

BOE Varitronix (710 HK)

Limited impact from tariff given low US exposure

We hosted an investor call with BOEVx regarding the recent US reciprocal tariffs. Overall, mgmt. believes there is limited impact on their financials given low US sales exposure. Regionally, BOEVx is positive on Vietnam's capacity ramp-up in 2025 and already received orders from the US and South Korean customers. In addition, mgmt. believes Mexico is a sweet spot under USMCA and they will work with Parentco to lower tariff risks in the future. Additionally, BOEVx will focus on overseas market expansion and adjust product mix in the longer term. BOEVx also announced a share repurchase plan on 11 Apr, demonstrating mgmt.'s confidence in the business outlook. Overall, we are positive on system biz, high-end auto display and overseas expansion to drive growth. Maintain BUY.

- **Limited impact on financials given low US sales mix.** Mgmt. believes that there is limited impact on its financials from the US reciprocal tariff given that its direct export to US market's sales mix is very low (2.6% in FY23) and even lower contribution in terms of earnings. Mgmt. reiterated that they can supply the US markets through Mexico and Vietnam to avoid tariffs, and Mexico is the sweet spot under USMCA. In addition, mgmt. believes that US auto manufacturers' OEMs are located in tariff-friendly zones and BOEVx can directly supply these OEMs according to customers' demand.
- **Regional capacity allocation and adjust product mix to avoid tariff risks.** Mgmt. is positive on Vietnam's plant construction to accelerate and expect mass production in 2025 with US/South Korean customers order wins. In Mexico, mgmt. is encouraged on its capacity ramp-up, and the plant can currently supply up to 62% of US local market demand. In addition, mgmt. expects BOEVx to adjust customer and product mix to diversity tariff's risk in the longer term, including non-auto biz expanding into AI hardware and industrial equipment. In addition, mgmt. aimed to lower single customer's sales mix from 34% to 25% or lower.
- **Other highlights.** 1) **Limited impact on raw material procurement** given that core materials such as backlight modules and display panels are sourced mostly from domestic suppliers with only a small amount of IC chips from the US but actual production in Southeast Asia; 2) **limited impact on technical upgrade in production lines** since key equipment is not exclusively supplied by the US; 3) **BOEVx will continue to expand in the US market but will prioritize markets** including Japan and South Korea markets; 4) **cooperation with the Parentco's assembly plant in Mexico** to avoid tariff risks.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (HK\$ mn)	10,760	13,449	16,274	19,404	22,228
YoY growth (%)	0.4	25.0	21.0	19.2	14.6
EBITDA (HK\$ mn)	771.0	686.0	895.1	1,097.2	1,256.8
Net profit (HK\$ mn)	475.3	391.3	506.1	625.6	738.7
YoY growth (%)	(18.4)	(17.7)	29.4	23.6	18.1
EPS (Reported) (HK\$)	0.60	0.50	0.64	0.79	0.94
Consensus EPS (HK\$)	na	na	0.72	0.90	1.31
P/E (x)	8.3	10.1	7.8	6.3	5.4
P/B (x)	0.4	0.3	0.3	0.3	0.2
Yield (%)	3.8	3.4	3.8	4.2	4.7
ROE (%)	11.1	8.7	10.6	12.0	12.9
Net gearing (%)	(65.3)	(50.5)	(39.0)	(54.2)	(41.9)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$9.63**
 Up/Downside **91.8%**
 Current Price **HK\$5.02**

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Stock Data

Mkt Cap (HK\$ mn)	3,975.8
Avg 3 mths t/o (HK\$ mn)	35.3
52w High/Low (HK\$)	7.87/4.05
Total Issued Shares (mn)	792.0

Source: FactSet

Shareholding Structure

BOE Technology Group	53.0%
Ko Chun Shun	5.6%

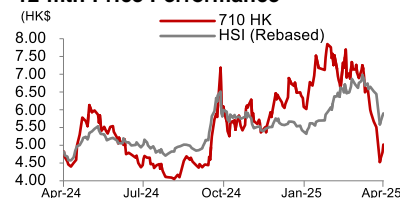
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-30.9%	-21.4%
3-mth	-17.4%	-24.7%
6-mth	-17.6%	-16.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Valuation

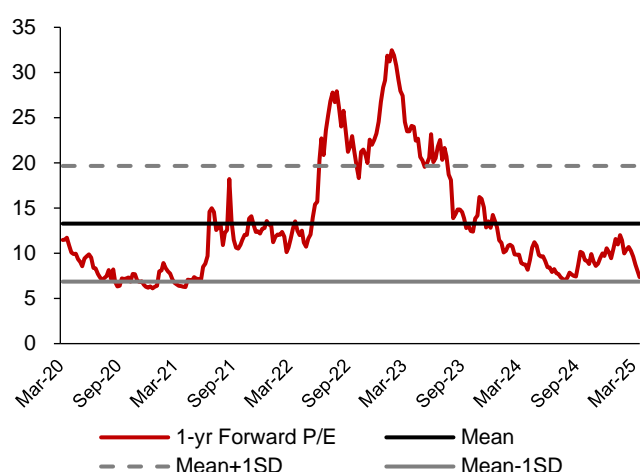
Maintain BUY and our unchanged TP of HK\$9.63 is based on 15x FY25E P/E. We are positive on BOEVx's order wins, system product ramp, overseas expansion and auto display market leadership. Trading at 7.8x/6.3x FY25/26E P/E, the stock is attractive in our view.

Figure 1: Peers' valuation

Company	Ticker	Rating	Mkt Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
BOE Varitronix	710 HK	BUY	512	5.02	9.6	92%	7.8	6.3	0.3	0.3	4.0	4.2
LDG	LPL US	NR	2,800	2.80	NA	NA	-	-	-	-	-	-
AUO	2409 TT	NR	2,797	11.85	NA	NA	30.6	17.3	0.6	0.6	0.6	3.2
Tianma	000050 CH	NR	2,460	7.30	NA	NA	40.6	23.2	0.6	0.6	1.5	2.6
Wuhu Token	300088 CH	NR	1,829	5.34	NA	NA	-	-	-	-	-	-
Infovision	688055 CH	NR	1,472	3.22	NA	NA	-	-	-	-	-	-
Truly	732 HK	NR	379	0.93	NA	NA	-	-	-	-	-	-
Average							26.3	15.6	0.5	0.5	2.0	3.4

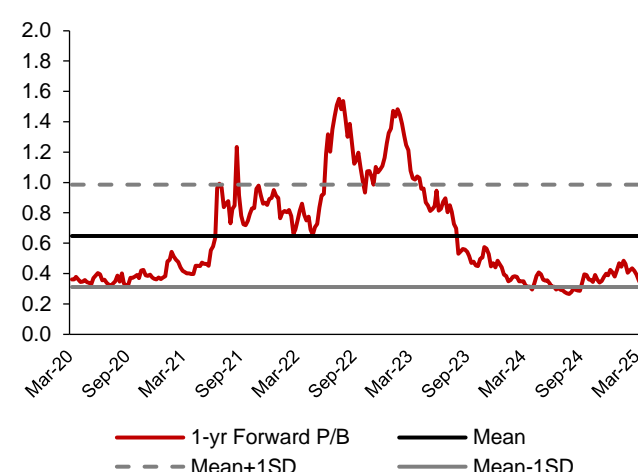
Source: Bloomberg, CMBIGM estimates

Figure 2: 12M forward P/E band



Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/B band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Revenue	10,722	10,760	13,449	16,274	19,404	22,228
Operating expenses	10,052	10,191	13,011	15,670	18,655	21,347
Operating profit	670	570	437	604	750	881
EBITDA	841	771	686	895	1,097	1,257
Depreciation	(166)	(202)	(244)	(292)	(348)	(376)
Other income/expense	(445)	(466)	(671)	(846)	(1,009)	(1,156)
Others	427	437	651	823	970	1,111
Pre-tax profit	658	540	422	580	711	836
Income tax	98	59	21	60	71	84
After tax profit	560	481	402	520	640	753
Net profit	582	475	391	506	626	739
Adjusted net profit	582	475	391	506	626	739

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Current assets	6,611	8,097	9,195	9,990	11,926	12,535
Cash & equivalents	2,819	3,501	2,700	2,312	3,323	2,893
Account receivables	2,158	2,556	3,326	3,599	4,658	4,801
Inventories	1,568	1,947	1,778	2,688	2,554	3,451
Other current assets	66	94	1,391	1,391	1,391	1,391
Non-current assets	1,673	1,937	2,270	2,564	2,929	3,344
PP&E	1,490	1,760	2,060	2,355	2,720	3,135
Other non-current assets	182	177	209	209	209	209
Total assets	8,283	10,034	11,465	12,554	14,855	15,880
Current liabilities	4,103	5,023	6,500	7,220	9,049	9,509
Account payables	3,390	4,738	6,228	6,949	8,777	9,237
Tax payable	65	14	23	23	23	23
Other current liabilities	648	271	248	248	248	248
Non-current liabilities	64	601	365	365	365	365
Long-term borrowings	31	383	170	170	170	170
Other non-current liabilities	33	218	194	194	194	194
Total liabilities	4,167	5,624	6,864	7,585	9,414	9,874
Share capital	198	198	198	198	198	198
Other reserves	3,867	4,156	4,337	4,692	5,150	5,701
Total shareholders equity	4,116	4,410	4,600	4,969	5,441	6,006
Total equity and liabilities	8,283	10,034	11,465	12,554	14,855	15,880

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	658	540	422	580	711	836
Depreciation & amortization	166	202	237	356	411	474
Change in working capital	(194)	564	888	(462)	904	(580)
Others	144	(120)	(21)	(60)	(71)	(84)
Net cash from operations	774	1,186	1,527	414	1,955	646
Investing						
Capital expenditure	(1,176)	(502)	(538)	(651)	(776)	(889)
Others	7	278	0	0	0	0
Net cash from investing	(1,170)	(224)	(538)	(651)	(776)	(889)
Financing						
Dividend paid	(109)	(181)	(135)	(152)	(167)	(188)
Others	1,207	(83)	0	0	0	0
Net cash from financing	1,098	(263)	(135)	(152)	(167)	(188)
Net change in cash						
Cash at the beginning of the year	2,267	2,819	3,501	2,700	2,312	3,323
Exchange difference	(151)	(17)	0	0	0	0
Others	702	698	(801)	(388)	1,012	(430)
Cash at the end of the year	2,819	3,501	2,700	2,312	3,323	2,893
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	38.6%	0.4%	25.0%	21.0%	19.2%	14.6%
Operating profit	91.5%	(15.0%)	(23.2%)	38.0%	24.2%	17.5%
EBITDA	63.9%	(8.3%)	(11.0%)	30.5%	22.6%	14.6%
Net profit	77.7%	(18.4%)	(17.7%)	29.4%	23.6%	18.1%
Adj. net profit	77.7%	(18.4%)	(17.7%)	29.4%	23.6%	18.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Operating margin	6.3%	5.3%	3.3%	3.7%	3.9%	4.0%
EBITDA margin	7.8%	7.2%	5.1%	5.5%	5.7%	5.7%
Adj. net profit margin	5.4%	4.4%	2.9%	3.1%	3.2%	3.3%
Return on equity (ROE)	15.6%	11.1%	8.7%	10.6%	12.0%	12.9%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.5)	(0.7)	(0.5)	(0.4)	(0.5)	(0.4)
Current ratio (x)	1.6	1.6	1.4	1.4	1.3	1.3
Receivable turnover days	66.4	79.9	79.8	77.7	77.7	77.7
Inventory turnover days	50.0	74.7	61.9	61.9	60.8	60.8
Payable turnover days	115.1	172.8	182.3	182.5	182.5	182.5
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	6.4	8.3	10.1	7.8	6.3	5.4
P/B	0.5	0.4	0.3	0.3	0.3	0.2
Div yield (%)	4.9	3.8	3.4	3.8	4.2	4.7
EV	4,115.8	4,409.7	4,600.5	4,968.8	5,441.2	6,006.3
EV/Sales	0.4	0.4	0.3	0.3	0.3	0.3
EV/EBITDA	4.9	5.7	6.7	5.6	5.0	4.8

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

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