



Rating
Hold

Company
O-Film Alert

Date
20 September 2017

Asia
China

Technology
Hardware & Equipment

Reuters 002456.SZ Bloomberg 002456.CH Exchange SHZ Ticker 002456

Company Update

Price at 19 Sep 2017 (CNY)	20.22
Price target - 12mth (CNY)	20.50
52-week range (CNY)	22.10 - 12.65
Shenzhen Index	2,095

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Highlighting 3D sensing as new growth driver

Positive growth outlook, but fairly priced

We held a field trip in Shenzhen and met O-Film for a business update. O-Film expects it can maintain high growth in 2H17 and 2018, driven by dual camera, Apple businesses, fingerprint sensor and 3D sensing module. 3D sensing draws most of attention from investors. O-Film expects to see small volume adoption from Android clients in 2018, and a bigger ramp in 2019. Trading at 26x PER (or 0.8x PEG), which is fairly priced, despite the high growth. Hold.

3D sensing module – targeting at both iPhone and Android

For iPhone, O-Film targets to be the 3rd supplier for 3D sensing module by 2018 (incumbent suppliers are LG Innotek and Sharp) by leveraging its optical alignment expertise and the long-term relationship of supplying front CCM for iPhone (via the acquisition of Sony's Guandong CCM factory). For Android, O-Film is currently working with three Chinese OEMs on front-facing 3D sensing projects for 2018 launches, based on Structured Light (SL) technology. O-Film's SL 3D sensing algorithm comes from its strategic partner, Mantis Vision (in order to bypass iPhone's patent portfolio). ASP of O-Film's total 3D sensing solution (a front cam + a 3D sensing TX module + a 3D sensing RX module) will be USD15-20. The adoption rate will be low in 2018, but O-Film is positive on the demand in 2019, with more Android OEMs to play catch-up game.

Compact camera module (CCM) – dual cam to lead the growth

O-Film generated RMB700-800mn sales (10% of CCM sales) from dual cam in 1H17 and expects this to grow to RMB3bn-4bn in 2H17 (or 30%+ of CCM sales). O-Film estimates the dual cam penetration on China smartphones will reach ~20% in 2017 and will surge to 40%+ in 2018. ASP of dual cam CCM is ~RMB100-120 (vs company average of ~RMB40), with GPM at 15%-20% (vs single cam's 10%-12%). For high-end dual cam (optical zoom type), O-Film made some initial breakthrough, by serving as the back-up supplier for Huawei P/Mate series and OPPO R series in 2H17. O-Film didn't expect to see severe price competition on dual cam in 2018, given the ongoing spec upgrades.

Touch panel (TP) and fingerprint module (FPM)

TP for Android phones has become a cash cow business to O-Film. The key breakthrough in TP is getting into iPad supply chain (as the 3rd supplier, following GIS and TPK) since late 1Q17. It supplies ITO film and TP assembly for 9.7" and 10.5" iPads. O-Film expects to gain more shares in coming years, given it is the only TP assembler with in-house ITO film capability. O-Film expects FPM to see mild revenue growth in 2017, with strong shipment growth (50%+) offset by sharp ASP decline (~30%). O-Film is banking on the technology migration (from capacitive-type to ultrasonic or optical-type FPM) to mitigate ASP erosion. O-Film could commence production of optical FPM for Vivo in late 2017 and ultrasonic FPMs for Huawei and Xiaomi in 2018. ASP of capacitive/ultrasonic/optical FPMs are RMB20-30/40-50/50+, respectively.

Stock data

Market cap (CNYm)	52,097
Market cap (USDm)	7,946
Shares outstanding (m)	2,715.7
Major shareholders	–
Free float (%)	0
Avg daily value traded (USDm)	120.1

Source: Deutsche Bank

Key data

FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	26,746	35,648	44,274
Net Profit (CNYm)	718.8	1,598.2	2,140.6
DB EPS (CNY)	0.28	0.59	0.79
PER (x)	44.2	34.4	25.7
Yield (net) (%)	0.2	0.3	0.5

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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