

# BOE Varitronix (710 HK)

## 1H24 preview: margin weakness priced in; expect gradual ASP/margin recovery in 2H

BOEVx will report 1H24 results in Aug. We estimate 1H24 revenue to grow 15% YoY driven by high-end displays, overseas client orders and Chengdu plant ramp-up, while net profit decline may narrow to -16% YoY (vs -18%/-19% YoY in 2H23/1H23) given inventory digestion offsetting better utilization. For 2H24E, we expect revenue/net profit to improve due to order seasonality, better product mix and rising UTR. We lower FY24-26E EPS by 17-30% to factor in ASP/margin weakness offsetting stronger shipments and market share gains. Our new TP of HK\$9.9 is based on a rolled-over 15x FY25E P/E (vs prior 15x FY24E P/E). Trading at 8.8x/6.8x FY24/ 25E P/E, the stock is attractive in our view. On the company's 1H24 earnings call, we will look for more details on high-end display project wins, overseas expansion, product pipeline and Chengdu plant progress.

### ■ Global share gains in auto display market; ASP/margin recovery ahead.

According to Omdia, BOEVx remained the global No.1 auto display supplier in terms of total and medium- to large-size shipment/shipment area in 2Q24. We expect 1H24 sales growth of 15% YoY, driven by high-end displays, overseas customer demand and Chengdu plant ramp-up, despite operational efficiency challenges from small & rush orders and inventory digestion. For 2H24E, we expect improving revenue/net profit due to order seasonality, high-end display demand, better UTR in Chengdu plant and improving efficiency. Overall, we expect sales to grow 15%/24% in 1H/2H24E, outperforming overall industry of 8-10% YoY, according to mgmt..

■ **Positive on larger and high-end auto displays, overseas market expansion and Chengdu plant optimization.** We remain positive on demand for larger and high-end display products amid the auto display upgrade trend. BOEVx's high-end products, such as Oxide/LTPs/OLED, had major breakthroughs in 1H24. For overseas markets, BOEVx emphasized its focus on overseas expansion strategy, and we are positive on increasing high-end automotive demand (e.g. OLED, HUD in Europe) and recent project wins in Europe, Japan and South Korea. Overall, mgmt. reiterated guidance of overseas sales to reach 50% in FY26E. In addition, Chengdu plant is the world's largest and most advanced auto display module facility, and it is currently running at full capacity with orders from both external clients and Parentco, which will drive profitability in 2H24E, in our view.

■ **1H24 weakness mostly priced in; maintain BUY.** We believe 1H24 margin pressure is mostly priced in, and we expect 2H ASP/margin recovery driven by rising sales contribution of high-end displays, better UTR and stable market condition. Our new TP of HK\$9.9 is based on a rolled-over 15x FY25E P/E. Reiterate BUY.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	10,722	10,760	12,873	15,561	18,114
YoY growth (%)	38.6	0.4	19.6	20.9	16.4
EBITDA (HK\$ mn)	841.0	771.0	716.7	875.5	1,068.7
Net profit (HK\$ mn)	582.5	475.3	400.9	519.2	623.1
YoY growth (%)	77.7	(18.4)	(15.7)	29.5	20.0
EPS (Reported) (HK\$)	0.78	0.60	0.51	0.66	0.79
Consensus EPS (HK\$)	-	-	0.70	0.86	1.03
P/E (x)	5.7	7.4	8.8	6.8	5.6
P/B (x)	0.4	0.4	0.4	0.3	0.3
Yield (%)	548.4	427.9	342.1	443.1	494.0
ROE (%)	15.6	11.1	8.8	10.7	11.8
Net gearing (%)	1.3	27.5	(27.4)	41.1	(11.9)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$9.90
(Previous TP)	HK\$10.94)
Up/Downside	121.6%
Current Price	HK\$4.47

### China Technology

#### Alex NG

(852) 3900 0881  
alexng@cmbi.com.hk

#### Hanqing LI

lihanqing@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	3,540.2
Avg 3 mths t/o (HK\$ mn)	10.0
52w High/Low (HK\$)	11.82/4.37
Total Issued Shares (mn)	792.0

Source: FactSet

### Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%

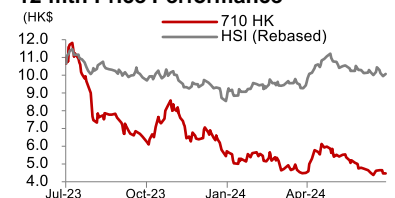
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-5.9%	-3.8%
3-mth	-0.7%	-7.0%
6-mth	-17.8%	-30.3%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related Reports:

1) CMBI Corp Day takeaways: large-size/high-end display demand, Chengdu plant and overseas orders– 27 Jun 2024 ([link](#))

2) Focus on high-end demand and overseas demand to drive recovery– 27 Mar 2024 ([link](#))

3) Positive on shipment recovery and capacity expansion in 2H23E – 24 Aug 2023 ([link](#))

## Earnings Revision

Figure 1: Earnings revision

(HK\$ mn)	New			Old			Change (%)		
	FY24E	2025E	2026E	FY24E	2025E	2026E	FY24E	2025E	2026E
Revenue	12,873	15,561	18,114	11,699	13,067	14,372	10.0%	19.1%	26.0%
Operating profit	498	627	761	667	765	870	-25.3%	-18.1%	-12.5%
Net profit	401	519	623	573	658	748	-30.1%	-21.1%	-16.7%
EPS (HK\$ cent)	51	66	79	72.93	83.64	95.13	-30.1%	-21.1%	-16.7%
Operating margin	3.9%	4.0%	4.2%	5.7%	5.9%	6.1%	-1.8 ppt	-1.8 ppt	-1.9 ppt
Net margin	3.1%	3.3%	3.4%	4.9%	5.0%	5.2%	-1.8 ppt	-1.7 ppt	-1.8 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBI estimates vs consensus

(HK\$ mn)	CMBI			Consensus			Diff (%)		
	FY24E	2025E	2026E	FY24E	2025E	2026E	FY24E	2025E	2026E
Revenue	12,873	15,561	18,114	11,773	13,395	15,197	9.3%	16.2%	19.2%
Operating profit	498	627	761	605	744	884	-17.7%	-15.7%	-13.9%
Net profit	401	519	623	552	678	814	-27.4%	-23.4%	-23.5%
EPS (HK\$ cent)	51	66	79	70.00	86.00	103.29	-27.2%	-23.2%	-23.3%
Operating margin	3.9%	4.0%	4.2%	5.1%	5.6%	5.8%	-1.3 ppt	-1.5 ppt	-1.6 ppt
Net margin	3.1%	3.3%	3.4%	4.7%	5.1%	5.4%	-1.6 ppt	-1.7 ppt	-1.9 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: P&L forecast

(HK\$ mn)	2022	1H23	2H23	2023	1H24E	2H24E	2024E	2025E	2026E
<b>Revenue</b>	<b>10,722</b>	<b>5,210</b>	<b>5,550</b>	<b>10,760</b>	<b>5,982</b>	<b>6,891</b>	<b>12,873</b>	<b>15,561</b>	<b>18,114</b>
YoY	38.6%	7.9%	-5.8%	0.4%	14.8%	24.2%	19.6%	20.9%	16.4%
<b>Automotive display</b>	<b>9,577</b>	<b>4,646</b>	<b>5,064</b>	<b>9,710</b>	<b>5,389</b>	<b>6,381</b>	<b>11,770</b>	<b>14,403</b>	<b>16,898</b>
YoY	47.1%	7.2%	-3.4%	1.4%	16.0%	26.0%	21.2%	22.4%	17.3%
<b>Industrial display</b>	<b>1,145</b>	<b>564</b>	<b>486</b>	<b>1,050</b>	<b>592</b>	<b>510</b>	<b>1,103</b>	<b>1,158</b>	<b>1,216</b>
YoY	-6.8%	13.7%	-25.1%	-8.3%	5.0%	5.0%	5.0%	5.0%	5.0%
<b>Operating profit</b>	<b>670</b>	<b>241</b>	<b>329</b>	<b>570</b>	<b>215</b>	<b>283</b>	<b>498</b>	<b>627</b>	<b>761</b>
OPM (%)	6.3%	4.6%	5.9%	5.3%	3.6%	4.1%	3.9%	4.0%	4.2%
...YoY	91.5%	-12.4%	-16.8%	-15.0%	-10.6%	-14.1%	-12.6%	25.9%	21.4%
<b>Net profit</b>	<b>582</b>	<b>203</b>	<b>273</b>	<b>475</b>	<b>170</b>	<b>231</b>	<b>401</b>	<b>519</b>	<b>623</b>
NPM (%)	5.4%	3.9%	4.9%	4.4%	2.8%	3.4%	3.1%	3.3%	3.4%
...YoY	77.7%	-19.3%	-17.7%	-18.4%	-16.2%	-15.3%	-15.7%	29.5%	20.0%

Source: Company data, CMBIGM estimates

## Valuation

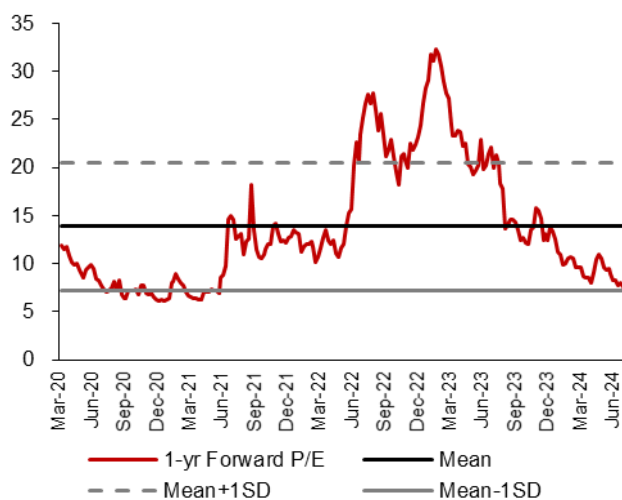
Maintain BUY and our new TP of HK\$9.9 is based on a rolled-over 15x FY25E PE. We are positive on BOEVx's order wins, Chengdu UTR ramp-up, overseas expansion and auto display leadership under the smart cockpit trend. Trading at 8.8x/6.8x FY24/25E P/E, the stock is attractive, in our view.

**Figure 4: Peers' valuation**

Company	Ticker	Rating	Mkt Cap (US\$mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
BOE Varitronix	710 HK	BUY	445	4.47	9.9	121%	8.8	6.8	0.4	0.3	8.8	10.7
LDG	LPL US	NR	4,490	4.49	NA	NA	-	-	-	-	(33.5)	(18.3)
AUO	2409 TT	NR	4,257	18.40	NA	NA	-	-	0.9	0.9	(11.2)	(2.3)
Tianma	000050 CH	NR	2,409	7.16	NA	NA	-	-	0.6	0.6	(7.0)	(1.7)
Wuhu Token	300088 CH	NR	1,492	4.48	NA	NA	26.0	26.0	1.3	1.3	4.5	4.2
Infovision	688055 CH	NR	1,334	2.95	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	425	1.05	NA	NA	-	-	-	-	-	-
Average							17.4	16.4	0.8	0.8	(7.7)	(1.5)

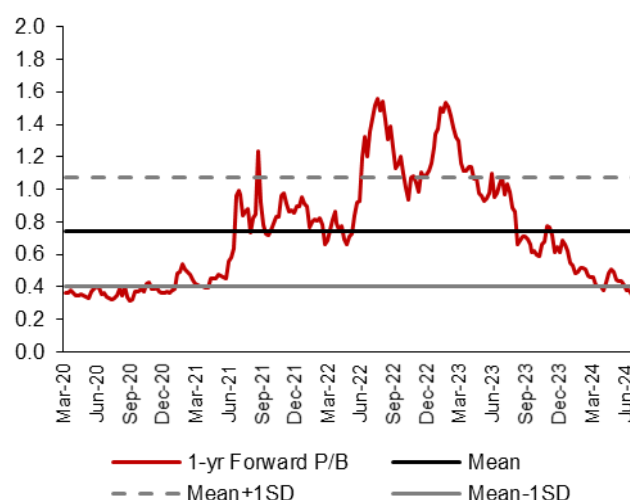
Source: Bloomberg, CMBIGM estimates

**Figure 5: 12M forward P/E band**



Source: Company data, CMBIGM estimates

**Figure 6: 12M forward P/B band**



Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	7,738	10,722	10,760	12,873	15,561	18,114
Operating expenses	7,388	10,052	10,191	12,375	14,934	17,353
Operating profit	350	670	570	498	627	761
EBITDA	513	841	771	717	876	1,069
Other income/expense	(0)	(0)	(4)	(32)	0	0
Others	(1)	(12)	(25)	0	0	0
Pre-tax profit	349	658	540	466	604	725
Income tax	(39)	(98)	(59)	(65)	(85)	(101)
After tax profit	328	582	475	401	519	623
Net profit	328	582	475	401	519	623
Adjusted net profit	328	582	475	401	519	623

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
<b>Current assets</b>	<b>4,853</b>	<b>6,611</b>	<b>8,097</b>	<b>5,229</b>	<b>8,392</b>	<b>5,479</b>
Cash & equivalents	2,267	2,819	3,501	2,388	2,285	1,199
Account receivables	1,744	2,158	2,556	2,302	3,570	3,265
Inventories	833	1,568	1,947	445	2,443	921
Other current assets	9	66	26	26	26	26
<b>Non-current assets</b>	<b>690</b>	<b>1,673</b>	<b>1,937</b>	<b>2,865</b>	<b>3,791</b>	<b>4,871</b>
PP&E	583	1,490	1,760	2,688	3,614	4,694
Other non-current assets	107	182	177	177	177	177
<b>Total assets</b>	<b>5,543</b>	<b>8,283</b>	<b>10,034</b>	<b>8,094</b>	<b>12,183</b>	<b>10,350</b>
<b>Current liabilities</b>	<b>2,168</b>	<b>4,103</b>	<b>5,023</b>	<b>2,802</b>	<b>6,528</b>	<b>4,245</b>
Account payables	2,136	3,390	4,738	2,517	6,243	3,960
Tax payable	17	65	14	14	14	14
Other current liabilities	15	648	271	271	271	271
<b>Non-current liabilities</b>	<b>29</b>	<b>64</b>	<b>601</b>	<b>601</b>	<b>601</b>	<b>601</b>
Other non-current liabilities	29	33	218	218	218	218
<b>Total liabilities</b>	<b>2,198</b>	<b>4,167</b>	<b>5,624</b>	<b>3,403</b>	<b>7,130</b>	<b>4,847</b>
Share capital	184	198	198	198	198	198
Other reserves	2,848	3,867	4,156	4,436	4,800	5,249
<b>Total shareholders equity</b>	<b>3,346</b>	<b>4,116</b>	<b>4,410</b>	<b>4,690</b>	<b>5,054</b>	<b>5,503</b>
<b>Total equity and liabilities</b>	<b>5,543</b>	<b>8,283</b>	<b>10,034</b>	<b>8,094</b>	<b>12,183</b>	<b>10,350</b>

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	349	658	540	466	604	725
Depreciation & amortization	160	(193)	(224)	(260)	(304)	(355)
Change in working capital	217	105	572	(465)	460	(455)
Others	(10)	(98)	(59)	(65)	(85)	(101)
<b>Net cash from operations</b>	<b>665</b>	<b>471</b>	<b>829</b>	<b>(324)</b>	<b>675</b>	<b>(187)</b>
<b>Investing</b>						
Capital expenditure	(247)	(483)	(430)	(515)	(622)	(725)
Others	(8)	0	0	0	0	0
<b>Net cash from investing</b>	<b>(254)</b>	<b>(483)</b>	<b>(430)</b>	<b>(515)</b>	<b>(622)</b>	<b>(725)</b>
<b>Financing</b>						
Dividend paid	(36)	(182)	(150)	(120)	(156)	(174)
Others	246	0	0	0	0	0
<b>Net cash from financing</b>	<b>210</b>	<b>(182)</b>	<b>(150)</b>	<b>(120)</b>	<b>(156)</b>	<b>(174)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,628	2,267	2,819	3,501	2,388	2,285
Exchange difference	19	745	434	(154)	0	0
<b>Cash at the end of the year</b>	<b>2,267</b>	<b>2,819</b>	<b>3,501</b>	<b>2,388</b>	<b>2,285</b>	<b>1,199</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Revenue	70.9%	38.6%	0.4%	19.6%	20.9%	16.4%
Operating profit	397.0%	91.5%	(15.0%)	(12.6%)	25.9%	21.4%
EBITDA	137.5%	63.9%	(8.3%)	(7.0%)	22.2%	22.1%
Net profit	377.6%	77.7%	(18.4%)	(15.7%)	29.5%	20.0%
Adj. net profit	377.6%	77.7%	(18.4%)	(15.7%)	29.5%	20.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Operating margin	4.5%	6.3%	5.3%	3.9%	4.0%	4.2%
EBITDA margin	6.6%	7.8%	7.2%	5.6%	5.6%	5.9%
Adj. net profit margin	4.2%	5.4%	4.4%	3.1%	3.3%	3.4%
Return on equity (ROE)	10.7%	15.6%	11.1%	8.8%	10.7%	11.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.3)	0.0	0.3	(0.3)	0.4	(0.1)
Current ratio (x)	2.2	1.6	1.6	1.9	1.3	1.3
Receivable turnover days	68.5	66.4	68.9	68.9	68.9	68.9
Inventory turnover days	38.9	50.0	40.1	40.1	40.1	40.1
Payable turnover days	91.9	115.1	121.7	121.7	121.7	121.7
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/E	9.9	5.7	7.4	8.8	6.8	5.6
P/B	0.6	0.4	0.4	0.4	0.3	0.3
Div yield (%)	339.8	548.4	427.9	342.1	443.1	494.0
EV	3,345.6	4,115.8	4,409.7	4,690.3	5,053.8	5,503.2
EV/Sales	0.4	0.4	0.4	0.4	0.3	0.3
EV/EBITDA	6.5	4.9	5.7	6.5	5.8	5.1

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

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**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
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**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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