

Company Report

China Merchants Securities (HK) Co., Ltd
Hong Kong Equity Research

Coolpad (2369 HK)

FY14 badly miss; D/G to SELL on challenging outlook

- FY14 results below consensus by 17-26%, due to operator channel weakness and record-low GPM (9.9% in 2H14)
- Expect continued pressure in shipment/margins in FY15E, given initial stage of brand repositioning and sales channel restructuring
- Reduce FY15-16E EPS by 41%/38% (24%/31% below consensus); Downgrade to SELL on more headwinds ahead

What's new

Coolpad posted a weak set of FY14 results, with revenue/net profit of HK\$24.9mn/514mn (+27%/48% YoY), well below our estimates by 17%/22% and consensus by 17%/26%, mainly due to operators' subsidy reduction and sales channel transition. FY14 GPM declined 80bps YoY to 12.1%, as a result of intense competition and higher mix of lower-margin products via ecommerce channel. Mgmt guided challenges to persist in 1H15, given pricing pressure on operator channel, higher expense in establishing open channels and slower ramp-up of ecommerce brand (Dazen). Our new FY15-16E EPS are below consensus by 31%/24%.

Implications/ Our views

We believe the company is still undergoing transition in brand repositioning, product development, and sales network restructuring. We expect margin pressure to continue during initial development stage of ecommerce business model (low-price, small-scale), and we remain cautious until we see higher visibility with meaningful ramp-up and more product launches under the three brands (Coolpad, IVVI, Dazen). We reduce our FY15E/16E revenue by 17%/11% and GPM by 1.3/1.4ppt to factor in FY14 results, lower shipments and weaker OPM on competition.

Valuation/ Key risks

We reduce our TP to HK\$1.05 (from HK\$1.55), based on 9x FY15E P/E (down-cycle average). Trading at 12.9x FY15E P/E (vs peers' 9x P/E), we expect further downside risks in brand/channel restructuring and downgrade to SELL. Key upside risks include stronger 4G demand, less competition in open channel, and faster sales network expansion.

Financials

HK\$ mn	2013	2014	2015E	2016E	2017E
Revenue	19,624	24,900	29,938	36,249	42,555
Growth (%)	36.4%	26.9%	20.2%	21.1%	17.4%
Net profit	349	513	499	578	675
Growth (%)	7.1%	47.1%	-2.7%	15.8%	16.8%
EPS (HK\$)	0.04	0.12	0.12	0.13	0.16
DPS (HK\$)	0.02	0.01	0.01	0.02	0.02
P/E (x)	36.2	12.6	12.9	11.2	9.5
P/B (x)	4.6	1.9	1.7	1.5	1.3
ROE (%)	13%	15%	13%	13%	14%

Source: Company data, CMS (HK) estimates

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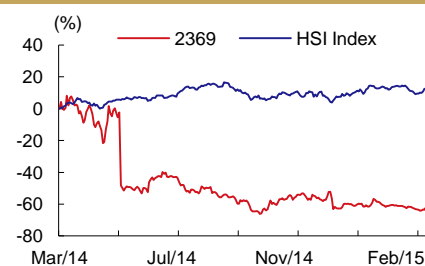
WHAT'S NEW

EPS/TP/Rating downgraded

SELL

Previous	NEUTRAL
Price	HK\$1.5
12-month Target Price (Potential upside/downside)	HK\$1.05 (-30%)
Previous	HK\$1.55

Price Performance



Source: Bigdata

%	1m	6m	12m
2369 HK	(2.0)	(8.8)	(39.2)
HSI	(1.4)	2.8	14.3

Hardware Technology

Hang Seng Index	24400
HSCEI	12005

Key Data

52-week range (HK\$)	1.25-4.26
Market cap (HK\$ mn)	6,054.5
Avg. daily volume (mn)	2614.21
BVPS (HK\$)	0.66

Shareholdings Structure

Data Dreamland Holding	38.71%
UBS AG	4.93%
Norges Bank Investment	0.82%
No. of shares outstanding (mn)	4,294.0
Free float	18.20%

Related Research

- 1) Coolpad (2369 HK) – Qihoo's investment into Dazen to unlock Coolpad's mobile monetization potential – 17 Dec 2014
- 2) Coolpad (2369 HK) – Downgrade to NEUTRAL on ST transition headwinds – 23 Dec 2014

FY14 Results Review

Figure 1: FY14 results vs Consensus

HKDm	FY13	FY14	YoY	CMS		Consensus	
				FY14E	Diff (%)	FY14E	Diff (%)
Rev	19,624	24,900	27%	30,095	-17%	29,836	-17%
GP	2,530	3,015	19%	3,951	-24%	3,888	-22%
OP	778	626	-20%	849	-26%	765	-18%
NP	348	514	48%	656	-22%	699	-26%
GPM	12.9%	12.1%		13.1%		13.0%	
OPM	4.0%	2.5%		2.8%		2.6%	
NPM	1.8%	2.1%		2.2%		2.3%	

Source: Company, CMS (HK)

Figure 2: Coolpad's interim financial results comparison

HK\$ mn	2H12	1H13	2H13	1H14	2H14	YoY growth
3G smartphone	6,914	9,306	9,629	9,444	2,735	-71.6%
YoY growth		50.5%	39.3%	1.5%	-71.6%	
4G smartphone	1,230	293	221	5,361	6,970	3058%
YoY growth			-82.1%	1729.2%	3058%	
Wireless app service income	-	16	90	87	262	191%
YoY growth				441.6%	191%	
Other products	-	33	36	42	58	61.4%
Revenue	8,141	9,632	9,992	14,935	9,966	-0.2%
Gross profit	976	1,254	1,276	2,026	990	-22.5%
Operating Profit	277	275	186	514	181	-2.8%
Profit before tax	240	260	178	483	124	-30.3%
Net Profit	173	213	136	413	100	-26.3%
EPS - Basic	0.042	0.051	0.033	0.097	0.023	-28.1%
Gross Margin	12.0%	13.0%	12.8%	13.6%	9.9%	
Operating Margin	3.4%	2.9%	1.9%	3.4%	1.8%	
Pre-tax Income Margin	2.9%	2.7%	1.8%	3.2%	1.24%	
Net Profit margin	2.1%	2.2%	1.4%	2.8%	1.0%	

Source: Company, CMS (HK)

Earnings revisions

Figure 3: Key assumptions

	1H14	2H14	1H15E	2H15E	2015E	2016E	2017E
Coolpad brand							
Shipments (mn)	24.0	27.0	12.0	15.0	30	22	21
ASP (HKD)	622	479	480	480	480	430	420
Dazen brand							
Shipments (mn)	-	3.8	6.0	9.0	15	25	33
ASP (HKD)	-	630	600	600	600	630	620
IVVI brand							
Shipments (mn)	-	-	2.0	5.0	7	12	14
ASP (HKD)	-	-	850	800	814	800	780
Total shipments (mn)	24.0	18.8	23.0	29.0	52	59	68
Blended ASP (HKD)	622	510	543	572	560	590	591
Total handset revenue (HKD mn)	14,935	9,581	12,500	16,600	29,100	34,810	40,200
YoY revenue growth	55.6%	-2.7%	-16.3%	73.7%	19%	20%	15%

Source: Company, CMS (HK)

Figure 4: Coolpad estimate revisions

(HKD mn)	New			Old		Change (%)	
	2015E	2016E	2017E	2015E	2016E	2015E	2016E
Revenue	29,938	36,249	42,555	35,701	41,676	-17%	-11%
Gross profit	3,443	4,205	4,979	4,570	5,334	-26%	-20%
Operating profit	654	755	871	969	1,147	-40%	-38%
Pretax profit	588	689	805	906	1,084	-43%	-40%
Net profit	499	578	675	734	878	-40%	-38%
EPS (HKD)	0.12	0.13	0.16	0.17	0.21	-41%	-38%
Gross margin	11.5%	11.6%	11.7%	12.8%	12.8%	-1.4%	-1.3%
Operating margin	2.2%	2.1%	2.0%	2.7%	2.8%	-0.9%	-0.9%
Net margin	1.7%	1.6%	1.6%	2.1%	2.1%	-0.7%	-0.7%

Source: Company, CMS (HK)

Estimates vs Consensus

Figure 5: CMS (HK) estimates vs consensus

(HKD mn)	CMS(HK)			Consensus		Diff (%)	
	2015E	2016E	2017E	2015E	2016E	2015E	2016E
Revenue	29,938	36,249	42,555	36,081	41,266	-17%	-12%
Gross profit	3,443	4,205	4,979	4,531	5,092	-24%	-17%
Net profit	499	578	675	701	805	-29%	-28%
EPS (HKD)	0.12	0.13	0.16	0.17	0.18	-31%	-24%
Gross margin	11.5%	11.6%	11.7%	12.6%	12.3%	-1.06%	-0.74%
Net margin	1.7%	1.6%	1.6%	1.9%	2.0%	-0.28%	-0.36%

Source: CMS (HK), Bloomberg

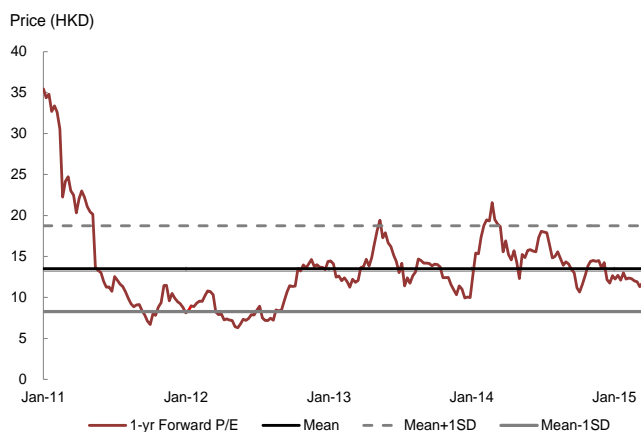
Valuation

Downgrade to SELL with revised TP of HK\$1.05 (30% downside)

We downgrade to SELL rating with lowered TP HK\$1.05, based on unchanged 9x FY15E P/E (down-cycle average from mid-2011 to 2013). We become more cautious on volume/margin outlook for the company due to channel transition and new brand development. We reduce our FY15-16E EPS by 24-31% to reflect lower smartphone shipments and weaker OPM. Trading at 12.9x of our downward-revised FY15E EPS (vs peers 9x P/E), we expect further downside in the near term and downgrade to SELL.

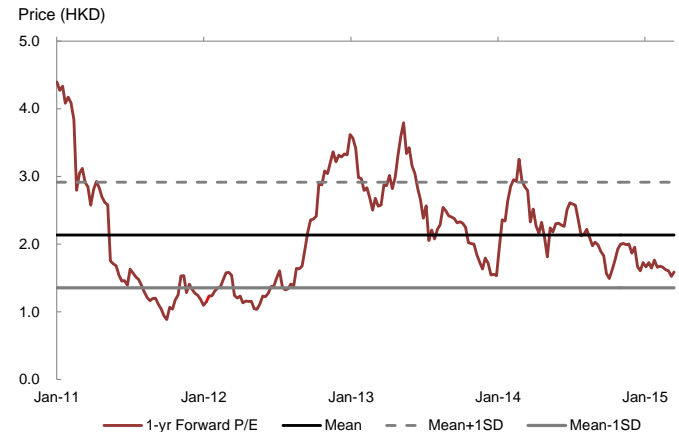
Key upside risks include stronger 4G demand, less competition in open channel, and faster sales network expansion.

Figure 6: Forward P/E band



Source: Company, CMS (HK)

Figure 7: Forward P/B band



Source: Company, CMS (HK)

Peers Comparison

Figure 8: Sector valuation comparison

Company	Ticker	Rating	Mkt Cap (USD mn)	Current Price (HKD)	Target Price (HKD)	Upside (%)	P/E (x)		P/B (x)		ROE (%)	
							FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Coolpad	2369 HK	Sell	831	2	1.05	-30%	12.50	11.54	1.70	1.49	13%	13%
TCL Comm	2618 HK	Buy	1,260	8	10.42	32%	6.83	6.02	1.70	1.50	27%	26%
ZTE	763 HK	N/A	11,605	17	N/A	N/A	14.07	12.49	1.67	1.49	13%	13%
Sunny Optical	2382 HK	Neutral	2,047	14	16.21	12%	15.02	12.18	3.19	2.65	21%	21%
Truly Intl	732 HK	Buy	1,463	4	4.41	13%	8.04	6.71	1.32	1.14	16%	17%
AAC Tech	2018 HK	Neutral	8,509	54	48.70	-9%	16.52	13.99	4.40	3.63	27%	26%
BYD E	285 HK	N/A	2,588	9	N/A	N/A	10.79	8.95	1.44	1.28	14%	15%
FIH	2038 HK	N/A	4,091	4	N/A	N/A	17.49	15.43	0.99	0.94	6%	7%

Source: CMS (HK), Bloomberg

Financial Summary

Statement of financial position

HKD million	2013	2014E	2015E	2016E	2017E
Current Assets	8,811	11,219	13,151	16,168	19,159
Cash & equivalents	1,628	2,959	1,850	3,323	3,927
Trading investments	0	0	0	0	0
Trade notes	0	0	0	0	0
Trade receivables	2,998	3,019	4,527	4,610	6,117
Other receivables	890	1,510	1,816	2,198	2,581
Inventories	2,595	2,798	4,026	5,105	5,602
Other current assets	699	932	932	932	932
Non-current assets	1,251	1,626	2,058	2,335	2,592
Investment property	218	113	113	113	113
PPE	568	906	1,034	1,243	1,433
Intangible assets	174	113	113	113	113
Other non-current assets	291	493	797	865	933
Total assets	10,062	12,844	15,209	18,503	21,752
Liquid Liabilities	7,243	7,780	9,701	12,445	15,003
Bank loans	603	548	548	548	548
Trade payables	1,876	2,118	2,963	4,411	5,678
Prepaid Accounts	0	0	0	0	0
Other liquid liabilities	4,764	5,114	6,190	7,486	8,778
Long term Liabilities	58	1,704	1,716	1,729	1,743
Loans	0	1,616	1,616	1,616	1,616
Others	58	89	100	114	128
Total Liabilities	7,301	9,484	11,417	14,174	16,746
Issued capital	21	43	43	43	43
Capital reserves	0	0	0	0	0
Reserves	2,737	3,310	3,691	4,190	4,850
NCI	3	7	8	9	11
Parents	2,758	3,353	3,784	4,320	4,994
Total equity and liabilities	10,062	12,844	15,209	18,503	21,752

Statement of cash flows

HKD million	2013	2014E	2015E	2016E	2017E
CF from OA	647	410	(776)	1,880	969
PBT	178	607	588	689	805
D&A	172	59	72	91	110
Finance costs	23	87	65	65	65
Investment income	0	0	0	0	0
Changes of WC	(148)	(253)	(1,136)	1,179	152
Others	422	(90)	(365)	(145)	(163)
CF from IA	(235)	(200)	(200)	(300)	(300)
Capital expenditure	(147)	(200)	(200)	(300)	(300)
Other investments	(88)	0	0	0	0
CF from FA	(51)	704	(133)	(107)	(65)
Borrowings	56	835	0	0	0
Share capital	0	0	0	0	0
Changes of reserves	0	0	0	0	0
Dividends	(105)	(43)	(68)	(42)	0
Others	(1)	(87)	(65)	(65)	(65)
Net cash flow	361	914	(1,109)	1,473	604

Source: Company, CMS(HK)

Statement of comprehensive income

HKD million	2013	2014E	2015E	2016E	2017E
Revenues	19,624	24,900	29,938	36,249	42,555
Cost of sales	(17,094)	(21,885)	(26,495)	(32,044)	(37,576)
Selling exp	(2,286)	(2,669)	(3,114)	(3,806)	(4,468)
Admin exp	(984)	(1,234)	(1,407)	(1,704)	(1,958)
Op expenses	(1,687)	(1,889)	(2,393)	(3,007)	(3,645)
Op Profit	461	695	654	755	871
Fin. costs	(23)	(87)	(65)	(65)	(65)
Impairments	0	0	0	0	0
FV changes	0	0	0	0	0
Inv income	(0)	(1)	(1)	(1)	(1)
Non-op inc	0	0	0	0	0
Non-op exp	0	0	0	0	0
PBT	437	607	588	689	805
Taxes	(89)	(93)	(88)	(110)	(129)
PAT	348	514	500	579	676
NCI	(0)	1	1	1	2
Net profit	349	513	499	578	675
EPS (HKD)	0.04	0.12	0.12	0.13	0.16

Ratios

	2013	2014E	2015E	2016E	2017E
YoY growth rate					
Revenue	36.4%	26.9%	20.2%	21.1%	17.4%
Op profit	-3.9%	50.7%	-5.9%	15.5%	15.4%
Net profit	7.1%	47.1%	-2.7%	15.8%	16.8%
Profitability					
Gross margin	12.9%	12.1%	11.5%	11.6%	11.7%
NP margin	1.8%	2.1%	1.7%	1.6%	1.6%
ROE	15.3%	15.3%	13.2%	13.4%	13.5%
ROIC	23.9%	23.9%	15.0%	15.9%	21.1%
Liquidity					
D/A	6.0%	4.3%	3.6%	3.0%	2.5%
ND/A	-10.2%	-18.8%	-8.6%	-15.0%	-15.5%
Liquid ratio	1.2	1.4	1.4	1.3	1.3
Quick ratio	0.9	1.1	0.9	0.9	0.9
Operating efficiency					
Asset turnover	2.2	2.2	2.3	2.2	2.2
Inventory turnover	6.6	7.8	6.6	6.3	6.7
AR turnover	6.5	8.2	6.6	7.9	7.0
AP turnover	5.7	7.2	5.9	7.0	6.1
Per share ratios (HKD)					
EPS	0.04	0.12	0.12	0.13	0.16
CFPS	0.04	0.21	(0.26)	0.34	0.14
BVPS	0.33	0.78	0.88	1.01	1.17
DPS	0.02	0.01	0.01	0.02	0.02
Valuation					
P/E	36.2	12.6	12.9	11.2	9.5
P/B	4.6	1.9	1.7	1.5	1.3
EV/EBITDA	8.4	7.5	9.3	6.3	4.8

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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