

Skyworth Digital (751 HK)

Not Rated

Potential new income streams from cloud TV users



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What's new? Skyworth's share price has surged over 19% so far in Feb. We met with company management for a business update.

Management upbeat it will reach China TV shipment target of 9m units for FY15 On Feb 5, Skyworth reported robust Jan shipment data. The company's China TV shipments rose 39% YoY to 1.28m units during the month (see figure 1). Skyworth's China TV shipment momentum has been satisfactory during the current fiscal year and management is upbeat that it will meet its shipment target of 9m units in China for FY15 (i.e. fiscal year ending Mar 31, 2015). In fact, Skyworth's China TV shipments during Apr 2014-Jan 2015 totaled 8.34m units, equal to 93% of its full-year target.

ASP for China TVs stabilized in 2HFY15 The average selling price (ASP) of TVs in China fell to HK\$2,633 in 1HFY15, down 14% from HK\$3,051 in FY14 (see figure 4). Management mentioned that ASP has stabilized in 2HFY15, underpinned by an improved profit mix due to a ramp-up in shipments of internet-enabled TVs (Cloud TVs), which accounted for 57% of China TV shipments in Jan 2015, up from 42% in the same period a year ago. This bodes well for Skyworth's gross profit margin (GPM) in 2HFY15 (1HFY15 GPM: 20.8%).

Big data and potential advertising income stream In addition to favorable shipment momentum, we expect Skyworth to benefit from new income streams as management is preparing the ground work to monetize from its cloud TV users. The company began selling Cloud TVs in 2012, and saw shipments of 4.2m units in 10MFY15, up from 1.6m units in FY13 and 2.6m units in FY14. The number of daily active users currently stands at more than 3m. Skyworth has access to information including users' location, viewing habits, etc, which the company will leverage to generate advertising revenue once DAU reaches the threshold level of 5m users.

FY15 will be a year of earnings recovery for Skyworth FY14 net profit fell 17% YoY to HK\$1.25bn due to weakness in TV demand in China and increased operating expenses for R&D as well as advertising and promotion. Bloomberg consensus sees net profit in FY15 rebounding by 29% YoY to a record high HK\$1.62bn (see figure 7).

Valuation Skyworth's share price has risen 24% YTD and is trading at 1.2x P/B and 9.4x P/E on Bloomberg FY15 consensus BPS and EPS estimates. Rivals **TCL Multimedia** (1070 HK, NR) is trading at 14.1x 2015E P/E (share price up 23% YTD) and **Hisense** (600060 CH, NR) is trading at 17.1x (share price up 81% YTD).

Risks Key downside risks include rapid fluctuations in panel prices and industry pricing competition.

Stock performance (HK\$)



Source: Bloomberg

Key data

Feb 17 close (HK\$)	5.23
Share in issue (m)	2,847
Major shareholder	Lin Wei Ping (35.9%)
Market cap (HK\$bn)	14.9
3M avg. vol. (m)	7.5
52W high/low (HK\$)	5.43 / 3.39

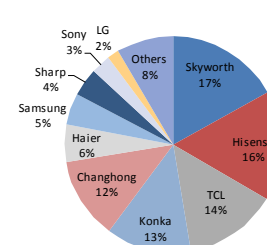
Source: Bloomberg

Fig 1: Skyworth's China TV shipment ('000 units)



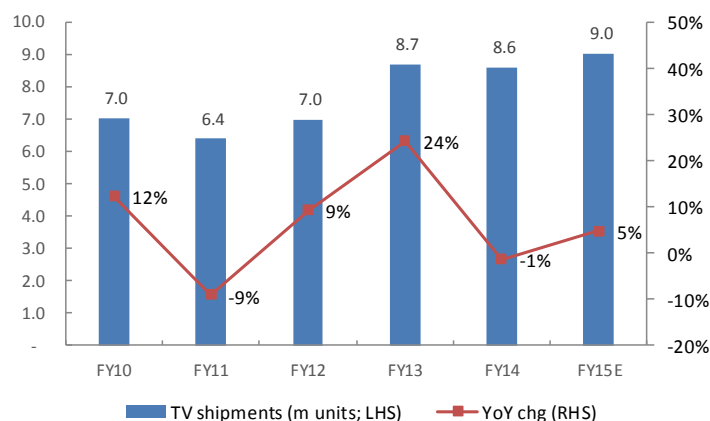
Source: Company data

Fig 2: China LCD TV market share



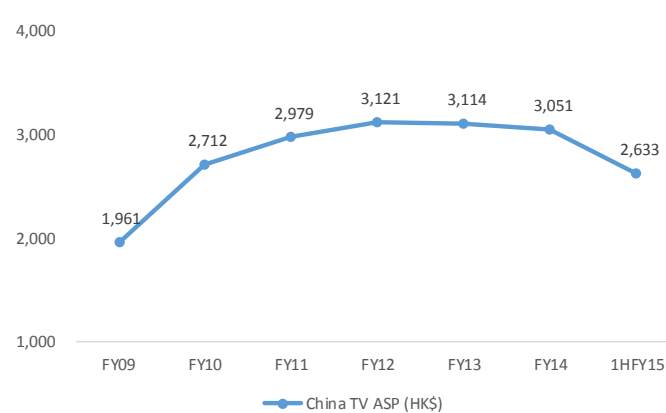
Source: AVC, 12-months ending Sep 2014

Figure 3: Skyworth - China TV shipments (m units)



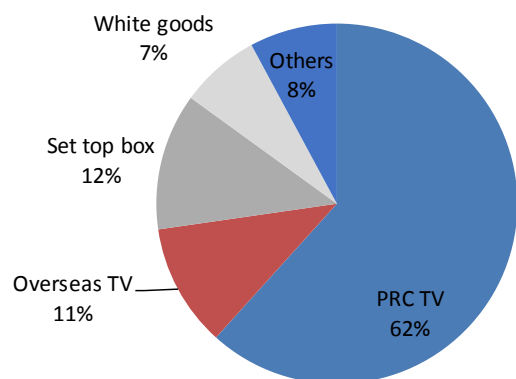
Source: Company data, *FY15 shipment target of 9m units

Figure 4: Skyworth - China TV ASP (HK\$)



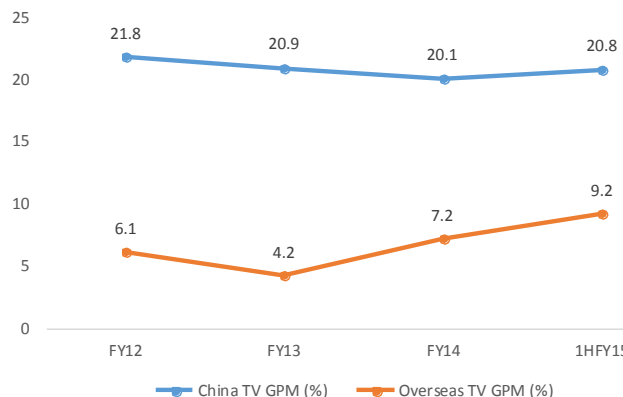
Source: Company data

Figure 5: Skyworth - revenue mix by product (1HFY15)



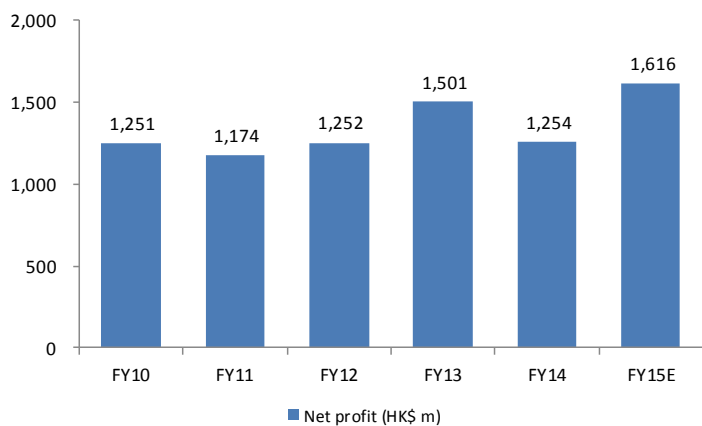
Source: Company data

Figure 6: Skyworth - gross profit margin trend



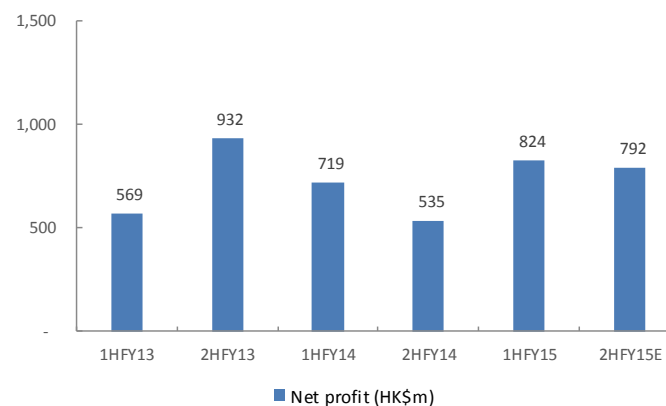
Source: Company data

Figure 7: Bloomberg consensus earnings estimate (annual)



Source: Company data, Bloomberg

Figure 8: Bloomberg consensus earnings estimate (semi-annual)



Source: Company data, Bloomberg

Rating definitions

Benchmark: Hong Kong Hang Seng Index

Time horizon: 12 months

Company ratings	
Buy	Stock expected to outperform benchmark by more than 15%
Accumulate	Stock expected to outperform benchmark by more than 5% but not more than 15%
Hold	Expected stock relative performance ranges between -5% and 5%
Underperform	Stock expected to underperform benchmark by more than 5%
Sector ratings	
Positive	Sector expected to outperform benchmark by more than 10%
Neutral	Expected sector relative performance ranges between -10% and 10%
Cautious	Sector expected to underperform benchmark by more than 10%

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