Equity Research
Consumer Electronics/China

TCL (1070 HK)

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Company Update

BUY

UNCHANGED

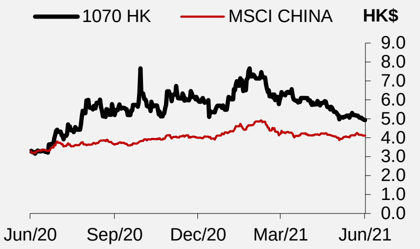
Close price:	**HK$4.92**
Target Price:	**HK$7.30(+48.4%)**
Prior TP:	**HK$9.50**

Key Data

HKEx code		1070.HK
12 Months High	(HK$)	7.78
12 Month Low	(HK$)	3.14
3M Avg Dail Vol.	(mn)	4.91
Issue Share	(mn)	2,470.49
Market Cap	(HK$mn)	12,154.80
Fiscal Year		12/2020
Major shareholder (s)		TCL Corp (51.9%)

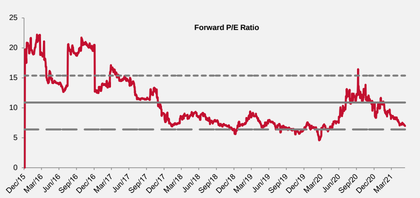
Source: Company data, Bloomberg, OP Research
Closing price are as of 10/06/2021

Price Chart



	1mth	3mth	6mth
Absolute %	-5.7	-21.7	-16.6
Rel. MSCI CHINA %	-8.7	-17.6	-19.2

PE



Company Profile

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

Turnaround possible in 2H21E

- **Expect TV's gross margin to bottom out in 2H21E**
- **Rising Internet TV to lift group profitability**
- **Peaking panel cost the key to recovery**

Expect TV's gross margin to bottom out in 2H21E. The supply driven panel cost spike (up c30% ytd) will remain a headwind for Smart Screen's profitability until 2H21E when the supply bottleneck can be eased. Moreover, more shipments of higher ASP Q LED and mini LED shall be capable to offset part of margin pressure. We expect Smart Screen's gross margin dropping to 17.0% in FY21E, then rebounding to 17.6%/17.8% for FY22E/22E. We also expect the shipment growth to be increasingly driven by market share gain in Europe and emerging markets.

Rising Internet TV to lift group profitability. We project 45%/30%/27% segmental growth of Internet TV for FY21E to 23E, with contribution to gross profit rising from 8% in FY21E to 11% in FY22E: (i) more cooperation with video content providers such as Kuaishou and Tencent, in which Falcon Network acts as a distribution channel, (ii) Expanding partnership with ROKU and Android TV to gain overseas market share. In particular, we see possibilities to develop more revenue sharing models with Android TV. Nonetheless, we project segmental gross margin lowering to 55%/53%/52% for FY21E to 23E due to revenue sharing with content providers.

Panel cost decline the key to recovery. We expect core net profit to decrease 32% in FY21E. On the back of easing panel cost and increased contributions from Internet TV, net profit is expected to jump 85%/33% in FY22E/23E, while net margin to improve from 1.09% in FY21E to 2.34% in FY23E. Using SOTP valuation with 7.5x/7.0x FY22E/21E PER for smart screen/ smart devices, plus 5.0x FY21E price to sales for Internet TV, we revise target price to HK$7.3, which also represents 25.3x/13.7x FY21E/22E PER.

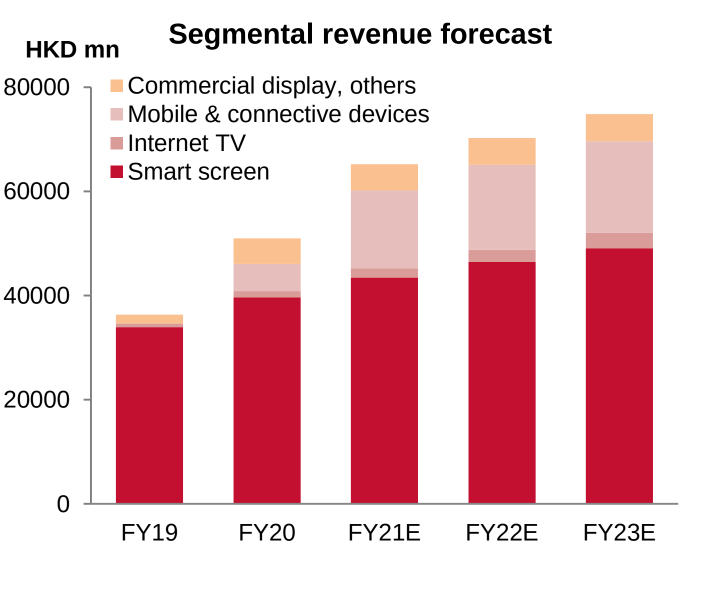
Risks: (1) High panel cost stays longer than expected beyond 2H21E, (2) exchange rate and execution risks in overseas expansion (3) growth of Internet TV business falling short of expectations.

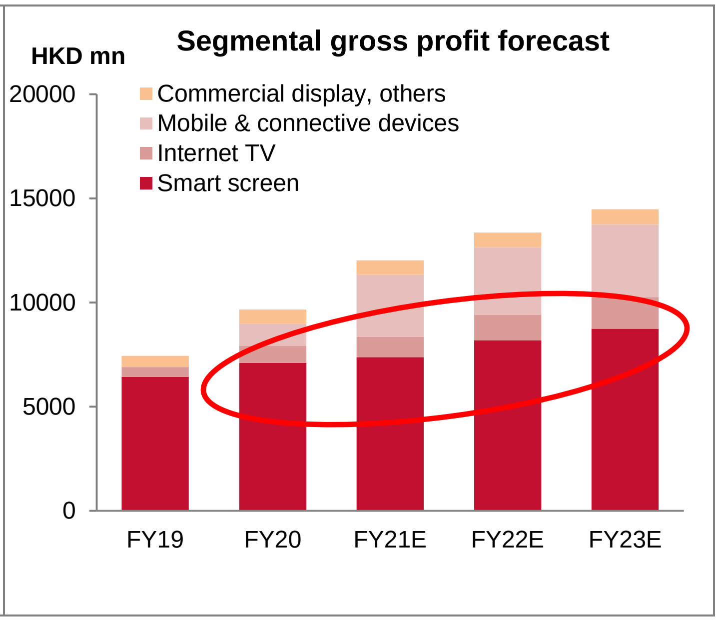
Exhibit 1: Forecast and Valuation

Year to Dec (HK$ mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	36,335	50,953	65,197	70,201	74,850
Growth(%)	(20.3)	40.2	28.0	7.7	6.6
Adjusted Net Profit	835	1,043	712	1,315	1,748
Growth (%)	(3.7)	25.0	(31.8)	84.8	32.9
Diluted EPS (HK$)	0.360	0.441	0.288	0.532	0.708
EPS growth (%)	(5.8)	22.7	(34.7)	84.8	32.9
Change to previous EPS (%)			(64.7)	(44.2)	
Consensus EPS (HK$)			0.705	0.763	0.900
ROE (%)	17.0	13.3	4.4	7.8	9.9
P/E (x)		11.1	17.1	9.2	7.0
P/B (x)	1.0	0.8	0.7	0.7	0.7
Yield (%)	4.3	4.4	2.9	5.4	7.2
DPS (HK$)	0.212	0.217	0.144	0.266	0.354

Source: Bloomberg, OP Research

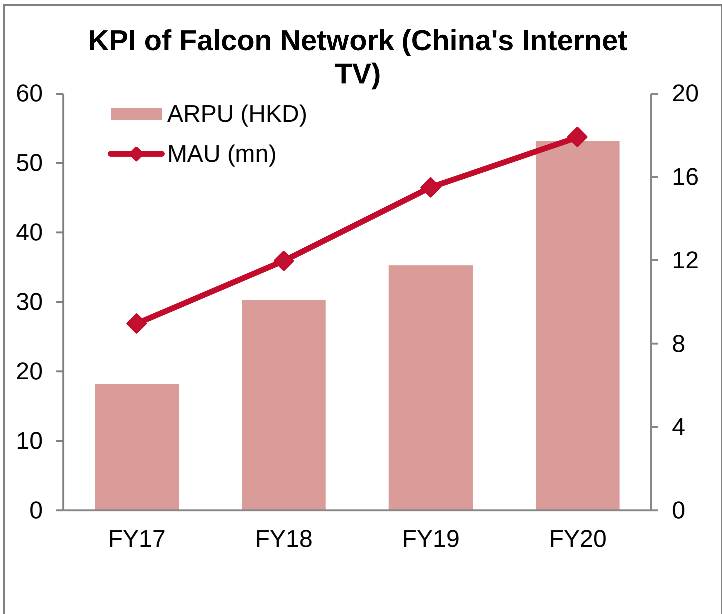
Exhibit 1 & 2: Margin recovery of Smart Screen plus Internet TV as growth drivers

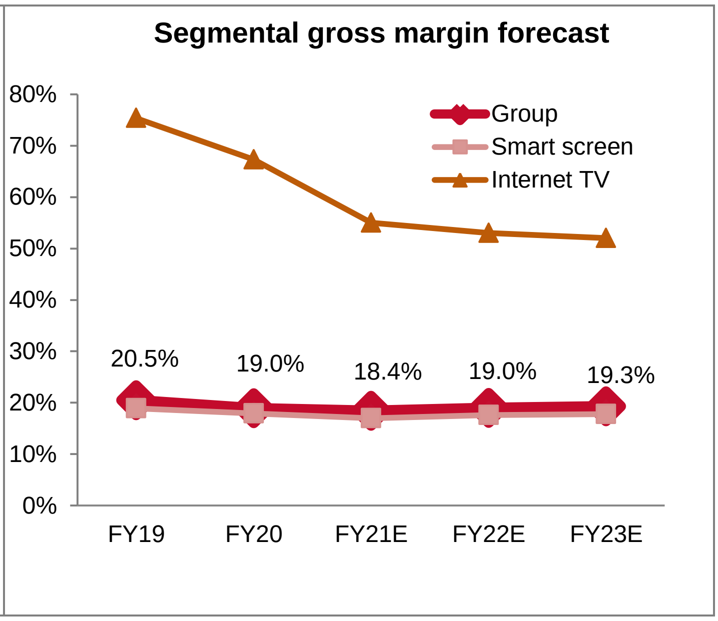




Source: Company, OP Research

Exhibit 3 & 4: Internet TV to lift group profitability





Source: Company, OP Research

Exhibit 5: SOTP Valuation

Business segment	Methodology	Multiple	Value (HKD mn)	Per share (HK$)
Smart Screen	FY22E PER	7.5 x	6,964	2.8
Smart mobile and devices	FY21E PER	7.0 x	2,101	0.9
Internet TV	FY21E price to sales	5.0 x	8,938	3.6
			15,902	**7.3**

Source: OP Research

Exhibit 6: More high priced TV in recent Tmall listings

Sources: Tmall.com

Financial Summary

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Income Statement HK$mn					
Smart screen	33,947	39,619	43,404	46,428	49,052
Internet TV	626	1,233	1,788	2,317	2,932
Mobile & connective devices	0	5,193	15,000	16,350	17,658
Commercial display, others	1,762	4,908	5,006	5,106	5,208
Turnover	**36,335**	**50,953**	**65,197**	**70,201**	**74,850**
YoY%	(20)	40	28	8	7
COGS	(28,892)	(41,291)	(53,179)	(56,852)	(60,379)
Gross profit	**7,443**	**9,662**	**12,018**	**13,349**	**14,471**
Gross margin	20.48%	18.96%	18.43%	19.02%	19.33%
Other income	1,492	2,358	938	951	972
Selling & distribution	(4,752)	(5,617)	(6,846)	(7,231)	(7,635)
Admin	(1,303)	(2,292)	(2,869)	(3,019)	(3,144)
R&D	(751)	(1,630)	(1,956)	(2,106)	(2,246)
Other opex	(16)	(53)	(65)	(70)	(75)
Total opex	**(6,822)**	**(9,592)**	**(11,735)**	**(12,426)**	**(13,099)**
Operating profit (EBIT)	**2,113**	**2,428**	**1,221**	**1,875**	**2,344**
Operating margin	5.82%	4.76%	1.87%	2.67%	3.13%
Provisions	(23)	(43)	(25)	(25)	(25)
Finance costs	(129)	(244)	(356)	(358)	(358)
Profit after financing costs	1,961	2,140	840	1,492	1,962
Associated companies & JVs	38	(61)	(26)	4	24
Pre-tax profit	1,999	2,079	813	1,496	1,986
Tax	(128)	(186)	(84)	(149)	(196)
Minority interests	(46)	(46)	(18)	(32)	(42)
Net profit	**1,826**	**1,847**	**712**	**1,315**	**1,748**
Adjusted Net Profit	**835**	**1,043**	**712**	**1,315**	**1,748**
YoY%	(4)	25	(32)	85	33
Net margin	2.30%	2.05%	1.09%	1.87%	2.34%
EBITDA	**1,213**	**1,628**	**1,734**	**2,372**	**2,816**
EBITDA margin	3.3%	3.2%	2.7%	3.4%	3.8%
EPS (HK$)	**0.360**	**0.441**	**0.288**	**0.532**	**0.708**
YoY%	(6)	23	(35)	85	33
DPS (HK$)	0.212	0.217	0.144	0.266	0.354

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Cash Flow HK$					
EBITDA	1,213	1,628	1,734	2,372	2,816
Chg in working cap	810	(1,714)	116	(104)	376
Others	377	3,039	0	0	0
Operating cash	**2,400**	**2,953**	**1,850**	**2,268**	**3,192**
Interests paid	(108)	(158)	(356)	(358)	(358)
Tax	(75)	(268)	(84)	(149)	(196)
Net cash from operations	**2,218**	**2,527**	**1,410**	**1,762**	**2,639**
Capex	(454)	(639)	(450)	(450)	(400)
Investments	(621)	(1,246)	(200)	(200)	(200)
Dividends received	38	12	0	0	0
Sales of assets	111	1,618	0	0	0
Interests received	122	296	218	231	252
Others	(2)	(219)	0	0	0
Investing cash	**(806)**	**(178)**	**(432)**	**(419)**	**(348)**
FCF	**1,412**	**2,349**	**978**	**1,343**	**2,291**
Issue of shares	96	344	0	0	0
Buy-back	(10)	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(455)	(475)	(356)	(658)	(874)
Net change in bank loans	648	(564)	54	0	0
Others	(109)	(158)	(25)	(25)	(25)
Financing cash	**169**	**(854)**	**(327)**	**(683)**	**(899)**
Net change in cash	**1,581**	**1,496**	**651**	**660**	**1,391**
Exchange rate or other Adj	(128)	694	0	0	0
Opening cash	6,742	8,195	10,385	11,036	11,696
Closing cash	**8,195**	**10,385**	**11,036**	**11,696**	**13,088**
CFPS (HK$)	**0.956**	**1.069**	**0.571**	**0.713**	**1.068**

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Ratios					
Gross margin (%)	20.5	19.0	18.4	19.0	19.3
Operating margin (%)	5.8	4.8	1.9	2.7	3.1
Net margin (%)	5.0	3.6	1.1	1.9	2.3
Selling & dist'n exp/Sales (%)	13.1	11.0	10.5	10.3	10.2
Admin exp/Sales (%)	3.6	4.5	4.4	4.3	4.2
Payout ratio (%)	59.9	49.1	50.0	50.0	50.0
Effective tax (%)	6.5	8.7	10.0	10.0	10.0
Total debt/equity (%)	16.2	36.6	36.1	34.8	33.1
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.3	1.2	1.2	1.2	1.2
Quick ratio (x)	1.1	0.9	0.9	0.9	0.9
Inventory T/O (days)	68	89	85	85	85
AR T/O (days)	102	98	98	98	98
AP T/O (days)	153	154	154	154	154
Cash conversion cycle (days)	18	32	29	29	29
Asset turnover (x)	1.2	1.2	1.2	1.1	1.2
Financial leverage (x)	2.9	3.1	3.4	3.6	3.7
EBIT margin (%)	5.8	4.8	1.9	2.7	3.1
Interest burden (x)	0.9	0.9	0.7	0.8	0.8
Tax burden (x)	0.9	0.9	0.9	0.9	0.9
Return on equity (%)	**17.0**	**13.3**	**4.4**	**7.8**	**9.9**
ROIC (%)	**40.0**	**25.1**	**9.2**	**14.3**	**18.2**

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Balance Sheet HK$					
Fixed assets	1,659	3,337	3,431	3,517	3,546
Intangible assets & goodwill	2,283	5,460	5,284	5,120	4,967
Associated companies & JVs	1,441	1,433	1,407	1,411	1,435
Long-term investments	169	102	102	102	102
Other non-current assets	133	408	408	408	408
Non-current assets	**5,686**	**10,740**	**10,632**	**10,557**	**10,458**
Inventories	5,401	10,026	12,384	13,239	14,061
AR	10,162	13,681	17,505	18,848	20,097
Prepayments & deposits	0	0	0	0	0
Other current assets	3,888	7,504	8,202	8,702	8,702
Cash	8,195	10,385	11,036	11,696	13,088
Current assets	**27,646**	**41,596**	**49,127**	**52,486**	**55,947**
AP	12,080	17,469	22,498	24,052	25,544
Tax	135	143	84	149	196
Accruals & other payables	6,478	10,688	12,713	13,689	14,596
Bank loans & leases	1,729	4,684	4,696	4,696	4,696
CB & othe debts	0	0	0	0	0
Other current liabilities	734	980	980	980	980
Current liabilities	**21,156**	**33,965**	**40,972**	**43,567**	**46,013**
Bank loans & leases	149	1,109	1,151	1,151	1,151
CB & othe debts	0	124	124	124	124
Deferred tax & others	86	404	404	404	404
MI	357	571	589	620	662
Non-current liabilities	**592**	**2,208**	**2,267**	**2,299**	**2,341**
Total net assets	**11,584**	**16,164**	**16,520**	**17,178**	**18,052**
Shareholder's equity	**11,584**	**16,164**	**16,520**	**17,178**	**18,052**
Share capital	2,363	2,452	2,452	2,452	2,452
Reserves	9,221	13,712	14,068	14,725	15,599

Year to Dec	FY19	FY20	FY21E	FY22E	FY23E
Key assumptions					
Segmental gross margin					
Smart screen	17.9%	17.0%	17.6%	17.8%	17.8%
Internet TV	67.3%	55.0%	53.0%	52.0%	53.0%
Mobile & connective devices	20.2%	19.8%	19.8%	19.8%	19.8%
Commercial display, others	13.9%	13.7%	13.7%	13.7%	13.7%

Source: Company, OP Research

Exhibit 7: Peer Comparison

Company	Ticker	Price	Mkt cap (US$m)	3-mth avg t/o (US$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)	EV/ Ebitda Hist	EV/ Ebitda Cur Yr	Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
Tcl Electronics	**1070 HK**	**4.92**	**1,551**	**3.6**	**11.1**	**17.1**	**9.2**	**(34.7)**	**84.8**	**0.0**	**N.A.**	**4.4**	**2.9**	**0.8**	**0.7**	**4.6**	**4.0**	**Net cash**	**0**	**8.7**	**13.3**	**4.4**	**-6.6**	**-24.0**
HSI		28885.85			13.7	13.4	11.9	2.4	12.7	8.8	1.52	2.2	2.6	1.21	1.32						8.8	9.9	3.1	-1.7
HSCEI		10759.06			14.5	11.2	9.9	28.5	13.7	17.8	0.63	2.3	2.7	1.20	1.36						8.3	12.1	3.1	-5.1
CSI300		5271.47			17.8	15.5	13.6	15.0	13.3	0.6	27.21	1.7	2.0	2.26	2.09						12.7	13.5	4.9	2.8
Adjusted sector avg*						**18.5**	**16.2**	**14.0**	**55.5**	**14.5**	**8.2**	**1.14**	**1.0**	**1.4**	**2.42**	**2.38**	**12.4**	**5.8**	**13.3**	**12.2**	**3.5**	**11.9**	**12.8**	**7.3**
Xiaomi Corp-B	1810 HK	28.40	91,762	629.3	27.5	29.7	24.3	-7.2	22.0	10.3	2.89	N/A	0.0	3.63	4.02	20.6	22.3	0.0	14.9	8.3	24.0	15.3	15.4	30.0
Skyworth Group L	751 HK	2.24	770	3.1	4.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.35	N/A	5.1	N/A	23.9	17.9	3.6	8.9	N/A	1.4	-11.1
Hisense Visual-A	600060 CH	12.76	2,614	30.1	14.0	12.0	11.2	16.2	7.6	12.9	0.93	1.0	2.2	1.06	1.00	9.8	6.8	0.0	17.9	3.0	8.9	8.8	12.2	5.3
Sichuan Chang-A	600839 CH	2.96	2,139	24.2	302.0	N/A	N/A	N/A	N/A	N/A	N/A	0.3	N/A	1.05	N/A	24.5	N/A	69.4	10.2	0.0	3.2	N/A	13.4	11.7
Tcl Technology-A	000100 CH	7.5	16,472	564.4	22.3	9.5	8.4	135.6	13.2	43.8	0.22	1.6	3.5	2.99	2.45	19.3	9.5	112.5	13.7	5.7	19.5	26.8	-13.0	-16.0
Skyworth Digit-A	000810 CH	9.08	1,511	11.3	24.5	13.8	12.0	77.6	15.2	25.7	0.54	1.1	N/A	2.18	2.07	16.6	11.4	0.0	18.2	4.5	11.2	12.3	10.9	19.0
Roku Inc	ROKU US	347.81	46,050	1293.6	N/A	766.1	295.5	N/A	159.3	-375.5	N/A	N/A	0.0	18.85	18.75	448.8	170.4	0.0	45.4	-1.0	7.3	0.9	10.7	-4.3
Fubotv Inc	FUBO US	27.83	3,909	352.4	N/A	N/A	N/A	N/A	N/A	-51.5	N/A	N/A	N/A	5.69	N/A	-8.7	-21.0	0.0	-7.4	-261.9	-149.6	N/A	57.5	-17.3

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

Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
09/06/2021	Tian Lun Gas	1600	Zhuhai Port (000507.SZ) becomes new major shareholder	BUY	John Siah
03/06/2021	Tian Lun Gas	1600	Attractively valued with solid outlook	BUY	John Siah
25/05/2021	Yeahka	9923	Narrowed valuation premium on revised growth outlook	HOLD	Kevin Tam
20/05/2021	China Edu Sector	-	Policy risk on private higher education eased	-	John Siah
17/05/2021	AAC Tech	2018	Acoustic and optics led strong rebound in 21Q1	BUY	John Siah
12/05/2021	HKTV	1137	Convincing long term prospect despite sluggish near term GMV	BUY	Kevin Tam
30/04/2021	China Edu Group	839	Ready for more M&A	BUY	John Siah
22/04/2021	New Higher Edu	2001	More visible growth path	BUY	John Siah
22/04/2001	Edvantage Group	382	Fascinating growth story set to take off	BUY	John Siah
21/04/2021	Innovent Bio	1801	More convincing pipeline development	BUY	Kevin Tam
15/04/2021	AAC Tech	2018	Optical segment beginning to shine	BUY	John Siah
31/03/2021	HKTV	1137	FY20 bottom line fell short on fulfillment cost	BUY	Kevin Tam
29/03/2021	361 Degrees	1361	Encouraging recovery in 2H20, visible growth for FY21E	BUY	Kevin Tam
25/03/2021	Greentown Mgmt	9979	Pure cash cow with surprise on dividend	BUY	John Siah
23/03/2021	Yeahka	9923	Payment driven growth thesis remains compelling	BUY	Kevin Tam
17/03/2021	Yidu Tech	2158	Digging the healthcare big data goldmine	BUY	Kevin Tam
22/02/2021	Razer	1337	A year of harvest	NR	John Siah
04/02/2021	HKTV	1137	Flat Jan GMV, but still upbeat on growth prospect	BUY	Kevin Tam
19/01/2021	Yeahka	9923	More conviction on marketing services driven growth	BUY	Kevin Tam
18/01/2021	Xtep Intl	1368	Channel inventory improvement on track	BUY	Megan Jin
15/01/2021	New Higher Edu	2001	More visible and stellar growth	BUY	John Siah
15/01/2021	Anta Sports	2020	More positive Anta brand FY21E outlook	HOLD	Megan Jin
06/01/2021	HKTV	1137	E commerce solution business moving forward	BUY	Kevin Tam/Megan Jin
30/12/2020	New Oriental Edu	9901	Tutoring elephant continues to fly	BUY	Kevin Tam
23/12/2020	Anta Sports	2020	Precor disposal in plan of Amer brands restructuring	HOLD	Megan Jin
21/12/2020	Scholar Edu	1769	Extraordinary growth expected to continue	NR	John Siah
14/12/2020	CG Services	6098	Placement for strategic deployment	BUY	Megan Jin

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

(as of 10/06/2021)

	DATE	RATING	TP (HK$)	CLOSE (HK$)		DATE	RATING	TP (HK$)	CLOSE (HK$)
1	09 Aug 2017	BUY	5.70	3.75	11	20 Mar 2019	BUY	5.80	4.39
2	23 Nov 2017	BUY	6.40	4.57	12	25 Apr 2019	BUY	5.80	4.57
3	06 Apr 2018	BUY	4.60	3.64	13	18 Jun 2019	BUY	5.80	3.44
4	26 Apr 2018	BUY	4.60	3.59	14	10 Feb 2020	BUY	6.10	3.91
5	03 May 2018	BUY	4.60	3.53	15	31 Mar 2020	BUY	5.10	3.05
6	04 Jun 2018	BUY	5.60	3.96	16	02 Jul 2020	BUY	5.10	3.73
7	18 Jul 2018	BUY	5.60	3.98	17	04 Nov 2020	BUY	9.50	5.96
8	25 Aug 2018	BUY	5.80	3.47	18	10 Jun 2021	BUY	7.30	4.92
9	16 Oct 2018	BUY	5.80	3.38					
10	30 Oct 2018	BUY	5.80	3.23					

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