

Truly Int'l (732 HK)

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Company Update

BUY

Maintained

Close price: HK\$2.08

Target Price: HK\$2.45(+17.8%)

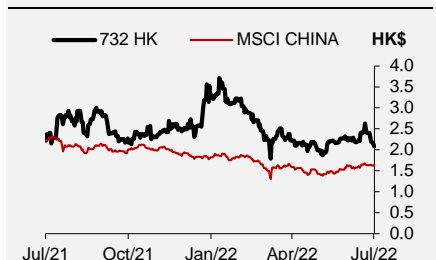
Previous TP HK\$3.65

Key Data

HKEx code	732 HK
12 Months High (HK\$)	3.77
12 Month Low (HK\$)	1.77
3M Avg Dail Vol. (mn)	6.66
Issue Share (mn)	3,283.29
Market Cap (HK\$mn)	6,829.23
Fiscal Year	12/2021
Major shareholder (s)	Mr. Lam Wai Wah (46.11%)

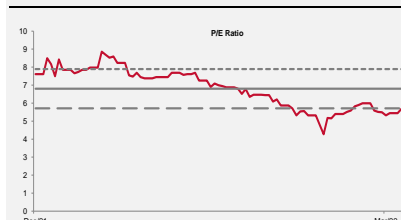
Source: Company data, Bloomberg, OP Research
Closing price are as of 08/07/2022

Price Chart



	1mth	3mth	6mth
Absolute %	-8.8	-6.3	-36.8
Rel. MSCI CHINA %	-8.4	-8.9	-26.1

PE



Company Profile

Truly Int'l is principally engaged in the business of manufacture and sale of LCD products including touch panel products and electronic consumer products including compact camera module, fingerprint identification modules, personal health care products and electrical devices.

Automotive display missed in 1H22 on weak car sales

- 1H22 revenue declined 2.1% yoy to HK\$10.8bn
- Weak car sales drags sales of automotive display this year
- Reiterate BUY with new TP of HK\$2.45, representing FY22E PER of 7.5x

Truly shared more details on 1H22 sales mix in the recent roadshow. During the period, sales of Automotive display/ IoT, industrial and medical components/ Smartphone display/ CCM reported yoy change of -17%/+27%/+19%/-39%.

Automotive display missed our expectations, which we originally estimated the business would grow by double digits this year. Truly said overseas automakers have been more pessimistic on the sales outlook from 2Q22 and have decided to defer the shipment schedule of some automotive display orders. Meanwhile, Truly has taken a more prudent approach to engage NEV carmakers in China. We foresee the weak car market in developed markets will drag sales for automotive display this year. Truly anticipates automotive display sales in 2H22 will be similar to those in 1H22, and with some margin pressures.

Strong sales for IoT, industrial and medical components, and smartphone display. For IoT, industrial and medical components businesses, we see Truly will benefit from the increase of display applications and more IoT features in the wearable, industrial, medical, and consumer devices in the internet era. For the smartphone display business, Truly said it managed to gain market shares in 1H22 thanks to the exit of competitors and the capability to meet strict delivery time requirements by smartphone manufacturers.

Increase shareholding of Truly Huizhou/Truly RS, no near-term major Capex plans. Truly may spend no more than HK\$1.0bn to acquire equity interests of Truly RS. Meanwhile, it may acquire the remaining shareholding of Truly Huizhou depending on the cash flow performance. The Company said it will decide whether to add a new production line by the end of 2022. It expects no major Capex spending in FY22-23E given it needs 6-9 months to plan for the expansion.

Maintain BUY and tune down TP to HK\$2.45, which is based on 7.5x PER in FY22E. We cut Truly's EPS forecast by 28.8% for FY22E to reflect the weak automotive display sales. We think the market has priced in the headwinds of the automotive display business and the sluggish smartphone market this year with the FY22E PER of 6.4x. We argue the long growth story in automotive display remains intact amid the increase of in-vehicle display applications.

Risks: (1) Prolonged weakness in car production, (2) Sluggish smartphone shipment by Chinese Android brands

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$)	FY19	FY20	FY21	FY22E	FY23E
Revenue	22,532	22,172	22,543	22,290	23,200
Growth (%)	+14.0	-1.6	+1.7	-1.1	+4.1
Net profit	562	502	1,378	1,068	1,427
Growth (%)	+658.1	-10.7	+174.3	-22.5	+33.7
Diluted EPS (HK\$)	0.171	0.153	0.419	0.325	0.434
EPS growth (%)	+624.6	-10.7	+174.3	-22.5	+33.7
Change to previous EPS (%)				-28.8	-22.0
Consensus EPS (HK\$)				0.46	0.56
ROE (%)	6.5	5.2	12.5	9.0	11.3
P/E (x)	12.2	13.6	5.0	6.4	4.8
P/B (x)	0.8	0.7	0.6	0.6	0.5
Yield (%)	0.0	0.0	4.8	4.7	6.3
DPS (HK\$)	0.000	0.000	0.100	0.097	0.130

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

(HK\$ mn)	FY22E			OP Comments
	New	Old	% Chg	
Revenue	22,290	23,800	-6.3	Due to the weak sales of automotive display
Gross profit	2,284	2,869	-20.4	
Gross margin	10.2%	12.1%	-1.9p.p.	Due to (1) margin pressure on automotive display products and (2) the deterioration of product mix(automotive display products has higher profit margin)
Net profit	1,068	1,499	-28.8	
Diluted EPS (HK\$)	0.325	0.456	-28.8	

Source: Company, OP research

Exhibit 3: Peers Comparison

Company	Ticker	Price(US\$m)	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	PER3-Yr Cagr (%)	EPS (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/BP/B FY1 Hist (x)	ROE (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
Truly Intl	732 HK	2.08	870	1.9	5.0	6.4	4.8	8.8	0.7	4.8	4.7	0.6	0.6	12.5	9.0	-8.8	-6.3
HSI		21,725.78			8.0	11.2	9.8	(3.3)	(3.4)	3.1	3.24	0.9	1.1	11.0	10.3	-1.3	-0.7
HSCEI		7,551.70			6.7	9.2	8.2	(3.4)	(2.7)	3.5	3.49	0.8	1.1	11.4	11.7	-1.7	0.8
CSI300		4,428.78			16.5	14.2	12.2	15.5	0.9	1.9	2.2	2.0	1.9	12.4	13.1	5.0	4.7
Adjusted sector avg*					17.1	18.5	13.8	24.0	0.8	0.9	1.0	2.5	2.5	17.0	14.2	+12.0	+17.0
Byd Electronic	285 HK	22.95	6,588	33.8	19.0	19.6	13.2	22.5	0.9	0.5	0.5	1.8	1.7	10.0	8.9	+19.8	+44.2
China Display Op	334 HK	0.40	108	0.0	3.6	N/A	N/A	N/A	N/A	N/A	N/A	0.8	N/A	26.3	N/A	-2.4	-9.1
Boe Varitronix L	710 HK	14.42	1,353	4.0	32.0	21.1	15.2	41.5	0.5	1.0	N/A	3.5	N/A	11.4	N/A	+37.9	+44.8
Cowell	1415 HK	11.30	1,202	2.9	24.0	16.2	12.0	40.1	0.4	N/A	0.9	3.9	2.9	17.8	20.3	+51.5	+51.7
Q Technology Gro	1478 HK	5.08	767	1.5	5.9	6.7	5.1	13.4	0.5	0.0	1.2	1.0	2.9	20.3	14.8	-11.5	-9.6
Aac Technologies	2018 HK	16.80	2,587	20.1	13.2	14.6	11.6	11.4	1.3	1.2	1.5	0.8	0.8	6.1	5.3	-5.3	-3.0
Sunny Optical	2382 HK	116.30	16,253	109.1	21.8	21.1	17.1	15.1	1.4	0.9	0.9	5.3	4.4	26.8	21.8	-6.2	-0.2

Sources: Bloomberg, OP research

Financial Summary

Year to Dec	FY19	FY20	FY21	FY22E	FY22E
Income Statement (HK\$ mn)					
LCD products	14,582	14,248	17,182	18,020	19,500
Consumer electronic	7,951	7,924	5,362	4,270	3,700
Turnover	22,532	22,172	22,543	22,290	23,200
YoY%	+14	-2	+2	-1	+4
COGS	-20,707	-20,123	-19,930	-20,006	-20,473
Gross profit	1,825	2,049	2,613	2,284	2,727
Gross margin	8.1%	9.2%	11.6%	10.2%	11.8%
Other income	79	143	98	113	113
Selling & distribution	-430	-424	-437	-432	-441
Admin	-319	-377	-486	-379	-394
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-749	-801	-923	-811	-835
Operating profit (EBIT)	1,156	1,391	1,788	1,586	2,005
Operating margin	5.1%	6.3%	7.9%	7.1%	8.6%
Provisions	-22	-315	0	0	0
Interest Income	47	42	47	47	47
Finance costs	-419	-380	-341	-347	-347
Profit after financing costs	761	739	1,494	1,286	1,705
Associated companies & JVs	-24	0	102	10	20
Pre-tax profit	737	739	1,596	1,296	1,725
Tax	-129	-140	-165	-194	-259
Minority interests	-46	-96	-53	-34	-40
Net profit	562	502	1,378	1,068	1,427
YoY%	+658	-11	+174	-23	+34
Net margin	2.5%	2.3%	6.1%	4.8%	6.2%
EBITDA	2,289	2,481	3,340	3,011	3,448
EBITDA margin	10.2%	11.2%	14.8%	13.5%	14.9%
EPS (HK\$)	0.171	0.153	0.419	0.325	0.434
YoY%	+625	-11	+174	-23	+34
DPS (HK\$)	0.000	0.000	0.100	0.097	0.130

Year to Dec	FY19	FY20	FY21	FY22E	FY22E
Cash Flow (HK\$ mn)					
EBITDA	2,289	2,439	3,292	3,011	3,448
Chg in working cap	63	2,937	3,085	72	439
Others	-37	317	-152	0	0
Operating cash	2,316	5,692	6,226	3,083	3,886
Tax	-111	-67	-97	-165	-194
Net cash from operations	2,205	5,625	6,129	2,918	3,692
Capex	-1,231	-960	-534	-1,000	-1,000
Investments	0	0	-39	-1,000	0
Dividends received	0	0	0	0	0
Interest received	56	42	48	47	47
Others	159	-308	-63	-500	0
Investing cash	-1,016	-1,225	-587	-2,453	-953
FCF	1,188	4,399	5,542	465	2,739
Issuance of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Interests paid	-422	-380	-345	-341	-347
Dividends paid	0	0	-164	-329	-320
Net change in bank and other borrowings	-1,247	-3,492	-4,009	0	0
Others	-99	-49	-888	0	0
Financing cash	-1,768	-3,921	-5,407	-670	-667
Net change in cash	-579	479	135	-205	2,072
Exchange rate or other Adj	-7	53	38	0	0
Opening cash	1,090	504	1,035	1,208	1,003
Closing cash	504	1,035	1,208	1,003	3,075
CFPS (HK\$)	0.670	1.710	1.863	0.887	1.122

Year to Dec	FY19	FY20	FY21	FY22E	FY22E
Ratios					
Gross margin (%)	8.1	9.2	11.6	10.2	11.8
Operating margin (%)	5.1	6.3	7.9	7.1	8.6
Net margin (%)	2.5	2.3	6.1	4.8	6.2
Selling & dist'n exp/Sales (%)	1.9	1.9	1.9	1.9	1.9
Admin exp/Sales (%)	1.4	1.7	2.2	1.7	1.7
Payout ratio (%)	0.0	0.0	23.9	30.0	30.0
Effective tax (%)	16.9	18.9	11.1	15.0	15.0
Total debt/equity (%)	73.0	66.6	66.8	64.5	58.7
Net debt/equity (%)	65.9	53.3	52.6	52.5	32.2
Current ratio (x)	0.7	0.8	0.7	0.7	0.8
Quick ratio (x)	0.5	0.5	0.4	0.4	0.5
Inventory T/O (days)	70	62	77	77	77
AR T/O (days)	61	58	75	75	75
AP T/O (days)	162	154	176	176	176
Cash conversion cycle (days)	-31	-34	-23	-23	-23
Asset turnover (x)	0.9	0.9	0.8	0.7	0.8
Financial leverage (x)	2.9	2.6	2.5	2.5	2.4
EBIT margin (%)	5.1	6.3	7.9	7.1	8.6
Interest burden (x)	0.6	0.5	0.9	0.8	0.9
Tax burden (x)	0.8	0.7	0.9	0.8	0.8
Return on equity (%)	6.5	5.2	12.5	9.0	11.3

Year to Dec	FY19	FY20	FY21	FY22E	FY22E
Balance Sheet (HK\$ mn)					
Fixed assets	12,123	12,255	16,217	16,440	16,045
Right-of-use assets	521	860	1,064	1,064	1,064
Associated companies & JVs	1,180	1,249	614	624	644
Tax	75	57	57	57	57
Other non-current assets	79	969	701	701	701
Non-current assets	13,979	15,390	18,653	18,886	18,511
Inventories	3,975	3,444	4,231	4,247	4,346
AR	3,735	3,497	4,634	4,582	4,769
Prepayments & deposits	0	0	0	0	0
Other current assets	2,794	3,171	1,006	1,015	1,015
Cash	504	1,035	1,208	1,003	3,075
Current assets	11,007	11,147	11,080	10,848	13,206
AP	9,178	8,517	9,608	9,144	9,869
Tax	54	80	137	194	259
Accruals & other payables	0	0	0	0	0
Bank loans	5,216	4,613	5,461	5,461	5,461
CB & other debts	129	779	1,052	1,052	1,052
Contract liabilities	251	334	615	615	615
Other current liabilities	19	128	144	144	144
Current liabilities	14,848	14,450	17,017	16,611	17,400
Bank loans	687	1,164	655	655	655
CB & other debts	374	356	0	0	0
Tax & others	70	91	401	401	401
Non-current liabilities	1,131	1,612	1,056	1,056	1,056
Total net assets	9,008	10,475	11,660	12,067	13,260
Shareholder's equity	8,056	9,372	11,282	11,655	12,809
Share capital	66	66	66	66	66
Reserves	7,990	9,306	11,217	11,589	12,743
MI	952	1,104	377	412	451
BVPS (HK\$)	2.45	2.85	3.43	3.54	3.89

Sources: Company, OP Research

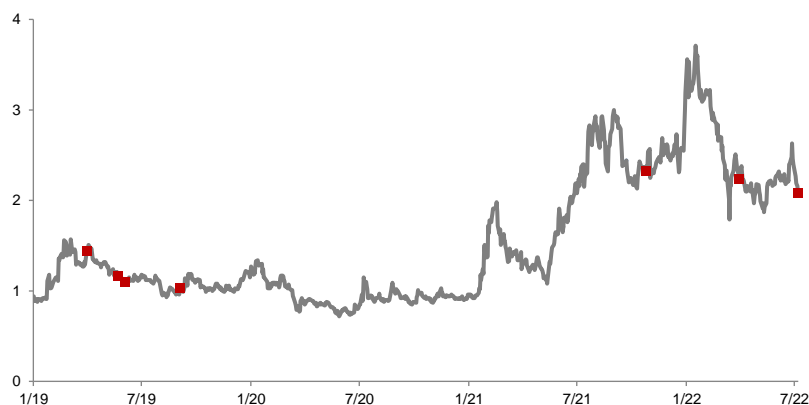
Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
07/07/2022	EVA Holdings	838	Kicking off a new growth cycle	BUY	John Siah
04/05/2022	China Edu Group	839	1H22 results showed strong organic growth of higher schools	BUY	John Siah
29/04/2022	Edvantage Group	382	1H22 earnings remains robust despite higher costs	BUY	John Siah
28/04/2022	New Higher Edu	2001	Mixed 1H22 results amid investments to deliver quality education	BUY	John Siah
08/04/2022	Tian Lun Gas	1600	Strong gas sales offsetting by weak dollar margin, more details for rural solar development	BUY	John Siah
06/06/2022	Truly's Int'l	732	Mixed outlook for FY22E	BUY	John Siah
06/04/2022	HK Tech Venture	1137	Compelling growth story despite weak near-term profit	BUY	John Siah
29/03/2022	361 Degrees	1361	FY21 earnings beat on strong GPM	BUY	John Siah
29/03/2022	AAC Tech	2018	Earnings challenges remain in FY22E	HOLD	John Siah
29/03/2022	Greentown Mgmt	9979	Aligning with new trends in China property market	BUY	John Siah
02/03/2022	Xinyi Energy	3868	Ambitious expansion plan for FY22E	BUY	John Siah
25/02/2022	Tsaker Chem	1986	Battery business started to bear fruit	NR	John Siah
27/01/2022	Greentown Mgmt	9979	Resilient against headwinds	BUY	John Siah
21/01/2022	361 Degrees	1361	4Q21 retail sales beat expectation	BUY	John Siah
14/12/2021	Tian Lun Gas	1600	Embracing green energy, ambitious target for gas sales	BUY	John Siah
06/12/2021	New Higher Edu	2001	Aim for quality growth	BUY	John Siah
29/11/2021	China Edu Group	839	FY21 results in-line, expecting more M&A	BUY	John Siah
18/11/2021	Edvantage Group	382	FY21 results slightly beat our expectation	BUY	John Siah
26/10/2021	Truly Int'l	732	More added value of automotive display as a new earnings catalyst	BUY	John Siah
19/10/2021	China Edu Sector	-	Encourage private participation in vocational education	-	John Siah
11/10/2021	AAC Tech	2018	Sluggish 3Q21 earnings on weak smartphone market	BUY	John Siah
03/09/2021	HK Tech Venture	1137	Striving to become a global technology enabler	BUY	John Siah
31/08/2021	Tian Lun Gas	1600	Mixed 21H1 results, expecting margins to improve in 21H2E	BUY	John Siah
27/08/2021	AAC Tech	2018	Optics segment stood strong against headwinds in 21Q2	BUY	John Siah
25/08/2021	361 Degrees	1361	Strong earnings expected to continue in 21H2E	BUY	John Siah
09/08/2021	Edvantage Group	382	Promising growth to continue in FY22E	BUY	John Siah
09/08/2021	China Edu Group	839	Another landmark M&A	BUY	John Siah

Historical recommendations and target price: Truly Int'l (732 HK)

(as of 08/07/2022)

(HK\$)



Date	Rating	TP	Close
1 26 Oct 2021	BUY	HK\$ 3.85	HK\$ 2.33
2 6 Apr 2022	BUY	HK\$ 3.65	HK\$ 2.38
3 11 Jul 2022	BUY	HK\$ 2.45	HK\$2.08

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Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
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