

Truly Int'l (732 HK)

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Initial Coverage

BUY

Close price: HK\$2.33

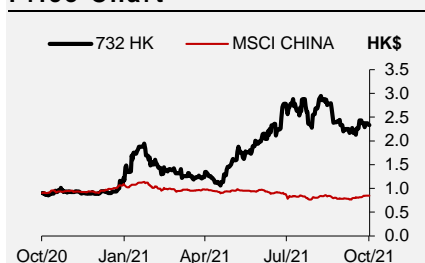
Target Price: HK\$3.85 (+65.2%)

Key Data

| | |
|-----------------------|--------------------------|
| HKEx code | 732 HK |
| 12 Months High (HK\$) | 3.09 |
| 12 Month Low (HK\$) | 0.87 |
| 3M Avg Dail Vol. (mn) | 16.91 |
| Issue Share (mn) | 3,289.23 |
| Market Cap (HK\$mn) | 7,663.90 |
| Fiscal Year | 12/2020 |
| Major shareholder (s) | Mr. Lam Wai Wah (46.11%) |

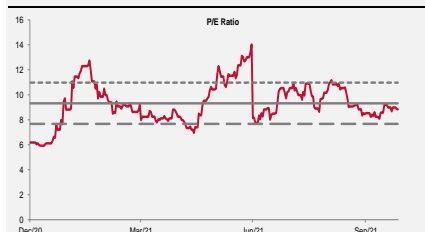
Source: Company data, Bloomberg, OP Research
Closing price are as of 26/10/2021

Price Chart



| | 1mth | 3mth | 6mth |
|-------------------|------|-------|------|
| Absolute % | 0.0 | -13.4 | 79.6 |
| Rel. MSCI CHINA % | -8.3 | -18.0 | 92.9 |

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.

More added value of automotive display as a new earnings catalyst

- 1H21 net profit soared 122% YoY to HK\$665mn thanks to better margin
- 77% CAGR in net profit between FY20-22E
- Resume dividend payment, which shows the management's confidence in the future

Margin improvement on better sales mix. In 1H21, Truly GPM expanded 2.9p.p yoy. to 12.0%. This was thanks to the increased contribution from non-smartphone segments (contributed 46% of rev in 1H21 vs 37% in 1H20). We see robust sales growth from non-smartphone segments (+31% yoy in 1H21) will be the main earnings driver for Truly in the future.

More value added of automotive display to boost profitability. Being one of the main players in automotive TFT display, Truly benefits from the trend of large, multi-screen and/or touchable automotive displays. Truly could ramp up its production to cater strong demand of automotive display (Utilization rate for LCD production lines in Shanwei/Renshou were only 75%/55% in 1H21). We expect further GPM expansion for automotive display products, driven by (1) the higher ASP and additional value of automotive display/ touch module and (2) the higher utilization of production. The increasing sales mix from automotive specialty products will also reduce the earnings variability as automotive products usually have longer product life cycle and stable customers.

77% CAGR in net profit between FY20-22E. We expect a gradual margin expansion will translate into strong profit growth. We project Truly net profit to grow 163%/19% yoy to HK\$1.32bn/1.57bn in FY21E/22E, mainly driven by GPM expansion of 2.6p.p./0.7p.p., to 11.9%/12.6% in the corresponding periods.

Resume dividend payment, which shows the management's confidence in the future. Truly declared interim DPS of HK\$0.05 in 1H21, the first time since FY17. Management guided a 30-40% payout ratio in future. We forecast DPS of HK\$0.120/0.144 in FY21E/22E, implying dividend yield of 5.2%/6.2%.

Initiate BUY with TP of HK\$3.85. Truly is currently trading an undemanding FY21E PER of 5.8x, which has 50% price discount (12.8x FY21E PER) to its HK listed peers. We argue that the current price does not fully factor growth potential of automotive products and resumption of dividend payments. Our TP represents 9.6x FY21E PER or ~25% discount to the HK listed peers average.

Exhibit 1: Forecast and Valuation

| Year to Dec (HK\$ mn) | FY18 | FY19 | FY20 | FY21E | FY22E |
|----------------------------|--------|--------|--------|--------|--------|
| Revenue | 19,762 | 22,532 | 22,172 | 23,130 | 24,900 |
| Growth (%) | -4.7 | +14.0 | -1.6 | +4.3 | +7.7 |
| Net profit | 74 | 562 | 502 | 1,320 | 1,574 |
| Growth (%) | -1.9 | +658.1 | -10.7 | +162.9 | +19.2 |
| Diluted EPS (HK\$) | 0.024 | 0.171 | 0.153 | 0.401 | 0.478 |
| EPS growth (%) | +10.8 | +624.6 | -10.7 | +162.9 | +19.2 |
| Consensus EPS (HK\$) | | | | 0.400 | 0.550 |
| Change to previous EPS (%) | | | | | |
| ROE (%) | 0.9 | 6.5 | 5.2 | 11.8 | 12.4 |
| P/E (x) | 98.7 | 13.6 | 15.3 | 5.8 | 4.9 |
| P/B (x) | 1.0 | 1.0 | 0.8 | 0.7 | 0.6 |
| Yield (%) | 0.0 | 0.0 | 0.0 | 5.1 | 6.2 |
| DPS (HK\$) | 0.000 | 0.000 | 0.000 | 0.120 | 0.144 |

Source: Bloomberg, OP Research

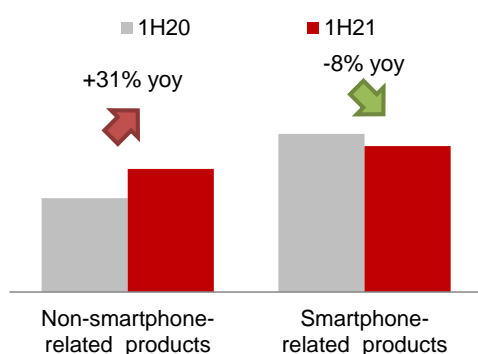
A new growth phase

Truly has been shifting its focus to automotive, IoT and other non-smartphone segments when smartphone component market has lost luster in recent years.

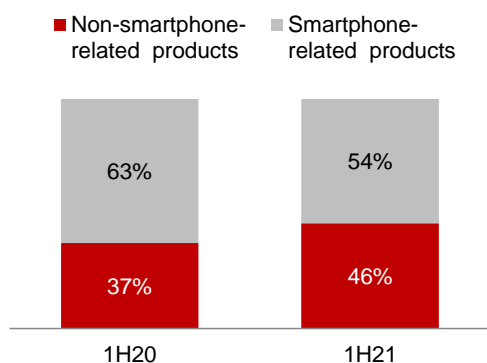
This strategy shift has begun to bear fruit. In 1H21, the robust sales growth from non-smartphone products (+31% yoy) has boosted GPM by 2.9 p.p. to 12.0%. We see non-smartphone segments, especially automotive products, will be the main earnings driver for Truly in the future.

Exhibit 2: Non-smartphone segments become the growth driver in 1H21

Non-smartphone products grew 31% yoy on the contrary to 8% yoy decline for smartphone products in 1H21



We project non-smartphone products to contribute 46% of total sales in 1H21, up 9 p.p. YOY



Sources: Company, OP research

Truly said automotive display has higher GPM (15-30%) than smartphone components (~8%)

Automotive specialty products

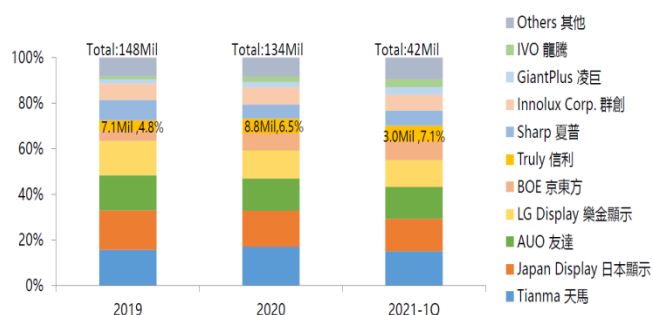
Automotive products will be the main growth driver for Truly in the next few years. The innovation of vehicle interior decoration design concepts, especially for electric vehicles, has boosted adoption of large, multi-screen and/or touchable automotive display.

Truly sees the proportion of large-size products in the new projects of TFT, touch screen and cover glass is increasing rapidly yoy. The Company expects ASP and GPM for automotive specialty products will further increase in 2H21.

In spite of earnings growth, the higher contribution from automotive products will also reduce its earnings viability. This is mainly thanks to (1) the relatively long product cycle and (2) high entry barriers in the automotive component market.

Exhibit 3: Truly's market share and customers in the automotive segment

Truly's automotive TFT Displays has been gaining market share. It ranked sixth in 1Q21



Sources: Company, Omdia2021'1Q data, OP research

Truly's automotive global customers and cooperative brands



Besides, Truly recently has started to deliver Advanced Driver Assistance Systems (ADAS) camera modules to some China's first tier automotive brands. It will be a good start for the Company to promote its ADAS camera solutions.

Exhibit 4: Truly recently started to supply ADAS camera modules to China domestic brands like Roewe, Li Xiang and Nio



Sources: Company, OP research

Truly said it is capable to meet the growing demand of automotive display until 2025. Truly is planning for next round of major capital investment. It will execute the plan as early as the end of next year.

Exhibit 5: Truly has the capacity to meet the growing demand of automotive display

| Display panel factory | Size of large panel/mm | Monthly capacity of large panel | Monthly full capacity of large panel | Utilization rate(%) | Expected time reaches full capacity |
|------------------------------------|------------------------|---------------------------------|--------------------------------------|---------------------|-------------------------------------|
| Truly Huizhou's G4.5 AMOLED | 730*920 | 16K | 16K | 100% | - |
| Truly Huizhou's G4.5 TFT-LCD | 730*920 | 35K | 35K | 100% | - |
| Truly Shanwei's G5 TFT-LCD | 1100*1250 | 45K | 60K | 75% | 3Q22 |
| Truly Sichuan Renshou's G5 TFT-LCD | 1100*1300 | 55K | 100K | 55% | 3Q22 |

Sources: Company, OP research

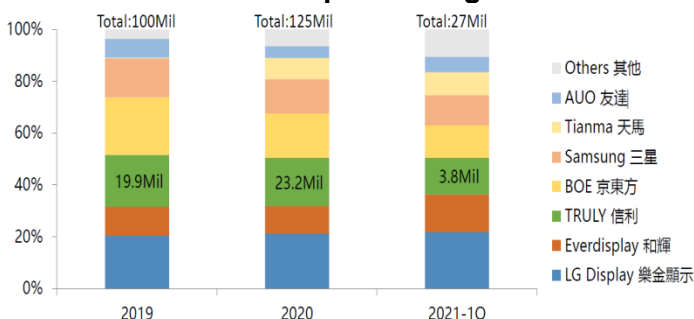
Wearable

Truly is the beneficiary when Chinese smartphone brands expand into wearable market. In FY20, Truly's shipments of AMOLED display increased 17% yoy to 23.2mn units.

Truly has significantly improved the financial performance of Truly Huizhou¹ under its strategy to focus on AMOLED wearable product application. In 1H21, Truly Huizhou's AMOLED production has reached full capacity. Meanwhile, Truly Huizhou's profit soared 2.8x yoy to HK\$80.0mn.

Exhibit 6: Truly's market share and customers in the wearable segment

Truly's AMOLED Display shipments for wearable businesses ranks top three in global market



Sources: Company, Omdia2021'1Q data, OP research

Truly's customers and products for wearable businesses



¹ Truly Huizhou is an associate of Truly which engage in production of AMOLED and TFT display

Our view on Truly Int'l

Exhibit 7: Truly's segmental outlook based on product applications

| Application | Smartphone related | Automotive related | IoT, wearable, others |
|----------------------------|---|---|--|
| Products | Display/touch modules, camera modules, finger touch modules and etc | Vehicle-mounted display/touch modules ,ADAS Camera modules, etc | OLED/non OLED display with/without touch modules, PCB/FPC, Compact camera modules and etc. |
| Outlook (Highest: 5 stars) | ☆☆ | ★★★★★ | ★★★ |
| Management comments | - Profit margin is at a very low level, not expecting further decline in GPM | - ASP and GPM will further increase in 2H21 on better sales mix - Current capacity is sufficient to meet the growing demand until 2025 | - Direct beneficiary when Chinese smartphone brands get into wearable market |
| Upside catalysts | 1. Accelerating adoption of (1) new energy vehicles and (2) automotive smart displays with large screen sizes | | |
| Downside risk | 1. Prolonged sluggish smartphone shipment by Chinese Andriod brands 2. Delay in procurement from automotive manufacturers due to chip shortage 3. Production disruptions due to power outage. | | |

Source: Company, OP research

Exhibit 8: Our view on Truly's LCD products and electronic consumer products

| Segment | LCD products | Electronic consumer products | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|---------|-------------------------|-----|--------|------|-----|--------|------|-----|--------|------|-----|--------|------|-----|--------|-------|---|------|---------|-------------------------|-----|-------|------|-----|-------|------|-----|-------|------|-----|-------|------|-----|-------|------|
| Product application | Smartphone, automotive, industrial, medical, IoT and others | Mainly for smartphone | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Our Revenue and GPM forecast (FY18A-22E) | <table border="1"> <thead> <tr> <th>Year</th> <th>Revenue</th> <th>Segmental profit margin</th> </tr> </thead> <tbody> <tr> <td>18A</td> <td>12,070</td> <td>5.7%</td> </tr> <tr> <td>19A</td> <td>14,582</td> <td>6.0%</td> </tr> <tr> <td>20A</td> <td>14,248</td> <td>6.7%</td> </tr> <tr> <td>21E</td> <td>16,670</td> <td>9.4%</td> </tr> <tr> <td>22E</td> <td>18,600</td> <td>10.2%</td> </tr> </tbody> </table> | Year | Revenue | Segmental profit margin | 18A | 12,070 | 5.7% | 19A | 14,582 | 6.0% | 20A | 14,248 | 6.7% | 21E | 16,670 | 9.4% | 22E | 18,600 | 10.2% | <table border="1"> <thead> <tr> <th>Year</th> <th>Revenue</th> <th>Segmental profit margin</th> </tr> </thead> <tbody> <tr> <td>18A</td> <td>7,692</td> <td>4.9%</td> </tr> <tr> <td>19A</td> <td>7,951</td> <td>4.3%</td> </tr> <tr> <td>20A</td> <td>7,924</td> <td>6.3%</td> </tr> <tr> <td>21E</td> <td>6,460</td> <td>4.6%</td> </tr> <tr> <td>22E</td> <td>6,300</td> <td>4.7%</td> </tr> </tbody> </table> | Year | Revenue | Segmental profit margin | 18A | 7,692 | 4.9% | 19A | 7,951 | 4.3% | 20A | 7,924 | 6.3% | 21E | 6,460 | 4.6% | 22E | 6,300 | 4.7% |
| Year | Revenue | Segmental profit margin | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 18A | 12,070 | 5.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 19A | 14,582 | 6.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 20A | 14,248 | 6.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 21E | 16,670 | 9.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 22E | 18,600 | 10.2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Year | Revenue | Segmental profit margin | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| 20A | 7,924 | 6.3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 21E | 6,460 | 4.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 22E | 6,300 | 4.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Comment | 1. Automotive specialty products will be the main growth driver. 2. Further margin expansion which is driven by the increase sales mix of more value added automotive display products | 1. Competitions in smartphone camera module market expects to intensify | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

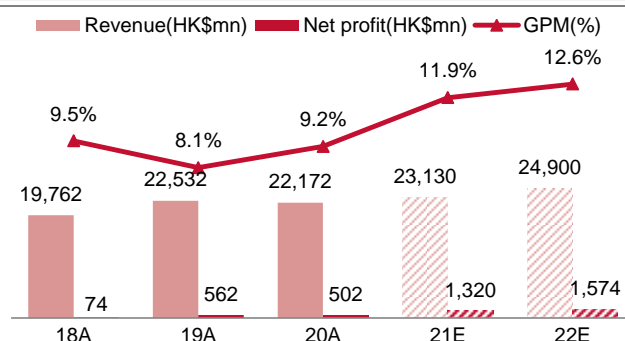
Source: Company, OP research

Strong earnings comeback, resume paying dividend

77% earnings CAGR between FY20-22E

We project Truly's net profit to grow 163%/19% yoy to HK\$1.32bn/1.57bn in FY21E/22E on the back of 4.3%/7.7% yoy growth in revenue, mainly thanks to (1) increase in sales of automotive specialty products which have higher profit margin, (2) absence of one-off provision of the Leshi Zhixin's receivables (HK\$ 282mn) in FY20.

Exhibit 9: Truly's revenue, net profit and GPM



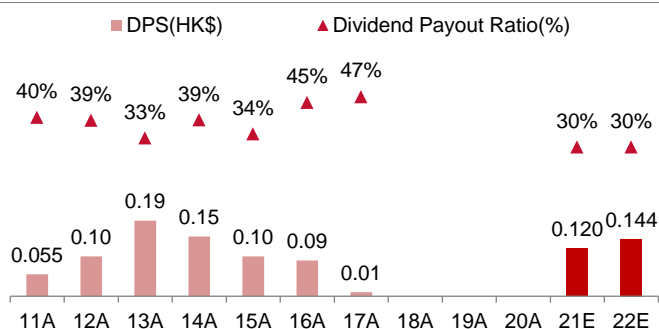
Sources: Company, OP research

Resume paying dividend, 5.1% dividend yield in FY21E

Truly declared interim DPS of HK\$0.05 in 1H21, the first time since FY17. We see Truly can maintain a stable dividend policy (Management guidance: 30-40% of net profit) on earnings recovery and decrease of gearing.

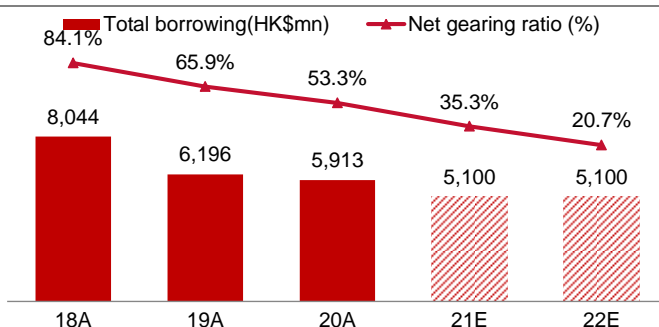
We forecast DPS of HK\$0.120/0.144 in FY21E/22E based on a dividend payout ratio of 30%, implying dividend yield of 5.2%/6.2% in FY21E/22E.

Exhibit 10: Truly's DPS and dividend payout ratio



Sources: Company, OP research

Exhibit 11: Truly's total borrowing and net gearing ratio



Sources: Company, OP research

Valuation

Truly is trading at an undemanding FY21E PER of 5.8x, which has a 50% discount (12.8x FY21E PER) to the HK listed peers for electronic components. We argue that Truly current value does not fully factor growth potential in automotive products and the resumption of dividend payment.

We initiate Truly BUY with target price of HK\$3.85. The target price represents 9.6x FY21E PER or 25% discount to HK listed peers. We believe the TP is fair as it traded at average PER of 9.8x during the last earnings upcycle in FY10-13.

Exhibit 12: Peers comparison²

| Company | Ticker | Price | Mkt cap (US\$m) | 3-mth avg t/o (US\$m) | PER Hist (x) | PER FY1 (x) | PER FY2 (x) | 3-Yr EPS Cagr (%) | PEG (x) | Div yld Hist (%) | Div yld FY1 (%) | P/B Hist (x) | P/B FY1 (x) | ROE Hist (%) | ROE FY1 (%) | Sh px 1-mth % | Sh px 3-mth % |
|-----------------------------|-----------|-----------|--------------------|-----------------------------|-----------------|----------------|----------------|----------------------------|------------|------------------------|-----------------------|-----------------|----------------|--------------------|-------------------|---------------------|---------------------|
| Truly Intl | 732 HK | 2.34 | 990 | 6.0 | 15.3 | 5.8 | 4.9 | 51.8 | 0.1 | 0.0 | 5.2 | 0.8 | 0.7 | 5.2 | 11.8 | 0.0 | -13.4 |
| HSI | | 26,112.72 | | | 10.7 | 13.1 | 11.7 | 1.4 | 9.6 | 2.5 | 2.70 | 1.1 | 1.3 | 10.2 | 10.0 | 7.9 | -4.4 |
| HSCEI | | 9,314.77 | | | 8.4 | 10.7 | 9.5 | (0.2) | (53.8) | 2.6 | 2.93 | 1.0 | 1.3 | 12.5 | 11.9 | 8.2 | -5.3 |
| CSI300 | | 4,981.06 | | | 17.0 | 15.6 | 13.4 | 12.6 | 1.2 | 1.8 | 2.0 | 2.2 | 2.1 | 13.2 | 13.4 | 2.7 | -2.1 |
| Peers Comparison | | | | | | | | | | | | | | | | | |
| HK-listed Peers | | | | | 23.4 | 12.8 | 10.0 | 21.4 | 0.7 | 0.8 | 1.3 | 2.0 | 2.0 | 18.2 | 17.5 | -4.3 | -18.4 |
| Byd Electronic | 285 HK | 27.20 | 7,882 | 34.1 | 9.3 | 13.4 | 9.8 | 7.2 | 1.9 | 1.1 | 0.7 | 2.2 | 2.0 | 21.6 | 15.1 | -7.6 | -30.6 |
| China Display Op | 334 HK | 0.56 | 152 | 0.3 | 41.5 | N/A | N/A | N/A | N/A | N/A | N/A | 1.3 | N/A | 33.5 | N/A | -3.4 | -13.8 |
| Cowell | 1415 HK | 5.95 | 638 | 1.9 | 15.0 | 10.9 | 8.8 | 27.2 | 0.4 | N/A | 2.1 | 2.3 | 2.0 | 12.6 | 18.8 | 26.1 | 32.2 |
| Q Technology Gro | 1478 HK | 11.66 | 1,772 | 5.1 | 13.3 | 9.3 | 7.7 | 25.8 | 0.4 | 0.4 | 1.5 | 2.6 | 2.4 | 28.5 | 27.4 | -0.5 | -13.0 |
| Aac Technologies | 2018 HK | 34.85 | 5,416 | 37.2 | 22.9 | 17.7 | 13.8 | 25.2 | 0.7 | 1.1 | 1.4 | 1.6 | 1.5 | 10.2 | 8.7 | -8.5 | -26.4 |
| Sunny Optical | 2382 HK | 207.40 | 29,256 | 147.7 | 38.2 | 32.4 | 26.0 | 21.5 | 1.5 | 0.5 | 0.6 | 10.2 | 8.7 | 36.6 | 29.3 | -1.4 | -8.1 |
| China/Overseas peers | | | | | 38.1 | 8.1 | 8.1 | 74.0 | 0.5 | 1.8 | 2.2 | 1.5 | 1.2 | 16.2 | 17.3 | -6.3 | -11.3 |
| Boe Technology-A | 000725 CH | 4.95 | 29,508 | 479.2 | 37.7 | 7.9 | 7.7 | 77.7 | 0.1 | 2.0 | 4.3 | 1.7 | 1.4 | 17.7 | 18.3 | -5.2 | -16.7 |
| Au Optonics | 2409 TT | 17.25 | 5,966 | 92.4 | 48.5 | 2.6 | 4.5 | 115.1 | 0.0 | 1.7 | 15.7 | 0.8 | 0.7 | 22.7 | 27.9 | -1.4 | -18.4 |
| Innolux | 3481 TT | 15.10 | 5,698 | 118.2 | 88.8 | 2.3 | 3.8 | 183.0 | 0.0 | 2.6 | 16.5 | 0.6 | 0.5 | 18.0 | 23.9 | -8.5 | -22.4 |
| Lg Display Co Lt | 034220 KS | 18,550.00 | 5,691 | 47.7 | N/A | 4.8 | 7.2 | -328.0 | N/A | N/A | 2.4 | 0.5 | 0.5 | 10.3 | 11.2 | -2.1 | -17.4 |
| Tianma-A | 000050 CH | 12.84 | 4,945 | 44.5 | 19.0 | 15.2 | 13.5 | 18.8 | 0.8 | 0.5 | 0.8 | 0.9 | 0.9 | 6.2 | 6.2 | -7.3 | -11.1 |
| Irico Display-A | 600707 CH | 7.17 | 4,032 | 65.7 | N/A | 4.9 | 4.7 | -292.3 | N/A | N/A | N/A | 1.1 | 1.0 | 18.0 | 22.7 | -12.9 | -20.9 |
| Wuhu Token-A | 300088 CH | 10.65 | 4,097 | 95.4 | 31.3 | 23.1 | 18.0 | 28.9 | 0.8 | 0.9 | 1.3 | 3.4 | 3.3 | 11.5 | 14.7 | 33.0 | 27.2 |
| E Ink Holdings | 8069 TT | 88.30 | 3,618 | 37.7 | 27.8 | 22.8 | 19.4 | 20.4 | 1.1 | 3.0 | 3.6 | 3.2 | 3.2 | 15.0 | 13.9 | 7.0 | -1.6 |
| Hc Semitek Cor-A | 300323 CH | 12.04 | 2,340 | 64.7 | 602.0 | N/A | N/A | N/A | N/A | N/A | N/A | 2.4 | N/A | 2.6 | N/A | -3.4 | -7.1 |
| Hannstar Display | 6116 TT | 13.55 | 1,474 | 26.4 | 10.8 | 3.9 | 5.0 | N/A | N/A | 3.7 | N/A | 0.8 | N/A | 22.2 | N/A | -12.9 | -32.8 |
| Duk San Neolux C | 213420 KS | 57,000.00 | 1,173 | 12.8 | 41.0 | N/A | N/A | N/A | N/A | N/A | N/A | 6.4 | N/A | 20.5 | N/A | -16.1 | -3.6 |

Sources: Bloomberg, OP research

² Outliers are highlighted in red

Financial Summary

| Year to Dec | FY18 | FY19 | FY20 | FY21E | FY22E |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Income Statement (HK\$ mn) | | | | | |
| Display | 12,070 | 14,582 | 14,248 | 16,670 | 18,600 |
| Consumer electronic | 7,692 | 7,951 | 7,924 | 6,460 | 6,300 |
| Turnover | 19,762 | 22,532 | 22,172 | 23,130 | 24,900 |
| YoY% | -4.7% | 14.0% | -1.6% | 4.3% | 7.7% |
| COGS | -17,877 | -20,707 | -20,123 | -20,383 | -21,761 |
| Gross profit | 1,886 | 1,825 | 2,049 | 2,747 | 3,140 |
| Gross margin | 9.5% | 8.1% | 9.2% | 11.9% | 12.6% |
| Other income | -55 | 79 | 143 | 73 | 73 |
| Selling & distribution | -443 | -430 | -424 | -463 | -498 |
| Admin | -396 | -319 | -377 | -416 | -448 |
| R&D | 0 | 0 | 0 | 0 | 0 |
| Other opex | 0 | 0 | 0 | 0 | 0 |
| Total opex | -839 | -749 | -801 | -879 | -946 |
| Operating profit (EBIT) | 992 | 1,156 | 1,391 | 1,941 | 2,266 |
| Operating margin | 5.0% | 5.1% | 6.3% | 8.4% | 9.1% |
| Provisions | 10 | -22 | -315 | 0 | 0 |
| Interest Income | 49 | 47 | 42 | 42 | 42 |
| Finance costs | -354 | -419 | -380 | -306 | -306 |
| Profit after financing costs | 697 | 761 | 739 | 1,677 | 2,003 |
| Associated companies & JVs | -444 | -24 | 0 | 100 | 115 |
| Pre-tax profit | 253 | 737 | 739 | 1,777 | 2,118 |
| Tax | -105 | -129 | -140 | -302 | -360 |
| Minority interests | -74 | -46 | -96 | -155 | -185 |
| Net profit | 74 | 562 | 502 | 1,320 | 1,574 |
| YoY% | -1.9 | 658.1 | -10.7 | 162.9 | 19.2 |
| Net profit margin | 0.4% | 2.5% | 2.3% | 5.7% | 6.3% |
| EBITDA | 2,143 | 2,288 | 2,754 | 3,114 | 3,364 |
| EBITDA margin | 10.8% | 10.2% | 12.4% | 13.5% | 13.5% |
| EPS(HK\$) | 0.024 | 0.171 | 0.153 | 0.401 | 0.478 |
| YoY% | 10.8 | 624.6 | -10.7 | 162.9 | 19.2 |
| DPS(HK\$) | 0.000 | 0.000 | 0.000 | 0.120 | 0.144 |
| Year to Dec | FY18 | FY19 | FY20 | FY21E | FY22E |
| Cash Flow (HK\$ mn) | | | | | |
| EBITDA | 1,709 | 2,242 | 2,439 | 3,114 | 3,364 |
| Chg in working cap | -375 | 63 | 93 | 259 | 49 |
| Others | 408 | 11 | 132 | 0 | 0 |
| Operating cash | 1,743 | 2,316 | 2,663 | 3,372 | 3,412 |
| Tax | -114 | -111 | -67 | -140 | -302 |
| Net cash from operations | 1,629 | 2,205 | 2,595 | 3,232 | 3,110 |
| Capex | -1,888 | -1,231 | -960 | -1,000 | -1,000 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Dividends received | 0 | 0 | 0 | 0 | 0 |
| Interest received | 21 | 56 | 42 | 42 | 42 |
| Others | -763 | 159 | -308 | 0 | 0 |
| Investing cash | -2,630 | -1,016 | -1,225 | -958 | -958 |
| FCF | -1,001 | 1,188 | 1,370 | 2,275 | 2,153 |
| Issue of shares | 199 | 0 | 0 | 0 | 0 |
| Buy-back | 0 | 0 | 0 | 0 | 0 |
| Interests paid | 0 | -422 | -380 | -380 | -306 |
| Dividends paid | 0 | 0 | 0 | -164 | -396 |
| Net change in bank loans | -1,177 | -1,247 | -463 | -813 | 0 |
| Others | -1 | -99 | -49 | -1 | 0 |
| Financing cash | -1,328 | -1,768 | -892 | -1,358 | -702 |
| Net change in cash | -2,329 | -579 | 479 | 917 | 1,451 |
| Exchange rate or other Adj | -47 | -7 | 53 | 0 | 0 |
| Opening cash | 3,466 | 1,090 | 504 | 1,035 | 1,952 |
| Closing cash | 1,090 | 504 | 1,035 | 1,952 | 3,402 |
| CFPS (HK\$) | 0.508 | 0.670 | 0.789 | 0.983 | 0.946 |

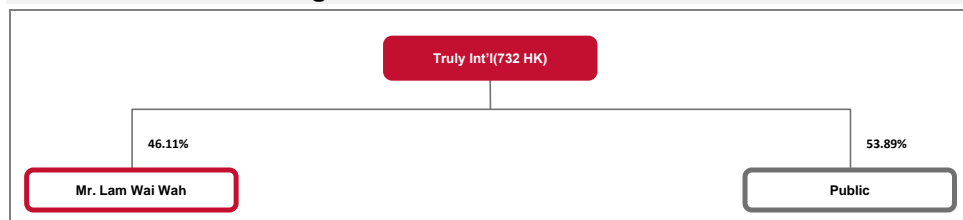
Source: Company, OP Research

| Year to Dec | FY18 | FY19 | FY20 | FY21E | FY22E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Ratios | | | | | |
| Gross margin (%) | 9.5 | 8.1 | 9.2 | 11.9 | 12.6 |
| Operating margin (%) | 5.0 | 5.1 | 6.3 | 8.4 | 9.1 |
| Net margin (%) | 0.4 | 2.5 | 2.3 | 5.7 | 6.3 |
| Selling & dist'n exp/Sales (%) | 2.2 | 1.9 | 1.9 | 2.0 | 2.0 |
| Admin exp/Sales (%) | 2.0 | 1.4 | 1.7 | 1.8 | 1.8 |
| Payout ratio (%) | 0.0 | 0.0 | 0.0 | 30.0 | 30.0 |
| Effective tax (%) | 15.1 | 16.9 | 18.9 | 17.0 | 17.0 |
| Total debt/equity (%) | 98.9 | 73.0 | 66.6 | 51.6 | 46.2 |
| Net debt/equity (%) | 84.1 | 65.9 | 53.3 | 35.3 | 20.7 |
| Current ratio (x) | 0.7 | 0.7 | 0.8 | 0.8 | 0.9 |
| Quick ratio (x) | 0.5 | 0.5 | 0.5 | 0.6 | 0.7 |
| Inventory T/O (days) | 64 | 70 | 62 | 60 | 60 |
| AR T/O (days) | 93 | 61 | 58 | 60 | 60 |
| AP T/O (days) | 175 | 162 | 154 | 150 | 150 |
| Cash conversion cycle (days) | -18 | -31 | -34 | -30 | -30 |
| Asset turnover (x) | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 |
| Financial leverage (x) | 3.1 | 2.9 | 2.6 | 2.4 | 2.2 |
| EBIT margin (%) | 5.0 | 5.1 | 6.3 | 8.4 | 9.1 |
| Interest burden (x) | 0.3 | 0.6 | 0.5 | 0.9 | 0.9 |
| Tax burden (x) | 0.3 | 0.8 | 0.7 | 0.7 | 0.7 |
| Return on equity (%) | 0.9 | 6.5 | 5.2 | 11.8 | 12.4 |
| Year to Dec | FY18 | FY19 | FY20 | FY21E | FY22E |
| Balance Sheet (HK\$ mn) | | | | | |
| Fixed assets | 12,308 | 12,123 | 12,255 | 12,129 | 12,078 |
| Right-of-use assets | 383 | 521 | 860 | 860 | 860 |
| Associated companies & JVs | 1,231 | 1,180 | 1,249 | 1,349 | 1,464 |
| Tax | 90 | 75 | 57 | 57 | 57 |
| Other non-current assets | 142 | 79 | 968 | 968 | 968 |
| Non-current assets | 14,155 | 13,978 | 15,390 | 15,363 | 15,428 |
| Inventories | 3,133 | 3,975 | 3,444 | 3,351 | 3,577 |
| AR | 5,020 | 3,735 | 3,497 | 3,802 | 4,093 |
| Prepayments & deposits | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 1,656 | 2,794 | 3,171 | 2,811 | 2,811 |
| Cash | 1,090 | 504 | 1,035 | 1,952 | 3,402 |
| Current assets | 10,900 | 11,007 | 11,147 | 11,916 | 13,884 |
| AP | 8,548 | 9,178 | 8,517 | 8,377 | 8,943 |
| Tax | 48 | 54 | 80 | 302 | 360 |
| Accruals & other payables | 0 | 0 | 0 | 0 | 0 |
| Bank loans | 7,118 | 5,216 | 4,613 | 4,212 | 4,212 |
| CB & other debts | 0 | 129 | 779 | 779 | 779 |
| Contract liabilities | 112 | 251 | 334 | 334 | 334 |
| Other current liabilities | 0 | 19 | 128 | 128 | 128 |
| Current liabilities | 15,827 | 14,848 | 14,450 | 14,132 | 14,756 |
| Bank loans & leases | 75 | 607 | 899 | 487 | 487 |
| CB & other debts | 850 | 374 | 356 | 356 | 356 |
| Tax & others | 57 | 150 | 357 | 357 | 357 |
| Non-current liabilities | 982 | 1,131 | 1,612 | 1,200 | 1,200 |
| Total net assets | 8,246 | 9,007 | 10,475 | 11,947 | 13,356 |
| Shareholder's equity | 7,637 | 8,056 | 9,372 | 10,689 | 11,913 |
| Share capital | 66 | 66 | 66 | 66 | 66 |
| Reserves | 7,571 | 7,990 | 9,306 | 10,623 | 11,848 |
| MI | 609 | 952 | 1,104 | 1,258 | 1,443 |
| BVPS (HK\$) | 2.32 | 2.45 | 2.85 | 3.25 | 3.62 |

Appendix II: Company info

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. In FY20, LCD Products/ Electronic consumer products contributed 64.3%/35.7% of total revenue respectively.

Exhibit 13: Shareholding structure



Source: Company, OP Research

Exhibit 14: Management profile

| Name | Age | Position | Description |
|---------------------------------|-----|--|--|
| Mr. Lam Wai Wah | 68 | Chairman and Managing Director | Mr. Lam is the founder of Truly Int'l and he has over 40 years of experience in the electronics industry. He is primarily responsible for the formulation of the Group's overall strategic planning and business development. |
| Mr. Wong Pong Chun, 62 James | | Chief Operating Officer, Executive Director | Mr. Wong is responsible for the Group's operations in respect of internal controls and risk management, investors' relationship and external affairs. He joined the Group in 1987. |
| Mr. Song Bei Bei | 44 | Senior vice president, Executive Director | Mr. Song is responsible for government relations and investment project. Mr. Song is also a director of an associate of the Company. Mr. Song joined the Group in 2001 as a design engineer in research and development department. During 2014-18, Mr. Song was further promoted to a senior management position of the Group. He graduated from the North China Institute of Technology with a Bachelor's Degree in Mechatronic Engineering. |
| Mr. Dai Cheng Yun | 47 | Vice president, Executive Director | Mr. Dai is responsible for the Truly's panel factory operating affairs. He is also a supervisor of a subsidiary and a vice chairman of an associate of the Company. Mr. Dai joined the Group in 2000 as a team head of technicians and was promoted to a senior management position during 2006-18. |
| Mr. Lau Fan Yu | 53 | Chief Financial Officer, Company Secretary | Mr. Lau has over 25 years of experience in the field of accounting and corporate financial management, including experience as the Chief Financial Officer and Company Secretary in Hong Kong listed companies. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. |

Source: Company, OP Research

Our recent reports

| Date | Company / Sector | Stock Code | Title | Rating | Analyst |
|------------|------------------|------------|--|--------|-----------|
| 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 |
| 09/08/2021 | New Higher Edu | 2001 | SY21/22 growth on track | BUY | John Siah |
| 06/08/2021 | Innovent Bio | 1801 | Sintilimab on track to become RMB10 bn drug | BUY | Kevin Tam |
| 05/08/2021 | Greentown Mgmt | 9979 | Safe sail inside the Storm | BUY | John Siah |
| 05/08/2021 | Xinyi Energy | 3868 | More M&A coming in 21H2E | BUY | John Siah |
| 30/07/2021 | SF REIT | 2191 | First logistics REITs in HK, riding the e-commerce wave | NR | John Siah |
| 27/07/2021 | China Edu Sector | - | Private Higher Edu will not be the next K12 tutoring | - | John Siah |
| 13/07/2021 | HKTv | 1137 | Edging up GMV with enabler business kicking off | BUY | Kevin Tam |
| 07/07/2021 | Xinyi Energy | 3868 | Fast growing solar farms with promising dividend outlook | BUY | John Siah |
| 02/07/2021 | Yidu Tech | 2158 | Getting closer to breakeven | BUY | Kevin Tam |
| 24/06/2021 | Greentown Mgmt | 9979 | 21H1 net profit expected to up more than 70% YoY | BUY | John Siah |
| 11/06/2021 | TCL Electronics | 1070 | Turnaround possible in 2H21E | BUY | Kevin Tam |
| 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 |

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| | |
|---------------------------|--|
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