

BOE Technology Group (000725 CH)

Better-than-expected 2Q preliminary results; we are optimistic about a long-term profit upgrade

BOE expects a 1H21 net profit of RMB12.5bn-12.7bn, implying a rise of 1,001-1,018% yoy. The market leader is maintaining its position in semiconductor displays with the highest global display shipments and market share in 2020. We maintain BUY on the stock and a PT of RMB10.50.

2Q21 net profit sets a new record

Operating efficiency continued to improve and 2Q21 net profit exceeded expectations to reach a record high. In 2020, BOE's display shipment volume was the world's largest, a solid advantage for the LCD leader. A recent private placement would help its rapid OLED expansion and its aircraft carrier segment is developing rapidly. Looking ahead to the mid to long term, BOE and TCL CSOT would form a duopoly. The industry's profit range would increase and it would enter a sector valuation upgrade cycle. We believe strong downstream demand and the change in the competitive structure would increase BOE's net profit and valuation. In 1H21, it expects net profit of RMB12.5bn-12.7bn, up 1,001-1,018% yoy. We estimate 2Q net profit would have been RMB7.42bn, up 1,204.20% yoy and 43.15% qoq, beating expectations. Operational efficiency continued to improve and net profit levels reached record highs.

BOE maintains lead in LCD business as RMB20bn private placement adds to OLED

BOE is maintaining its leading position in semiconductor displays, with the highest global display shipment and market share in 2020.

(1) Enriching product categories; raising capacity advantages; improving operational efficiency: The company completed the acquisition of CLP Panda Nanjing 8.5-generation LCD production line and Chengdu's 8.6-gen LCD production line. The shipment rate of the Beijing 8.5-gen LCD production line reached a new high while the Chongqing 8.5-gen TFT-LCD production line continued to make small products. The yield rate of its Hefei 10.5-gen line and Wuhan 10.5-gen line continues to increase, with production improvements raising the company's competitive advantage.

(2) About RMB20bn would be approved for OLED capacity to bring new growth potential: RMB6bn of this will be invested into the 6th-gen flexible AMOLED line project in Chongqing to enhance OLED technology diversity and RMB1bn to build a 12-inch silicon-based OLED project, which could add capacity for 5.23m OLED micro displays.

Downstream demand; competitive structure change; better long-term profitability

(1) Downstream demand continues to be high and the tight supply-demand balance drives up prices of IT, TV and other products. BOE would continue to benefit from strong industry growth. (2) Looking ahead to the medium and long term, BOE and TCL CSOT would form a duopoly in the large-panel TV market, and BOE would continue to expand into the medium-sized and high-value-added OLED. This would weaken the cyclicality of the panel market. BOE should maintain its premium profits and its valuation could increase.

Valuation and risks

We are optimistic about investment opportunities brought by a long-term profit upgrade. We maintain our forecasts: we expect revenue of RMB213.7bn/236.7bn/256.9bn and net profit of 22.9bn/24.9bn/28.1bn in 2021/22/23E. We maintain our price target of RMB10.50 and our BUY rating. **Risks include:** fluctuating panel prices; progress of fundraising projects falling below expectations; and tech upgrades and substitution risks. *Note: our forecasts are based on the company's preliminary earnings review and subject to potential adjustments based on final semi-annual report data.*

BUY

(maintain)

Target price:	RMB10.50
Share price (14 Jul):	RMB6.54
Up/downside	60.6%

Company information

52wk High (04/26/2021)	7.65
52wk Low (07/27/2020)	4.42
P/E (Trailing 12m)	22.79
Dividend Yield	1.58
Price to Book Ratio	2.02
Price to Sales Ratio	1.38
EV / Trail 12M EBITDA	9.97
Shares Outstanding (m)	33,862.3
Market Cap (RMBm)	227,581.5

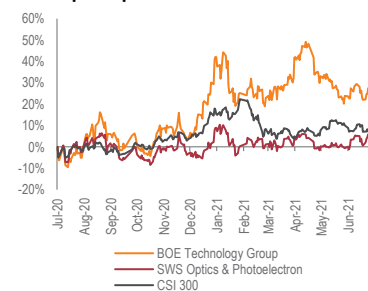
Source: Wind

Financial summary (RMB)

	21E	22E	23E
Revenue (m)	213,729	236,745	256,868
YoY Growth (%)	57.67	10.77	8.50
EBITDA (m)	40,603	40,948	42,691
Net profit (m)	22,911	24,939	28,137
YoY Growth (%)	354.99	8.85	12.82
EPS (price/share)	0.66	0.72	0.81
P/E Ratio (x)	11.13	10.23	9.07
Price to Book Ratio (x)	2.30	1.91	1.61
Price to Sales Ratio (x)	1.19	1.08	0.99
EV/EBITDA (x)	9.63	8.43	7.41

Source: Tianfeng Securities estimate

Share price performance



Source: BigData

Pan Jian (潘健)

CE No. BOL466
panjian@tfzq.com

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Financial forecast summary

Balance Sheet (RMBm)	2019	2020	2021E	2022E	2023E	Income statement (RMBm)	2019	2020	2021E	2022E	2023E
Cash and Cash Equivalents	56,972.72	73,694.30	85,491.66	94,697.86	102,747.18	Revenue	116,059.59	135,552.57	213,729.16	236,744.65	256,867.95
Trade, Notes and Other receivables	18,466.83	23,185.13	49,708.83	22,714.33	55,864.79	Cost of Sales	98,446.27	108,823.12	158,159.58	179,925.93	196,503.98
Prepayments	626.99	1,119.60	1,400.94	1,368.91	1,734.59	Business Taxes and Surcharges	861.10	1,078.90	1,666.85	1,829.06	2,010.76
Inventories	12,396.19	17,875.45	24,128.99	23,336.65	28,781.60	Operating Expenses	2,917.87	3,137.72	5,877.55	6,486.80	6,986.81
Other Current assets	15,985.90	13,110.98	18,743.14	14,150.78	18,254.60	Administrative Expenses	5,214.95	6,203.60	8,549.17	9,943.28	10,531.59
Total Current Assets	104,448.64	128,985.46	179,473.56	156,268.53	207,382.77	R&D Expenses	6,699.97	7,622.60	8,976.62	9,469.79	10,531.59
Long-Term Equity Investments	2,718.04	3,693.17	4,893.17	6,493.17	7,593.17	Financial Expense	1,994.15	2,650.15	4,328.72	3,539.98	2,289.87
Non-Current Assets	125,786.24	224,866.59	234,778.90	237,388.24	235,602.81	Impairment Losses	(2,584.18)	(3,280.43)	(1,541.67)	(2,468.76)	(2,430.29)
Construction-In-Progress	87,376.78	42,575.85	25,581.51	15,396.91	9,268.14	Gain/(loss) of Fair Value Change	137.47	31.94	(30.00)	215.00	392.50
Intangible Assets	7,416.42	11,875.93	10,941.70	10,007.48	9,073.26	Net Investment Income	342.62	897.89	515.80	585.44	666.38
Other Current assets	12,666.08	12,259.82	10,875.10	9,543.17	8,141.07	Other Current assets	1,630.70	2,342.60	(971.60)	(1,600.87)	(2,117.75)
Total Non-Current Assets	235,963.56	295,271.35	287,070.38	278,828.97	269,678.45	Operating income	398.67	6,044.47	28,198.15	28,819.01	31,502.52
Total Assets	340,412.20	424,256.81	466,543.94	435,097.50	477,061.22	Non-Operating Revenue	208.43	120.50	252.00	1,513.00	2,012.00
Short-Term Loan	6,366.72	8,599.57	33,199.81	37,859.93	42,248.74	Non-Operating Expenses	103.35	72.14	76.93	84.14	77.74
Trade Payables and Other Payables	23,212.49	28,395.71	48,224.14	37,308.08	56,624.77	Profit Before Tax	503.75	6,092.84	28,373.21	30,247.87	33,436.78
Other Current assets	48,799.08	67,964.05	73,233.54	70,970.11	89,186.66	Income Taxes	979.99	1,564.57	4,255.98	4,537.18	5,015.52
Total Current Liabilities	78,378.29	104,959.32	154,657.50	146,138.12	188,060.17	Net Profit	(476.24)	4,528.27	24,117.23	25,710.69	28,421.26
Long-Term Loan	107,730.60	132,452.77	111,965.90	68,781.36	42,688.70	Net Profit Attributable to NCI	(2,394.89)	(507.36)	1,205.86	771.32	284.21
Bonds Payable	387.88	398.97	3,691.84	1,492.90	1,861.24	Net Profit Attributable to The Parent	1,918.64	5,035.63	22,911.37	24,939.37	28,137.05
Other Current assets	12,857.75	13,048.01	14,093.37	13,333.04	13,491.47	EPS (RMB)	0.06	0.14	0.66	0.72	0.81
Total Non-Current Liabilities	120,976.22	145,899.75	129,751.11	83,607.30	58,041.41	Financial ratio	2019	2020	2021E	2022E	2023E
Total Liabilities	199,354.51	250,859.07	284,408.61	229,745.42	246,101.58	Growth					
Non-Controlling Interest	45,999.57	70,120.97	71,326.83	72,098.15	72,382.36	Revenue	19.51%	16.80%	57.67%	10.77%	8.50%
Share Capital	34,798.40	34,798.40	34,798.40	34,798.40	34,798.40	Operating income	-90.05%	1416.16%	366.51%	2.20%	9.31%
Capital Reserves	38,353.24	37,435.66	37,435.66	37,435.66	37,435.66	Net Profit Attributable to The Parent	-44.15%	162.46%	354.99%	8.85%	12.82%
Retained Earnings	52,251.14	55,389.87	76,010.10	98,455.53	123,778.87	Profitability					
Other Current assets	(30,344.65)	(24,347.16)	(37,435.66)	(37,435.66)	(37,435.66)	Gross Profit Margin	15.18%	19.72%	26.00%	24.00%	23.50%
Total Equity	141,057.70	173,397.73	182,135.33	205,352.08	230,959.64	Net Profit Margin	1.65%	3.71%	10.72%	10.53%	10.95%
Total Equity and Liabilities	340,412.20	424,256.81	466,543.94	435,097.50	477,061.22	ROE	2.02%	4.88%	20.68%	18.72%	17.74%
						ROIC	-1.30%	3.24%	11.04%	11.14%	12.87%
Cash Flow Statement (RMBm)	2019	2020	2021E	2022E	2023E	Solvency					
Net Profit	(476.24)	4,528.27	22,911.37	24,939.37	28,137.05	Debt to Asset Ratio	58.56%	59.13%	60.96%	52.80%	51.59%
Depreciation & Amortization	18,986.97	22,562.81	8,076.25	8,589.48	8,898.42	Net Debt Ratio	54.14%	53.21%	43.75%	16.23%	1.86%
Financial Expense	2,849.18	3,835.30	4,328.72	3,539.98	2,289.87	Current Ratio	1.33	1.23	1.16	1.07	1.10
Investment Gain/(Loss)	(342.62)	(897.89)	(515.80)	(585.44)	(666.38)	Quick Ratio	1.17	1.06	1.00	0.91	0.95
Change of Working Capital	(569.99)	12,776.03	(4,207.97)	14,845.59	(5,025.08)	Operation					
Others	5,635.78	(3,552.75)	1,175.86	986.32	676.71	Receivable Turnover Ratio	5.95	6.51	5.86	6.54	6.54
Cash Flows from Operating Activities	26,083.08	39,251.77	31,768.43	52,315.30	34,310.60	Inventory Turnover Ratio	9.52	8.96	10.18	9.98	9.86
CapEx	52,572.48	82,655.92	(985.36)	840.33	(108.43)	Asset Turnover Ratio	0.36	0.35	0.48	0.53	0.56
Long Term Investments	328.87	975.13	1,200.00	1,600.00	1,100.00	Indicator Per Share					
Other Current assets	(100,317.48)	(127,038.02)	301.16	(2,364.89)	(1,160.19)	EPS	0.06	0.14	0.66	0.72	0.81
Cash Flows from Investing Activities	(47,416.13)	(43,406.97)	515.80	75.44	(168.62)	Operating Cash Flow Per Share	0.75	1.13	0.91	1.50	0.99
Proceeds from Issuance of Debt	133,334.47	165,951.86	165,173.35	128,022.73	107,033.65	Net Asset Per Share	2.73	2.97	3.18	3.83	4.56
Proceeds from Issuance of Equity	6,289.49	1,521.82	(17,407.57)	(3,530.33)	(2,280.22)	Valuation					
Other Current assets	(111,845.32)	(143,655.95)	(168,252.65)	(167,676.94)	(130,846.09)	PE	132.94	50.65	11.13	10.23	9.07
Cash flows from financing activities	27,778.65	23,817.73	(20,486.87)	(43,184.54)	(26,092.66)	PB	2.68	2.47	2.30	1.91	1.61
Impact of FX	0.00	0.00	0.00	0.00	0.00	EV/EBITDA	8.60	8.29	9.63	8.43	7.41
Net increase (decrease) in cash, cash equivalents and restricted cash	6,445.60	19,662.54	11,797.37	9,206.20	8,049.32	EV/EBIT	22.47	17.35	12.02	10.66	9.36

Source: Company data, Tianfeng Securities estimate

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Category	Description	Ratings	System
Stock investment ratings	within 6 months from the report issuance date, increase or decrease relative to the Index of the jurisdiction of the Stock in the same period	Buy	Expected relative return over stock price above 20%
		Accumulate	Expected relative return over stock price between 10% and 20%
		Neutral	Expected relative return over stock price between -10% and 10%
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		Underperform	Expected increase of industry index below -5%

Jurisdictions	Index Used for Ratings Definitions
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China-Hong Kong	Hang Seng Index
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Contact

Hong Kong

TFI Asset Management Limited
11F, Nexus Building, 41 Connaught Road Central, Hong Kong
Email: research_tfi@tifsec.com
Tel: 852 3899 7399