	40,822	45,582	51,054	56,145	61,852
YoY%	22	12	12	10	10
COGS	(34,521)	(38,630)	(43,281)	(47,663)	(52,577)
Gross profit	6,301	6,952	7,773	8,482	9,275
Gross margin	15.44%	15.25%	15.23%	15.11%	15.00%
Other income	821	771	552	567	581
Selling & distribution	(4,057)	(4,477)	(4,869)	(5,174)	(5,571)
Admin	(1,281)	(1,302)	(1,433)	(1,514)	(1,623)
R&D	(632)	(722)	(766)	(842)	(928)
Other opex	(101)	(21)	(51)	(84)	(124)
Total opex	(6,072)	(6,522)	(7,119)	(7,614)	(8,246)
Operating profit (EBIT)	1,050	1,201	1,207	1,434	1,610
Operating margin	2.57%	2.64%	2.36%	2.55%	2.60%
Provisions	0	(13)	0	0	0
Finance costs	(229)	(98)	(54)	(54)	(54)
Profit after financing costs	821	1,090	1,153	1,380	1,556
Associated companies & JVs	112	71	71	71	71
Pre-tax profit	933	1,162	1,224	1,451	1,628
Tax	(136)	(227)	(231)	(276)	(311)
Profit from discontinued operations	0	0	0	0	0
Minority interests	18	9	10	12	14
Net profit	815	944	1,004	1,187	1,330
Adjusted Net Profit	595	778	1,004	1,187	1,330
YoY%	69	31	29	18	12
Net margin	1.46%	1.71%	1.97%	2.11%	2.15%
EBITDA	1,003	1,432	1,434	1,613	1,745
EBITDA margin	2.5%	3.1%	2.8%	2.9%	2.8%
EPS (HK\$)	0.466	0.416	0.406	0.481	0.539
YoY%	310	(11)	(2)	18	12
DPS (HK\$)	0.190	0.192	0.183	0.216	0.242
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Cash Flow HK\$ mn					
EBITDA	1,003	1,432	1,434	1,613	1,745
Chg in working cap	(225)	1,482	283	269	302
Others	132	155	0	0	0
Operating cash	910	3,069	1,717	1,882	2,047
Interests paid	(48)	(98)	(54)	(54)	(54)
Tax	(116)	(137)	(56)	(231)	(276)
Net cash from operations	746	2,835	1,607	1,597	1,718
Capex	(158)	(91)	(102)	(112)	(124)
Investments	(129)	(975)	0	0	0
Dividends received	7	0	0	0	0
Sales of assets	23	0	0	0	0
Interests received	31	62	72	83	94
Others	(5)	0	0	0	0
Investing cash	(231)	(1,004)	(30)	(29)	(30)
FCF	515	1,830	1,577	1,568	1,688
Issue of shares	38	2,016	7	0	0
Buy-back	0	0	0	0	0
Minority interests	1	0	0	0	0
Dividends paid	(53)	(580)	(438)	(468)	(537)
Net change in bank loans	1,530	(1,812)	0	0	0
Others	(185)	57	0	0	0
Financing cash	1,331	(320)	(432)	(468)	(537)
Net change in cash	1,846	1,511	1,145	1,101	1,151
Exchange rate or other Adj	182	(679)	0	0	0
Opening cash	3,882	5,910	6,742	7,887	8,988
Closing cash	5,910	6,742	7,887	8,988	10,139
CFPS (HK\$)	0.426	1.248	0.651	0.647	0.696

Source: Company, OP Research

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	15.4	15.3	15.2	15.1	15.0
Operating margin (%)	2.6	2.6	2.4	2.6	2.6
Net margin (%)	2.0	2.1	2.0	2.1	2.2
Selling & dist'n exp/Sales (%)	9.9	9.8	9.5	9.2	9.0
Admin exp/Sales (%)	3.1	2.9	2.8	2.7	2.6
Payout ratio (%)	40.7	47.5	45.0	45.0	45.0
Effective tax (%)	16.6	20.8	20.0	20.0	20.0
Total debt/equity (%)	38.4	11.4	10.8	10.1	9.4
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.2	1.3	1.3	1.3	1.3
Quick ratio (x)	1.0	0.9	0.9	0.9	0.9
Inventory T/O (days)	53	66	66	66	66
AR T/O (days)	92	58	58	58	58
AP T/O (days)	106	108	108	108	108
Cash conversion cycle (days)	39	16	16	16	16
Asset turnover (x)	1.8	1.7	1.7	1.7	1.8
Financial leverage (x)	3.3	3.1	2.9	3.0	3.1
EBIT margin (%)	2.6	2.6	2.4	2.6	2.6
Interest burden (x)	0.9	1.0	1.0	1.0	1.0
Tax burden (x)	0.9	0.8	0.8	0.8	0.8
Return on equity (%)	11.6	10.8	10.0	11.1	11.6
ROIC (%)	20.0	21.5	25.0	34.0	43.1
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Balance Sheet HK\$ mn					
Fixed assets	1,806	1,475	1,300	1,150	1,045
Intangible assets & goodwill	120	893	871	871	871
Associated companies & JVs	1,121	1,431	1,503	1,574	1,646
Long-term investments	108	129	129	129	129
Other non-current assets	198	323	323	323	323
Non-current assets	3,354	4,252	4,125	4,047	4,013
Inventories	5,059	6,983	7,823	8,616	9,504
AR	10,259	7,242	8,112	8,921	9,828
Prepayments & deposits	0	0	0	0	0
Other current assets	1,482	2,982	2,982	2,982	2,982
Cash	5,910	6,742	7,887	8,988	10,139
Current assets	22,710	23,949	26,805	29,507	32,453
AP	10,060	11,416	12,790	14,085	15,537
Tax	137	56	231	276	311
Accruals & other payables	4,555	5,152	5,770	6,345	6,990
Bank loans & leases	2,905	1,094	1,094	1,094	1,094
CB & othe debts	0	0	0	0	0
Other current liabilities	673	611	611	611	611
Current liabilities	18,330	18,329	20,496	22,412	24,544
Bank loans & leases	22	21	21	21	21
CB & othe debts	0	0	0	0	0
Deferred tax & others	15	72	72	72	72
MI	68	0	(10)	(22)	(35)
Non-current liabilities	105	93	83	71	57
Total net assets	7,629	9,779	10,351	11,071	11,865
Shareholder's equity	7,629	9,779	10,351	11,071	11,865
Share capital	1,748	2,335	2,335	2,335	2,335
Reserves	5,881	7,444	8,016	8,736	9,529
BVPS (HK\$)	3.72	4.37	4.19	4.43	4.74
Total debts	2,927	1,115	1,115	1,115	1,115
Net cash/(debts)	2,983	5,627	6,773	7,873	9,024

Exhibit 4: Peer Comparison

TCL ELECTRONICS																																			
		Q3 2024										Q3 2023																							
		Revenue		Profit		PER		EPS		EPS				P/B		P/B		EV/		EV/		Net		Gross		Net		ROE		ROE		Sh px		Sh px	
Company	Ticker	Price	Mkt cap	3-mth avg	PER	FY1	FY2	FY1	FY2	3-Yr EPS	PEG	Div yld	Div yld	Hist	FY1	Ebitda	Ebitda	gearing	margin	margin	Hist	FY1	1-mth	3-mth											
			(US\$m)	t/o (US\$m)	Hist (x)	(x)	(x)	YoY%	YoY%	Cagr (%)	(x)	Hist (%)	FY1 (%)	(x)	(x)	Hist	Cur Yr	Hist (%)	Hist (%)	Hist (%)	(%)	(%)	%	%											
Tcl Electronics	1070 HK	3.48	1,049	2.5	8.4	8.6	7.2	(2.3)	18.3	9.0	1.0	5.5	5.3	0.8	0.8	1.7	0.9	Net cash	15.3	2.1	10.8	10.0	-4.4	-18.7											
HSI		27227.16			10.5	10.8	10.0	-2.3	7.9	4.9	2.22	3.6	3.8	1.26	1.18						11.9	10.9	-2.6	-6.2											
HSCEI		10428.52			8.4	8.2	7.6	2.1	8.0	6.3	1.31	3.8	4.2	1.00	0.97						12.0	11.8	-2.4	-9.4											
CSI300		3654.83			13.5	11.7	10.4	15.0	12.9	3.7	3.20	2.2	2.7	1.66	1.53						12.3	13.0	0.2	-2.4											
Adjusted sector avg*						35.6	19.4	15.5	59.0	23.1	36.8	0.85	2.2	1.2	3.90	3.06	9.5	12.4	31.2	24.8	-0.8	12.7	11.9	-3.1											
Skyworth Digital	751 HK	2.10	821	7.5	11.7	6.0	4.8	95.3	23.7	47.5	0.13	2.9	5.6	0.37	0.28	6.6	4.0	15.7	16.7	1.2	5.6	5.2	3.4	-21.6											
Hisense Elec-A	600060 CH	8.59	1,623	28.0	28.6	13.5	13.0	112.3	3.9	39.2	0.34	2.5	2.4	0.80	0.77	20.2	11.9	0.0	14.2	1.1	1.0	3.7	-0.9	-19.9											
Sichuan Chang-A	600839 CH	2.96	1,973	34.7	42.3	31.2	25.7	35.7	21.1	26.0	1.20	0.4	0.3	1.04	1.01	10.8	9.3	68.9	11.9	0.4	2.4	3.3	-6.9	-16.9											
Leshi Internet-A	300104 CH	1.69	974	35.0	N/A	1.4	1.1	N/A	28.3	N/A	N/A	N/A	N/A	N/A	N/A	-1.1	N/A	N/A	-37.5	-249.6	N/A	N/A	0.0	-45.1											
Tcl Corp-A	000100 CH	3.2	6,242	125.5	12.4	11.0	9.4	13.4	16.5	11.6	0.94	3.1	4.1	1.37	1.33	11.3	9.7	75.5	17.8	3.1	11.3	11.8	-6.5	-14.9											
Skyworth Digit-A	000810 CH	8.92	1,384	37.6	27.9	20.7	15.1	34.4	37.2	34.0	0.61	N/A	0.8	2.99	2.64	23.0	N/A	0.0	16.4	4.2	12.7	12.6	-10.0	-11.6											
Huayi Brothers-A	300027 CH	5.35	2,159	25.1	N/A	20.0	16.7	N/A	19.4	-188.1	N/A	N/A	0.5	1.76	1.41	-29.4	17.1	39.6	44.6	-28.2	-15.7	9.3	9.9	-6.5											
Netflix Inc	NFLX US	339.73	148,537	2433.4	122.2	83.8	49.8	45.8	68.3	52.7	1.59	N/A	0.0	26.04	20.98	92.6	50.3	125.3	36.9	7.7	26.0	23.6	-4.2	-6.0											
Amazon.Com Inc	AMZN US	1869.67	920,498	8079.2	90.4	51.4	38.2	75.9	34.5	46.6	1.10	N/A	0.0	19.00	14.01	34.2	22.3	18.5	40.2	4.3	30.1	25.8	0.0	9.2											

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

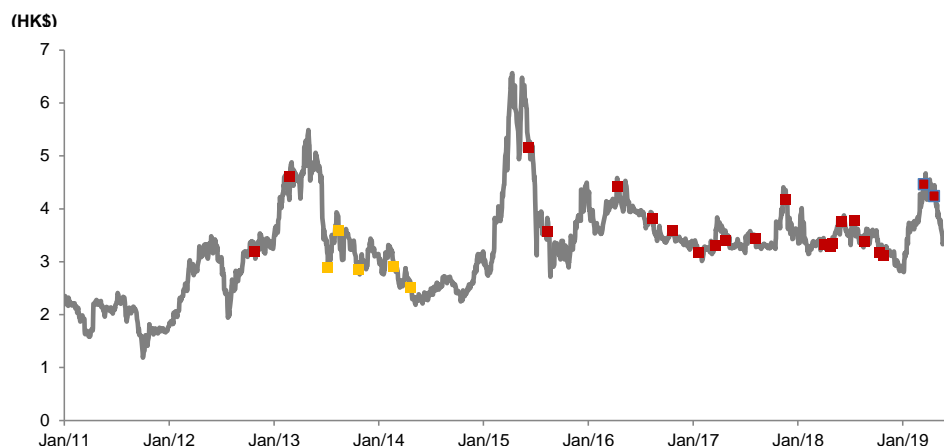
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
12/06/2019	Sunny Optical	2382	May shipments on track	BUY	Yuji Fung/Dallas Cai
11/06/2019	361 Degrees Intl	1361	President ups stakes in light of rebranding strategy	BUY	Megan Jin
11/06/2019	Ausnutria Dairy	1717	Penetrating into probiotics business	BUY	Dallas Cai/Megan Jin
11/06/2019	Q Tech	1478	May camera module shipments down MoM	SELL	Yuji Fung/Dallas Cai
04/06/2019	Truly Int'l	732	Introduction of new investor to Truly Opto	BUY	Yuji Fung/Dallas Cai
04/06/2019	Zhongyu Gas	3633	Takeaways from Henan site visit	NR	Megan Jin
24/05/2019	Truly Int'l	732	1Q19 saw margin pressure amidst sales recovery	BUY	Yuji Fung/Dallas Cai
15/05/2019	Ausnutria Dairy	1717	1Q19E saw a solid start	BUY	Dallas Cai/Megan Jin
10/05/2019	China Youzan	8083	E-commerce revenue doubled QoQ in 1Q19	BUY	Yuji Fung/Dallas Cai
10/05/2019	Sunny Optical	2382	HCM shipments growth regained traction	BUY	Yuji Fung/Dallas Cai
09/05/2019	Q Tech	1478	CCM shipments growth implies market share gain	SELL	Yuji Fung/Dallas Cai
03/05/2019	Xtep Intl	1368	Xtep sets about the inception of its own FILA	BUY	Dallas Cai/Megan Jin
03/05/2019	361 Degrees Intl	1361	1Q19E saw lukewarm sales growth	BUY	Megan Jin
25/04/2019	TCL Electronics	1070	1Q19E business update on track	BUY	Yuji Fung/Dallas Cai
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin
10/04/2019	Q Tech	1478	March saw improving product mix	SELL	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin
09/04/2019	China Youzan	8083	Introducing Tencent as strategic investor	BUY	Yuji Fung/Dallas Cai
04/04/2019	Regal Intl Airport	357	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
02/04/2019	Tianlun Gas	1600	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
01/04/2019	Truly Int'l	732	FY18 earnings miss on GPM and loss from associate	BUY	Yuji Fung/Dallas Cai
28/03/2019	China Youzan	8083	FY18 saw narrower loss than expected	BUY	Yuji Fung/Dallas Cai
27/03/2019	Sinsoft Tech	1297	FY18 results in line	BUY	Yuji Fung/Dallas Cai
26/03/2019	Q Tech	1478	Downgrade to SELL as margin recovery was priced in	SELL	Yuji Fung/Dallas Cai

Historical recommendations and target price: TCL Electronics (1070 HK)

(as of 17/06/2019)



DATE	RATING	TP (HK\$)	CLOSE (HK\$)	DATE	RATING	TP (HK\$)	CLOSE (HK\$)
1 25 Oct 2016	BUY	5.80	4.08	9 03 May 2018	BUY	4.60	3.53
2 24 Jan 2017	BUY	4.14	3.60	10 04 Jun 2018	BUY	5.60	3.96
3 22 Mar 2017	BUY	5.20	3.75	11 18 Jul 2018	BUY	5.60	3.98
4 28 Apr 2017	BUY	5.20	3.85	12 25 Aug 2018	BUY	5.80	3.47
5 09 Aug 2017	BUY	5.70	3.75	13 16 Oct 2018	BUY	5.80	3.38
6 23 Nov 2017	BUY	6.40	4.57	14 30 Oct 2018	BUY	5.80	3.23
7 06 Apr 2018	BUY	4.60	3.64	15 20 Mar 2019	BUY	5.80	4.39
8 26 Apr 2018	BUY	4.60	3.59	16 25 Apr 2019	BUY	5.80	4.57

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