

Equities

Hong Kong/China

Company Update

Company Report

TCL Multimedia (1070 HK)

3 March 2015

Results review

TCL Multimedia (TCLM) announced a set of good results with net profit reaching HK\$234m in 2014 compared to a loss of HK\$48m in 2013. However, these results were below the market and our expectation. TCLM set an aggressive target for 2015, aiming to grow its revenue by 20.8% to HK\$40.5bn. We maintain cautious and revise up our 2015 earnings marginally. Consequently, we raise our target price to HK\$4.30 (Previous HK\$4.0). In view of small downside potential, we maintain our Hold recommendation.

- Results below our expectation.** TCLM announced a set of good results with net profit reaching HK\$234m in 2014 compared to a loss of HK\$48m in 2013. However, these results were below both the market and our expectation. The weaker-than-expected net profit was mainly attributable to those exceptional items including the lower-than-expected government grants.
- Leading market position remained.** According to DisplaySearch, TCLM was the fourth largest player in the global LCD TV market, occupying 5.4% market share in 2014. It was also the third largest LCD TV supplier in the PRC, representing 16.0% market share.
- Outlook improving.** The size of global LCD TV market is expected to grow by 7% while the PRC market will grow by 2%, according to DisplaySearch. Of which, high-end products are expected to grow at faster pace. For instance, global 4K TVs are expected to grow by 139% in 2015.
- Aggressive 2015 target.** TCLM targets to grow its revenue by 20.8% to HK\$40.5bn through selling 5.6% more TVs in 2015, suggesting its strategy will shift to those high-end products.
- Earnings revised up.** TCLM's 2015 shipment target is in line with our initial expectation. In view of growing demand of high-end products, we raise our average selling price (ASP) assumption. Accordingly, we raise our 2015 revenue and net profit estimates by 13% and 2% respectively.
- Maintain Hold.** Based on the median valuation of its peer, we set our target price at HK\$4.30, equivalent to 13x 2015E P/E and 1.1x 2015E P/BV. Maintain Hold.
- Key risks** include: 1) rapid change in technologies and customer preference, 2) keen competition, 3) fluctuation of raw material price, 4) economic slowdown, and 5) currency risk.

Investment Summary

FY-end Dec	2012	2013	2014	2015E	2016E
Turnover (HK\$ m)	36,025	39,495	33,526	38,974	40,534
Growth (%)	9.4	9.6	(15.1)	16.2	4.0
Net Profit (HK\$ m)	911	(48)	234	441	503
Growth (%)	101.3	(105.3)	na	88.1	14.1
EPS (HK\$)	0.70	(0.04)	0.18	0.33	0.38
Growth (%)	66.6	(105.2)	na	86.2	14.1
PER (x)	6.6	na	25.8	13.9	12.2
OCF/Share (HK\$)	1.3	0.9	(0.8)	0.4	0.6
P/B (x)	1.2	1.4	1.3	1.2	1.1
EV/EBITDA (x)	3.4	20.5	7.2	5.8	5.1
DPS (HK\$)	0.25	0.29	0.05	0.10	0.11
Yield (%)	5.4	6.3	1.2	2.2	2.5

Sources: Company data, CER

China / Consumer Electronic

HOLD

Share Price	Target Price	Downside
HK\$4.59	HK\$4.30	-6.32%

(As of 2 March 2015)

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52 Week Price Range (HK\$)	2.41-4.70
Yield (%)	1.2

Latest Key Data

FF no of shares (m)	437
FF (%)	32.8
FF market cap (HK\$ m)	2,008
12M daily turnover (HK\$ m)	9.6
12M volatility (%)	36.9
PEG FY14-16E (x)	0.6
RoE FY15E (%)	9.1
P/B FY15E (x)	1.2
Net debt/equity FY15E (%)	10.0

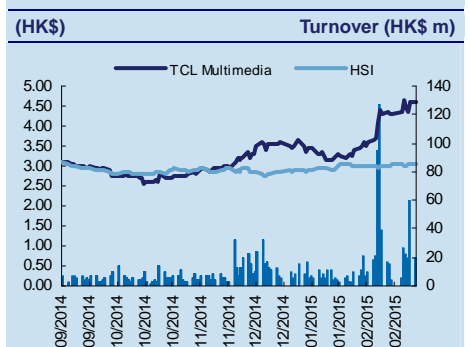
Performance (%)

	1M	YTD	12M
Absolute	22.6	22.9	32.0
Relative to HSI	21.2	21.5	30.6

Major Shareholder (%)

TCL Group	63.0
Free float	37.0

Price Chart



Sources: Bloomberg, CER estimates

2014 results review

HK\$ m	2013	2014	YoY %
Turnover	39,494.7	33,526.3	(15.1)
Cost of sales	(34,080.7)	(28,023.2)	(17.8)
Gross profit	5,414.0	5,503.0	1.6
Other revenue and gains	889.8	682.3	(23.3)
Selling and distribution costs	(4,538.6)	(4,107.2)	(9.5)
Administrative expenses	(1,060.9)	(973.8)	(8.2)
Research and development costs	(424.6)	(423.1)	(0.4)
Other operating expenses	(27.7)	(60.0)	116.5
Operating profit	252.1	621.4	146.5
Finance costs	(186.0)	(196.0)	5.4
Joint venture	(2.5)	(23.0)	826.9
Associates	(30.6)	(8.9)	(70.8)
Profit before tax	33.0	393.5	1,091.4
Tax	(155.9)	(147.1)	(5.7)
Profit after tax	(122.9)	246.3	na
Minority interests	(13.9)	(11.8)	(14.7)
Net profit	(48.1)	234.5	na
EPS (HK\$)	(0.04)	17.76	na
			Ppt change
Gross margin (%)	13.7	16.4	2.7
Operating margin (%)	0.6	1.9	1.2
Net margin (%)	(0.1)	0.7	0.8

Source: Company

Company Description

TCL Multimedia Technology (TCLM) is the fourth largest global TV manufacturer after Samsung, LGE and Song. Its LCD TV accounted for 5.5% of the market share worldwide in 1H14, according to DisplaySearch. In the PRC market, it is the largest player, accounting for 17.1% of the market share. TCLM owns three key brands, namely TCL, ROWA and Thomson.

Profit & Loss (Consolidated)

FY-end 31 Dec (HK\$ m)	2012	2013	2014	2015E	2016E
Sales	36,025	39,495	33,526	38,974	40,534
Cost of sales	(29,880)	(34,081)	(28,023)	(32,483)	(33,788)
Gross profit	6,145	5,414	5,503	6,492	6,746
Other income	586	890	682	754	764
Operating expenses	(5,559)	(6,052)	(5,564)	(6,391)	(6,567)
Operating profit	1,172	252	621	855	942
Finance cost, net	(275)	(186)	(196)	(228)	(237)
Share of of asso. & JCE	(14)	(33)	(32)	(20)	(15)
Pre-tax profit	826	(123)	246	455	518
Tax	(57)	(156)	(147)	(152)	(173)
Minorities	(11)	(14)	(12)	(14)	(14)
Net profit	911	(48)	234	441	503
EBITDA	1,426	267	908	1,135	1,239
EBIT	1,133	(33)	614	777	862
EPS (HK\$)	0.70	(0.04)	0.18	0.33	0.38
DPS (HK\$)	0.25	0.29	0.05	0.10	0.11

Sources: Company, CER estimates

Cash Flow (Consolidated)

FY-end 31 Dec (HK\$ m)	2012	2013	2014	2015E	2016E
Operating cash flow	1,781	1,135	(1,008)	478	748
Net profit	911	(48)	234	441	503
Depreciation & amortization	305	311	289	358	378
Change in working capital	845	1,007	(1,126)	(307)	(88)
Others	(280)	(136)	(405)	(14)	(45)
Investment cash flow	(836)	(197)	(274)	(460)	(330)
Net capex	(598)	(578)	(235)	(537)	(410)
Disposal	25	351	0	0	0
Change in LT investment	167	(405)	0	0	0
Change in other assets	(430)	434	(39)	77	80
Free cash flow	945	938	(1,282)	18	418
Financing cash flow	(1,967)	(1,400)	1,614	295	(28)
Change in share capital	5	25	0	0	0
Net change in debt	(1,680)	(533)	1,614	366	105
Dividend paid	(332)	(192)	0	(70)	(132)
Net impact of exchange fluctuation	1	79	0	0	0
Net cash flow	(1,021)	(384)	332	313	391

Sources: Company, CER estimates

Balance Sheet (Consolidated)

FY-end 31 Dec (HK\$ m)	2012	2013	2014	2015E	2016E
Total assets	28,020	22,156	21,482	24,314	25,401
Current assets	24,942	18,925	18,120	20,794	21,862
Cash & ST investments	4,258	3,048	3,583	3,896	4,286
Marketable securities & ST inv	-	-	-	-	-
Account & notes receivable	13,928	10,876	10,466	12,167	12,653
Inventories	6,732	4,972	4,055	4,714	4,902
Others	24	30	17	18	20
Non-current assets	3,078	3,230	3,362	3,521	3,538
LT investments	7	7	112	112	112
Net fixed assets	2,630	2,564	2,510	2,690	2,722
Others	441	660	740	719	705
Total liabilities	23,028	17,673	16,876	19,324	20,025
Current liabilities	22,587	16,511	15,916	18,364	19,065
Account payable	14,440	10,581	8,464	9,840	10,234
ST borrowings	2,608	870	2,251	2,616	2,721
Others	5,539	5,059	5,201	5,908	6,110
Non-current liabilities	441	1,163	960	960	960
Long-term debts	402	1,132	925	925	925
Others	39	31	35	35	35
Total equities	4,992	4,482	4,606	4,991	5,376
Shareholders' equity	4,765	4,358	4,469	4,840	5,211
Minority shareholders	227	124	137	151	165
Total liabilities + SH equities	28,020	22,156	21,482	24,314	25,401
Net cash / (debt)	1,248	633	(446)	(499)	(213)
Working capital	2,355	2,415	2,204	2,429	2,797
Total capital employed	8,002	6,897	8,635	9,385	9,875
Shareholders' equity + Minorities	4,992	4,482	4,606	4,991	5,376
Net gearing (%)	(25)	(14)	10	10	4

Sources: Company, CER estimates

Financial Summary

FY-end 31 Dec	2012	2013	2014	2015E	2016E
Growth (%)					
Revenue	9.4	9.6	(15.1)	16.2	4.0
EBITDA	33.3	(81.2)	239.6	25.0	9.2
EBIT	31.4	(102.9)	na	26.5	10.8
Net profit	101.3	(105.3)	na	88.1	14.1
EPS	66.6	(105.2)	na	86.2	14.1
Margins (%)					
Gross	17.1	13.7	16.4	16.7	16.6
EBITDA	4.0	0.7	2.7	2.9	3.1
EBIT	3.1	(0.1)	1.8	2.0	2.1
Net	2.5	(0.1)	0.7	1.1	1.2
Others (%)					
Effective tax rate	6.5	472.2	37.4	25.0	25.0
Payout ratio	0.0	0.0	30.0	30.0	30.0
RoCE	11.7	(0.7)	2.8	4.8	5.2
Average RoE	19.1	(1.1)	5.2	9.1	9.7
Average RoA	3.3	(0.2)	1.1	1.8	2.0
Interest cover (x)	5.0	na	4.7	5.2	5.5

Sources: Company, CER estimates

China Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

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