

Equity Research
 Handset maker / China

Coolpad (2369 HK)

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Company Update

HOLD

UPGRADE

Close price: HK\$1.46

Target Price: HK\$1.30 (-11%)

Prior TP: HK\$1.40

Key Data

HKEx code	2369
12 Months High (HK\$)	2.34
12 Month Low (HK\$)	1.25
3M Avg Dail Vol. (mn)	11.83
Issue Share (mn)	4,295.71
Market Cap (HK\$m)	6,443.56
Fiscal Year	12/2013
Major shareholder (s)	Guo Deying (38.95%)

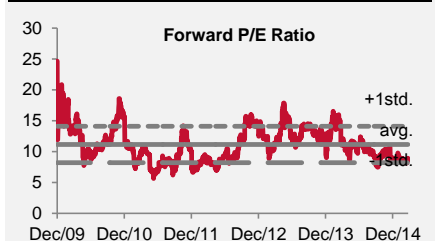
Source: Company data, Bloomberg, OP Research
 Closing price are as of 24/03/2015

Price Chart



	1mth	3mth	6mth
Absolute %	0.7	6.4	-6.3
Rel. MSCI CHINA %	-0.5	-2.0	-15.7

PE



Company Profile

Coolpad is one of the top 4 brand smartphone vendor in China and worldwide top-10 handset vendor

Question marks over Dazen JV bring some cool...

- Coolpad released FY14 results with revenue up 27% yoy to HK\$24.9bn and net profits up 47% yoy to HK\$513mn, missed market and our estimates by 27% and 23%.
- We cut our FY15/16E earnings estimates by 10.7%/17.7% respectively to reflect intensifying competition and ramping up online sales may not be offset rapid decline in operator channel sales
- Upgrade to HOLD with TP cut to HK\$1.30 from HK\$1.40 based on 10x FY15E PE. Ramp up of Dazen JV profits and potential value unlocked by spin-off is likely the next mid-term re-rating catalyst.

FY14 results missed market and our estimates by 27% and 23%. Coolpad released disappointing FY14 results with sales up 27% yoy to HK\$24.9bn and net profits up by 47% to HK\$513mn. GPM was down 3.7ppt HoH to 9.9% in 2H14, full year down 0.8ppt at 12.1%, due to inventory adjustment during the shift from 3G to 4G in 2H14. Earnings miss market/our estimates by 27%/23% respectively, mainly due to (1) margin pressure in 2H14 and (2) lower shipment from operator's subsidy cut.

Mixed 2015 outlook. Mgmt indicates strong sales of ~4mn units for Dazen brands in 2014 which ranks below Xiaomi and Huawei Honor series, and expects to expand online channel to narrow the gap between top vendors. We expect 20mn shipment of Dazen in 2015, representing 1/3 of total shipments, thanks to rising acceptability in the market. However, we cut our FY15/16E total shipment from 66mn/80mn units to 59mn/70mn units to reflect the slowdown in operator channel sales and intensifying competition on the e-commerce channel.

Trim down our FY15/16E earnings estimates by 10.9%/17.7%. We cut our FY15/16E GPM assumptions by 0.4ppt/0.7ppt to 12.0%/11.7% to reflect the intensifying competition in China smartphone market. Hence, we cut FY15/16E earnings estimate by 10.9%/17.7% to HK\$593mn/HK\$600mn.

Upgrade to HOLD with TP cut to HK\$1.30 based on 10x FY15E PE given (1) the share price corrected by 33% since our last downgrade and (2) HK\$3.17bn cash inflow upon completing disposal of 45% stake of Dazen JV to Qihoo is likely to strengthen its financial capital. Coolpad currently trades at 11.7x/11.5x FY15/16E PE and 0.9 FY15E P/B.

Risk: (1) Higher-than-expected shipment growth from online or offline channel, (2) Faster-than-expected ramp up of Dazen JV's profits to trigger value-accretive spin-off

Exhibit 1: Forecast and Valuation

Year to Dec (HK\$ mn)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	19,624	24,900	32,361	36,607	39,893
Growth (%)	36	27	30	13	9
Net Profit	349	513	593	600	662
Growth (%)	7	47	16	1	10
Diluted EPS (HK\$)	0.155	0.113	0.128	0.130	0.144
EPS growth (%)	8	(27)			10
Change to previous EPS (%)			(11)	(18)	
Consensus EPS (HK\$)			0.168	0.178	
ROE (%)	13.5	16.8	11.4	8.2	8.4
P/E (x)	9.7	13.2	11.7	11.5	10.4
P/B (x)	1.1	1.9	0.9	0.8	0.8
Yield (%)	1.3	0.7	0.8	0.8	0.8
DPS (HK\$)	0.020	0.010	0.011	0.011	0.013

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

	FY15E			FY16E			OP Comment
	New	Old	% Chg	New	Old	% Chg	
Shipments - mn units							
Total	59	66	(10.1)	70	80	(12.3)	Mainly reflect ramp up of online channel sales is unlikely to offset the struggle operators' channel sales
ASP	548	572	(4.2)	520	543	(4.2)	
Revenue	32,361	37,560	(13.8)	36,607	43,602	(16.0)	
Gross profit	3,882	4,672	(16.9)	4,272	5,385	(20.7)	
Gross margin	12.0%	12.4%	(0.4)	11.7%	12.3%	(0.7)	
Net Profit	593	655	(9.5)	600	717	(16.3)	
Net margin	1.8%	1.7%	0.1	1.6%	1.6%	(0.0)	
Diluted EPS (HK\$)	0.128	0.144	(10.9)	0.130	0.158	(17.7)	

Source: Company, OP Research

Exhibit 3: Interim Results Summary

(HK\$ mn)	1H12	2H12	1H13	2H13	1H14	2H14A	FY14A	FY14E	FY14 Act/Est	FY14 YoY	OP Comment
Revenue	6,218	8,172	9,632	9,992	14,935	9,966	24,900	30,677	-19%	27%	Mainly due to lower shipment resulted from operator subsidy cut
COGS	(5,474)	(7,165)	(8,378)	(8,716)	(12,909)	(8,976)	(21,885)	(26,694)	-18%	28%	
Gross profit	744	1,007	1,254	1,276	2,026	990	3,015	3,983	-24%	19%	Mainly due to margin pressure during the shift from 3G to 4G
Other income & gains	89	200	108	274	143	288	432	343	26%	13%	
Selling exp	(254)	(615)	(473)	(829)	(807)	(628)	(1,435)	(1,879)	-24%	10%	
Admin exp	(372)	(302)	(608)	(377)	(815)	(418)	(1,234)	(1,501)	-18%	25%	
Other opex	(5)	(13)	(6)	(159)	(33)	(51)	(84)	(61)	37%	-49%	
Finance costs	(24)	(31)	(15)	(8)	(31)	(56)	(87)	(48)	81%	277%	
Profit after financing costs	178	246	260	178	483	125	607	837	-27%	39%	
Associated cos	0	0	(0)	0	0	(1)	(0)	0	-446%	-446%	
Jointly cos	0	(7)	(0)	0	(0)	(0)	(0)	(0)	-37%	-37%	
Pre-tax profit	178	240	260	178	483	124	607	837	-28%	39%	
Tax	(26)	(68)	(47)	(42)	(70)	(23)	(93)	(167)	-45%	4%	
Minority interests	0	1	(0)	0	(0)	(1)	(1)	1	-316%	-515%	
Net profit	153	173	213	136	413	100	513	670	-23%	47%	
HoH %											
Revenue	44%	31%	18%	4%	49%	-33%					
Gross profit	30%	35%	24%	2%	59%	-51%					
Net profit	0%	13%	23%	-36%	204%	-76%					
YoY %											
Revenue	105%	89%	55%	22%	55%	0%	27%	56%			
Gross profit	47%	76%	69%	27%	62%	-22%	19%	57%			
Net profit	28%	14%	39%	-22%	94%	-26%	47%	92%			
Key ratios											
GPM	12.0%	12.3%	13.0%	12.8%	13.6%	9.9%	12.1%	13.0%			
SG / sales	4.1%	7.5%	4.9%	8.3%	5.4%	6.3%	5.8%	6.1%			
Admin / sales	6.0%	3.7%	6.3%	3.8%	5.5%	4.2%	5.0%	4.9%			
EIT	14.6%	28.2%	18.0%	23.8%	14.4%	18.4%	15.3%	20.0%			
Net margin	2.5%	2.1%	2.2%	1.4%	2.8%	1.0%	2.1%	2.2%			

Source: Company, OP Research

Exhibit 4: Peer Group Comparison

Company	Ticker	Price (US\$m)	Mkt cap (US\$m)	3-mth avg t/o	PER		PER		EPS		3-Yr EPS Cagr (%)	PEG (x)	Div yld		P/B		EV/ Ebitda		Net gearing	Gross margin		ROE	ROE	Sh px	Sh px
					Hist (x)	FY1 (x)	FY2 (x)	YoY%	FY1	FY2			Hist (%)	FY1 (%)	Hist (x)	FY1 (x)	Hist	Cur Yr		Hist (%)	Cur Yr (%)				
China Wireless T	2369 HK	1.50	831	2.3	13.2	11.7	11.5	13.4	1.2	3.8	3.09	0.7	0.8	1.92	0.91	7.6	2.0	Net cash	12.1	2.1	16.8	11.4	0.7	6.4	
HSI	24,399.60				10.3	11.6	10.5	(11.6)	11.2	2.5	4.61	3.7	3.5	1.35	1.27						13.2	10.9	(1.4)	4.5	
HSCEI	12,005.02				8.6	8.3	7.4	3.7	11.7	8.3	1.00	3.6	3.8	1.27	1.12						14.8	13.6	(0.3)	3.9	
CSI300	3,973.05				17.2	14.3	12.5	20.1	15.0	N/A	N/A	1.5	1.9	2.47	2.10						14.4	14.7	12.8	23.0	
Adjusted sector avg*					43.8	27.3	23.2	43.0	15	8.5	5.77	N/A	2.7	1.91	1.69	10.6	8.5	45.9	20.5	2.2	16.5	16.0	0.7	8.5	
Tcl Comm Tech HI	2618 HK	7.91	1,260	4.7	8.6	7.2	6.5	19.2	11.0	12.7	0.57	2.9	5.0	2.36	1.93	9.8	6.7	91.9	19.3	3.6	31.2	28.9	6.0	10.6	
Htc Corp	2498 TT	142.00	3,802	39.2	78.9	47.3	39.9	66.7	18.7	4.3	10.97	N/A	0.4	1.46	1.44	11.4	10.3	0.0	21.7	0.8	1.9	3.0	(4.7)	6.4	

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

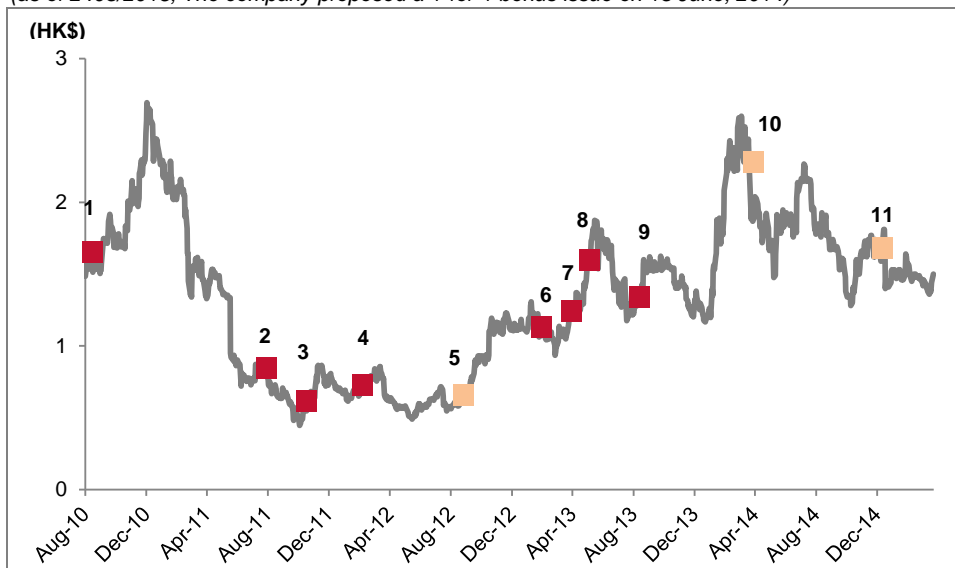
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
24/03/2015	Technovator	1206	NDR Takeaway	BUY	Yuji Fung
23/03/2015	Shenzhen International	152	Decent dividend from toll road subsidiary	BUY	Bruce Yeung
19/03/2015	Technovator	1206	FY14 results First Take	BUY	Yuji Fung
18/03/2015	Ju Teng Intl	3336	In-line FY14 result; Margin expansion resumed	BUY	Yuji Fung
17/03/2015	Kwoon Chung Bus	306	Value unlocked	NR	Bruce Yeung
12/03/2015	BWI Intl	2339	FY14 earnings hit huge gain of HK\$169 mn	NR	Kelvin Ng
10/03/2015	Technovator	1206	Spin-off and poised to swamp China	BUY	Yuji Fung
03/03/2015	TCL COMM	2618	Strong guidance ahead	BUY	Yuji Fung
06/02/2015	Technovator	1206	Positive signaling from stake increase by ParentCo	BUY	Yuji Fung
04/02/2015	Beijing Properties	925	Divest for reinvesting logistics properties	BUY	Bruce Yeung
03/02/2015	TK Group	2283	When the best is served by the best of best	NR	Lindsay Hu/ Yuji Fung
15/01/2015	Ju Teng Intl	3336	Correction overdone	BUY	Yuji Fung
12/01/2015	TCL COMM	2618	Profits soar with Iron Man, X-men and OneTouch	BUY	Yuji Fung
09/01/2015	Technovator	1206	Past year promising, New Year winning	BUY	Yuji Fung
06/01/2015	Sinomedia	623	Downgrade on economic slowdown	HOLD	Yuji Fung
05/01/2015	SCUD Group	1399	Beneficiary of Xiaomi Success	BUY	Yuji Fung
22/12/2014	China Fiber Optic Network	3777	Penetrating into a broadband service provider	BUY	Yuji Fung
10/12/2014	SCUD Group	1399	Introducing Value Partner as 2nd largest shareholder	BUY	Vivien Chan/ Yuji Fung
08/12/2014	Great Wall Motor	2333	SUV sales accelerates	BUY	Vivien Chan
27/11/2014	PAX Global	327	Overseas expansion on track	HOLD	Vivien Chan
26/11/2014	BWI Intl	2339	A Chinese-owned, Global Auto Parts Leader with a strong product	NR	Vivien Chan
24/11/2014	Tiangong	826	Solid order growth remains	BUY	Vivien Chan
19/11/2014	Sinotrans	598	A shift to risk aversion	HOLD	Bruce Yeung
17/11/2014	CMGC	8081	Mobile game coming to the stage	NR	Lindsay Hu/ Yuji Fung
13/11/2014	HC International	2280	3Q14 results miss	BUY	Yuji Fung
13/11/2014	CFON	3777	In line 3Q14 operation results	BUY	Yuji Fung
12/11/2014	Shenzhen International	152	A visionary logistics development plan with solid executions	BUY	Bruce Yeung

Historical recommendations and target price: Coolpad (2369 HK)

(as of 24/03/2015, The company proposed a 1-for-1 bonus issue on 13 June, 2014)



1	09 Aug 2010	BUY, Target price HK\$4.20	7	22 Mar 2013	BUY, Target price change HK\$3.20
2	18 Jul 2011	BUY, Target price change HK\$2.44	8	09 May 2013	BUY, Target price change HK\$4.60
3	25 Nov 2011	BUY, Target price change HK\$2.57	9	22 Aug 2013	BUY, Target price change HK\$4.10
4	22 Mar 2012	BUY, Target price change HK\$2.20	10	24 Mar 2014	BUY->SELL, Target price change HK\$ 3.50
5	22 Aug 2012	BUY-> HOLD, Target price change HK\$1.40	11	26 Aug 2015	SELL, Target price change HK\$ 1.40 (HK\$2.8 old)
6	21 Feb 2013	HOLD -> BUY, Target price change HK\$3.10			

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Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
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Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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