

TCL Electronics (1070 HK)

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Company Update

BUY

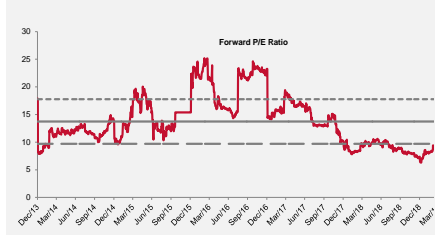
UNCHANGED
Close price: HK\$4.57
Target Price: HK\$5.80 (+27%)
Prior TP: HK\$5.80
Key Data

HKEx code	1070
12 Months High (HK\$)	4.88
12 Month Low (HK\$)	2.87
3M Avg Dail Vol. (mn)	5.17
Issue Share (mn)	2,356.74
Market Cap (HK\$mn)	10,770.29
Fiscal Year	12/2018
Major shareholder (s)	TCL Corp (52.82%)

Source: Company data, Bloomberg, OP Research
 Closing price are as of 24/04/2019

Price Chart


	1mth	3mth	6mth
Absolute %	-4.8	22.5	38.1
Rel. MSCI CHINA %	-10.5	8.1	13.7

PE

Company Profile

TCL Electronics is a TV manufacturer with vertically integrated business model. It ranks among top 3 in Global LCD TV market and No. 3 in the PRC.

1Q19E business update on track

- TCLE released its 1Q19E business update with turnover up 15.8% yoy to HK\$12.6bn, accounting for 24.6% of OP FY19E estimates, in-line with OP estimates.
- We maintain our FY19E earnings estimate unchanged as we see potential upward revision of its FY19E full year target during interim result announcement.
- Maintain BUY with TP HK\$5.80 unchanged based on same 12x FY20E PE.

1Q19E operations update on track. TCL Electronics (TCLE) released its 1Q19E business update with revenue up 15.8% yoy to HK\$12.6bn, accounting for 24.6% of OP FY19E estimates, in-line with our expectations. The robust 1Q19E sales growth was mainly attributed to its successful expansion in the global market with overseas market sales up 39.6% yoy to HK\$8.3bn in 1Q19E while domestic market sales declined by 12.7% yoy to HK\$4.3bn. GPM was down by 0.7ppt yoy to 15.1% given higher sales contribution of lower margin overseas sales. We believe the 15.1% in 1Q19E was broadly expected by market and we see it's at a healthy level given our FY19E assumption of 15.2%. We also see the gradual ramp-up of internet service revenue scale from RMB62.0mn to RMB98.6mn in 1Q19E, up 59.1% yoy, a positive sign of improving profitability despite its accounting for only 10% of total sales in FY19E. Overall, the 1Q19E business update is in line with our expectation.

We maintain our FY19E earnings estimate unchanged. Given on-track 1Q19E business update, we keep our FY19E revenue/earnings estimate unchanged at HK\$51.0bn/HK\$1.0bn. However, given the panel price to have bottomed out and improving product mix, we see the ASP declining trend may decelerate in 2H19E which may trigger the company to revise up its FY19E revenue growth of 12% earliest as earliest at its interim result briefing if the robust overseas growth maintained and ASP erosion pressure is less than expected.

Maintain BUY. We maintain our BUY rating with TP HK\$5.80 unchanged based on same 12x FY20E PE given (1) policy positives for developing 4K/8K TVs and related ecosystem; (2) stimuli in domestic demand thanks to VAT cut and provincial subsidies on electronic appliances; (3) upbeat growth in overseas market; (4) promising outlook for Internet business as operation leverage under asset-light mode is expected to kick in.

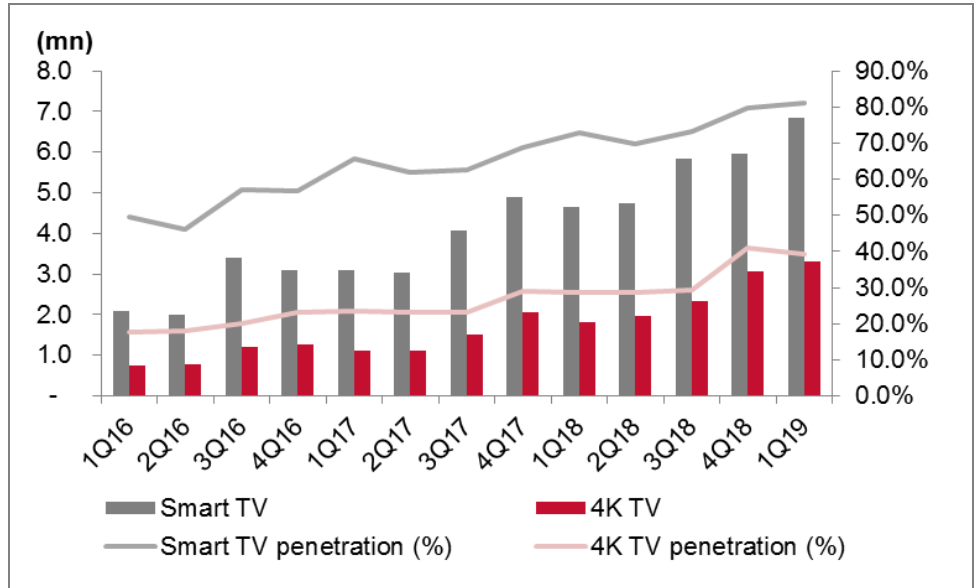
Risks: (1) ASP erosion may be faster than expected (2) exchange rate and execution risks in overseas expansion (3) growth of smart TV platform business may be below expectations

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	40,822	45,582	51,054	56,145	61,852
Growth(%)	22.4	11.7	12.0	10.0	10.2
Adjusted Net Profit	594.6	778.2	1,003.7	1,187.5	1,330.1
Growth (%)	69.0	30.9	29.0	18.3	12.0
Diluted EPS (HK\$)	0.466	0.416	0.406	0.481	0.539
EPS growth (%)	310.0	(10.7)	(2.3)	18.3	12.0
Change to previous EPS (%)			0.0	0.0	
Consensus EPS (HK\$)			0.453	0.520	
ROE (%)	11.6	10.8	10.0	11.1	11.6
P/E (x)		11.0	11.2	9.5	8.5
P/B (x)	1.0	1.1	1.0	1.0	0.9
Yield (%)	4.2	4.2	4.0	4.7	5.3
DPS (HK\$)	0.190	0.192	0.183	0.216	0.242

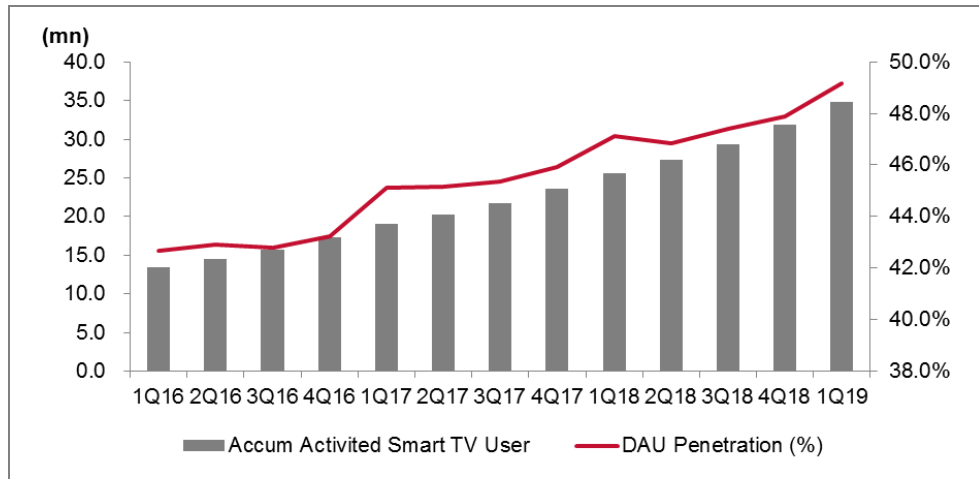
Source: Bloomberg, OP Research

Exhibit 2: TCLE 4K/Smart TV penetration



Source: Company, OP Research

Exhibit 3: DAU and accumulative active smart TV user of TCLE



Source: Company, OP Research

Financial Summary

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Income Statement HK\$mn					
Television-PRC	19,774	18,371	19,336	19,756	19,923
Television-Overseas	20,949	26,602	29,677	33,409	38,165
Smart TV Platform & Others	99	610	2,041	2,980	3,764
Turnover	40,822	45,582	51,054	56,145	61,852
YoY%	22	12	12	10	10
COGS	(34,521)	(38,630)	(43,281)	(47,663)	(52,577)
Gross profit	6,301	6,952	7,773	8,482	9,275
Gross margin	15.44%	15.25%	15.23%	15.11%	15.00%
Other income	821	771	552	567	581
Selling & distribution	(4,057)	(4,477)	(4,869)	(5,174)	(5,571)
Admin	(1,281)	(1,302)	(1,433)	(1,514)	(1,623)
R&D	(632)	(722)	(766)	(842)	(928)
Other opex	(101)	(21)	(51)	(84)	(124)
Total opex	(6,072)	(6,522)	(7,119)	(7,614)	(8,246)
Operating profit (EBIT)	1,050	1,201	1,207	1,434	1,610
Operating margin	2.57%	2.64%	2.36%	2.55%	2.60%
Provisions	0	(13)	0	0	0
Finance costs	(229)	(98)	(54)	(54)	(54)
Profit after financing costs	821	1,090	1,153	1,380	1,556
Associated companies & JVs	112	71	71	71	71
Pre-tax profit	933	1,162	1,224	1,451	1,628
Tax	(136)	(227)	(231)	(276)	(311)
Profit from discontinued operations	0	0	0	0	0
Minority interests	18	9	10	12	14
Net profit	815	944	1,004	1,187	1,330
Adjusted Net Profit	595	778	1,004	1,187	1,330
YoY%	69	31	29	18	12
Net margin	1.46%	1.71%	1.97%	2.11%	2.15%
EBITDA	1,003	1,432	1,434	1,613	1,745
EBITDA margin	2.5%	3.1%	2.8%	2.9%	2.8%
EPS (HK\$)	0.466	0.416	0.406	0.481	0.539
YoY%	310	(11)	(2)	18	12
DPS (HK\$)	0.190	0.192	0.183	0.216	0.242
Cash Flow HK\$ mn					
EBITDA	1,003	1,432	1,434	1,613	1,745
Chg in working cap	(225)	1,482	283	269	302
Others	132	155	0	0	0
Operating cash	910	3,069	1,717	1,882	2,047
Interests paid	(48)	(98)	(54)	(54)	(54)
Tax	(116)	(137)	(56)	(231)	(276)
Net cash from operations	746	2,835	1,607	1,597	1,718
Capex	(158)	(91)	(102)	(112)	(124)
Investments	(129)	(975)	0	0	0
Dividends received	7	0	0	0	0
Sales of assets	23	0	0	0	0
Interests received	31	62	72	83	94
Others	(5)	0	0	0	0
Investing cash	(231)	(1,004)	(30)	(29)	(30)
FCF	515	1,830	1,577	1,568	1,688
Issue of shares	38	2,016	7	0	0
Buy-back	0	0	0	0	0
Minority interests	1	0	0	0	0
Dividends paid	(53)	(580)	(438)	(468)	(537)
Net change in bank loans	1,530	(1,812)	0	0	0
Others	(185)	57	0	0	0
Financing cash	1,331	(320)	(432)	(468)	(537)
Net change in cash	1,846	1,511	1,145	1,101	1,151
Exchange rate or other Adj	182	(679)	0	0	0
Opening cash	3,882	5,910	6,742	7,887	8,988
Closing cash	5,910	6,742	7,887	8,988	10,139
CFPS (HK\$)	0.426	1.248	0.651	0.647	0.696

Year to Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Ratios					
Gross margin (%)	15.4	15.3	15.2	15.1	15.0
Operating margin (%)	2.6	2.6	2.4	2.6	2.6
Net margin (%)	2.0	2.1	2.0	2.1	2.2
Selling & dist'n exp/Sales (%)	9.9	9.8	9.5	9.2	9.0
Admin exp/Sales (%)	3.1	2.9	2.8	2.7	2.6
Payout ratio (%)	40.7	47.5	45.0	45.0	45.0
Effective tax (%)	16.6	20.8	20.0	20.0	20.0
Total debt/equity (%)	38.4	11.4	10.8	10.1	9.4
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.2	1.3	1.3	1.3	1.3
Quick ratio (x)	1.0	0.9	0.9	0.9	0.9
Inventory T/O (days)	53	66	66	66	66
AR T/O (days)	92	58	58	58	58
AP T/O (days)	106	108	108	108	108
Cash conversion cycle (days)	39	16	16	16	16
Asset turnover (x)	1.8	1.7	1.7	1.7	1.8
Financial leverage (x)	3.3	3.1	2.9	3.0	3.1
EBIT margin (%)	2.6	2.6	2.4	2.6	2.6
Interest burden (x)	0.9	1.0	1.0	1.0	1.0
Tax burden (x)	0.9	0.8	0.8	0.8	0.8
Return on equity (%)	11.6	10.8	10.0	11.1	11.6
ROIC (%)	20.0	21.5	25.0	34.0	43.1
Balance Sheet HK\$ mn					
Fixed assets	1,806	1,475	1,300	1,150	1,045
Intangible assets & goodwill	120	893	871	871	871
Associated companies & JVs	1,121	1,431	1,503	1,574	1,646
Long-term investments	108	129	129	129	129
Other non-current assets	198	323	323	323	323
Non-current assets	3,354	4,252	4,125	4,047	4,013
Inventories	5,059	6,983	7,823	8,616	9,504
AR	10,259	7,242	8,112	8,921	9,828
Prepayments & deposits	0	0	0	0	0
Other current assets	1,482	2,982	2,982	2,982	2,982
Cash	5,910	6,742	7,887	8,988	10,139
Current assets	22,710	23,949	26,805	29,507	32,453
AP	10,060	11,416	12,790	14,085	15,537
Tax	137	56	231	276	311
Accruals & other payables	4,555	5,152	5,770	6,345	6,990
Bank loans & leases	2,905	1,094	1,094	1,094	1,094
CB & othe debts	0	0	0	0	0
Other current liabilities	673	611	611	611	611
Current liabilities	18,330	18,329	20,496	22,412	24,544
Bank loans & leases	22	21	21	21	21
CB & othe debts	0	0	0	0	0
Deferred tax & others	15	72	72	72	72
MI	68	0	(10)	(22)	(35)
Non-current liabilities	105	93	83	71	57
Total net assets	7,629	9,779	10,351	11,071	11,865
Shareholder's equity	7,629	9,779	10,351	11,071	11,865
Share capital	1,748	2,335	2,335	2,335	2,335
Reserves	5,881	7,444	8,016	8,736	9,529
BVPS (HK\$)	3.72	4.37	4.19	4.43	4.74
Total debts	2,927	1,115	1,115	1,115	1,115
Net cash/(debts)	2,983	5,627	6,773	7,873	9,024

Source: Company, OP Research

Exhibit 4: Peer Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER		EPS		3-Yr EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B		EV/		Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %	
					PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%					(x)	(x)	(x)	(x)								EV/ Hist
Tcl Electronics	1070 HK	4.57	1,373	2.8	11.0	11.2	9.5	(2.3)	18.3	9.0	1.2	4.2	4.0	1.1	1.0	3.5	2.7	Net cash	15.3	2.1	10.8	10.0	3.9	22.5
HSI		29805.83			11.6	11.5	10.7	0.8	8.1	5.8	1.97	3.3	3.6	1.39	1.27					11.9	11.0	2.4	9.9	
HSCEI		11663.78			9.6	8.9	8.2	8.1	8.2	8.1	1.10	3.5	3.8	1.19	1.06					12.4	11.9	1.3	9.1	
CSI300		4030.09			15.3	12.8	11.4	19.6	12.4	4.6	2.76	2.0	2.5	1.92	1.67					12.5	13.1	5.1	27.6	
Adjusted sector avg*					34.7	21.1	17.2	47.8	24.3	30.7	0.94	1.8	1.5	4.53	3.39	21.2	25.3	37.3	24.5	5.6	9.4	12.1	-1.1	24.1
Skyworth Digital	751 HK	2.61	1,019	12.1	14.6	7.4	6.2	97.0	19.0	47.5	0.16	3.4	4.5	0.46	0.34	7.5	4.6	15.7	16.7	1.2	5.6	5.2	-7.1	10.6
Hisense Elec-A	600060 CH	10.61	2,067	46.1	14.7	13.3	10.5	10.6	26.9	15.1	0.88	2.0	1.6	1.00	1.01	10.9	15.1	0.0	13.1	2.9	5.2	6.2	-4.3	18.8
Sichuan Chang-A	600839 CH	3.65	2,508	55.1	52.1	33.2	30.4	57.1	9.1	N/A	N/A	0.3	N/A	1.29	1.24	17.3	14.9	68.9	11.9	0.4	2.3	3.8	-3.9	48.4
Leshi Internet-A	300104 CH	1.83	1,087	85.1	N/A	1.9	1.5	N/A	26.3	-176.2	N/A	N/A	N/A	N/A	N/A	-0.8	N/A	N/A	-37.5	-196.1	N/A	N/A	-39.0	-32.0
Tcl Corp-A	000100 CH	3.8	7,725	183.4	14.9	12.4	10.8	20.4	14.9	14.2	0.87	2.6	3.6	1.64	1.58	12.2	10.8	75.5	17.8	3.1	11.3	12.3	-5.2	40.8
Skyworth Digit-A	000810 CH	11.08	1,772	42.5	34.6	25.8	18.8	34.4	37.2	34.0	0.76	N/A	0.6	4.02	3.28	41.9	N/A	51.6	14.3	4.2	9.9	12.6	-1.1	77.8
Huayi Brothers-A	300027 CH	5.70	2,372	37.2	19.0	N/A	19.8	N/A	N/A	4.9	N/A	0.5	0.3	1.59	1.58	46.0	52.7	31.0	45.2	21.1	5.7	7.9	-1.6	17.3
Netflix Inc	NFLX US	381.89	166,970	2831.6	137.4	96.0	56.5	43.0	70.0	53.8	1.79	N/A	0.0	29.28	23.48	103.0	56.1	125.3	36.9	7.7	26.0	24.6	5.8	16.9
Amazon.Com Inc	AMZN US	1923.77	946,598	7547.7	93.0	54.0	39.6	72.2	36.6	45.7	1.18	N/A	0.0	21.69	14.68	34.4	22.7	18.5	40.2	4.3	28.3	24.3	9.0	16.2

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

Source: Bloomberg, OP Research

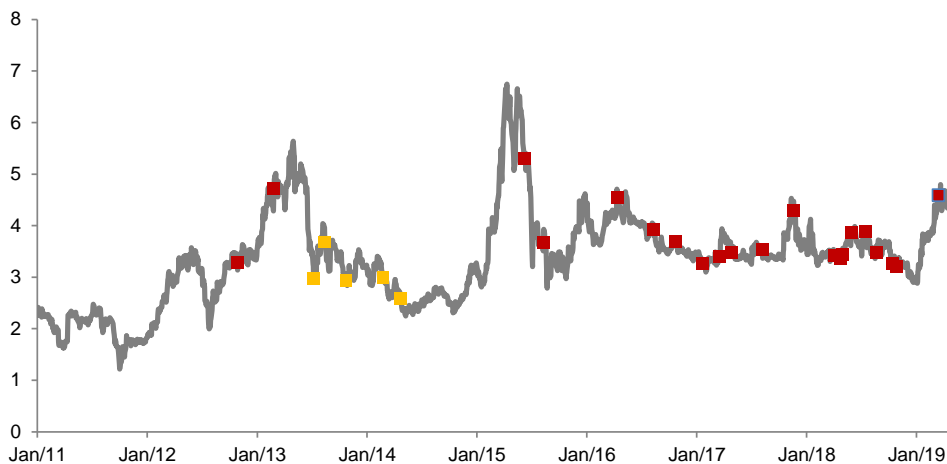
Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
24/04/2019	CH Display OPT	334	1Q19E operations in line with expectations	BUY	Yuji Fung/Dallas Cai
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

Historical recommendations and target price: TCL Electronics (1070 HK)

(as of 24/04/2019)

(HK\$)



DATE	RATING	TP (HK\$)	CLOSE (HK\$)	DATE	RATING	TP (HK\$)	CLOSE (HK\$)
1 15 Aug 2016	BUY	6.10	4.32	9 26 Apr 2018	BUY	4.60	3.59
2 25 Oct 2016	BUY	5.80	4.08	10 03 May 2018	BUY	4.60	3.53
3 24 Jan 2017	BUY	4.14	3.60	11 04 Jun 2018	BUY	5.60	3.96
4 22 Mar 2017	BUY	5.20	3.75	12 18 Jul 2018	BUY	5.60	3.98
5 28 Apr 2017	BUY	5.20	3.85	13 25 Aug 2018	BUY	5.80	3.47
6 09 Aug 2017	BUY	5.70	3.75	14 16 Oct 2018	BUY	5.80	3.38
7 23 Nov 2017	BUY	6.40	4.57	15 30 Oct 2018	BUY	5.80	3.23
8 06 Apr 2018	BUY	4.60	3.64	16 20 Mar 2019	BUY	5.80	4.39

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Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
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