

Truly Int'l (732 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$1.11

Target Price: HK\$1.58 (+42%)

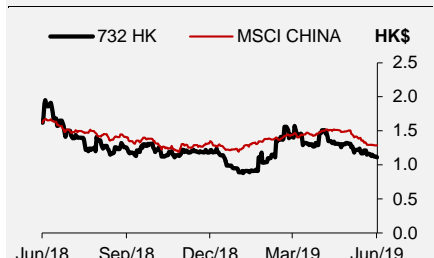
Prior TP HK\$1.58

Key Data

HKEx code	732
12 Months High (HK\$)	1.98
12 Month Low (HK\$)	0.85
3M Avg Dail Vol. (mn)	12.72
Issue Share (mn)	3,289.23
Market Cap (HK\$mn)	3,651.04
Fiscal Year	12/2018
Major shareholder (s)	Lam Wai Wah (46.1%)

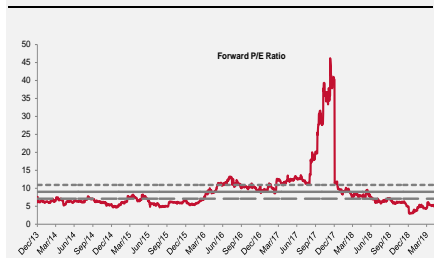
Source: Company data, Bloomberg, OP Research
Closing price are as of 03/06/2019

Price Chart



	1mth	3mth	6mth
Absolute %	-15.3	-29.3	-7.5
Rel. MSCI CHINA %	-0.8	-17.0	-4.6

PE



Company Profile

Truly International Holdings Limited, through its subsidiaries, manufactures and sells liquid crystal display products, electronic consumer products including calculators, pagers, MP3 player, and electronic components.

Introduction of new investor to Truly Opto

- Truly announced RMB290mn cash injection from Guangdong gov. backed investor to its subsidiary Truly Opto for 5.53% equity stake.
- The transaction reveals the valuation of Truly Opto at c. HK\$6bn, of which Truly takes 80.7% stake, or HK\$4.8bn, ~24% lower than its current market cap.
- Maintain BUY with TP HK\$1.58 unchanged based on same 12x FY19E PE, at par to its peers.

Cash injection into Truly Opto from Guangdong gov. On 31 May, Truly Opto, Truly's major business entity for CCM, FPM, and touch products who contributes to roughly 50% of the Company's total assets and 70% of FY18 revenue according to our estimation, announced issuance of new shares to Guangdong Provincial Government backed investor, Guangdong Yueke Caixin Venture Capital Partnership (廣東粵科財信創業投資合夥企業, "the Investor") for RMB290mn cash injection. After the completion of transaction, the Investor will hold 5.53% of the enlarged share capital of Truly Opto and Truly's stake in Truly Opto will be diluted by 4.72ppts to 80.70% from 85.42%. The proceeds will be used to satisfy the general working capital of the subsidiary.

The transaction reveals the attractive valuation of Truly. The transaction values Truly Opto at c. HK\$6bn, implying around 22x historical P/E, ~23% discount to its domestic peer Tianma Microelectronics (000050 CH, NR). Truly's stake in Truly Opto alone thus is re-valued at c. HK\$4.8bn, 24% lower than the Company's latest market cap.

Maintain BUY. We fine tune down our FY19/20E earnings estimate by 2.9%/1.8% to HK\$420mn/HK\$689mn respectively as we factor in the dilution effect in Truly Opto. As a result, our FY19/20E diluted EPS is tuned down by 2.9%/1.8% to HK\$0.128/HK\$0.209 respectively. We maintain our TP HK\$1.58 unchanged based on same 12x FY19E PE.

Risks: 1) Slower than expected ramp up of G5 plant; 2) lower than expected GPM, 3) less upbeat shipments for non-smartphone related products; 4) unfavorable exchange rate fluctuations.

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	20,733	19,762	23,059	26,323	29,247
Growth (%)	(6.1)	(4.7)	16.7	14.2	11.1
Adjusted Net Profit	476.7	74.2	420.3	689.0	952.6
Growth (%)	(18.1)	(84.4)	466.5	63.9	38.2
Adj. diluted EPS (HK\$)	0.161	0.024	0.128	0.209	0.290
EPS growth (%)	(19.6)	(85.3)	441.8	63.9	38.2
Change to previous EPS (%)			(2.9)	(1.8)	
Consensus EPS (HK\$)			0.247	0.245	
ROE (%)	0.9	1.0	5.3	8.1	10.2
P/E (x)	6.9	47.1	8.7	5.3	3.8
P/B (x)	0.4	0.5	0.4	0.4	0.4
Yield (%)	0.9	0.0	0.0	0.0	0.0
DPS (HK\$)	0.010	0.000	0.000	0.000	0.000

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

	FY19E			FY20E			OP Comments
(HK\$ mn)	New	Old	% Chg	New	Old	% Chg	
Shipments(mn units)							
Automotive products	36	36	0%	34	34	0%	
Touch related for smartphone related	42	42	0%	42	42	0%	
Smartphone display (without touch panel)	39	39	n.a.	27	27	n.a.	
Compact camera module	231	231	0%	284	284	0%	
Fingerprint identification module	69	69	0%	89	89	0%	
ASP(HK\$)							
Automotive products	65	65	0%	67	67	0%	
Touch related for smartphone related	101	101	0%	97	97	0%	
Smartphone display (without touch panel)	11	11	0%	10	10	0%	
Compact camera module	34	34	0%	33	33	0%	
Fingerprint identification module	29	29	0%	29	29	0%	
Revenue (HK\$ mn)							
Automotive products	3,489	3,489	0%	3,534	3,534	0%	
Industrial, medical, and other products	5,070	5,070	0%	6,591	6,591	0%	
Touch related for smartphone related	4,280	4,280	0%	4,062	4,062	0%	
Smartphone display (without touch panel)	412	412	0%	274	274	0%	
Compact camera module	7,787	7,787	0%	9,252	9,252	0%	
Fingerprint identification module	2,020	2,020	0%	2,610	2,610	0%	
Revenue (HK\$ mn)							
Revenue	23,059	23,059	0.0	26,323	26,323	0.0	
Gross profit	2,107.1	2,107.1	0.0	2,445.8	2,445.8	0.0	
Gross margin	9.1%	9.1%	0.0	9.3%	9.3%	0.0	
Opex	(962)	(962)	0	(1,145)	(1,145)	0	
EBIT	1,230	1,227	0.3	1,408	1,401	0.5	
Loss from associate	(218)	(218)	0.0	(76)	(76)	0.0	
Net Profit	420	433	(2.9)	689	702	(1.8)	As we factor in the deemed disposal of stake in Truly Opto
Diluted EPS (HK\$)	0.128	0.132	(2.9)	0.209	0.213	(1.8)	

Source: Company, OP Research

Exhibit 3: Implied valuation of the transaction

Item	Unit	Amount
Consideration from the Investor	RMB mn	290
Shareholding of the Investor after the transaction	%	5.53%
Implied valuation of Truly Opto	RMB mn	5,244
Implied valuation of Truly Opto	HK\$ mn	5,926
Shareholding of Truly after the transaction	%	80.70%
Implied value of Truly's stake	HK\$ mn	4,782
Truly's current market cap	HK\$ mn	3,651
Discount		23.65%

Source: Company, OP Research estimates

Exhibit 4: Truly Opto is the major business entity of Truly for manufacturing CCM, FPM, and touch products.

FY2018	Truly Opto	Truly Opto	Truly	Est. contribution from Truly Opto
Unit	RMB mn	HK\$ mn	HK\$ mn	%
Revenue	12,003*	13,563*	19,762	69%
Profit before taxation	267	302	253	119%
Profit after taxation	240	271	148	183%
Total assets	10,642	12,025	25,055	48%
Net asset value	3,220	3,639	7,637	48%

*We assume 2% NPM here for estimation of Truly Opto's revenue

**We apply HK\$1.13/RMB in the calculation

Source: OP Research estimates

Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Income Statement (HK\$ mn)					
LCD Products	15,083	12,070	12,491	13,473	14,922
Electronic consumer products	5,650	7,692	10,568	12,850	14,325
Turnover	20,733	19,762	23,059	26,323	29,247
YoY%	(6)	(5)	17	14	11
COGS	(18,693)	(17,877)	(20,951)	(23,877)	(26,455)
Gross profit	2,040	1,886	2,107	2,446	2,792
Gross margin	9.8%	9.5%	9.1%	9.3%	9.5%
Other income	112	4	85	107	125
Selling & distribution	(412)	(443)	(488)	(572)	(622)
Admin	(434)	(396)	(474)	(573)	(638)
R&D	0	0	0	0	0
Other opex	(9)	0	0	0	0
Total opex	(856)	(839)	(962)	(1,145)	(1,259)
Operating profit (EBIT)	1,296	1,051	1,230	1,408	1,657
Operating margin	6.3%	5.3%	5.3%	5.3%	5.7%
Provisions	(414)	0	0	0	0
Finance costs	(323)	(354)	(342)	(342)	(342)
Profit after financing costs	559	697	888	1,066	1,315
Associated companies & JVs	(372)	(444)	(218)	(76)	8
Pre-tax profit	187	253	671	990	1,323
Tax	(94)	(105)	(147)	(176)	(217)
Profit from discontinued operations	0	0	0	0	0
Minority interests	(30)	(74)	(104)	(125)	(154)
Net profit	63	74	420	689	953
Adjusted net profit	477	74	420	689	953
YoY%	(18)	(84)	467	64	38
Net margin	2.3%	0.4%	1.8%	2.6%	3.3%
EBITDA	2,555	2,566	2,900	3,197	3,493
EBITDA margin	12.3%	13.0%	12.6%	12.1%	11.9%
Adjusted EPS (HK\$)	0.161	0.024	0.128	0.209	0.290
YoY%	(20)	(85)	442	64	38
DPS (HK\$)	0.010	0.000	0.000	0.000	0.000
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Cash Flow HK\$ mn					
EBITDA	2,555	2,566	2,900	3,197	3,493
Chg in working cap	1,099	(372)	64	28	12
Others	89	(451)	0	0	0
Operating cash	3,743	1,743	2,964	3,225	3,505
Tax	(164)	(114)	(48)	(147)	(176)
Net cash from operations	3,578	1,629	2,916	3,078	3,329
Capex	(2,615)	(1,888)	(1,706)	(1,948)	(2,164)
Investments	(989)	(606)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	8	9	0	0	0
Interests received	29	21	38	59	77
Others	(403)	(167)	0	0	0
Investing cash	(3,970)	(2,630)	(1,669)	(1,889)	(2,088)
FCF	(391)	(1,001)	1,247	1,189	1,241
Issue of shares	431	199	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	328	0	0
Dividends paid	(231)	0	0	0	0
Net change in bank loans	1,388	(1,177)	0	0	0
Interests paid	(318)	(349)	(342)	(342)	(342)
Others	(4)	(1)	0	0	0
Financing cash	1,266	(1,328)	(14)	(342)	(342)
Net change in cash	875	(2,329)	1,233	847	899
Exchange rate or other Adj	137	(47)	0	0	0
Opening cash	2,454	3,466	1,090	2,323	3,170
Closing cash	3,466	1,090	2,323	3,170	4,070
CFPS (HK\$)	1.208	0.518	0.886	0.936	1.012

Source: Company, OP Research

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	9.8	9.5	9.1	9.3	9.5
Operating margin (%)	6.3	5.3	5.3	5.3	5.7
Net margin (%)	0.3	0.4	1.8	2.6	3.3
Selling & dist'n exp/Sales (%)	2.0	2.2	2.1	2.2	2.1
Admin exp/Sales (%)	2.1	2.0	2.1	2.2	2.2
Payout ratio (%)	6.2	0.0	0.0	0.0	0.0
Effective tax (%)	16.9	15.1	16.5	16.5	16.5
Total debt/equity (%)	118.6	105.3	98.3	90.6	81.9
Net debt/equity (%)	73.0	89.3	68.3	53.4	39.1
Current ratio (x)	0.9	0.7	0.8	0.8	0.9
Quick ratio (x)	0.7	0.5	0.6	0.6	0.7
Inventory T/O (days)	50	64	64	64	64
AR T/O (days)	101	96	96	96	96
AP T/O (days)	174	175	175	175	175
Cash conversion cycle (days)	(22)	(15)	(15)	(15)	(15)
Asset turnover (x)	0.8	0.8	0.9	0.9	0.9
Financial leverage (x)	3.4	3.4	3.3	3.4	3.3
EBIT margin (%)	6.3	5.3	5.3	5.3	5.7
Interest burden (x)	0.1	0.2	0.5	0.7	0.8
Tax burden (x)	0.3	0.3	0.6	0.7	0.7
Return on equity (%)	0.9	1.0	5.3	8.1	10.2
ROIC (%)	8.5	6.1	6.9	8.0	9.4
Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Balance Sheet HK\$ mn					
Fixed assets	11,890	12,308	12,307	12,407	12,659
Intangible assets & goodwill	0	0	0	0	0
Associated companies & JVs	1,749	1,231	1,013	937	945
Long-term investments	6	0	0	0	0
Other non-current assets	726	616	616	616	616
Non-current assets	14,371	14,155	13,937	13,960	14,220
Inventories	2,580	3,133	3,671	4,184	4,636
AR	5,757	5,189	6,055	6,912	7,680
Prepayments & deposits	9	9	10	12	13
Other current assets	756	1,479	1,479	1,479	1,479
Cash	3,466	1,090	2,323	3,170	4,070
Current assets	12,568	10,900	13,538	15,757	17,877
AP	8,909	8,548	10,018	11,417	12,649
Tax	41	48	147	176	217
Accruals & other payables	0	0	0	0	0
Bank loans & leases	4,370	7,118	7,118	7,118	7,118
CB & othe debts	0	0	0	0	0
Other current liabilities	140	112	112	112	112
Current liabilities	13,461	15,827	17,395	18,823	20,097
Bank loans & bonds	4,982	925	925	925	925
CB & leases	0	0	0	0	0
Deferred tax & others	47	57	57	57	57
MI	565	609	913	1,038	1,192
Non-current liabilities	5,595	1,591	1,895	2,020	2,174
Total net assets	7,883	7,637	8,185	8,874	9,826
Shareholder's equity	7,883	7,637	8,185	8,874	9,826
Share capital	62	66	66	66	66
Reserves	7,820	7,571	8,119	8,808	9,760
BVPS (HK\$)	2.31	2.53	2.32	2.49	2.70
Total debts	9,352	8,044	8,044	8,044	8,044
Net cash/(debts)	(5,756)	(6,821)	(5,588)	(4,741)	(3,842)

Exhibit 5: Peer Group Comparison

Company	Ticker	Price	3-mth		PER Hist	PER FY1	PER FY2	EPS FY1	EPS FY2	EPS FY23-Yr	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 %
			Mkt cap	avg t/o																				
			(US\$m)	(US\$m)	(x)	(x)	(x)	YoY%	YoY%	Cagr (%)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Truly Intl Hldgs	732 HK	1.11	466	2.2	47.1	8.7	5.3	441.8	63.9	41.7	0.2	0.0	0.0	0.5	0.4	4.1	3.2	89.3	9.5	12.5	1.0	5.3	-15.3	-21.8
HSI		26893.86			10.3	10.6	9.8	-3.1	8.0	4.6	2.33	3.6	3.9	1.19	1.16						11.6	10.9	-10.6	-6.7
HSCEI		10430.64			8.4	8.2	7.6	2.7	8.2	6.5	1.26	3.8	4.2	1.00	0.97						12.0	11.9	-9.9	-9.4
CSI300		3632.01			13.4	11.5	10.3	17.2	11.0	13.9	0.83	2.2	2.7	1.65	1.51						12.3	13.2	-7.2	-3.1
Adjusted sector avg*					28.0	11.3	9.3	34.2	25.3	-7.4	0.46	2.5	1.1	1.45	1.04	6.6	6.2	47.8	10.5	2.0	6.1	10.1	-22.7	-22.3
China Display Op	334 HK	0.62	167	0.9	13.2	7.7	5.7	72.9	34.6	42.0	0.18	3.2	1.3	2.08	1.50	6.2	4.2	24.8	4.7	1.5	15.7	21.7	-20.5	-19.5
Boe Varitronix L	710 HK	2.02	190	0.4	87.8	N/A	N/A	N/A	N/A	N/A	N/A	0.5	N/A	0.54	N/A	1.3	N/A	0.0	N/A	0.5	0.6	N/A	-18.5	-37.1
Q Technology Gro	1478 HK	5.62	819	6.6	381.1	15.0	11.5	2446.2	29.9	238.5	0.06	1.7	0.9	2.67	2.27	21.0	9.6	51.3	4.3	0.2	0.7	15.8	-33.2	-15.7
Byd Electronic	285 HK	10.48	3,014	18.8	9.5	8.5	7.5	11.5	13.6	12.0	0.71	2.6	2.2	1.32	1.14	3.6	3.6	0.0	10.2	5.3	14.6	13.9	-28.1	-0.6
Ofilm Group Co-A	002456 CH	8.20	3,220	238.9	N/A	10.9	8.6	N/A	27.6	-249.3	N/A	0.6	1.2	2.64	1.92	15.7	7.6	175.2	12.1	-1.2	-12.1	17.5	-32.1	-40.5
Boe Technology-A	000725 CH	3.44	17,180	522.8	34.4	28.2	19.0	22.0	48.4	31.2	0.90	0.9	1.0	1.37	1.27	10.7	9.0	57.5	19.7	3.6	2.8	4.6	-4.4	-19.6
Tianma-A	000050 CH	13.22	3,920	154.1	28.7	17.3	15.0	66.6	15.4	40.1	0.43	0.5	0.8	1.03	0.98	N/A	9.9	58.5	14.8	3.2	3.2	6.0	-6.0	-18.3
Au Optronics	2409 TT	9.25	2,832	13.2	8.7	N/A	N/A	N/A	N/A	-153.8	N/A	16.2	2.2	0.45	0.46	3.4	5.2	8.1	9.1	3.3	1.0	-3.6	-15.1	-18.5
Innolux	3481 TT	7.41	2,346	12.4	33.7	N/A	N/A	N/A	N/A	34.9	N/A	10.8	0.3	0.29	0.30	1.2	1.7	0.0	9.6	0.8	-1.7	-2.7	-24.8	-27.7
Japan Display	6740 JP	58.00	453	9.1	N/A	N/A	N/A	N/A	N/A	-67.1	N/A	N/A	0.0	9.72	0.54	11.3	4.7	1663.9	2.6	-17.2	-256.2	-22.6	-25.6	-17.1
Sharp Corp	6753 JP	958.00	4,711	21.8	8.2	8.4	7.8	-2.0	7.7	1.4	5.96	2.1	1.0	2.16	1.29	6.3	6.0	102.8	17.7	3.1	35.6	18.0	-22.5	-26.9
Samsung Electron	005930 KS	43800.00	221,004	427.1	6.8	12.9	9.9	-47.5	30.0	-5.9	N/A	3.2	3.4	1.07	1.16	2.2	3.3	0.0	45.7	18.0	14.3	9.0	-3.3	-2.9
Lg Display Co Lt	034220 KS	16900.00	5,111	27.7	N/A	N/A	29.3	N/A	N/A	-241.3	N/A	N/A	2.9	0.43	0.43	4.3	3.9	41.1	12.7	-0.9	-1.5	-1.9	-12.9	-20.5

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

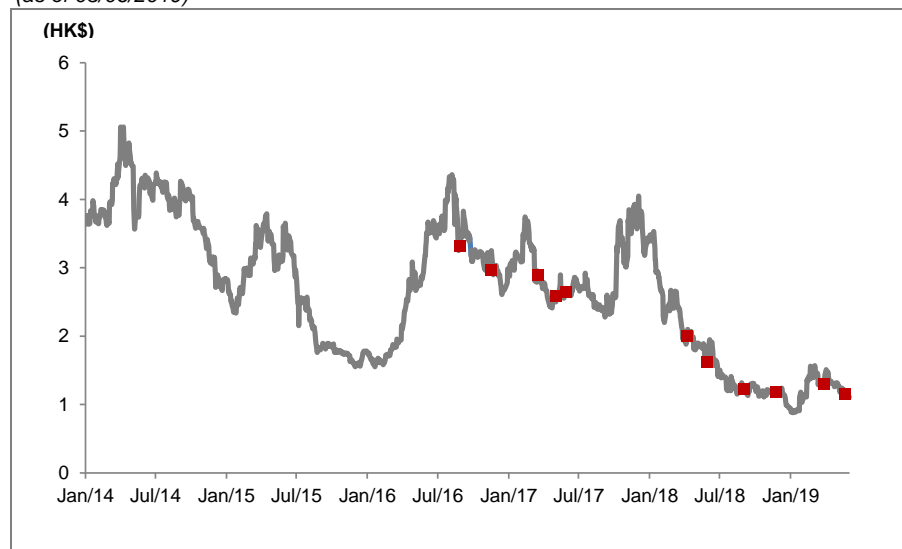
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
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	Sinosoft 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
25/03/2019	Li Ning	2331	FY18 saw sustainable high-quality growth	HOLD	Dallas Cai/Megan Jin
22/03/2019	Chinasoft Intl	354	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
21/03/2019	Sunny Optical	2382	Downgrade on fair value	HOLD	Yuji Fung/Dallas Cai
21/03/2019	Tongda	698	GPM likely bottom out	BUY	Yuji Fung/Dallas Cai
21/03/2019	Ju Teng Intl	3336	On secular trend of metal casing adoption	BUY	Yuji Fung/Dallas Cai
20/03/2019	CH Display OPT	334	FY18 revenue beat, earnings in line	BUY	Yuji Fung/Dallas Cai

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

(as of 03/06/2019)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 05 May 2017	BUY	3.20	2.58	5 04 Sep 2018	BUY	1.55	1.29
2 31 May 2017	BUY	3.10	2.64	6 26 Nov 2018	BUY	1.55	1.19
3 09 Apr 2018	BUY	2.60	2.00	7 01 Apr 2019	BUY	2.00	1.29
4 01 Jun 2018	BUY	1.94	1.64	8 24 May 2019	BUY	1.58	1.15

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