

# CH Display OPT (334 HK)

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## Company Update

### BUY

**UNCHANGED**
**Close price:** HK\$0.94

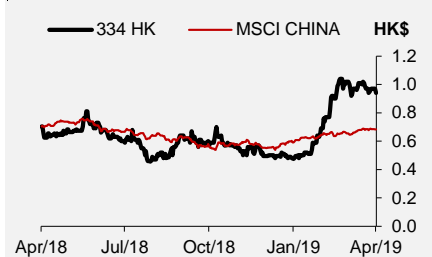
**Target Price:** HK\$1.20 (+28%)

**Prior TP:** HK\$1.20

**Key Data**

HKEx code	334
12 Months High (HK\$)	1.07
12 Month Low (HK\$)	0.44
3M Avg Dail Vol. (mn)	7.57
Issue Share (mn)	2,105.91
Market Cap (HK\$mn)	1,979.55
Fiscal Year	12/2018
Major shareholder (s)	Shenzhen China Star (65.05%)

Source: Company data, Bloomberg, OP Research  
 Closing price are as of 23/04/2019

**Price Chart**


	1mth	3mth	6mth
Absolute %	-7.8	97.9	59.3
Rel. MSCI CHINA %	-12.1	82.5	36.4

**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.

## 1Q19E operations in line with expectations

- **CDOT released 1Q19E operations update with revenue/shipments up 245.2%/213.4% yoy to RMB1,996mn/25.5mn pcs.**
- **We see potential downsides in current ASP due to new procurement arrangement that excludes panel cost.**
- **Maintain BUY with TP HK\$1.20 unchanged based on same 10x FY20E PE.**

**1Q19E operations in line with expectations.** CDOT announced 1Q19E operations update with revenue up 245.2% yoy to RMB1,996mn, of which revenue from laminated module jumped 336.5% yoy to RMB1,636mn due to (1) more than tripled shipments (17.8mn in 1Q19E vs 4.1mn in 1Q18) thanks to the contribution of Korean client and the strong orders from domestic handset brands; (2) stabilized ASP of around RMB92 per pc from a sharp drop in 4Q18. Non-laminated LCD contributed RMB360mn, up 77.1% yoy thanks to ~90% growth in shipments which offsets the impact from ASP erosion.

By the end of 1Q19E the company had achieved 29% of our full year revenue target and 18% of our full year shipments target, overall in line with OP expectations.

**Potential downside in ASP and margin due to new order package.** We see potential downside in our forecast ASP, esp. for laminated products as certain clients of the company have changed their procurement arrangements and decided to purchase panel directly from panel supplier instead of as a bundle from CDOT, which may result in ~20% QoQ decrease in ASP of affected orders. We also expect some downsides in GPM due to less panel-related processing is needed

**Maintain BUY.** We maintain BUY on CDOT with TP HK\$1.20 unchanged based on same 10x FY20E P/E as the company is riding on the structural shift of LCD module production to China from Korean peers.

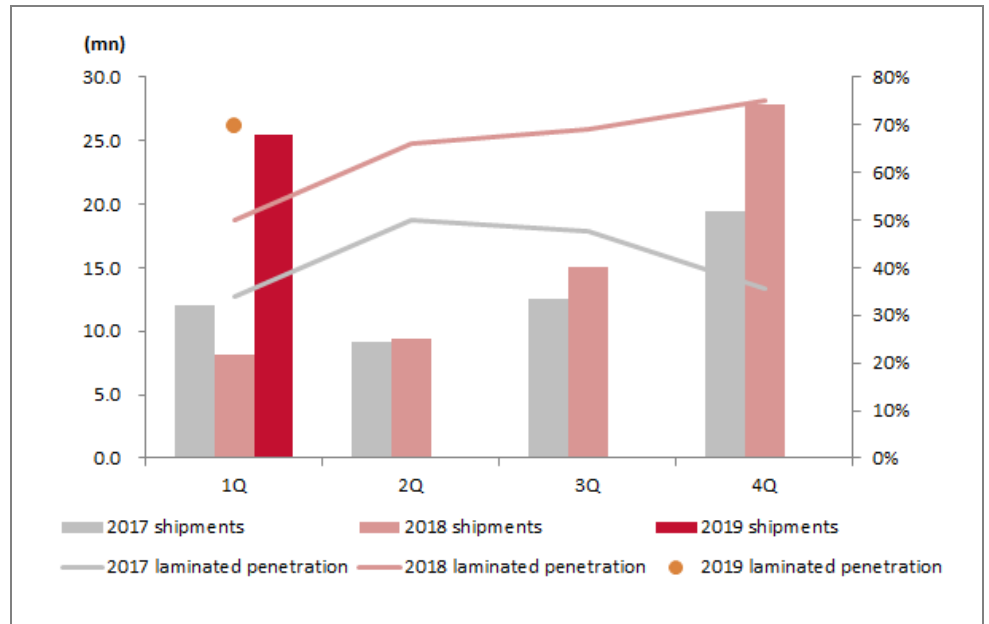
**Risks:** (1) Lower than expected GPM due to new panel arrangement; (2) Slower than expected ramp-up of Wuhan factory, (3) Higher than expected ASP pressure in LCD module market.

**Exhibit 1: Forecast and Valuation**

Year to Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	3,464.6	5,280.9	6,776.5	8,164.4	9,250.0
Growth (%)	(5.8)	52.4	28.3	20.5	13.3
Adj. net Profit	115.7	81.8	147.9	206.5	232.9
Growth (%)	27.0	(29.3)	80.8	39.7	12.8
Diluted EPS (HK\$)	0.071	0.049	0.086	0.120	0.135
EPS growth (%)	32.0	(30.7)	74.1	39.7	12.8
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			0.105	0.135	
ROE (%)	26.7	15.7	23.9	25.9	22.9
P/E (x)	14.3	20.7	11.9	8.5	7.5
P/B (x)	3.1	2.9	2.3	1.7	1.4
Yield (%)	2.0	0.0	0.0	0.0	0.0
DPS (HK\$)	0.020	0.000	0.000	0.000	0.000

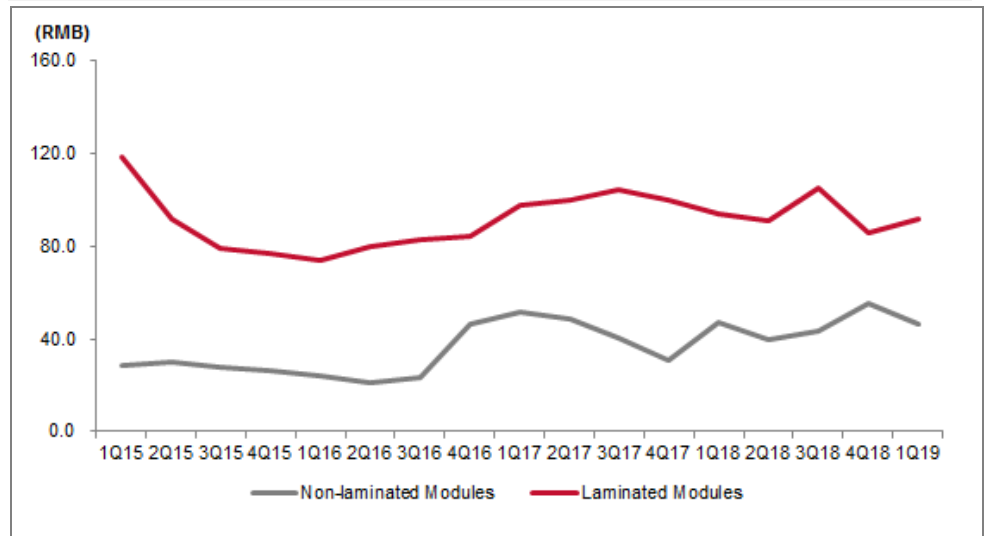
Source: Bloomberg, OP Research

Exhibit 2: Quarterly shipments



Source: Company, OP Research

**Exhibit 3: ASP summary**



Source: Company, OP Research

## Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Income Statement (RMB mn)</b>					
Non-laminated Modules	1,292	900	573	394	271
Laminated Modules	2,173	4,381	3,923	4,350	4,419
Orders from tier-one client		0	2,280	3,420	4,560
<b>Turnover</b>	<b>3,465</b>	<b>5,281</b>	<b>6,776</b>	<b>8,164</b>	<b>9,250</b>
YoY%	(6)	52	28	20	13
COGS	(3,185)	(5,033)	(6,401)	(7,711)	(8,742)
<b>Gross profit</b>	<b>280</b>	<b>248</b>	<b>375</b>	<b>453</b>	<b>508</b>
Gross margin	8.1%	4.7%	5.5%	5.6%	5.5%
Other income	45	39	29	29	29
Selling & distribution	(42)	(27)	(52)	(46)	(52)
Admin	(115)	(97)	(106)	(101)	(112)
R&D	0	0	0	0	0
Listing expenses	0	0	0	0	0
Other opex	(9)	(12)	(10)	(11)	(11)
<b>Total opex</b>	<b>(166)</b>	<b>(137)</b>	<b>(168)</b>	<b>(158)</b>	<b>(175)</b>
<b>Operating profit (EBIT)</b>	<b>159</b>	<b>150</b>	<b>236</b>	<b>325</b>	<b>363</b>
Operating margin	4.6%	2.8%	3.5%	4.0%	3.9%
Provisions	0	0	0	0	0
Interest Income	4	6	2	2	3
Finance costs	(31)	(18)	(25)	(25)	(25)
Profit after financing costs	132	138	213	302	341
Associated companies & JVs	0	0	2	0	0
Pre-tax profit	132	138	215	302	341
Tax	(20)	(36)	(43)	(60)	(68)
Minority interests	5	(20)	(25)	(35)	(40)
<b>Adj. net profit</b>	<b>116</b>	<b>82</b>	<b>148</b>	<b>206</b>	<b>233</b>
YoY%	27	(29)	81	40	13
Net margin	3.3%	1.5%	2.2%	2.5%	2.5%
<b>Reported net profit</b>	<b>116</b>	<b>82</b>	<b>148</b>	<b>206</b>	<b>233</b>
<b>EBITDA</b>	<b>207</b>	<b>230</b>	<b>335</b>	<b>443</b>	<b>505</b>
EBITDA margin	6.0%	4.3%	4.9%	5.4%	5.5%
<b>EPS (RMB)</b>	<b>0.057</b>	<b>0.039</b>	<b>0.069</b>	<b>0.096</b>	<b>0.108</b>
YoY%	32	(31)	74	40	13
DPS (HK\$)	0.020	0.000	0.000	0.000	0.000
<b>Cash Flow (RMB mn)</b>					
EBITDA	207	230	335	443	505
Chg in working cap	(233)	(125)	(81)	(62)	(47)
Others	72	0	0	0	0
<b>Operating cash</b>	<b>46</b>	<b>105</b>	<b>253</b>	<b>380</b>	<b>458</b>
Tax	(34)	(36)	(48)	(43)	(60)
<b>Net cash from operations</b>	<b>12</b>	<b>69</b>	<b>206</b>	<b>338</b>	<b>398</b>
Capex	(319)	(250)	(203)	(245)	(277)
Investments	0	0	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests received	4	6	2	2	3
Others	0	0	0	0	0
<b>Investing cash</b>	<b>(314)</b>	<b>(244)</b>	<b>(201)</b>	<b>(243)</b>	<b>(275)</b>
<b>FCF</b>	<b>(302)</b>	<b>(175)</b>	<b>4</b>	<b>95</b>	<b>123</b>
Issue of shares	5	0	0	0	0
Buy-back	(5)	0	0	0	0
Minority interests	120	0	0	0	0
Dividends paid	(35)	(34)	0	0	0
Net change in bank loans	294	(26)	0	0	0
Interest paid	(27)	(18)	(25)	(25)	(25)
Others	0	7	0	0	0
<b>Financing cash</b>	<b>351</b>	<b>(72)</b>	<b>(25)</b>	<b>(25)</b>	<b>(25)</b>
<b>Net change in cash</b>	<b>49</b>	<b>(247)</b>	<b>(20)</b>	<b>70</b>	<b>98</b>
Exchange rate or other Adj	(7)	17	0	0	0
Opening cash	465	508	277	257	327
<b>Closing cash</b>	<b>508</b>	<b>277</b>	<b>257</b>	<b>327</b>	<b>425</b>
<b>CFPS (HK\$)</b>	<b>0.008</b>	<b>0.042</b>	<b>0.120</b>	<b>0.196</b>	<b>0.231</b>

Source: Company, OP Research

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Ratios</b>					
Gross margin (%)	8.1	4.7	5.5	5.6	5.5
Operating margin (%)	4.6	2.8	3.5	4.0	3.9
Net margin (%)	3.3	1.5	2.2	2.5	2.5
Selling & dist'n exp/Sales (%)	1.2	0.5	0.8	0.6	0.6
Admin exp/Sales (%)	3.3	1.8	1.6	1.2	1.2
Payout ratio (%)	28.1	0.0	0.0	0.0	0.0
Effective tax (%)	15.5	26.2	20.0	20.0	20.0
Total debt/equity (%)	89.9	77.4	60.9	46.9	37.3
Net debt/equity (%)	Net cash 26.5	23.8	10.5	Net cash	
Current ratio (x)	1.1	1.0	1.0	1.1	1.1
Quick ratio (x)	1.0	0.8	0.8	0.9	0.9
Inventory T/O (days)	26	42	42	42	42
AR T/O (days)	117	148	148	148	148
AP T/O (days)	129	164	164	164	164
Cash conversion cycle (days)	14	26	26	26	26
Asset turnover (x)	1.5	1.7	1.6	1.6	1.5
Financial leverage (x)	5.3	6.0	6.9	6.5	6.0
EBIT margin (%)	4.6	2.8	3.5	4.0	3.9
Interest burden (x)	0.8	0.9	0.9	0.9	0.9
Tax burden (x)	0.9	0.6	0.7	0.7	0.7
<b>Return on equity (%)</b>	<b>26.7</b>	<b>15.7</b>	<b>23.9</b>	<b>25.9</b>	<b>22.9</b>
<b>ROIC (%)</b>	<b>41.7</b>	<b>15.9</b>	<b>20.5</b>	<b>23.5</b>	<b>22.7</b>
<b>Balance Sheet (RMB mn)</b>					
Fixed assets	463	603	709	837	974
Intangible assets & goodwill	6	6	4	3	2
Associated companies & JVs	0	0	2	2	2
Long-term investments	15	18	18	18	18
Other non-current assets	38	61	61	61	61
<b>Non-current assets</b>	<b>522</b>	<b>686</b>	<b>793</b>	<b>920</b>	<b>1,056</b>
Inventories	225	575	731	880	998
AR	1,115	2,145	2,753	3,317	3,758
Prepayments & deposits	91	129	166	200	226
Other current assets	1	0	0	0	0
Cash	508	277	257	327	425
<b>Current assets</b>	<b>1,938</b>	<b>3,127</b>	<b>3,907</b>	<b>4,724</b>	<b>5,407</b>
AP	1,128	2,257	2,871	3,458	3,920
Tax	36	48	43	60	68
Accruals & other payables	207	372	477	575	651
Bank loans & leases	390	361	361	361	361
CB & other debts	0	0	0	0	0
Other current liabilities	1	0	0	0	0
<b>Current liabilities</b>	<b>1,760</b>	<b>3,037</b>	<b>3,751</b>	<b>4,454</b>	<b>5,000</b>
Bank loans & leases	0	0	0	0	0
CB & other debts	59	61	61	61	61
Deferred tax & others	28	34	34	34	34
MI	115	135	160	195	235
<b>Non-current liabilities</b>	<b>201</b>	<b>231</b>	<b>256</b>	<b>291</b>	<b>331</b>
<b>Total net assets</b>	<b>498</b>	<b>545</b>	<b>693</b>	<b>899</b>	<b>1,132</b>
<b>Shareholder's equity</b>	<b>498</b>	<b>545</b>	<b>693</b>	<b>899</b>	<b>1,132</b>
Share capital	170	170	170	170	170
Reserves	329	375	523	730	962
<b>BVPS (HK\$)</b>	<b>0.30</b>	<b>0.33</b>	<b>0.42</b>	<b>0.54</b>	<b>0.68</b>
Total debts	448	422	422	422	422
Net cash/(debts)	60	(145)	(165)	(95)	3

**Exhibit 4: Peer Group Comparison**

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER	PER	PER	EPS		Div yld			EV/		Net margin	Gross margin	Net margin	ROE	ROE	Sh px	Sh px			
								FY1	FY2	3-Yr EPS Cagr (%)	PEG (x)	Hist (%)	Div yld P/B	Hist P/B								FY1 (x)	Ebitda Hist	Ebitda Cur Yr
<b>China Display Op</b>	<b>334 HK</b>	<b>0.94</b>	<b>252</b>	<b>0.9</b>	<b>20.7</b>	<b>11.9</b>	<b>8.5</b>	<b>74.1</b>	<b>39.7</b>	<b>40.0</b>	<b>0.30</b>	<b>0.0</b>	<b>0.0</b>	<b>2.88</b>	<b>2.26</b>	<b>9.2</b>	<b>6.4</b>	<b>26.5</b>	<b>4.7</b>	<b>1.5</b>	<b>15.7</b>	<b>23.9</b>	<b>(7.8)</b>	<b>97.9</b>
HSI		29,963.24			11.7	11.6	10.7	0.9	8.1	5.8	1.98	3.3	3.5	1.39	1.28						11.9	11.0	1.7	10.6
HSCEI		11,731.02			9.7	8.9	8.3	8.1	8.2	8.1	1.10	3.5	3.8	1.20	1.06						12.4	11.9	0.4	10.3
CSI300		4,019.01			15.2	12.8	11.4	19.2	12.4			2.0	2.5	1.9	1.7						12.6	13.1	4.8	28.0
<b>Adjusted sector avg*</b>					<b>29.0</b>	<b>12.8</b>	<b>12.5</b>	<b>37.2</b>	<b>19.6</b>	<b>16.8</b>	<b>0.6</b>	<b>2.2</b>	<b>1.3</b>	<b>1.0</b>	<b>1.0</b>	<b>5.3</b>	<b>5.9</b>	<b>40.9</b>	<b>11.5</b>	<b>3.9</b>	<b>8.5</b>	<b>7.5</b>	<b>(0.1)</b>	<b>22.6</b>
Truly Intl Hldgs	732 HK	1.30	545	4.1	55.1	5.3	5.3	946.6	(0.8)	140.9	0.04	N/A	4.0	0.54	0.49	5.2	3.7	82.7	9.5	0.4	1.0	5.8	0.0	42.9
Byd Electronic	285 HK	14.02	4,027	17.3	12.4	10.6	9.5	16.6	11.9	14.5	0.73	2.0	1.9	1.71	1.49	5.1	4.9	0.0	10.2	5.3	14.6	14.0	41.3	54.4
Ofilm Group Co-A	002456 CH	13.78	5,564	267.8	44.9	19.8	14.7	126.6	34.3	56.3	0.35	0.3	0.6	3.57	3.44	19.5	10.5	107.2	13.5	2.4	12.1	18.0	(5.7)	47.1
Boe Technology-A	000725 CH	3.86	19,803	761.9	38.6	32.7	21.9	18.0	49.2	27.9	1.17	1.3	0.8	1.56	1.41	11.5	9.8	57.5	19.7	3.6	4.0	4.6	(5.2)	45.7
Tianma-A	000050 CH	15.80	4,816	214.5	34.4	18.9	15.8	81.6	19.6	40.1	0.47	0.4	0.8	1.23	1.22	N/A	10.7	58.5	14.8	3.2	6.5	7.1	(3.6)	62.9
Au Optronics	2409 TT	11.25	3,510	17.3	10.6	N/A	N/A	N/A	N/A	(9.1)	N/A	13.3	1.9	0.53	0.54	3.4	4.4	8.1	9.1	3.3	4.9	(1.9)	(3.0)	(9.3)
Innolux	3481 TT	10.10	3,258	10.3	45.9	N/A	N/A	N/A	N/A	(18.3)	N/A	7.9	0.3	0.39	0.41	1.6	2.1	0.0	9.6	0.8	0.9	(2.0)	0.0	(2.4)
Japan Display	6740 JP	79.00	598	11.3	N/A	N/A	N/A	N/A	N/A	(85.4)	N/A	N/A	0.0	0.65	0.69	6.8	5.5	130.7	(0.4)	(34.5)	(95.3)	(24.8)	11.3	(16.8)
Sharp Corp	6753 JP	1,294.00	6,159	25.2	12.2	9.8	10.5	24.1	(6.3)	5.1	1.93	0.8	0.8	1.89	2.00	7.5	7.0	53.6	16.7	2.9	25.2	20.3	5.5	10.3
Samsung Electron	005930 KS	45,200.00	236,286	455.5	7.0	12.4	9.6	(43.5)	28.9	(4.0)	N/A	2.3	3.3	1.12	1.19	2.2	3.3	0.0	45.7	18.0	17.3	9.6	(2.9)	7.6
Lg Display Co Lt	034220 KS	21,250.00	6,658	29.7	N/A	N/A	28.8	N/A	N/A	(243.4)	N/A	N/A	2.3	0.54	0.54	4.0	3.3	41.1	12.7	(0.9)	(1.5)	(1.0)	2.2	6.8

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

Source: Bloomberg, OP Research

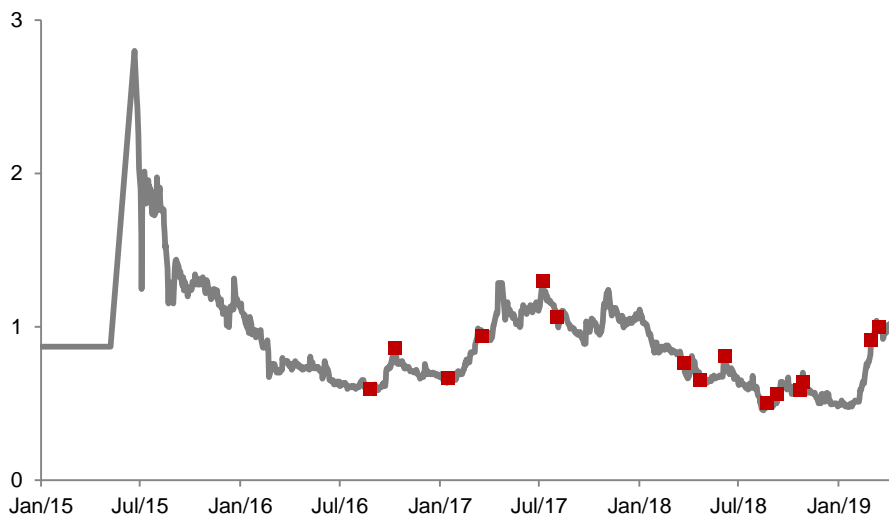
## Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
23/04/2019	Zhongyu Gas	3633	Comeback with dollar margin improvement	NR	Megan Jin
18/04/2019	Li Ning	2331	Upbeat 1Q19E sales performance	HOLD	Dallas Cai/Megan Jin
15/04/2019	Anta Sports	2020	1Q19E retail performance in line	BUY	Dallas Cai/Megan Jin
10/04/2019	Q Tech	1478	March saw improving product mix	BUY	Yuji Fung/Dallas Cai
09/04/2019	Xtep Intl	1368	1Q19 operations on track	BUY	Dallas Cai/Megan Jin
09/04/2019	China Youzan	8083	Introducing Tencent as strategic investor	BUY	Yuji Fung/Dallas Cai
04/04/2019	Regal Intl Airport	357	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
02/04/2019	Tianlun Gas	1600	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
01/04/2019	Truly Int'l	732	FY18 earnings miss on GPM and loss from associate	BUY	Yuji Fung/Dallas Cai
28/03/2019	China Youzan	8083	FY18 saw narrower loss than expected	BUY	Yuji Fung/Dallas Cai
27/03/2019	Sinosoft Tech	1297	FY18 results in line	BUY	Yuji Fung/Dallas Cai
26/03/2019	Q Tech	1478	Downgrade to SELL as margin recovery was priced in	SELL	Yuji Fung/Dallas Cai
25/03/2019	Li Ning	2331	FY18 saw sustainable high-quality growth	HOLD	Dallas Cai/Megan Jin
22/03/2019	Chinasoft Intl	354	FY18 results up to expectations	BUY	Yuji Fung/Dallas Cai
21/03/2019	Sunny Optical	2382	Downgrade on fair value	HOLD	Yuji Fung/Dallas Cai
21/03/2019	Tongda	698	GPM likely bottom out	BUY	Yuji Fung/Dallas Cai
21/03/2019	Ju Teng Intl	3336	On secular trend of metal casing adoption	BUY	Yuji Fung/Dallas Cai
20/03/2019	CH Display OPT	334	FY18 revenue beat, earnings in line	BUY	Yuji Fung/Dallas Cai
20/03/2019	Ausnutria Dairy	1717	Margin expansion story continues	BUY	Dallas Cai
20/03/2019	TCL Electronics	1070	Promising FY19E ahead	BUY	Yuji Fung/Dallas Cai
18/03/2019	361 Degrees Intl	1361	Rebranding strategies to bear fruit in 2020E	BUY	Yuji Fung/Dallas Cai
15/03/2019	Kingdee Intl	268	FY18 results up to expectations	HOLD	Yuji Fung/Dallas Cai
13/03/2019	Xtep Intl	1368	Growth momentum likely keeps up in FY19E	BUY	Dallas Cai/Megan Jin
06/03/2019	Xtep Intl	1368	JV with Wolverine for multi-brand portfolio	BUY	Dallas Cai/Megan Jin
05/03/2019	CH Display OPT	334	Foldable smartphone play backed by CSOT	BUY	Yuji Fung/Dallas Cai
27/02/2019	Anta Sports	2020	FY18 revenue strong beat, profits in-line	BUY	Dallas Cai/Megan Jin
22/02/2019	Ausnutria Dairy	1717	FY18 profit surprise on margin expansion	BUY	Dallas Cai

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

(as of 23/04/2019)

(HK\$)



DATE	RATING	TP	CLOSE	DATE	RATING	TP	CLOSE
1 08 Aug 2017	BUY	HKD1.55	1.09	6 14 Sep 2018	BUY	HKD1.13	0.56
2 27 Mar 2018	BUY	HKD1.20	0.78	7 26 Oct 2018	BUY	HKD1.16	0.59
3 25 Apr 2018	BUY	HKD1.20	0.67	8 01 Nov 2018	BUY	HKD1.16	0.64
4 11 Jun 2018	BUY	HKD1.20	0.78	9 05 Mar 2019	BUY	HKD1.27	0.82
5 26 Aug 2018	BUY	HKD0.67	0.50	10 20 Mar 2019	BUY	HKD1.20	1.00

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