

Truly Int'l (732 HK)

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Company Update

BUY

Maintained

Close price: HK\$2.38

Target Price: HK\$3.65(+53.4%)

Previous TP HK\$3.85

Key Data

HKEx code	732 HK
12 Months High (HK\$)	3.77
12 Month Low (HK\$)	1.05
3M Avg Dail Vol. (mn)	19.24
Issue Share (mn)	3,289.23
Market Cap (HK\$mn)	7,828.37
Fiscal Year	12/2021
Major shareholder (s)	Mr. Lam Wai Wah (46.11%)

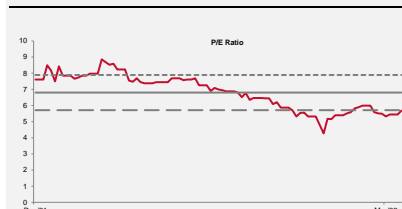
Source: Company data, Bloomberg, OP Research
Closing price are as of 04/04/2022

Price Chart



	1mth	3mth	6mth
Absolute %	-3.3	-30.4	8.7
Rel. MSCI CHINA %	-0.8	-18.9	24.6

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.

Mixed outlook for FY22E

- Net profit rose 174.3% yoy to HK\$1.38bn on the back of 1.7% yoy increase in revenue, mainly thanks to improvement of product mix
- While automotive display growth story still intact, weak sales of smartphone products may drag growth
- Reiterate BUY with new TP of HK\$3.65, representing FY22E PER of 8.0x

Net profit rose 174.3% yoy on improvement of product mix. Truly continued to focus on profitable vehicle-mounted, industrial, and other non-smartphone products during FY21. While the overall revenue mildly increased yoy, the higher sales contribution (49.2% in FY21, up 6.1 p.p.) from non-smartphone products has significantly improved the GPM by 2.4p.p. to 11.6%. Truly conservatively declared a total DPS of HK\$0.10 for FY21 (equivalent to payout ratio of 23.9%) under the resurgence of Covid-19 pandemic and the heated geo-political tensions. Truly said it will resume the 30-40% dividend payout ratio in future.

Automotive display growth story still in-tact. In FY21, Automotive products sales grew 38% yoy, driven by increase in both sales volume (+32% yoy) and ASP (+5% yoy). Truly has the technology (i.e. mini-LED, In-cell TFT) and solid customer base to benefit from growing adoption of larger and touchable TFT-screens in cars and motorcycles. Meanwhile, the improvement of product mix and higher utilization of TFT display production lines (Monthly capacity of large panel in Shanwei/Renshou's TFT-LCD production lines reached 83%/70% of full capacity as at the end of 2021, in contrast to 75%/55% in Jun 2021) will also boost profitability.

Weak sales of smartphone products expected to continue. The growing impact of chip shortage from 2H21 has hurt sales and profitability of smartphone components. In FY21, ASP of compact camera modules tumbled 38% yoy, which has significantly eroded segmental profit margin (2.9%, - 3.4p.p. yoy) of electronic consumer product. We see the prolonged chip shortage would continue to hurt sales and ASP of smartphone-related products in FY22.

Maintain BUY and tune down TP to HK\$3.65, which is based on 8.0x PER in FY22E. We tune down Truly's EPS forecast by 4.6% in FY22E to HK\$0.456 amid weak smartphone components market. We are impressed by Truly's effort to expand its foothold on vehicle-mounted, industrial, medical, IoT and other small and medium size display which will help to mitigate the impact of weak smartphone market. We project Truly's EPS will grow at a CAGR of 15% between FY21 and FY23E thanks to better sales mix and higher utilization of LCD product line. The long-term growth story of automotive display will unlock value of Truly.

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$)	FY19	FY20	FY21	FY22E	FY23E
Revenue	22,532	22,172	22,543	23,800	25,600
Growth (%)	+14.0	-1.6	+1.7	+5.6	+7.6
Net profit	562	502	1,378	1,499	1,830
Growth (%)	+658.1	-10.7	+174.3	+8.8	+22.1
Diluted EPS (HK\$)	0.171	0.153	0.419	0.456	0.556
EPS growth (%)	+624.6	-10.7	+174.3	+8.8	+22.1
Change to previous EPS (%)				-4.6	
Consensus EPS (HK\$)				0.475	0.560
ROE (%)	6.5	5.2	12.5	12.4	13.8
P/E (x)	13.9	15.6	5.7	5.2	4.3
P/B (x)	1.0	0.8	0.7	0.6	0.6
Yield (%)	0.0	0.0	4.2	5.7	7.0
DPS (HK\$)	0.000	0.000	0.100	0.137	0.167

Source: Bloomberg, OP Research

Exhibit 2: Earnings Review for FY21

(HK\$ mn)	Forecast	Actual	% Chg	OP Comments
Revenue	23,130	22,543	-2.5%	
Gross margin	11.9%	11.6%	-0.3p.p.	Due to the weaker-than-expected smartphone component market in 2H21
Net Profit	1,320	1,378	+4.4%	Due to the lower-than-expected tax rate and minority interest
Diluted adj. EPS (HK\$)	0.401	0.419	+4.9%	

Source: OP Research

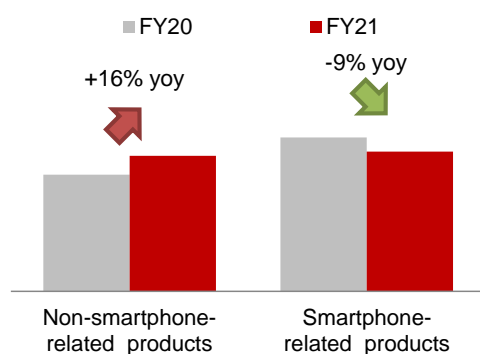
Exhibit 3: Earnings Revision

(HK\$ mn)	FY22E		% Chg	OP Comments
	New	Old		
Revenue	23,800	24,900	-4.4%	
Gross margin	12.1%	12.6%	-0.5p.p.	We worry the weak ASP of smartphone products (especially for camera module) will erode the overall GPM in FY22E
Net profit	1,499	1,574	-4.8%	
Diluted EPS (HK\$)	0.456	0.478	-4.6%	

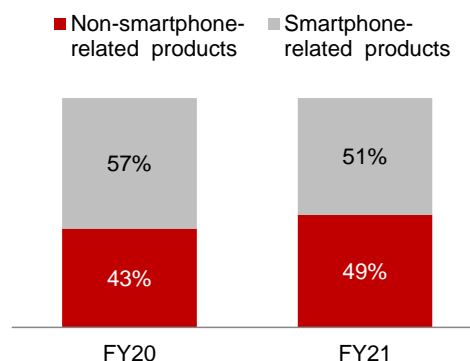
Source: Company, OP research

Exhibit 4: Non-smartphone products become the growth driver in FY21

Non-smartphone products grew 16% on the contrary to 9% decline for Non-smartphone products



We project non-smartphone products contributed 49.2% of total sales in FY21, up 6.1 p.p. yoy



Sources: Company, OP research

Exhibit 5: Peers Comparison

				3-mth													
Company	Ticker	Mkt cap	Price	avg t/o	PER	PER	PER	3-Yr EPS		Div yld	Div yld	P/B Hist	P/B FY1	ROE	ROE	Sh px	Sh px
		(US\$m)		(US\$m)	Hist (x)	FY1 (x)	FY2 (x)	Cagr (%)	PEG (x)	Hist (%)	FY1 (%)	(x)	(x)	Hist (%)	FY1 (%)	1-mth %	3-mth %
Truly Intl	732 HK	2.38	999	7.3	5.7	5.2	4.3	16.6	0.3	4.2	5.7	0.7	0.6	12.5	12.4	-3.3	-30.4
HSI		22,502.31			8.3	10.8	9.5	(0.7)	(14.6)	2.8	3.6	0.9	1.1	10.8	10.5	2.7	-3.4
HSCEI		7,770.98			7.5	8.9	7.9	1.8	4.9	2.8	3.5	0.8	1.1	10.9	11.9	1.1	-5.0
CSI300		4,276.16			15.5	12.7	10.9	(31.9)	(0.4)	1.9	2.4	2.0	1.8	13.1	13.9	-4.9	-13.0
Adjusted sector avg*					13.1	11.9	9.2	25.5	0.4	1.4	1.3	1.4	1.3	17.9	16.3	-7.0	-41.3
Byd Electronic	285 HK	17.42	5,009	24.0	13.7	10.0	7.2	33.1	0.3	1.7	0.9	1.3	1.2	10.0	12.3	-10.7	-38.6
China Display Op	334 HK	0.45	121	0.0	4.0	N/A	N/A	N/A	N/A	N/A	N/A	0.9	N/A	26.3	N/A	-6.2	-11.8
Cowell	1415 HK	8.07	859	3.7	17.2	11.6	8.6	40.1	0.3	N/A	1.3	2.8	2.1	17.8	20.3	-2.1	-40.1
Q Technology Gro	1478 HK	6.17	931	2.9	6.8	6.3	4.8	16.5	0.4	0.8	1.5	1.2	1.1	20.3	17.7	-10.8	-38.3
Aac Technologies	2018 HK	19.30	2,976	28.9	14.4	12.0	9.5	19.8	0.6	2.1	2.0	0.9	0.8	6.1	6.8	-5.2	-41.2
Sunny Optical	2382 HK	126.80	17,749	141.3	22.6	19.4	15.9	18.0	1.1	0.9	1.0	5.5	4.4	26.8	24.2	-19.4	-48.3

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	18,600	20,500
Consumer electronic	7,951	7,924	5,362	5,200	5,100
Turnover	22,532	22,172	22,543	23,800	25,600
YoY%	+14	-2	+2	+6	+8
COGS	-20,707	-20,123	-19,930	-20,931	-22,286
Gross profit	1,825	2,049	2,613	2,869	3,314
Gross margin	8.1%	9.2%	11.6%	12.1%	12.9%
Other income	79	143	98	113	113
Selling & distribution	-430	-424	-437	-462	-486
Admin	-319	-377	-486	-428	-461
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-749	-801	-923	-890	-947
Operating profit (EBIT)	1,156	1,391	1,788	2,092	2,480
Operating margin	5.1%	6.3%	7.9%	8.8%	9.7%
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	1,792	2,180
Associated companies & JVs	-24	0	102	10	15
Pre-tax profit	737	739	1,596	1,802	2,195
Tax	-129	-140	-165	-270	-329
Minority interests	-46	-96	-53	-33	-36
Net profit	562	502	1,378	1,499	1,830
YoY%	+658	-11	+174	+9	+22
Net margin	2.5%	2.3%	6.1%	6.3%	7.1%
EBITDA	2,289	2,481	3,340	3,517	3,995
EBITDA margin	10.2%	11.2%	14.8%	14.8%	15.6%
EPS (HK\$)	0.171	0.153	0.419	0.456	0.556
YoY%	+625	-11	+174	+9	+22
DPS (HK\$)	0.000	0.000	0.100	0.137	0.167

Year to Dec	FY19	FY20	FY21E	FY22E	FY22E
Cash Flow (HK\$ mn)					
EBITDA	2,289	2,481	3,340	3,517	3,995
Chg in working cap	63	93	98	12	496
Others	-37	89	-172	0	0
Operating cash	2,316	2,663	3,266	3,528	4,490
Tax	-111	-67	-140	-165	-270
Net cash from operations	2,205	2,595	3,126	3,363	4,220
Capex	-1,231	-960	-1,000	-1,000	-2,500
Investments	0	0	-50	-400	0
Dividends received	0	0	0	0	0
Interest received	56	42	42	47	47
Others	159	-308	-1,662	-500	0
Investing cash	-1,016	-1,225	-2,670	-1,853	-2,453
FCF	1,188	1,370	457	1,510	1,767
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Interests paid	-422	-380	-380	-341	-347
Dividends paid	0	0	-164	-329	-450
Net change in bank loans	-1,247	-463	204	0	0
Others	-99	-49	57	0	0
Financing cash	-1,768	-892	-283	-670	-797
Net change in cash	-579	479	173	840	970
Exchange rate or other Adj	-7	53	0	0	0
Opening cash	1,090	504	1,035	1,208	2,048
Closing cash	504	1,035	1,208	2,048	3,018
CFPS (HK\$)	0.670	0.789	0.950	1.022	1.283

Year to Dec	FY19	FY20	FY21	FY22E	FY22E
Ratios					
Gross margin (%)	8.1	9.2	11.6	12.1	12.9
Operating margin (%)	5.1	6.3	7.9	8.8	9.7
Net margin (%)	2.5	2.3	6.1	6.3	7.1
Selling & dist'n exp/Sales (%)	1.9	1.9	1.9	1.9	1.9
Admin exp/Sales (%)	1.4	1.7	2.2	1.8	1.8
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	62.3	55.8
Net debt/equity (%)	65.9	53.3	52.6	42.3	30.9
Current ratio (x)	0.7	0.8	0.7	0.7	0.8
Quick ratio (x)	0.5	0.5	0.4	0.5	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	0.8	0.8
Financial leverage (x)	2.9	2.6	2.5	2.5	2.4
EBIT margin (%)	5.1	6.3	7.9	8.8	9.7
Interest burden (x)	0.6	0.5	0.9	0.9	0.9
Tax burden (x)	0.8	0.7	0.9	0.8	0.8
Return on equity (%)	6.5	5.2	12.5	12.4	13.8

Year to Dec	FY19	FY20	FY21	FY22E	FY22E
Balance Sheet (HK\$ mn)					
Fixed assets	12,123	12,255	16,217	15,840	16,873
Right-of-use assets	521	860	1,064	1,064	1,064
Associated companies & JVs	1,180	1,249	614	624	639
Tax	75	57	57	57	57
Other non-current assets	79	969	701	701	701
Non-current assets	13,979	15,390	18,653	18,286	19,334
Inventories	3,975	3,444	4,231	4,444	4,731
AR	3,735	3,497	4,634	4,893	5,263
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	2,048	3,018
Current assets	11,007	11,147	11,080	12,400	14,028
AP	9,178	8,517	9,608	9,590	10,743
Tax	54	80	137	270	329
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	17,133	18,345
Bank loans & leases	687	1,164	812	812	812
CB & other debts	374	356	0	0	0
Tax & others	70	91	245	245	245
Non-current liabilities	1,131	1,612	1,056	1,056	1,056
Total net assets	9,008	10,475	11,660	12,497	13,960
Shareholder's equity	8,056	9,372	11,282	12,087	13,514
Share capital	66	66	66	66	66
Reserves	7,990	9,306	11,217	12,021	13,448
MI	952	1,104	377	410	446
BVPS (HK\$)	2.45	2.85	3.43	3.67	4.11

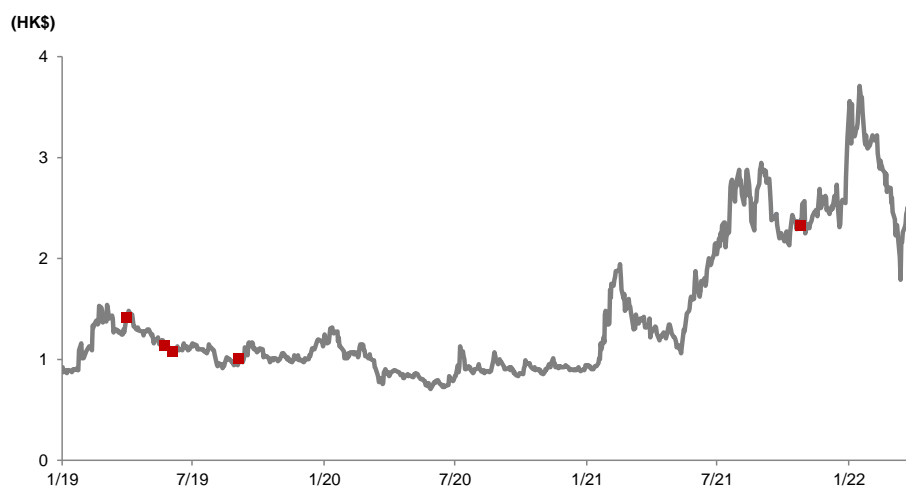
Sources: Company, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
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
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

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

(as of 04/04/2022)



	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

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Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
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Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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