

CH Display OPT (334 HK)

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Company Update

BUY
UNCHANGED
Close price: HK\$1.09

Target Price: HK\$1.55 (+42.2%)

Prior TP: HK\$1.50

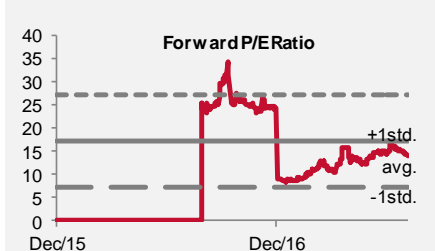
Key Data

HKEx code	334
12 Months High (HK\$)	1.40
12 Month Low (HK\$)	0.58
3M Avg Dail Vol. (mn)	3.06
Issue Share (mn)	2,032.71
Market Cap (HK\$m)	2,215.66
Fiscal Year	12/2016
Major shareholder (s)	CDOT (53.8%)

Source: Company data, Bloomberg, OP Research
 Closing price are as of 08/08/2017

Price Chart


	1mth	3mth	6mth
Absolute %	-7.6	-1.8	52.0
Rel. MSCI CHINA %	-18.9	-17.7	26.7

PE Chart

Company Profile

CDOT provides small-to-medium-sized display modules. The Company is primarily engaged in the R&D, manufacturing, and sales and distribution off LCD modules for handheld mobile devices on an ODM basis. CDOT has operations throughout Asia and sells its products globally.

1H17 results beat expectations

- **CDOT released its 1H17 results with revenue up 3% yoy to RMB1.5bn. Net profit up 15 times to RMB67mn, beating our estimate by 13%.**
- **We revise up our FY17/18E earnings estimate by 14.9%/2.2% to RMB130mn/RMB175mn to reflect better than expected recovery on GPM, improvement on ASP and lower shipment targets.**
- **Reiterate BUY with TP revised slightly up to HK\$1.55 based on same 15x FY18E PE, at par to its module and panel peers.**

Result beat on GPM. CDOT released its 1H17 results with revenue up 3% yoy to RMB1.5bn. 1H17 GPM was up 6.4ppt yoy to 9.1%, thanks to declining raw material costs and economies of scale, we see GPM stabilizing at 8% level for FY17E given production ramp up from 16:9 to full screen's 18:9 in 2H17E and one off gain on panel pricing issue in 2Q17. 1H17 net profit up 15 times to RMB67mn, 13% higher than we expected.

We revise up our FY17/18E earnings by 14.9%/2.2% to RMB130mn/RMB175mn. We revise down our FY17/18E non-laminated module shipments by 50%/44.7% to 30.31mn units given weakened demand on customer orders as result of increasing demand on 18:9 full screen aspect demand. However, we see shipments may pick up from FY18E onwards as CDOT announced on 26th Jul 2017 that the company had launched mass production of its first batch full screen module. We will keep a close eye on the recovery of its monthly sales. We also revised up our FY17/18E GPM assumption by 1.6ppt/0.55ppt to 8.1%/8.3% to reflect stabilized panel price, economies of scale and gradual ramp up of LTPS module penetration (from 7% in 1H16 to 16% in 1H17) to enjoy higher margin. Hence, we revise up our FY17/18E EPS by 14.9%/2.2% to HK\$0.077/HK\$0.103, 21%/25% below consensus.

Reiterate BUY. We reiterate our BUY rating on CDOT with TP slightly revised up to HK\$1.55 from HK\$1.50 based on same 15x FY18E PE, at par with its module and panel peers, given (1) product mix upgrade to drive up ASP to offset negative shipments growth, (2) recovery on GPM as a result of stabilized component costs and panel prices, and (3) strong backup by its major shareholder, CSOT, on stable panel supply.

Risks: (1) Slowdown in LCD module demand in China, (2) ASP erosion in LCD module market is faster than expected, (3) oversupply of LTPS panels

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	2,242.8	3,678.2	3,685.5	4,377.9	4,760.3
Growth (%)	(14.2)	64.0	0.2	18.8	8.7
Adj. net Profit	72.6	91.1	129.7	174.6	231.0
Growth (%)	(41.6)	25.5	42.3	34.6	32.3
Diluted EPS (HK\$)	0.053	0.054	0.077	0.103	0.137
EPS growth (%)	n.a.	2.3	42.4	34.6	32.3
Change to previous EPS (%)			14.9	2.2	
Consensus EPS (HK\$)			0.098	0.138	0.156
ROE (%)	78.8	38.5	31.3	33.2	34.3
P/E (x)	22.2	21.7	15.2	11.3	8.5
P/B (x)	15.4	5.2	4.1	3.2	2.5
Yield (%)	0.0	1.7	2.4	3.3	4.3
DPS (HK\$)	0.000	0.020	0.028	0.038	0.051

Source: Bloomberg, OP Research

Exhibit 2: Earnings revision and change of assumptions

	FY17E			FY18E			OP comments
	New	Old	% Chg	New	Old	% Chg	
Shipments (mn)							
Non-laminated Modules	30	59	(50.0)	31	56	(44.7)	Mainly reflect disappointing 1H17 shipments
Laminated Modules	26	26	0.0	34	35	(3.7)	
ASP (RMB)							
Non-laminated Modules	43	35	22.2	44	24	84.8	
Laminated Modules	92	81	14.0	89	94	(6.2)	Mainly reflect shortage of components in 2017 and increasing proportion of Non-laminated LTPS module
Revenue(RMBmn)							
Non-laminated Modules	1,276	2,089	(38.9)	1,360	1,331	2.1	
Laminated Modules	2,409	2,113	14.0	3,018	3,340	(9.6)	
(RMB mn)							
Revenue	3,686	4,202	(12.3)	4,378	4,671	(6.3)	
Gross profit	297	271	9.5	365	366	(0.2)	
Gross margin	8.1%	6.5%	1.6	8.3%	7.8%	0.5	Mainly reflect operating leverage, reducing raw material cost
Opex	(121)	(123)	(1.6)	(138)	(140)	(0.9)	
EBIT	188	154	22.1	238	231	3.0	
Net Profit	130	113	14.9	175	171	2.2	
Diluted EPS (HK\$)	0.077	0.067	14.9	0.103	0.101	2.2	

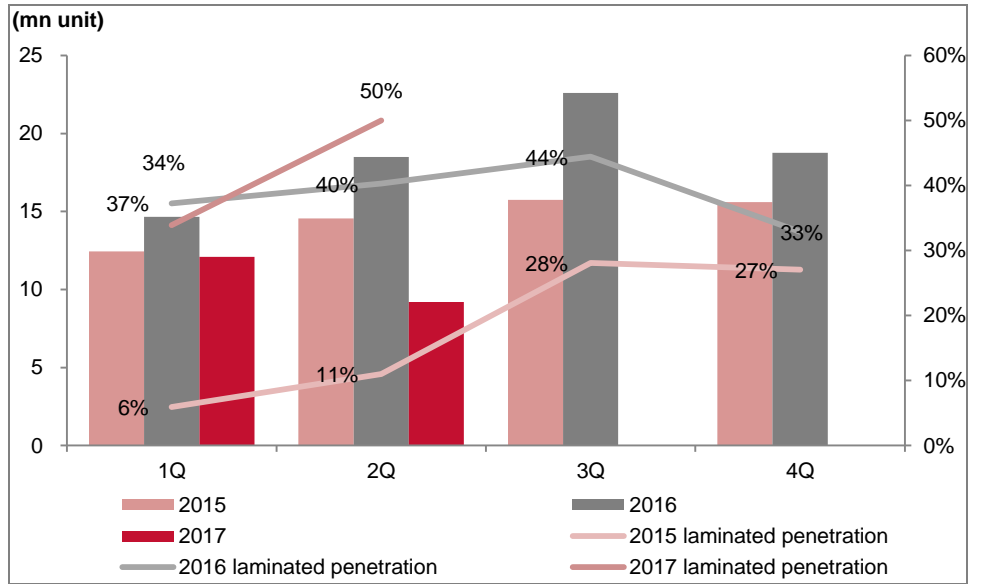
Source: Company, OP Research

Exhibit 3: Results Summary

(RMB mn)	1H16	2H16	1H17	1H17 YoY %	2H17E
Revenue	1,450	2,229	1,497	3%	2,188
COGS	(1,405)	(2,068)	(1,354)	-4%	(2,034)
Gross profit	45	161	143	218%	154
Other income & gains	19	33	8	-61%	7
Selling exp	(18)	(18)	(21)	13%	(16)
Admin exp	(35)	(38)	(39)	10%	(40)
Other opex	(2)	(3)	(1)	-39%	(3)
Operating profit (EBIT)	9	134	90	941%	102
Provisions or other items	0	0	0	na	0
Finance costs	(8)	(12)	(17)	108%	(13)
Profit after financing costs	1	122	73	10941%	89
Associated cos	0	0	0	na	0
Jointly controlled cos	0	0	0	na	0
Pre-tax profit	1	122	73	10941%	89
Tax	3	(35)	(8)	-339%	(24)
Minority interests	0	0	2	na	(2)
Adj. net profit	4	87	67	1575%	62
HoH%					
Revenue	13%	54%	-33%		46%
Gross profit	-41%	257%	-11%		8%
Net profit	-87%	2072%	-23%		-7%
YoY%					
Revenue	51%	74%	3%		-2%
Gross profit	-29%	111%	218%		-4%
Adj. net profit	-90%	174%	1575%		-28%
Key ratios					
GPM	3.1%	7.2%	9.5%		7.0%
Selling exp	1.3%	0.8%	1.4%		0.7%
Admin exp	2.4%	1.7%	2.6%		1.8%
EIT	-505.7%	28.5%	11.0%		27.4%
Adj. net margin	0.3%	3.9%	4.5%		2.9%

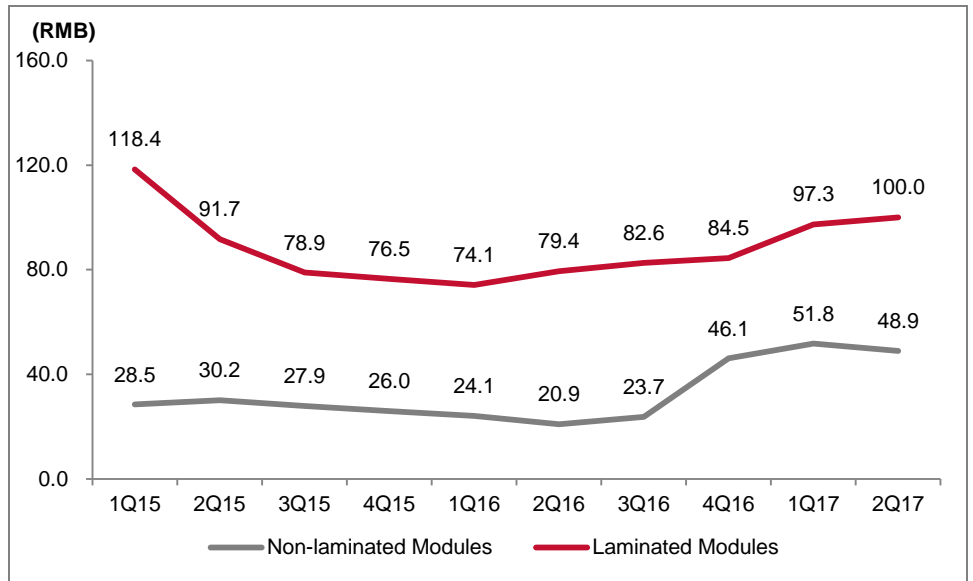
Source: Company, OP Research

Exhibit 4: Quaterly display module shipments and laminated module penetration



Source: Company, OP Research

Exhibit 5: Non-laminated and laminated module ASP



Source: Company, OP Research

Financial Summary

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Income Statement (RMB mn)					
Non-laminated Modules	1,337	1,331	1,276	1,360	1,430
Laminated Modules	906	2,347	2,409	3,018	3,330
Turnover	2,243	3,678	3,686	4,378	4,760
YoY%	(14)	64	0	19	9
COGS	(2,103)	(3,473)	(3,388)	(4,013)	(4,315)
Gross profit	140	206	297	365	445
Gross margin	6.2%	5.6%	8.1%	8.3%	9.4%
Other income	30	47	11	11	11
Selling & distribution	(33)	(36)	(37)	(42)	(46)
Admin	(52)	(74)	(79)	(91)	(99)
R&D	0	0	0	0	0
Listing expenses	(142)	0	0	0	0
Other opex	(0)	(5)	(5)	(5)	(6)
Total opex	(227)	(115)	(121)	(138)	(151)
Operating profit (EBIT)	(57)	138	188	238	305
Operating margin	-2.6%	3.8%	5.1%	5.4%	6.4%
Provisions	0	0	0	0	0
Interest Income	2	5	4	4	5
Finance costs	(8)	(20)	(29)	(24)	(24)
Profit after financing costs	(64)	122	162	218	286
Associated companies & JVs	0	0	0	0	2
Pre-tax profit	(64)	122	162	218	288
Tax	(6)	(31)	(32)	(44)	(57)
Minority interests	0	0	0	0	0
Adj. net profit	73	91	130	175	231
YoY%	(42)	25	42	35	32
Net margin	3.2%	2.5%	3.5%	4.0%	4.9%
Reported net profit	(70)	91	130	175	231
EBITDA	(19)	183	236	298	370
EBITDA margin	-0.8%	5.0%	6.4%	6.8%	7.8%
EPS (RMB)	0.042	0.043	0.061	0.083	0.110
YoY%	n.a.	2	42	35	32
DPS (HK\$)	0.000	0.020	0.028	0.038	0.051
Cash Flow (RMB mn)					
EBITDA	(19)	183	236	298	370
Chg in working cap	271	(31)	(25)	13	(5)
Others	(55)	40	0	0	0
Operating cash	198	191	212	310	366
Tax	(20)	(9)	(52)	(32)	(44)
Net cash from operations	178	182	159	278	322
Capex	(64)	(107)	(221)	(88)	(95)
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	2	5	4	4	5
Others	28	0	0	0	0
Investing cash	(34)	(102)	(218)	(83)	(90)
FCF	144	80	(58)	195	232
Issue of shares	0	137	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	(79)	0	(36)	(46)	(62)
Net change in bank loans	54	(17)	218	0	0
Interest paid	(5)	(16)	(29)	(24)	(24)
Others	0	(3)	0	0	0
Financing cash	(30)	100	152	(70)	(86)
Net change in cash	113	180	94	124	146
Exchange rate or other Adj	(30)	(2)	0	0	0
Opening cash	203	287	465	559	683
Closing cash	287	465	559	683	829
CFPS (HK\$)	0.129	0.108	0.094	0.165	0.191

Source: Company, OP Research

Year to Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Ratios					
Gross margin (%)	6.2	5.6	8.1	8.3	9.4
Operating margin (%)	(2.6)	3.8	5.1	5.4	6.4
Net margin (%)	3.2	2.5	3.5	4.0	4.9
Selling & dist'n exp/Sales (%)	1.5	1.0	1.0	1.0	1.0
Admin exp/Sales (%)	2.3	2.0	2.1	2.1	2.1
Payout ratio (%)	0.0	37.1	37.1	37.1	37.1
Effective tax (%)	(9.4)	25.6	20.0	20.0	20.0
Total debt/equity (%)	186.6	49.6	86.7	67.9	52.8
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.0	1.1	1.1	1.1	1.1
Quick ratio (x)	0.8	0.9	0.9	0.9	0.9
Inventory T/O (days)	27	39	39	39	39
AR T/O (days)	97	98	98	98	98
AP T/O (days)	141	139	139	139	139
Cash conversion cycle (days)	(16)	(2)	(2)	(2)	(2)
Asset turnover (x)	1.8	2.1	1.6	1.7	1.6
Financial leverage (x)	13.6	7.3	5.4	4.9	4.4
EBIT margin (%)	(2.6)	3.8	5.1	5.4	6.4
Interest burden (x)	1.1	0.9	0.9	0.9	0.9
Tax burden (x)	(1.1)	0.7	0.8	0.8	0.8
Return on equity (%)	78.8	38.5	31.3	33.2	34.3
ROIC (%)	(43.8)	203.3	76.9	62.2	76.4
Balance Sheet (RMB mn)					
Fixed assets	164	193	366	394	424
Intangible assets & goodwill	0	0	0	(0)	(0)
Associated companies & JVs	0	0	0	0	2
Long-term investments	18	18	18	18	18
Other non-current assets	10	43	43	43	43
Non-current assets	193	254	427	454	486
Inventories	158	367	358	424	456
AR	598	990	992	1,179	1,282
Prepayments & deposits	99	44	44	53	57
Other current assets	0	0	0	0	0
Cash	287	465	559	683	829
Current assets	1,141	1,867	1,954	2,339	2,624
AP	810	1,320	1,288	1,525	1,640
Tax	36	52	32	44	57
Accruals & other payables	174	192	193	229	249
Bank loans & leases	137	120	338	338	338
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	1,157	1,684	1,851	2,135	2,284
Bank loans & leases	0	0	0	0	0
CB & othe debts	59	63	63	63	63
Deferred tax & others	13	6	6	6	6
MI	0	0	0	0	0
Non-current liabilities	72	68	68	68	68
Total net assets	105	368	461	590	758
Shareholder's equity	105	368	461	590	758
Share capital	139	165	165	165	165
Reserves	(34)	203	296	425	593
BVPS (HK\$)	0.08	0.23	0.28	0.36	0.47
Total debts	196	183	400	400	400
Net cash/(debts)	91	282	159	283	429

Exhibit 6: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER	PER	PER	EPS		3-Yr EPS Cagr (%)	PEG (x)	Div yld			Ebitda Hist	Ebitda Cur Yr	EV/ Ebitda	Net gearing	Gross margin	Net margin	ROE	ROE	Sh px	Sh px
								FY1	FY2			Hist (%)	Div yld (%)	P/B Hist										
China Display Op	334 HK	1.09	283	0.5	21.7	15.2	11.3	42.4	34.6	36.4	0.42	1.7	2.4	4.81	4.12	11.5	9.4	Net cash	5.6	2.5	38.5	31.3	(7.6)	(9.9)
HSI		27,854.91			14.5	13.2	12.2	9.8	8.8	9.4	1.41	3.2	3.6	1.38	1.32						9.5	10.0	9.9	13.3
HSCEI		11,079.79			9.2	8.7	8.0	4.8	8.6	7.8	1.12	3.6	3.4	1.07	0.99						11.7	11.3	8.1	11.0
CSI300		3,732.21			16.4	14.4	12.7	13.7	12.9			1.9	2.0	1.9	1.8						11.9	12.4	2.1	11.1
Adjusted sector avg*					39.6	18.2	15.0	126.4	15.0	23.7	0.4	1.1	1.5	1.9	1.6	9.1	6.3	27.5	12.6	1.8	9.9	13.6	(2.4)	4.7
Truly Intl Hldgs	732 HK	2.61	970	3.9	13.0	11.2	8.8	16.4	27.0	22.9	0.49	3.1	3.1	N/A	0.99	5.8	5.4	75.6	9.9	2.6	N/A	9.8	(3.7)	0.8
Byd Electronic	285 HK	19.52	5,623	25.1	30.4	18.0	14.3	69.3	25.9	37.2	0.48	0.8	1.1	3.21	2.76	11.5	8.8	0.0	7.6	3.4	11.1	16.0	8.4	53.2
Shenzhen O-Fil-A	002456 CH	18.98	7,688	98.0	68.8	33.7	23.8	104.2	41.4	53.9	0.63	0.2	0.4	6.14	4.86	36.7	23.8	68.9	11.3	2.7	10.9	15.8	4.4	27.3
Boe Technology-A	000725 CH	3.82	19,744	283.3	70.7	19.8	18.8	257.4	5.2	37.4	0.53	0.8	1.0	1.66	1.40	13.0	7.0	21.4	17.3	2.8	5.3	8.3	(7.7)	3.0
Tianma-A	000050 CH	22.74	4,753	95.3	56.0	36.3	27.6	54.1	31.8	39.2	0.93	0.3	0.4	2.28	2.15	26.8	16.0	0.0	19.8	5.3	5.1	6.9	5.8	32.6
Au Optronics	2409 TT	12.00	3,827	39.4	14.8	3.8	13.9	289.6	(72.7)	(19.7)	N/A	4.7	7.6	0.61	0.56	3.3	2.4	22.4	10.5	2.4	12.5	13.7	(6.3)	(1.2)
Innolux	3481 TT	14.35	4,732	60.4	75.5	3.8	12.6	1,888.9	(69.9)	44.6	0.09	0.7	5.4	0.61	0.55	3.0	1.9	9.2	9.1	0.7	9.7	15.3	(6.8)	4.4
Japan Display	6740 JP	198.00	1,077	16.9	N/A	N/A	N/A	N/A	N/A	(28.1)	N/A	N/A	0.0	0.37	0.39	1.6	1.9	16.2	7.7	(3.6)	(9.2)	(7.5)	(2.0)	(14.3)
Sharp Corp	6753 JP	385.00	17,353	68.4	N/A	41.6	38.5	N/A	8.1	(220.8)	N/A	N/A	0.0	20.75	7.16	18.2	14.5	74.1	18.7	(1.2)	N/A	13.9	(5.2)	(8.1)
Samsung Electron	005930 KS	2,386,000.00	274,824	480.7	15.1	8.3	7.4	81.9	12.5	28.8	0.29	1.2	1.5	1.59	1.59	5.0	3.3	0.0	40.4	11.1	12.2	20.0	(0.3)	1.5
Lg Display Co Lt	034220 KS	30,650.00	9,734	113.8	12.1	5.1	7.4	138.5	(31.9)	20.9	0.24	1.6	1.7	0.83	0.75	3.2	2.2	15.2	14.1	3.4	12.2	15.9	(16.0)	0.8

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg, OP Research

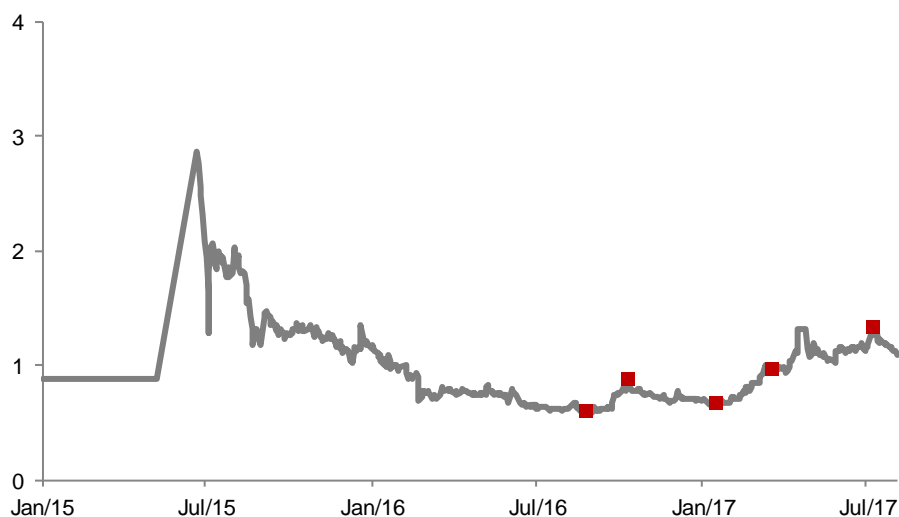
Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
07/08/2017	Dynagreen Environmental	1330	Tongzhou Phase Two off launch-pad	BUY	Bruce Yeung
27/07/2017	China Securities Sector	-	Preliminary 1H17 results	BUY	Bruce Yeung/Daisy Wang
20/07/2017	Canvest	1381	Fast and Fabulous	BUY	Bruce Yeung/Daisy Wang
11/07/2017	Dynagreen Environmental	1330	Positive catalyst ahead	BUY	Bruce Yeung/Daisy Wang
30/06/2017	GTJA	2611	Catching the momentum	BUY	Bruce Yeung/Daisy Wang
28/06/2017	Chinasoft Intl	354	1H17E result preview	BUY	Yuji Fung
13/06/2017	Q Tech	1478	Product mix continues to improve in May	BUY	Yuji Fung
12/06/2017	CH Display OPT	334	Promising prospects from share deal	BUY	Yuji Fung
12/06/2017	Sunny Optical	2382	Momentum in May pushes shipment	BUY	Yuji Fung
31/05/2017	Truly Intl	732	1Q17 results up to expectations	BUY	Yuji Fung
26/05/2017	C Cheng	1486	Le Mariage	BUY	Bruce Yeung
11/05/2017	Q Tech	1478	CCM shipment growth accelerated in April	BUY	Chloe Liu/Yuji Fung
11/05/2017	China Securities Sector	-	1Q17 review looking rosy	BUY	Bruce Yeung/Daisy Wang
10/05/2017	Sunny Optical	2382	Strong growth in April HLS shipments	BUY	Chloe Liu/Yuji Fung
09/05/2017	Kingdom Holdings	528	Heilongjiang plant kicks off in 3Q17E	HOLD	Bruce Yeung
08/05/2017	HNA Holding	521	Transforming story for OBOR	NR	Bruce Yeung/Daisy Wang
08/05/2017	Truly Intl	732	April sales in line	BUY	Chloe Liu/Yuji Fung
28/04/2017	TCL Multimedia	1070	Solid 1Q17 results	BUY	Chloe Liu/Yuji Fung
27/04/2017	China Securities Sector	-	Geared for 2017	BUY	Bruce Yeung/Daisy Wang
12/04/2017	Chunli Medical	1858	Transition on the way	BUY	Chloe Liu/Yuji Fung
11/04/2017	Sunny Optical	2382	Robust growth continues in Mar17	HOLD	Chloe Liu/Yuji Fung
11/04/2017	Q Tech	1478	1Q17 shipments beat on product mix upgrade	BUY	Chloe Liu/Yuji Fung
11/04/2017	CH Display OPT	334	Strong Mar17 sales	BUY	Chloe Liu/Yuji Fung
03/04/2017	Sinosoft Tech	1297	Solid FY16 results	BUY	Chloe Liu/Yuji Fung
29/03/2017	Chinasoft Intl	354	Solid FY16 results on rising sales	BUY	Chloe Liu/Yuji Fung
27/03/2017	Lifetech SCI	1302	FY16 results inline	BUY	Chloe Liu/Yuji Fung
24/03/2017	Harmonicare	1509	FY16 bottom line inline	BUY	Chloe Liu/Yuji Fung

Historical recommendations and target price: CH Display OPT (334 HK)

(as of 08/08/2017)

(HKS)



DATE	RECOMMENDATION	TARGET PRICE	CLOSE PRICE
1 29 Aug 2016	BUY	0.72	0.61
2 14 Oct 2016	BUY	1.00	0.88
3 20 Jan 2017	BUY	1.06	0.68
4 22 Mar 2017	BUY	1.34	0.96
5 12 Jul 2017	BUY	1.50	1.33

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