



Rating  
**Hold**

Asia  
China

Technology  
Hardware & Equipment

Company  
**O-Film**

Reuters 002456.SZ    Bloomberg 002456 CH    Exchange SHZ    Ticker 002456

Date  
31 January 2018

## Forecast Change

Price at 30 Jan 2018 (CNY)	17.58
Price target - 12mth (CNY)	17.50
52-week range (CNY)	25.90 - 13.10
Shenzhen Index	2,008

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## Bad debt provision coming through...

### Negative profit warnings, largely due to bad debt provision on Gionee's A/R

In our Jan 17 industry report (titled Gionee woes, likely more to come; we prefer iPhone to China supply chain), we highlighted Gionee's cash flow issue and how O Film could take the hardest hit among companies under our coverage. Our concern has come true. O-Film just issued a negative profit alert, cutting 2017 net profit guidance by 22%-26%. For 2018, O-Film highlights that they will gain market shares in China's dual cam market and more new projects from Apple (touch sensor and Face ID's RX module). We remain concerned that there could be more bad debt provision in 2018, as O-Film has relatively higher exposure to China's tier-two brands; maintaining Hold.

### More details about profit alert and the bad debt provision

O-Film is reducing its 2017 net profit guidance from "RMB129m to RMB158m" to "RMB100m to RMB115m", and attributes the miss to a non-cash bad debt provision of RMB300m. O-Film highlights that the total outstanding A/R from Gionee is about RMB600m. Gionee is still in operation, despite facing cash flow issues. As a result, O-Film believes that a RMB300m provision should be enough to cover the risk. Aside from the bad debt, we believe O-Film's 4Q17 results were also negatively impacted by order cuts from Oppo and Vivo.

### Other business updates

Other key highlights in the analyst call included: 1) for Apple business, O-Film expects to become the back-up supplier for iPhone's ITO touch sensor and RX module in iPhone's Face ID system in 2H18; 2) for dual cam, O-Film expects grow its shipments from sub-50m in 2017 to 100m+ in 2018, driven by market share gain in China's tier-one OEMs – particularly, O-Film expects to become the largest dual-cam supplier for Huawei's high-end phones (P/Mate series) and 3) ASP of dual cams could rise from RMB100-RMB110 in 2017 to RMB120 in 2018, due to better product mix (with gross margin of ~18%).

### Valuation and investment risks

We cut 2017/18/19 EPS ests by 27%/24%/11% (to reflect bad debt provision and Oppo/Vivo weakness) and reduce our TP from RMB23 to RMB17.5, still based on 26x 2018E EPS or 0.8x PEG (2017-20E EPS CAGR of 33%). 0.8x PEG is in line with regional tech peer avg. Upside risks include: 1) faster than expected takeoff of fingerprint sensor business; 2) stronger than expected smartphone camera upgrade trend. Downside risks include: 1) fiercer than expected price competition in touch panel sector; 2) more significant margin erosion in handset camera sector stemming from smartphone consolidation trend.

### Forecasts And Ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	18,456	26,746	34,537	41,346	47,159
DB EPS FD(CNY)	0.19	0.28	0.41	0.67	0.88
OLD DB EPS FD(CNY)	0.19	0.28	0.56	0.88	0.98
% Change	0.0%	0.0%	-27.0%	-23.5%	-10.7%
PER (x)	59.6	44.2	43.0	26.1	20.0

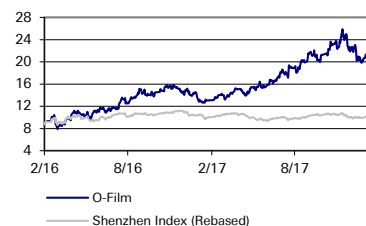
Source: Deutsche Bank estimates, company data

### Key changes

TP	23.00 to 17.50	↓	-23.9%
Op prof margin (FYE)	5.8 to 5.5	↓	-6.0%
Net profit (FYE)	1,522.4 to 1,111.1	↓	-27.0%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-14.6	-26.2	34.4
Shenzhen Index	1.1	-3.5	0.1

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Model updated: 30 January 2018

Running the numbers

Asia  
 China  
 Hardware & Equipment

O-Film

Reuters: 002456.SZ Bloomberg: 002456.CH

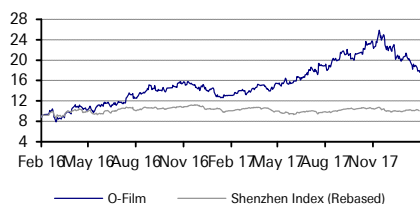
Hold

Price (30 Jan 18) CNY 17.58  
 Target Price CNY 17.50  
 52 Week range CNY 13.10 - 25.90  
 Market Cap (m) CNYm 45,295  
 USDm 7,161

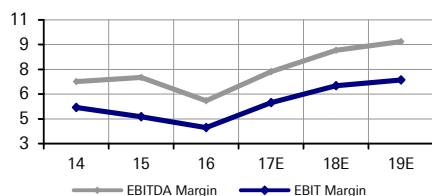
Company Profile

Established in 2001 and listed on Shenzhen stock exchange in 2010, O-Film ranks as the largest touch panel manufacturer in China with 15-20% global market share. The company also offers a wide range of handset component including handset camera module, fingerprint sensor, etc.

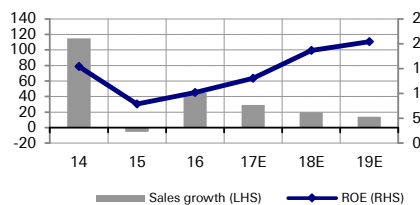
Price Performance



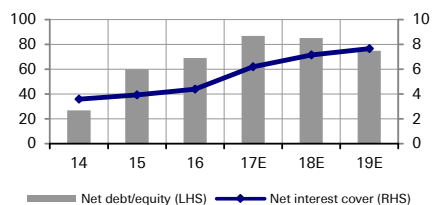
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.30	0.19	0.28	0.41	0.67	0.88
Reported EPS (CNY)	0.30	0.19	0.28	0.41	0.67	0.88
DPS (CNY)	0.02	0.01	0.02	0.05	0.08	0.11
BVPS (CNY)	2.5	2.3	3.1	3.3	3.9	4.7
Weighted average shares (m)	2,406	2,572	2,602	2,716	2,716	2,716
Average market cap (CNYm)	21,525	28,494	31,802	45,295	45,295	45,295
Enterprise value (CNYm)	23,154	32,114	37,020	52,801	54,009	54,484

Valuation Metrics

P/E (DB) (x)	29.8	59.6	44.2	43.0	26.1	20.0
P/E (Reported) (x)	29.8	59.6	44.2	43.0	26.1	20.0
P/BV (x)	2.99	5.27	4.43	5.29	4.49	3.75
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	0.2	0.1	0.2	0.3	0.5	0.6
EV/Sales (x)	1.2	1.7	1.4	1.5	1.3	1.2
EV/EBITDA (x)	17.5	24.8	24.7	20.8	15.1	12.6
EV/EBIT (x)	22.8	37.5	34.8	27.8	20.1	16.8

Income Statement (CNYm)

Sales revenue	19,514	18,456	26,746	34,537	41,346	47,159
Gross profit	2,666	2,767	3,502	4,959	6,311	7,347
EBITDA	1,319	1,293	1,496	2,541	3,582	4,329
Depreciation	273	363	432	645	892	1,090
Amortisation	32	75	0	0	0	0
EBIT	1,015	855	1,065	1,896	2,690	3,239
Net interest income/(expense)	-284	-218	-242	-307	-376	-423
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	91	-108	-1	-300	-200	-50
Profit before tax	823	530	822	1,290	2,114	2,767
Income tax expense	101	51	105	181	285	387
Minorities	0	0	-2	-2	-2	-2
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	722	478	719	1,111	1,830	2,381
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	722	478	719	1,111	1,830	2,381

Cash Flow (CNYm)

Cash flow from operations	-78	-393	186	1,310	1,584	2,511
Net Capex	-1,062	-1,168	-2,817	-3,135	-2,508	-2,633
Free cash flow	-1,140	-1,560	-2,631	-1,825	-924	-123
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-103	-72	-119	-133	-220	-286
Net inc/(dec) in borrowings	791	930	1,647	1,734	1,300	997
Other investing/financing cash flows	1,937	-359	830	-329	-64	-67
Net cash flow	1,484	-1,062	-274	-554	93	522
Change in working capital	-1,104	-1,309	-965	-447	-1,139	-961

Balance Sheet (CNYm)

Cash and other liquid assets	2,730	1,669	1,395	841	934	1,456
Tangible fixed assets	3,917	4,492	6,764	9,254	10,869	12,413
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	0	322	322	322	322
Other assets	7,773	9,907	14,954	17,731	20,911	23,658
Total assets	14,420	16,068	23,434	28,147	33,036	37,848
Interest bearing debt	4,359	5,289	6,935	8,669	9,969	10,966
Other liabilities	3,987	4,739	8,458	10,460	12,438	14,158
Total liabilities	8,346	10,028	15,394	19,129	22,407	25,124
Shareholders' equity	6,074	6,040	8,041	9,018	10,629	12,724
Minorities	0	0	0	0	0	0
Total shareholders' equity	6,074	6,040	8,041	9,018	10,629	12,724
Net debt	1,629	3,620	5,540	7,828	9,035	9,510

Key Company Metrics

Sales growth (%)	114.8	-5.4	44.9	29.1	19.7	14.1
DB EPS growth (%)	20.3	-38.0	48.5	48.1	64.7	30.1
EBITDA Margin (%)	6.8	7.0	5.6	7.4	8.7	9.2
EBIT Margin (%)	5.2	4.6	4.0	5.5	6.5	6.9
Payout ratio (%)	5.7	6.0	6.6	12.0	12.0	12.0
ROE (%)	15.5	7.9	10.2	13.0	18.6	20.4
Capex/sales (%)	5.4	6.3	10.5	9.1	6.1	5.6
Capex/depreciation (x)	3.5	2.7	6.5	4.9	2.8	2.4
Net debt/equity (%)	26.8	59.9	68.9	86.8	85.0	74.7
Net interest cover (x)	3.6	3.9	4.4	6.2	7.2	7.7

Source: Company data, Deutsche Bank estimates

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# Earnings comparison

Maintaining Hold rating, with 12-month target price at RMB17.5

Figure 1: Earnings forecast revisions

P/L Revision (RMBm)	2016	2017E		2018E		2019E		% of change		
	(Actual)	Old	New	Old	New	Old	New	2017E	2018E	2019E
Net sales	26,746	34,537	34,537	43,042	41,346	50,170	47,159	0.0	-3.9	-6.0
Gross profit	3,070	4,434	4,314	5,763	5,419	6,491	6,257	-2.7	-6.0	-3.6
Operating expense	2,005	2,418	2,418	2,841	2,729	3,211	3,018	0.0	-3.9	-6.0
Operating profit	1,065	2,017	1,896	2,922	2,690	3,280	3,239	-6.0	-8.0	-1.3
Non-op gain/loss	-243	(249)	(607)	(157)	(576)	(181)	-473	nm	nm	nm
Pre-tax profit	822	1,768	1,290	2,765	2,114	3,099	2,767	-27.1	-23.6	-10.7
Net profit	719	1,522	1,111	2,394	1,830	2,667	2,381	-27.0	-23.5	-10.7
EPS (RMB)	0.6	0.56	0.41	0.88	0.67	0.98	0.88	-27.0	-23.5	-10.7
Key ratio (%)										
Sales growth	44.9	29.1	29.1	24.6	19.7	16.6	14.1			
Gross margin	11.5	12.8	12.5	13.4	13.1	12.9	13.3			
Operating Margin	4.0	5.8	5.5	6.8	6.5	6.5	6.9			
Net margin	2.7	4.4	3.2	5.6	4.4	5.3	5.0			

Source: Deutsche Bank estimates, company data



Figure 2: Quarterly P&L highlights

(RMBm)	1Q17	2Q17	3Q17	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Sales	6,193	8,928	9,336	10,080	34,537	8,663	9,543	10,887	12,252	41,346
Gross profit	742	1,086	1,252	1,234	4,314	1,101	1,228	1,451	1,638	5,419
Operating profit	245	549	641	461	1,896	487	587	742	874	2,690
Non-operating item	-23	-26	-158	-399	-607	-144	-144	-144	-144	-576
Pre-tax income	223	523	482	62	1,290	343	443	598	730	2,114
Net profit	191	430	402	89	1,111	302	354	526	648	1,830
EPS (RMB)	0.07	0.16	0.15	0.03	0.41	0.11	0.13	0.19	0.24	0.67
<b>Margin Analysis (%)</b>										
Gross margin	12.0	12.2	13.4	12.2	12.5	12.7	12.9	13.3	13.4	13.1
Operating margin	4.0	6.1	6.9	4.6	5.5	5.6	6.1	6.8	7.1	6.5
Pre-tax margin	3.6	5.9	5.2	0.6	3.7	4.0	4.6	5.5	6.0	5.1
Tax rate	14.4	17.8	16.7	-42.9	13.9	12.0	20.0	12.0	11.2	13.4
<b>YoY growth (%)</b>										
Sales	47.1	31.4	16.9	30.1	29.1	39.9	6.9	16.6	21.6	19.7
Gross profit	49.5	34.7	59.9	25.3	40.5	48.4	13.1	15.9	32.8	25.6
Operating profit	69.3	54.2	99.4	146.1	78.1	98.5	6.9	15.8	89.5	41.9
Pre-tax profit	52.2	77.6	84.1	-47.8	56.9	54.1	-15.3	24.0	1,070.2	63.9
Net profit	52.8	76.8	101.7	-41.4	54.6	58.4	-17.5	30.9	627.1	64.7
<b>QoQ growth (%)</b>										
Sales	-20.1	44.2	4.6	8.0		-14.1	10.2	14.1	12.5	
Gross profit	-24.6	46.4	15.2	-1.5		-10.8	11.6	18.2	12.9	
Operating profit	30.9	123.8	16.7	-28.0		5.5	20.5	26.4	17.9	
Pre-tax profit	86.0	134.8	-7.7	-87.1		449.5	29.1	35.0	22.2	
Net profit	25.3	125.4	-6.4	-77.8		238.4	17.4	48.5	23.3	
<b>Sales breakdown</b>										
Touch panel	37.5%	33.3%	31.1%	29.9%	32.5%	28.2%	28.8%	27.6%	27.4%	28.0%
Handset CCM	40.0%	46.6%	52.7%	52.6%	48.8%	54.6%	56.5%	57.9%	58.3%	57.0%
Fingerprint sensor	20.9%	18.6%	15.0%	14.3%	16.8%	13.5%	11.1%	11.0%	10.8%	11.5%
Others	1.6%	1.6%	1.2%	3.2%	1.9%	3.6%	3.6%	3.5%	3.4%	3.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Deutsche Bank estimates, company data



# Appendix 1

## Important Disclosures

\*Other information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
O-Film	002456.SZ	17.58 (CNY) 30 Jan 18	NA

Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>. Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

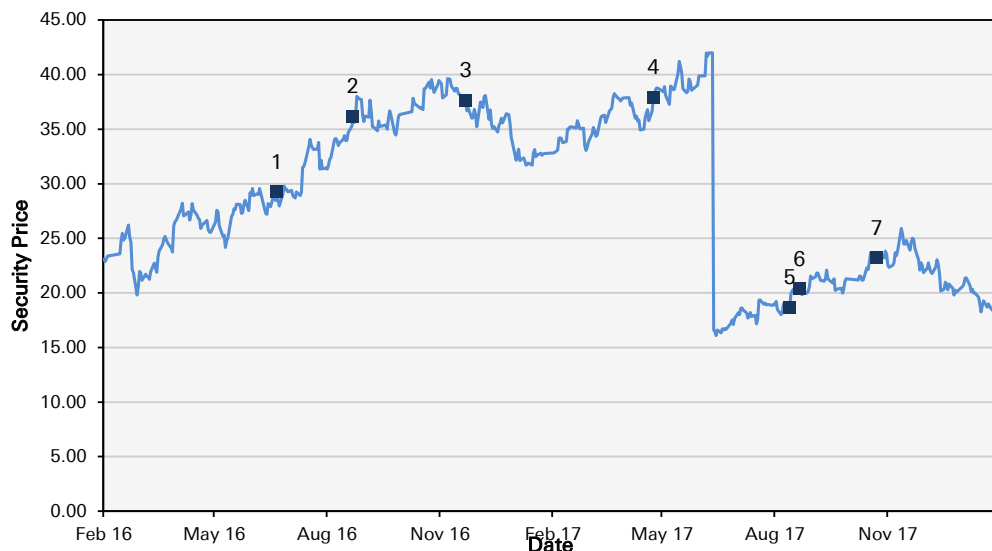
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=002456.SZ>

## Analyst Certification

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### Historical recommendations and target price: O-Film (002456.SZ)

(as of 1/30/2018)



#### Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

#### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9,2002

\*\*Analyst is no longer at Deutsche Bank

1.	22/06/2016:	Hold, Target Price Change CNY28.00	Birdy Lu	5.	14/08/2017:	Hold, Target Price Change CNY14.40	Janice Cheng
2.	23/08/2016:	Hold, Target Price Change CNY31.80	Birdy Lu	6.	22/08/2017:	Hold, Target Price Change CNY20.50	Birdy Lu
3.	23/11/2016:	Hold, Target Price Change CNY33.00	Birdy Lu	7.	24/10/2017:	Hold, Target Price Change CNY23.00	Birdy Lu
4.	25/04/2017:	Hold, Target Price Change CNY36.00	Birdy Lu				



### Equity rating key

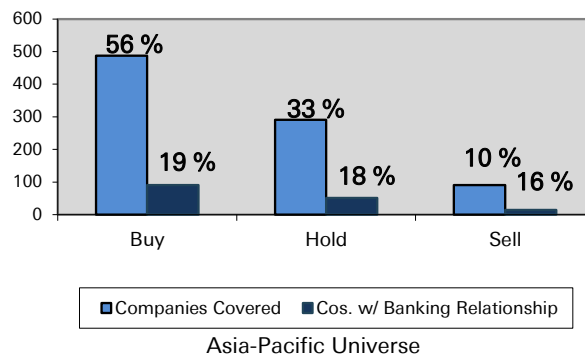
**Buy:** Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

### Equity rating dispersion and banking relationships





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Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed-rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or liquidation of positions), and settlement issues related to local clearing houses are also important risk factors. The sensitivity of fixed-income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. The index fixings may – by construction – lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. Funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Options on swaps (swaptions) the risks typical to options in addition to the risks related to rates movements.

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