



Equity Research
Consumer Electronics/ China

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OP Express

Not Rated

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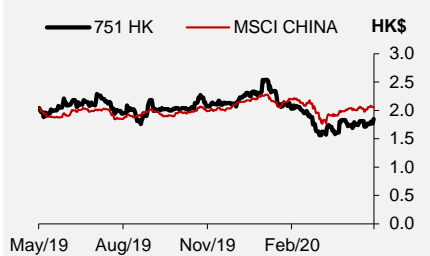
Close price: HK\$1.89

Key Data

HKEx code	751 HK
12 Months High (HK\$)	2.57
12 Month Low (HK\$)	1.51
3M Avg Dail Vol. (mn)	7.42
Issue Share (mn)	3,060.93
Market Cap (HK\$m)	5,785.16
Fiscal Year	12/2019
Major shareholder (s)	Wong Wang Sang & Lin Wei Ping (40.75%)

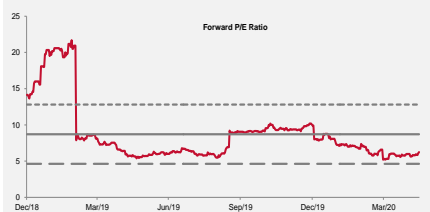
Source: Company data, Bloomberg, OP Research
Closing price are as of 15/05/2020

Price Chart



	1mth	3mth	6mth
Absolute %	6.8	-6.9	-8.7
Rel. MSCI CHINA %	4.6	-0.2	-11.8

PE



Company profile

The principal activities of Skyworth Group include manufacture and sales of smart TV systems, home access systems, smart white appliances, internet value-added services, property development and property holding.

Skyworth (751 HK)

The sky getting clear

TV OS Coocaa (酷開) ramping up as recurring revenue. As an embedded OS for every smart TV delivered, Coocaa had 30.45 mn monthly active users by March 20, while is activating about 439k users per month. Serving as distribution channel for Tencent's and iQiYi's digital content, Coocaa is entitled to sharing 25% of partners' subscription revenue. Having achieved doubled revenue growth in FY19, Coocaa continued to post a robust 36% 1Q20 growth. In addition to media subscription, advertising and apps store were also revenue drivers. This business also earns higher net margin at 15%. With the current run rate, we reckon Coocaa can contribute up to 20% of bottom line in a few years' time.

Diversifying away from TV business: (i) Management expects smart appliance (5.5% of group operating profit) to improve significantly as the coronavirus has eased in China and strong pipeline of innovative smart appliance to reap opportunities in 5G and IoT, (ii) Engaging in rental and property management in Industrial Park, plus after sales logistics modern services (35% of group operating profit) is expected to recover from a sharp 62% decline in 1Q20.

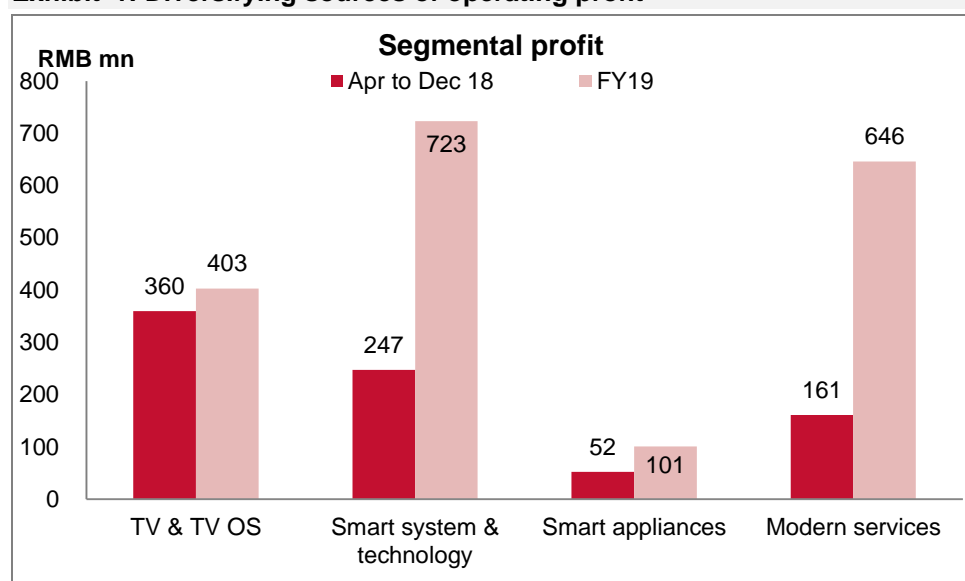
TV business may decline by mid to high double digit in FY20E. Regarding multimedia TV business, (20% of group operating profit), while China shipment had bottomed out in March 20 with double digit mom pick up, the global coronavirus outbreak is biting on its overseas sales. Moreover, the sales incentive restructuring is still in progress, thereby derailing transformation towards more-high end OLED TV sales.

Smart System Technology to take a break. Smart System Technology achieved robust growth in FY19 and accounted for 40% of group operating profit. However, we expect slight decline in FY20E due to spreading coronavirus and less cable TV connection project in emerging economies.

Expect better growth visibility from 2H20E. In spite of 26% yoy revenue decline, Skyworth's 1Q20 net profit unexpectedly rose 48% because of stringent cost control. We expect Skyworth can limit the FY20E net profit decrease to single digit, and foresee strong earnings rebound in FY21E. Skyworth is showing promising sign to diversify away from TV manufacturing; in particular its TV OS and modern services businesses are more recurring with higher profitability. Its undemanding valuations at 6.8x PER, 0.3x P/book, and 3.2% dividend yield give room for upside surprise.

Risks. (1) prolonged global recession; (2) political uncertainty in overseas development; (3) cost pressure in TV panel; (4) industrial park development setback.

Exhibit 1: Diversifying sources of operating profit



Source: Company, OP Research

Exhibit 2: 1Q20 net profit tick up thanks to stringent cost control

(RMB mn)	1Q19	1Q20	YoY%
Revenue	9,165	6,752	-26.3%
Smart TV (PRC)	3,551	2,430	-31.6%
Smart TV (Overseas)	1,402	1,312	-6.4%
TV OS (Coocaa)	194	264	36.1%
Smart Systems Technology	1,592	1,038	-34.8%
Smart Appliances	648	371	-42.7%
Modern services	728	274	-62.4%
Others	1,050	1,063	1.2%
Gross profit	1,721	1,539	-10.6%
Gross margin	18.8%	22.8%	4.0%
Other income & gains	266	195	-26.7%
Reversal of impairment	5	39	680.0%
Selling & distribution exp	(929)	(640)	-31.1%
General & admin exp	(252)	(303)	20.2%
R&D exp	(434)	(370)	-14.7%
Finance cost	(102)	(118)	15.7%
Associates		(10)	
Pre-tax profit	275	332	20.7%
Pre-tax margin	3.0%	4.9%	1.9%
Income tax	(102)	(66)	-35.3%
Minority interest	(67)	(63)	-6.0%
Net profit	173	266	53.8%
Net margin	1.9%	3.9%	2.1%

Source: Company

Appendix I: Financials Summary

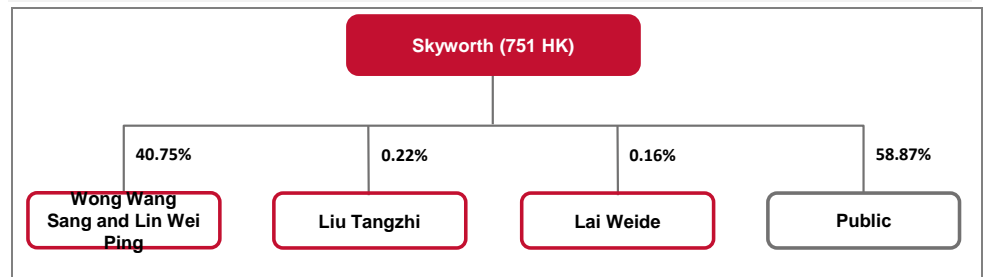
(RMB mn)	FY16#	FY17#	FY18#	FY19*
Income Statement				
Revenue	35,004.2	37,159.5	39,226.6	37,277.0
Gross Profit	7,676.4	7,430.2	6,537.8	7,502.0
Other Operating Income	805.9	1,070.2	868.3	818.0
Operating Expenses	(6,066.2)	(6,993.0)	(6,380.9)	(6,624.0)
Selling, General & Admin	(5,013.5)	(5,642.7)	(4,849.5)	(4,771.0)
Research & Development	(1,001.9)	(1,256.7)	(1,488.2)	(1,843.0)
Operating Income (Loss)	2,416.1	1,507.4	1,025.2	1,696.0
Pretax Income	2,582.6	1,720.7	769.9	1,553.0
Income Tax Expense (Benefit)	(510.8)	(394.6)	(271.3)	(522.0)
Minority Interest	(292.7)	(189.9)	(39.9)	(284.0)
Net Income, GAAP	1,779.1	1,136.2	458.7	747.0
Income Statement				
Total Assets				
Cash, Cash Equivalents & STI	7,842.0	5,509.0	7,630.1	4,939.0
Accounts & Notes Receiv	10,428.5	10,750.7	12,403.3	19,225.0
Inventories	5,205.5	6,826.7	6,320.2	9,080.0
Other ST Assets	3,126.5	4,647.9	5,571.9	121.0
Total Current Assets	26,602.5	27,734.3	31,925.5	33,365.0
Property, Plant & Equip, Net	5,437.6	6,306.3	8,755.7	9,536.0
LT Investments & Receivables	1,956.8	1,210.6	1,155.2	3,122.0
Other LT Assets	995.0	2,854.9	1,217.7	1,515.0
Total Noncurrent Assets	8,389.4	10,371.9	11,128.7	14,173.0
Total Assets	34,991.9	38,106.2	43,054.1	47,538.0
Liabilities & Shareholders' Equity				
Payables & Accruals	11,461.8	12,069.3	13,135.5	14,002.0
ST Debt	4,118.2	4,406.3	6,158.4	9,159.0
Other ST Liabilities	2,141.4	3,030.2	2,910.5	2,816.0
Total Current Liabilities	17,721.4	19,505.8	22,204.4	25,977.0
LT Debt	2,624.8	2,666.4	1,309.9	2,078.0
Other LT Liabilities	752.1	1,054.9	3,013.1	1,340.0
Total Noncurrent Liabilities	3,376.9	3,721.3	4,323.0	3,418.0
Total Liabilities	21,098.3	23,227.1	26,527.4	29,395.0
Share Capital & APIC	2,737.1	3,391.2	3,128.5	3,600.0
Retained Earnings	8,292.1	9,214.4	9,730.7	10,219.0
Other Equity	1,526.6	1,092.9	2,047.7	2,173.0
Equity Before Minority Interest	12,555.8	13,698.6	14,906.8	15,992.0
Minority Interest	1,337.8	1,180.6	1,619.9	2,151.0
Total Equity	13,893.6	14,879.1	16,526.7	18,143.0
Cash Flow Statement				
Cashflow from operating	1,173.2	1,791.8	(548.6)	743.0
Cashflow from investing	(3,869.0)	(2,844.7)	(962.4)	(1,856.0)
Cashflow from financing	4,194.4	975.7	5,191.2	2,540.0
Net cash changes	1,370.0	(247.2)	4,035.4	1,492.0

#FY16 to FY18 were year ended at March, the Company changed to December year end in FY19

Source: Bloomberg

Appendix II: Shareholding and management

Exhibit 3: Shareholding structure



Source: Company, OP Research

Key management profile of Skyworth

Mr. Lai Weide, age 61, is the Chairman of the Board and chairman of Skyworth Digital (000810.SZ). He is a senior accountant and holds a master's degree in engineering from University of Electronic Science and Technology of China. Mr. Lai was appointed as the Chairman of the Board and an Executive Director in July 2016. He had served as deputy director-general and director-general of the Ministry of Machine-Building and Electronics Industry; deputy head and head of the Assets and Finance Department; deputy general manager of China Electronic; chairman and general manager of Nanjing Electronic Information Industrial; chairman of Panda Electronic and chairman of Caihong Group, etc. Mr. Lai was also chairman and executive director of Nanjing Panda Electronics (553 HK).

Mr. Liu Tangzhi, age 56, joined the Group in 1998. Mr. Liu is an Executive Director and Chief Executive Officer of the Company. Mr. Liu graduated from the Zhongnan University of Economics and Law in Wuhan with a bachelor's degree in economics, and graduated from Macao University of Science and Technology with a master's degree in business administration.

Exhibit 3: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER		EPS			PEG (x)	Div yld		P/B		EV/		Gross		ROE	ROE	Sh px	Sh px	
						FY1 (x)	FY2 (x)	FY1 YoY%	FY2 YoY%	3-Yr Cagr (%)		Hist (%)	FY1 (%)	Hist (x)	FY1 (x)	Ebitda Hist	Ebitda Cur Yr	Net gearing Hist (%)	margin (%)	Hist (%)	Net margin Hist (%)	Hist (%)	FY1 (%)	1-mth %
Skyworth Group L	751 HK	1.89	746	1.7	6.8	6.2	5.1	8.5	21.1	17.7	0.4	3.2	5.3	0.3	0.3	5.4	4.6	34.7	20.1	2.0	4.8	4.8	6.8	-6.9
HSI	23797				9.9	11.0	9.5	-9.8	16.1	5.5	1.99	3.9	3.6	0.99	0.95						10.0	8.7	-1.4	-14.4
HSCEI	9674				8.0	8.4	7.5	-4.8	11.4	5.9	1.41	3.9	4.0	1.01	0.95						12.7	11.3	-0.5	-10.9
CSI300	3912				14.6	12.3	10.8	18.7	14.6	4.1	2.99	2.1	2.5	1.70	1.56						11.6	12.7	3.0	-1.9
Adjusted sector avg*					20.5	18.4	14.3	3.5	27.8	21.8	1.00	1.0	1.0	1.88	1.70	16.3	15.2	33.4	15.7	3.7	10.0	9.2	10.1	-8.3
Xiaomi Corp-B	1810 HK	11.96	37,119	246.9	25.9	22.9	17.9	13.0	27.8	22.5	1.02	N/A	0.0	3.23	2.88	16.6	18.2	0.0	13.9	4.9	13.2	14.5	14.1	-8.7
Tcl Electronics	1070 HK	3.49	1,068	1.7	3.5	7.2	5.6	-51.2	26.6	-11.2	N/A	5.7	6.0	0.71	0.67	0.8	1.4	0.0	17.4	4.9	21.2	9.7	1.2	-20.1
Hisense Visual-A	600060 CH	12.15	2,238	28.4	28.6	25.2	19.5	13.6	29.0	19.2	1.31	0.7	1.2	1.09	1.05	15.1	10.6	0.0	18.0	1.6	4.0	4.3	29.8	-5.4
Sichuan Chang-A	600839 CH	2.75	1,787	47.2	209.9	68.8	68.8	205.3	0.0	N/A	N/A	0.8	0.4	1.00	0.96	16.7	16.8	74.5	11.5	0.1	-2.6	1.5	0.7	7.4
Tcl Technology-A	000100 CH	5.2	9,886	462.4	26.1	20.2	15.3	29.4	32.3	27.7	0.73	1.9	2.0	2.21	1.89	16.5	15.6	75.3	11.6	3.5	7.3	9.2	17.2	-6.7
Skyworth Digit-A	000810 CH	11.30	1,692	43.6	18.5	16.4	13.3	12.8	23.3	17.7	0.93	0.7	1.3	3.04	2.72	16.5	14.6	50.5	22.0	7.1	16.8	16.2	-2.5	-16.3

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

Source: Bloomberg

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
14/05/2020	Ausnutria Dairy	1717	Premium products brought up GPM in 1Q20	BUY	Megan Jin/Dallas Cai
14/05/2020	China Youzan	8083	1Q loss narrowed as economies of scale kicking in	BUY	Dallas Cai
05/05/2020	HKTV	1137	HK based ecommerce on the rise	BUY	Kevin Tam/Megan Jin
23/04/2020	Edvantage Group	382	License fee saving may come earlier	BUY	Megan Jin/Dallas Cai
22/04/2020	361 Degrees Intl	1361	1Q20 retail sales in line	BUY	Megan Jin
21/04/2020	Xtep Intl	1368	1Q20 sales performance better than feared	BUY	Megan Jin/Dallas Cai
20/04/2020	Li-Ning	2331	1Q20 delivered satisfactory retail sales	BUY	Megan Jin/Dallas Cai
16/04/2020	Anta Sports	2020	Robust online FILA sales to drive 1Q20 sales beat	BUY	Dallas Cai/Megan Jin
15/04/2020	China Youzan	8083	FY19 GMV saw growth acceleration	BUY	Dallas Cai
02/04/2020	Greentown Services	2869	FY19 results largely in line	HOLD	Dallas Cai
31/03/2020	TCL Electronics	1070	FY19 results up to expectations	BUY	Dallas Cai
30/03/2020	Li-Ning	2331	A head start in FY20E with resilient operation	BUY	Dallas Cai/Megan Jin
27/03/2020	CH Display OPT	334	Lower order visibility ahead in FY20E	HOLD	Dallas Cai
27/03/2020	ChinaSoft Int'l	354	Cloud business ready to accelerate in FY20E	BUY	Dallas Cai
25/03/2020	Anta Sports	2020	FY20E strive for positive growth	BUY	Dallas Cai/Megan Jin
25/03/2020	China Overseas PPT	2669	FY19 results up to expectations	HOLD	Dallas Cai
23/03/2020	CG Services	6098	FY19 saw solid set of results	BUY	Dallas Cai
20/03/2020	Kingdee Int'l	268	Ambitious cloud target to weigh on FY20E earnings	HOLD	Dallas Cai
20/03/2020	Xtep Intl	1368	FY19 results in line with expectations	BUY	Dallas Cai/Megan Jin
19/03/2020	A-Living	3319	Unfolding a new 3-year plan	BUY	Dallas Cai
19/03/2020	Ausnutria Dairy	1717	Robust growth momentum to keep up in FY20E	BUY	Dallas Cai/Megan Jin
19/03/2020	361 Degrees Intl	1361	FY19 results up to expectations	BUY	Megan Jin
18/03/2020	Sunny Optical	2382	FY19 results clean beat on GPM	BUY	Dallas Cai
10/03/2020	Q Tech	1478	FY19 results beat on better CCM product mix	BUY	Dallas Cai
09/03/2020	Edvantage Group	382	1H20/21E positive profit alert - BUY	BUY	Dallas Cai/Megan Jin
24/02/2020	361 Degrees Intl	1361	COVID-19 impact to be inevitable on 1H20E	BUY	Megan Jin
20/02/2020	Ausnutria Dairy	1717	FY19E cow IMF growth beat expectations	BUY	Dallas Cai/Megan Jin

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