

26 Apr, 2024

CDOT | 00334.HK

Reversing from a loss in 2023 1H, but investors may demand more

STOCK RATING

NR

TARGET PRICE

HK\$ -

Sales recovery caused by the rebounding demand from smartphone customers: CDOT (00334.HK) realized positive YoY growth in the delivery of TFT LCD modules and processing TFT LCD modules in both 2023 Q3 and 2023 Q4, the recovering demand for smartphone TFT LCD modules was the primary contributor. The order visibility and the order book of the major customer remained steady in 2024 Q1, providing the Group with a decent quarter in 2024 Q1 due to the low base last year.

Delivery of display modules for tablets and smart home devices resulted in an increase in ASP: A change in product mix drove the increment in ASP due to the mass production of T9 Factory of CSOT, it is because the mass production of T9 Factory provides access for CDOT (00334.HK) to customized sizes of panels which were not available to the Group. Leveraging on the support from CSOT, CDOT (00334.HK) can source the panel supply according to the specific requirements of customers. It is especially meaningful to CDOT (00334.HK) because it makes an expansion of the tablet market more feasible. Besides, CDOT (00334.HK) acquired Kedate Zhixian in 2022, assisting the Group to sell medium-sized display modules together with the software to the consumer electronics manufacturers.

Reversing from a loss in 2023 1H, but investors may demand more: The gross margin of CDOT (00334.HK) in 2023 2H dropped to 6.5%, resulting in a 1.4p.p. decline in the gross margin for FY 2023. The retreat in gross margin was primarily caused by a change in product mix. The gross margin may remain at a lower level due to the higher revenue generated from the tablets and smart home devices segments. Moreover, CDOT (00334.HK) realized RMB 13.1mn net profit and RMB 19.0mn operating profit in FY 2023, reversing from a loss in 2023 1H. The amelioration was especially significant in 2023 2H due to the cost control policies, containing operating expenses like staff expenses. And thanks to the discontinuation of financial instruments, there will not be a huge loss incurred in related instruments.

We did see an amelioration in the operation of CDOT (00334.HK) in 2023 2H, but we believe that investors need more evidence to be optimistic. Low gross margin remains our primary concern about the Group, slashing the ability to withstand small market fluctuations. Besides, the market of TFT LCD modules is matured, horizontal expansion strategy helps improve the profitability to a certain extent, but a driver providing a long-term story is essential for investors.

COMPANY NOTE

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CDOT (00334.HK)

Stock Rating **NR**
Target Price **HK\$ -**

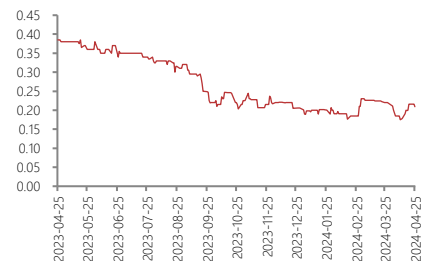
 Current Price **HK\$ 0.209**

 52-Week Range **HK\$ 0.166 – 0.385**

 Market cap. (HKD, bn) **HK\$ 0.4**

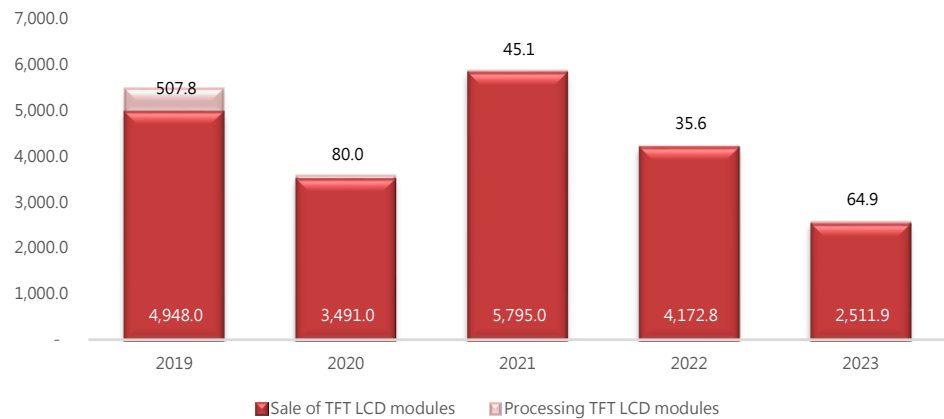
RMB, mn	2020	2021	2022	2023
	(A)	(A)	(A)	(A)
Revenue	3,571.2	5,840.1	4,208.4	2,576.8
Gross Profit	279.0	494.6	343.7	174.1
Gross Margin	7.8%	8.5%	8.2%	6.8%
Net Profit	6.3	199.7	169.0	13.1
ROE	0.8%	25.2%	18.5%	1.3%

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-5.0%	4.0%	-5.0%	-45.7%
Relative to HSI	-9.9%	-2.6%	-6.2%	-33.8%



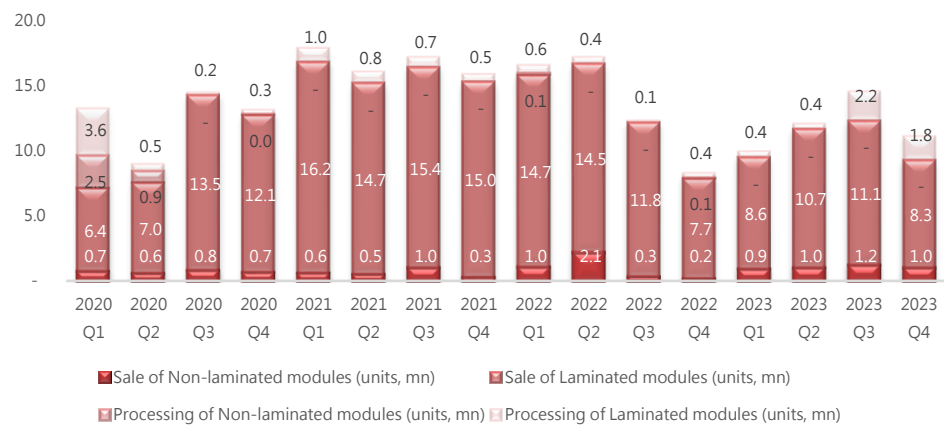
CDOT (00334.HK) reported RMB 2.6bn revenue in FY 2023, representing a YoY 8.4% and YoY 55.1% retreat in 2023 2H and 2023 1H respectively. The recovery was primarily a result of rebounding sales volume in 2023 2H, the sales volume of non-laminated modules and laminated modules reached 4.1mn (2023 1H: 1.9mn, -YoY 40.6%; 2023 2H: 2.2mn, +YoY 340.0%) and 38.7mn (2023 1H: 19.3mn, -YoY 31.3%; 2023 2H: 19.4mn, -YoY 6.3%) in FY 2023 respectively.

Exhibit: Revenue breakdown by business segment of CDOT (00334.HK) (RMB, mn)



Source: Company data, West Bull Securities

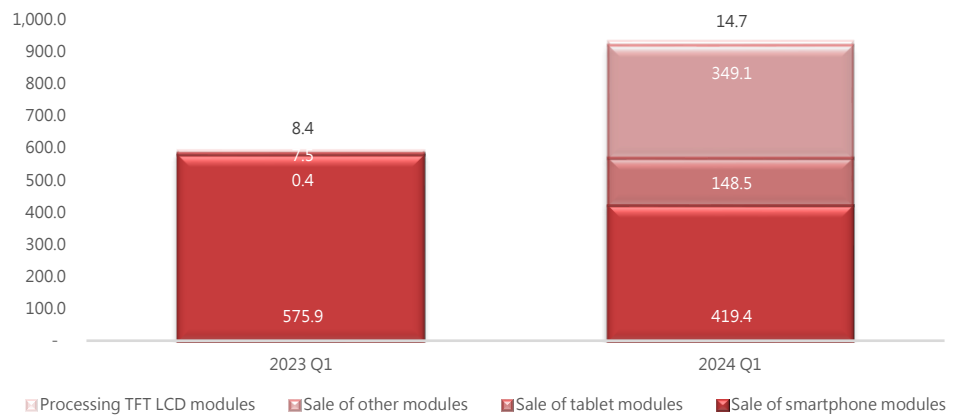
Exhibit: Sales volume by product segment of CDOT (00334.HK)



Source: Company data, West Bull Securities

CDOT (00334.HK) adjusted its reporting standard in 2024 Q1 for a better understanding of the latest operation. The total revenue of the Group boomed YoY 57.3% to RMB 931.7mn in 2024 Q1, the rocketing revenue generated from the sales of tablet display modules and other display modules offset a decline in the sales of smartphone modules.

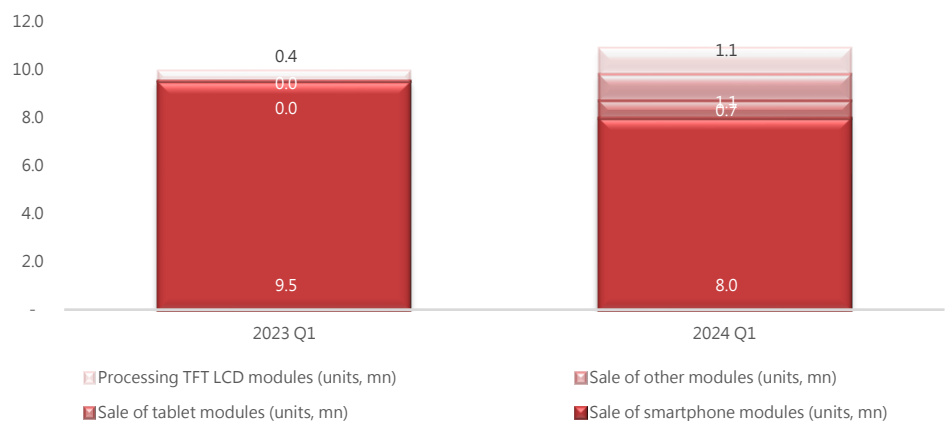
Exhibit: Revenue breakdown by business segment of CDOT (00334.HK) (RMB, mn)



Source: Company data, West Bull Securities

The booming sales revenue was primarily a result of the growing sales volume of tablet display modules and other display modules in 2024 Q1. The sales volume of tablet display modules and other display modules reached 0.7mn and 1.1mn in 2024 Q1, representing 22.7x and 87.8x increase when compared to 2023 Q1.

Exhibit: Sales volume by product segment of CDOT (00334.HK)



Source: Company data, West Bull Securities

Sales recovery caused by the rebounding demand from smartphone customers

The Group realized positive YoY growth in the delivery of TFT LCD modules and processing TFT LCD modules in both 2023 Q3 and 2023 Q4, the recovering demand for smartphone TFT LCD modules was the primary contributor.

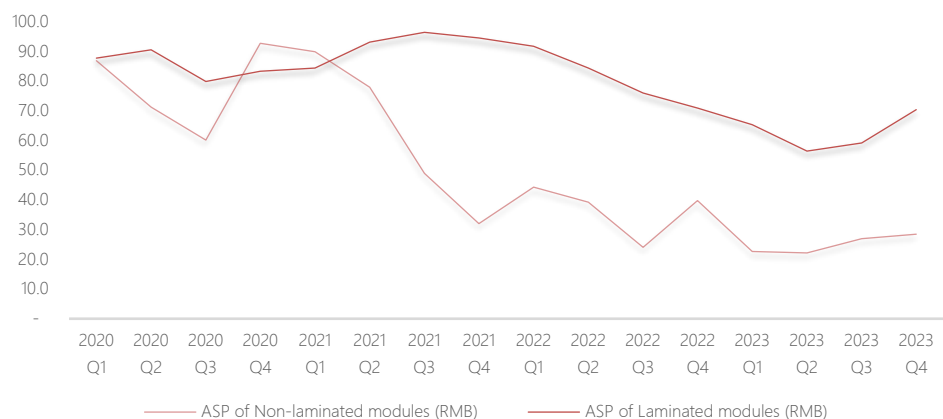
The order book of the primary customer, a smartphone manufacturer, was relatively stable when compared to other customers during the sector downturn last year, partially offsetting the fluctuation caused by other customers, and its contribution further increased to more than half of total revenue. The order visibility and the order book of the major customer remained steady in 2024 Q1, providing the Group with a decent quarter in 2024 Q1 due to the low base last year.

However, given a higher base in 2023 Q3 and 2023 Q4 as well as an insignificant improvement in the order visibility, we remain conservative on the contribution from the smartphone segment.

Delivery of display modules for tablets and smart home devices resulted in an increase in ASP

The ASP of non-laminated modules and laminated modules was RMB 25.2 and RMB 62.2 respectively in FY 2023, both prices hit the bottom and started to rebound in 2023 Q2. The ASP of non-laminated modules and laminated modules further reached a level of RMB 28.5 and RMB 70.4 in 2023 Q4, recording the highest level in FY 2023.

Exhibit: ASP of the LCD modules sold by CDOT (00334.HK)



Source: Company data, West Bull Securities

Thanks to the contribution from the tablets segment and smart home devices segment, the ASP further increased to RMB 85.9 in 2024 Q1, the contributions from these segments may be more material in 2024 due to the new strategies adopted, and we may see a high-single to low-teen digits contribution from these two segments respectively, driving the ASP to increase further.

A change in product mix drove the increment in ASP due to the mass production of T9 Factory of CSOT, it is because the mass production of T9 Factory provides access for CDOT (00334.HK) to customized sizes of panels which were not available to the Group. Leveraging on the support from CSOT, CDOT (00334.HK) can source the panel supply according to the specific requirements of customers. It is especially meaningful to CDOT (00334.HK) because it makes an expansion of the tablet segment business more feasible, and the sales of tablet display modules accounted for 15.9% of total revenue and 6.8% of total shipments in 2024 Q1.

Besides, CDOT (00334.HK) acquired Kedate Zhixian in 2022, assisting the Group to sell medium-sized display modules together with the software to the consumer electronics manufacturers. Similar to the tablet business segment, the contribution from smart home device manufacturers is also increasing, driving up the ASP due to a higher selling price.

Reversing from a loss in 2023 1H, but investors may demand more

The gross margin of CDOT (00334.HK) in 2023 2H dropped to 6.5%, resulting in a 1.4p.p. decline in the gross margin for FY 2023. The retreat in gross margin was primarily caused by a change in product mix, a higher selling price brought the Group better gross profit in absolute amount but a relatively lower gross margin. The gross margin may remain at a lower level due to the higher revenue generated from the tablets and smart home devices segments.

CDOT (00334.HK) realized RMB 13.1mn net profit and RMB 19.0mn operating profit in FY 2023, reversing from a loss in 2023 1H. The amelioration was especially significant in 2023 2H due to the cost control policies, containing operating expenses like staff expenses. And thanks to the discontinuation of financial instruments, there will not be a huge loss incurred in related instruments.

Besides, the cash flow of CDOT (00334.HK) may further improve due to lower CAPEX incurred, about 2 more production lines producing the display modules for tablets will be deployed this year. However, there will not be further improvement in the cash conversion cycle because the change in the receivable turnover days and payable turnover days in FY 2023 was simply a result of the change in customer mix.

We did see an amelioration in the operation of CDOT (00334.HK) in 2023 2H, but we believe that investors need more evidence to be optimistic. Low gross margin remains our primary concern about the Group, slashing the ability to withstand small market fluctuations. Besides, the market of TFT LCD modules is matured, horizontal expansion strategy helps improve the profitability to a certain extent, but a driver providing a long-term story is essential for investors.

Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(x)	(x)	(x)	(x)	(HKD, mn)	(%)	(%)
00285.HK	BYD Electronic	54,752.9	12.6	9.8	1.7	0.4	143,673.3	8.0	14.7
00732.HK	Truly	2,560.5	9.7	-	0.3	0.2	15,588.1	8.5	2.7
000050.CH	Tianma	20,391.9	-	-	0.7	0.6	35,677.4	6.8	(7.2)
000725.CH	BOE	174,252.3	71.1	19.7	1.3	0.9	192,965.6	12.6	1.9
002217.CH	Holitech	4,444.1	-	-	1.9	0.6	13,866.4	1.4	(109.6)
002387.CH	Visionox	10,763.5	-	-	1.1	1.5	8,706.1	(4.7)	(25.2)
002845.CH	Shenzhen TXD	4,756.0	87.8	-	1.6	0.5	9,412.6	8.1	(2.6)
	<i>Average</i>	<i>42,346.4</i>	<i>38,845.9</i>	<i>45.3</i>	<i>14.8</i>	<i>1.2</i>	<i>0.7</i>	<i>59,984.2</i>	<i>5.8</i>
00334.HK	CDOT	441.9	30.1	-	0.4	0.2	2,848.8	6.8	1.3

Source: Bloomberg, West Bull Securities

Risk factors

- Rebounding shipment of smartphones cannot sustain
- Loss of key customers
- Fragile to the market fluctuations due to the low profit margin
- The higher depreciation expenses squeeze the profit margin
- Unclear positioning for future development

Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2020 (A)	2021 (A)	2022 (A)	2023 (A)	(RMB, mn)	2020 (A)	2021 (A)	2022 (A)	2023 (A)
Revenue	3,571.2	5,840.1	4,208.4	2,576.8	PPE	898.4	443.5	582.1	722.6
<i>YoY growth</i>	-34.5%	63.5%	-27.9%	-38.8%	Others	94.9	89.7	93.3	89.9
COGS	(3,292.2)	(5,345.5)	(3,864.6)	(2,402.8)	Non-current assets	993.4	533.3	675.4	812.5
Gross profit	279.0	494.6	343.7	174.1	Inventories	608.5	405.6	135.1	200.6
Other income	27.9	43.9	70.1	86.7	Trade receivables	1,012.6	824.7	730.9	542.4
Operating expenses	(224.8)	(316.0)	(244.5)	(241.8)	Cash & cash equivalents	416.7	1,053.4	279.0	23.2
Operating profit	82.1	222.5	169.4	19.0	Others	83.4	70.0	759.8	953.1
Finance expenses	(4.0)	(2.6)	(1.6)	(0.7)	Current assets	2,121.3	2,353.8	1,904.8	1,719.4
JV & Ass.	-	-	-	-	Total assets	3,114.7	2,887.1	2,580.2	2,531.9
Profit before tax	78.1	219.9	167.7	18.3	LT borrowings	48.8	2.0	59.5	-
Tax	(23.6)	(53.4)	1.3	(5.3)	Others	41.8	15.4	16.1	12.6
Net profit	54.5	166.5	169.0	13.1	Non-current liabilities	90.6	17.4	75.6	12.6
<i>YoY growth</i>	14.8%	205.4%	1.5%	-92.3%	Trade payables	1,391.3	1,477.8	1,072.6	1,049.9
					ST borrowings	178.4	76.2	2.8	3.2
					Others	703.9	484.1	428.9	456.7
					Current liabilities	2,273.6	2,038.1	1,504.4	1,509.8
					Total liabilities	2,364.2	2,055.6	1,580.0	1,522.4
					Non-controlling interests	111.4	-	-	-
					Controlling interests	639.1	831.5	1,000.2	1,009.4
					Total equities	750.5	831.5	1,000.2	1,009.4

Cash Flow					Financial Ratio				
(RMB, mn)	2020 (A)	2021 (A)	2022 (A)	2023 (A)		2020 (A)	2021 (A)	2022 (A)	2023 (A)
Profit before tax	78.1	219.9	167.7	18.3	Gross margin	7.8%	8.5%	8.2%	6.8%
Finance expenses	7.4	2.6	1.6	0.7	Operating margin	2.3%	3.8%	4.0%	0.7%
Finance income	(8.6)	(21.2)	(20.1)	(35.3)	Net profit margin	0.2%	3.4%	4.0%	0.5%
D&A	171.3	137.9	66.7	79.2	Adj. EBITDA profit margin	4.1%	4.5%	4.2%	1.1%
Others	(64.5)	3.9	(3.3)	8.9	Return on Equity	0.8%	25.2%	18.5%	1.3%
Change in working capital	1,175.1	257.1	(83.2)	25.6	Return on Asset	0.2%	6.7%	6.2%	0.5%
CFO	1,358.9	600.3	129.5	97.4	Current ratio	93.3%	115.5%	126.6%	113.9%
					Quick ratio	66.5%	95.6%	117.6%	45.5%
CAPEX	(210.8)	(239.7)	(170.9)	(152.0)	Cash ratio	18.3%	51.7%	18.5%	1.5%
Others	10.0	286.5	(716.4)	(156.3)	Debt-to-Equity ratio	30.3%	9.4%	6.2%	0.3%
CFI	(200.8)	46.8	(887.3)	(308.3)	Net Debt-to-Equity ratio	-25.3%	-117.3%	-21.7%	-2.0%
					Inventory turnover days	46.5	34.6	25.5	25.5
Shares issuance	-	0.1	-	-	Receivable turnover days	146.9	57.4	67.5	90.2
Net borrowings	(814.1)	21.0	(15.9)	(59.2)	Payable turnover days	122.3	98.0	120.4	161.2
Interest expenses	(7.5)	(16.0)	(1.6)	(0.7)					
Dividend paid	-	-	-	-					
Others	(14.0)	(13.9)	(15.8)	(4.8)					
CFF	(835.6)	(8.8)	(33.4)	(64.6)					
FCFE	335.4	665.9	(106.6)	(110.1)					
FCFF	1,154.8	657.0	(89.1)	(50.5)					

Source: Company data, West Bull Securities

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