

# BOE Varitronix (710 HK)

## Positive on shipment recovery and capacity expansion in 2H23E

Despite 1H23 results miss ([link](#)), mgmt. guided 1) in-line double-digit growth for FY23E revenue, 2) shipment recovery and stabilised ASP, 3) UTR and cost control measures to drive margin recovery in 2H. In addition, mgmt. expects continued overseas expansion and OLED/Mini/LTOP products to drive growth into FY25E. We lowered our FY23-25E EPS by 8-14% mainly to reflect 1H23 auto OEM price war and rising costs from capacity ramp-up. Trading at 8.8x/7.1x FY23/24E, we think the stock is attractive. Reiterate BUY with our new TP of HK\$21.53.

- Shipment recovery with stabilised ASP; rising UTR and cost control to drive margin recovery in 2H23E.** During earnings call, mgmt. guided double-digit growth for FY23E revenue, which is in-line with prior guidance at beginning of 2023. Mgmt. also expects shipment recovery ahead of ASP stabilisation in 2H backed by close partnership with customers, order ramp-up, strong customer demand for system products and overseas customers new order wins. In addition, Chengdu plant UTR improvement and cost control measures will likely drive margin recovery in 2H23E.
- 2025 roadmap remains unchanged: overseas expansion and solid product pipeline (OLED/Mini/LTOP) to drive growth.** Mgmt. maintained guidance of HK\$20bn revenue target in 2025 (23% CAGR in FY22-25E) and overseas sales mix to reach 50% in 2025. Mgmt. believes system sales to contribute significantly to FY25E sales driven by accelerated overseas expansion. In addition, mgmt. reiterated that rising penetration of OLED/Mini/LTOP products into Chinese and overseas customers will become another major growth driver in the future.
- Other key highlights.** 1) Total/medium-to-large size shipment/shipment area global no.1 market share in 1Q23; 2) Chinese automobile product coverage rate reached 50% in 1H23 (vs. 30% in 1H22); 3) Chinese mainstream new energy vehicle product coverage rate reached 60% in 1H23 (vs. 41% in 1H22); 4) Chengdu plant capacity to reach 15mn+ pieces within this year.
- Reiterate BUY with new TP of HK\$21.53.** We believe 1H23 margin pressure has been partially priced in, and order wins and Chengdu plant ramp-up will boost margin recovery in 2H23E. In long term, we think BOEVx will benefit from auto display upgrade and overseas expansion given auto intelligence and smart cockpit trend. We lowered our FY23-25E EPS by 8-14% to reflect auto OEM price war and rising costs from capacity ramp-up. Reiterate BUY and our new TP of HK\$21.5 is based on rolled-over 20x FY24E PE.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	7,738	10,722	12,287	14,981	17,898
YoY growth (%)	70.9	38.6	14.6	21.9	19.5
EBITDA (HK\$ mn)	513	841	954	1,184	1,381
Net profit (HK\$ mn)	327.8	582.5	647.3	799.7	973.0
YoY growth (%)	377.6	77.7	11.1	23.6	21.7
EPS (Reported) (HK\$)	0.45	0.78	0.87	1.08	1.31
Consensus EPS (HK\$)	0.45	0.78	0.91	1.25	1.65
P/E (x)	14.2	15.7	8.8	7.1	5.9
P/B (x)	0.8	1.1	0.7	0.5	0.5
Yield (%)	236.7	198.6	233.9	420.6	511.7
ROE (%)	10.7	15.6	15.2	17.1	18.4
Net gearing (%)	(34.3)	1.3	(6.1)	14.9	3.5

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$21.53</b>
(Previous TP)	HK\$23.69
<b>Up/Downside</b>	<b>180.4%</b>
<b>Current Price</b>	<b>HK\$7.68</b>

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### Stock Data

Mkt Cap (HK\$ mn)	6,082.6
Avg 3 mths t/o (HK\$ mn)	21.4
52w High/Low (HK\$)	20.00/7.68
Total Issued Shares (mn)	792.0

Source: FactSet

### Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%

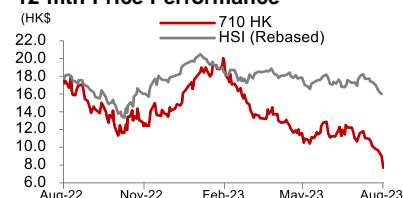
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-30.6%	-25.8%
3-mth	-34.0%	-28.2%
6-mth	-58.9%	-53.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports:

1) Strong FY22 results; Multiple drivers from Chengdu expansion, CMS and US market – 22 Mar 2023 ([link](#))

2) NDR Takeaways: Chengdu auto display capacity ramp-up on track; auto intelligence to drive growth – 13 Jan 2023 ([link](#))

3) Corp Day Takeaways: Chengdu auto display plant to drive growth in FY23E – 2 Dec 2022 ([link](#))

4) Global auto display leader riding on smart cockpit trend; Initiate BUY – 30 Aug 2022 ([link](#))

## 1H23 Results Review

Figure 1: 1H23 results

HKD mn	2H21	1H22	2H22	Actual		HoH	YoY	CMBI		Consensus	
				1H23				1H23E	Diff %	1H23E	Diff %
Revenue	4,538	4,831	5,892	5,210		-11.6%	7.9%	5,896	-12%	5,979	-13%
Operating Profit	255	275	395	241		-39.1%	-12.4%	360	-33%	360	-33%
Net profit	233	251	332	202		-39.1%	-19.5%	315	-36%	300	-33%
EPS (HKD cent)	32.00	34.50	44.64	25.80		-42.2%	-25.2%	42.4	-39%	38.0	-32%
Operating Margin	5.6%	5.7%	6.7%	4.6%		-2.1 ppt	-1.1 ppt	6.1%	-1.5 ppt	6.0%	-1.4 ppt
Net Margin	5.1%	5.2%	5.6%	3.9%		-1.8 ppt	-1.3 ppt	5.3%	-1.5 ppt	5.0%	-1.1 ppt

Source: Company data, CMBIGM estimates

## Earnings Revision

Figure 2: Earnings revision

(RMB mn)	New			Old			Change (%)		
	FY23E	2024E	2025E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	12,287	14,981	17,898	13,078	15,977	19,117	-6.0%	-6.2%	-6.4%
Operating profit	757	929	1,130	805	1,038	1,300	-5.9%	-10.6%	-13.1%
Net profit	647	800	973	704	905	1,130	-8.1%	-11.6%	-13.9%
EPS (RMB)	87	108	131	94.77	121.82	152.09	-8.1%	-11.6%	-13.9%
Operating margin	6.2%	6.2%	6.3%	6.2%	6.5%	6.8%	0 ppt	-0.3 ppt	-0.5 ppt
Net Margin	5.3%	5.3%	5.4%	5.4%	5.7%	5.9%	-0.1 ppt	-0.3 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBI estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY23E	2024E	2025E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	12,287	14,981	17,898	13,452	16,606	20,187	-8.7%	-9.8%	-11.3%
Operating profit	757	929	1,130	780	1,100	1,436	-2.9%	-15.6%	-21.3%
Net profit	647	800	973	715	968	1,243	-9.5%	-17.4%	-21.7%
EPS (RMB)	87.14	107.67	131.00	91.11	125.30	165.00	-4.4%	-14.1%	-20.6%
Operating margin	6.2%	6.2%	6.3%	5.8%	6.6%	7.1%	0.4 ppt	-0.4 ppt	-0.8 ppt
Net Margin	5.3%	5.3%	5.4%	5.3%	5.8%	6.2%	0 ppt	-0.5 ppt	-0.7 ppt

Source: Company data, CMBIGM estimates

**Figure 4: P&L forecast**

HK\$ mn	2021	1H22	2H22	2022	1H23	2H23E	2023E	2024E
<b>Revenue</b>	<b>7,738</b>	<b>4,831</b>	<b>5,892</b>	<b>10,722</b>	<b>5,210</b>	<b>7,077</b>	<b>12,287</b>	<b>14,981</b>
YoY	70.9%	51.0%	29.8%	38.6%	7.9%	20.1%	14.6%	21.9%
<b>Automotive display</b>	<b>6,509</b>	<b>4,335</b>	<b>5,242</b>	<b>9,577</b>	<b>4,646</b>	<b>6,395</b>	<b>11,041</b>	<b>13,674</b>
YoY	88.7%	68.2%	33.4%	47.1%	7.2%	22.0%	15.3%	23.8%
<b>Industrial display</b>	<b>1,228</b>	<b>496</b>	<b>649</b>	<b>1,145</b>	<b>564</b>	<b>681</b>	<b>1,245</b>	<b>1,308</b>
YoY	14.0%	-20.3%	7.1%	-6.8%	13.7%	5.0%	8.8%	5.0%
<b>Operating profit</b>	<b>350</b>	<b>275</b>	<b>395</b>	<b>670</b>	<b>241</b>	<b>517</b>	<b>757</b>	<b>929</b>
OPM (%)	4.5%	5.7%	6.7%	6.3%	4.6%	7.3%	6.2%	6.2%
...YoY	397.0%	187.8%	55.4%	91.5%	-12.4%	30.6%	13.0%	22.6%
<b>Net profit</b>	<b>328</b>	<b>251</b>	<b>332</b>	<b>582</b>	<b>203</b>	<b>445</b>	<b>647</b>	<b>800</b>
NPM (%)	4.2%	5.2%	5.6%	5.4%	3.9%	6.3%	5.3%	5.3%
...YoY	377.6%	163.8%	42.5%	77.7%	-19.3%	34.1%	11.1%	23.6%

Source: Company data, CMBIGM estimates

## Valuation

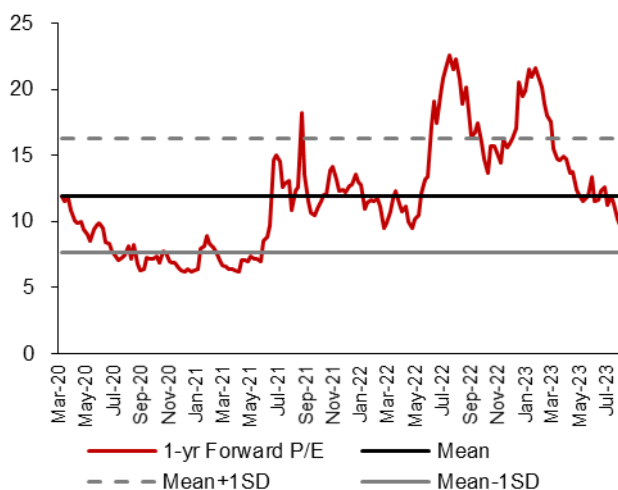
We are positive on BOEVx's order wins, Chengdu capacity expansion, overseas expansion and auto display leadership under smart cockpit trend. Trading at 8.8x/7.1x FY23/24E, the stock is attractive in our view. Reiterate BUY and our new TP of HK\$21.53 is based on rolled-over 20x FY24E PE.

Figure 5: Peers' valuation

Company	Ticker	Rating	Mkt Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	
BOE Varitronix	710 HK	BUY	775	7.68	21.5	180%	8.8	7.1	0.7	0.5	15.2	17.1	
LDG	LPL US	NR	3,550	4.96	NA	NA	-	-	-	-	(33.4)	-	
AUO	2409 TT	NR	4,292	17.80	NA	NA	-	-	0.9	0.9	(11.8)	0.7	
Tianma	000050 CH	NR	2,803	8.30	NA	NA	-	-	0.7	0.7	-	-	
Wuhu Token	300088 CH	NR	1,949	5.78	NA	NA	19.3	19.3	1.6	1.5	8.4	9.2	
Infovision	688055 CH	NR	1,781	3.89	NA	NA	-	-	-	-	-	-	
Truly	732 HK	NR	339	0.84	NA	NA	-	-	-	-	-	-	
<b>Average</b>								<b>14.0</b>	<b>13.2</b>	<b>1.0</b>	<b>0.9</b>	<b>(5.4)</b>	<b>9.0</b>

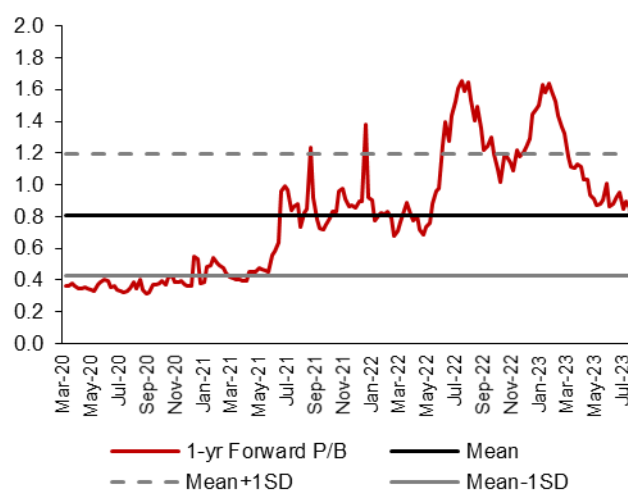
Source: Bloomberg, CMBIGM estimates

Figure 6: 12M forward P/E band



Source: Company data, CMBIGM estimates

Figure 7: 12M forward P/B band



Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Revenue	4,527	7,738	10,722	12,287	14,981	17,898
Operating expenses	4,456	7,388	10,052	11,529	14,053	16,767
Operating profit	70	350	670	757	929	1,130
EBITDA	216	513	841	954	1,184	1,381
Other income/expense	(2)	(0)	(0)	(4)	0	0
Others	(1)	(1)	(12)	(16)	0	0
Pre-tax profit	68	349	658	737	929	1,130
Income tax	(1)	(39)	(98)	(91)	(130)	(158)
After tax profit	69	328	582	647	800	973
Net profit	69	328	582	647	800	973
Adjusted net profit	69	328	582	647	800	973

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
<b>Current assets</b>	<b>3,307</b>	<b>4,853</b>	<b>6,611</b>	<b>6,365</b>	<b>7,623</b>	<b>7,402</b>
Cash & equivalents	1,628	2,267	2,819	3,166	2,310	2,541
Account receivables	1,158	1,744	2,158	2,479	3,175	3,579
Inventories	503	833	1,568	654	2,072	1,216
Other current assets	18	9	66	66	66	66
<b>Non-current assets</b>	<b>523</b>	<b>690</b>	<b>1,673</b>	<b>2,161</b>	<b>3,030</b>	<b>4,067</b>
PP&E	467	583	1,490	1,979	2,848	3,885
Other non-current assets	56	107	182	182	182	182
<b>Total assets</b>	<b>3,830</b>	<b>5,543</b>	<b>8,283</b>	<b>8,526</b>	<b>10,653</b>	<b>11,469</b>
<b>Current liabilities</b>	<b>1,037</b>	<b>2,168</b>	<b>4,103</b>	<b>4,064</b>	<b>5,632</b>	<b>5,768</b>
Account payables	1,023	2,136	3,390	3,351	4,919	5,054
Tax payable	0	17	65	65	65	65
Other current liabilities	14	15	648	648	648	648
<b>Non-current liabilities</b>	<b>25</b>	<b>29</b>	<b>64</b>	<b>64</b>	<b>64</b>	<b>64</b>
Other non-current liabilities	25	29	33	33	33	33
<b>Total liabilities</b>	<b>1,063</b>	<b>2,198</b>	<b>4,167</b>	<b>4,129</b>	<b>5,696</b>	<b>5,832</b>
Share capital	184	184	198	198	198	198
Other reserves	2,526	2,848	3,867	4,150	4,709	5,391
<b>Total shareholders equity</b>	<b>2,767</b>	<b>3,346</b>	<b>4,116</b>	<b>4,398</b>	<b>4,957</b>	<b>5,637</b>
<b>Total equity and liabilities</b>	<b>3,830</b>	<b>5,543</b>	<b>8,283</b>	<b>8,526</b>	<b>10,653</b>	<b>11,469</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	68	349	658	737	929	1,130
Depreciation & amortization	147	160	(193)	(228)	(270)	(321)
Change in working capital	104	217	105	554	(546)	587
Others	(1)	(10)	(98)	(91)	(130)	(158)
<b>Net cash from operations</b>	<b>253</b>	<b>665</b>	<b>471</b>	<b>973</b>	<b>(17)</b>	<b>1,239</b>
<b>Investing</b>						
Capital expenditure	(56)	(247)	(483)	(491)	(599)	(716)
Others	28	(8)	0	0	0	0
<b>Net cash from investing</b>	<b>(28)</b>	<b>(254)</b>	<b>(483)</b>	<b>(491)</b>	<b>(599)</b>	<b>(716)</b>
<b>Financing</b>						
Dividend paid	(191)	(36)	(182)	(133)	(240)	(292)
Others	18	246	0	0	0	0
<b>Net cash from financing</b>	<b>(174)</b>	<b>210</b>	<b>(182)</b>	<b>(133)</b>	<b>(240)</b>	<b>(292)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,538	1,628	2,267	2,819	3,166	2,310
Exchange difference	38	19	745	0	0	0
<b>Cash at the end of the year</b>	<b>1,628</b>	<b>2,267</b>	<b>2,819</b>	<b>3,166</b>	<b>2,310</b>	<b>2,541</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	26.7%	70.9%	38.6%	14.6%	21.9%	19.5%
Operating profit	139.3%	397.0%	91.5%	13.0%	22.6%	21.7%
EBITDA	30.1%	137.5%	63.9%	13.4%	24.1%	16.7%
Net profit	174.3%	377.6%	77.7%	11.1%	23.6%	21.7%
Adj. net profit	174.3%	377.6%	77.7%	11.1%	23.6%	21.7%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Operating margin	1.6%	4.5%	6.3%	6.2%	6.2%	6.3%
EBITDA margin	4.8%	6.6%	7.8%	7.8%	7.9%	7.7%
Adj. net profit margin	1.5%	4.2%	5.4%	5.3%	5.3%	5.4%
Return on equity (ROE)	2.5%	10.7%	15.6%	15.2%	17.1%	18.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.6)	(0.3)	0.0	(0.1)	0.1	0.0
Current ratio (x)	3.2	2.2	1.6	1.6	1.4	1.3
Receivable turnover days	82.3	68.5	66.4	68.9	68.9	68.9
Inventory turnover days	51.7	38.9	50.0	40.1	40.1	40.1
Payable turnover days	88.4	91.9	115.1	121.7	121.7	121.7
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	24.9	14.2	15.7	8.8	7.1	5.9
P/B	0.4	0.8	1.1	0.7	0.5	0.5
Div yield (%)	215.8	236.7	198.6	233.9	420.6	511.7
EV	2,767.2	3,345.6	4,115.8	4,397.6	4,956.5	5,636.7
EV/Sales	0.6	0.4	0.4	0.4	0.3	0.3
EV/EBITDA	12.8	6.5	4.9	4.6	4.2	4.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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