



Company Report: Coolpad Group Limited (02369 HK)

公司报告: 酷派集团有限公司 (02369 HK)

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GTJA Research 国泰君安研究

New Measures to Tackle Challenges, "Buy"

新措施以应对挑战, "买入"

- **FY14 results were lower than expectations** due to lower than expected smartphone shipments and ASP.
- **Revise down FY15-16 smartphone shipment estimations by 37.9%/37.5%, respectively**, due to stronger market competition and telecom operators' reduction of handset subsidies in FY15.
- **Coolpad explores overseas market and e-commerce platform to cope with telecom operators' reduction of handset subsidies in FY15.** Coolpad Telecom operators accounted for 80% of the Company's sales and the Company is shifting its distribution channel towards e-commerce platform trying to reduce the impact from the reduction of handset subsidies by telecom operators in FY15.
- **Maintain the Company's investment rating of "Buy" and cut the TP from HK\$2.75 to HK\$2.30.** Due to adjustments of smartphone shipment estimations, FY15-16 EPS is revised down by 19.0%/20.0%, respectively. The new TP represents 17.2x FY15 PER, 15.1x FY16 PER, 13.8x FY17 PER and 3.1x FY15 PBR. We maintain the Company's investment rating of "Buy" in light of the Company exploring overseas markets and its e-commerce platform.
- **14 财年业绩低于预期**, 因低于预期的智能手机出货量和平均售价。
- **分别下调 15-16 财年的智能手机出货量预测 37.9%/37.5%**, 是由于较强的市场竞争及电信运营商在 15 财年减手机补贴。
- **酷派开拓海外市场和电子商务平台, 以应对电信运营商削减 15 财年手机补贴。** 电信运营商占酷派 14 财年收入的 80%, 公司正在改变其销售渠道至电子商务平台, 从而减少因运营商在 15 财年减少手机补贴的影响。
- **维持公司的投资评级为“买入”及目标价从 2.75 港元下调至 2.30 港元。** 由于智能手机出货量预测的调整, 分别下调 15-16 财年每股盈利预测 19.0%/20.0%。新的目标价相当于 17.2 倍 15 财年市盈率、15.1 倍 16 财年市盈率、13.8 倍 17 财年市盈率及 3.1 倍 15 财年市净率。我们维持公司的投资评级为“买入”, 因公司开拓海外市场和电子商务平台。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18M TP 目标价:

HK\$2.30

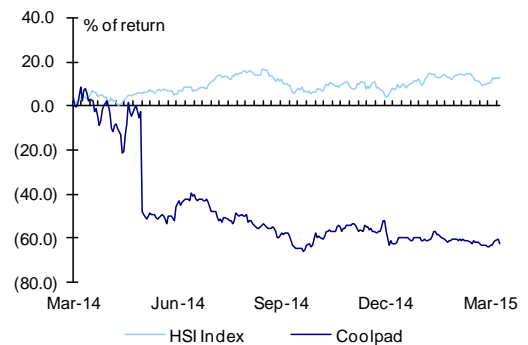
HK\$2.75

Share price 股价:

HK\$1.390

Stock performance

股价表现



Change in Share Price

Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(4.8)	(1.4)	(26.6)
Rel. % to HS index 相对恒指变动 %	(3.5)	(6.3)	(38.8)
Avg. Share price(HK\$) 平均股价 (港元)	1.4	1.5	2.0

Source: Bloomberg, Guotai Junan International

Year End 12/31	Turnover 收入 (HKD m)	Net Profit 股东净利 (HKD m)	EPS 每股净利 (HKD)	EPS Change 每股净利变动 (Δ%)	PER 市盈率 (x)	BPS 每股净资产 (HKD)	PBR 市净率 (x)	DPS 每股股息 (HKD)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2013A	19,624	349	0.083	7.7	16.8	0.657	2.1	0.010	0.7	13.5
2014A	24,900	513	0.119	44.1	11.6	0.782	1.8	0.010	0.7	16.8
2015F	29,268	575	0.134	12.1	10.4	0.742	1.9	0.010	0.7	17.6
2016F	34,765	656	0.153	14.1	9.1	0.837	1.7	0.010	0.7	19.4
2017F	39,148	715	0.166	9.0	8.4	0.941	1.5	0.010	0.7	18.7

Shares in issue (m) 总股数 (m)	4,280.0	Major shareholder 大股东	Guo Deying 39.4%
Market cap. (HK\$ m) 市值 (HK\$ m)	5,949.2	Free float (%) 自由流通比率 (%)	53.0
3 month average vol. 3 个月平均成交股数 ('000)	12,620.4	FY15 Net gearing 15 年净负债/股东资金 (%)	Net cash
52 Weeks high/low (HK\$) 52 周高/低	2.050/1.770	FY15 Est. NAV (HK\$) FY15 每股估值 (港元)	2.8

Source: The Company, Guotai Junan International.

Coolpad Group Ltd 酷派集团 (02369 HK)

Company Report

FY14 Results Review:

FY14 results were below expectations, due to lower than expected smartphone shipments and ASP.

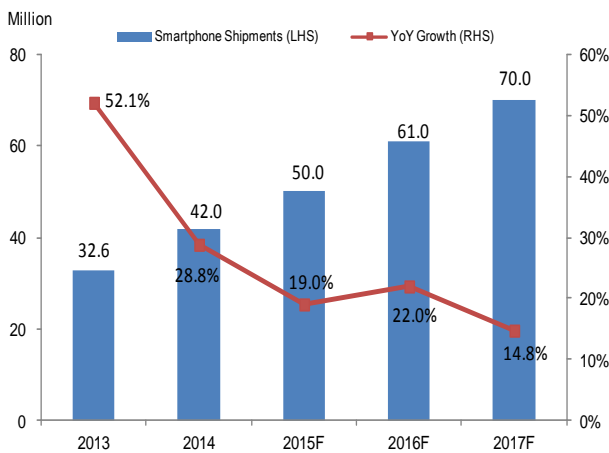
Table-1: Coolpad's Income Statement Analysis

HKD (Million)	FY14	FY13	YoY	Comments
Total revenue	24,900	19,624	26.9%	
-4G smartphone sales	12,332	514	2,299.2%	Strong growth thanks to the 4G development in China market
-3G smartphone sales	12,179	18,935	(35.7%)	Decline related to the market shift towards 4G products
-Wireless application	349	106	229.2%	
-Finance service	4	0	N.A.	
-Others	37	69	(46.4%)	
Cost of sales	(21,885)	(17,094)	28.0%	
Gross profit	3,015	2,530	19.2%	
Other income & gains	432	382	13.1%	
Selling & distribution costs	(1,435)	(1,302)	10.2%	Strong S&D costs to boost shipment growth
Administrative expenses	(1,234)	(984)	25.4%	
Other expenses	(84)	(166)	(49.4%)	
Finance costs	(87)	(23)	278.3%	
Profit before tax	607	437	38.9%	
Tax	(93)	(89)	4.5%	
Net profit	513	349	47.0%	
Basic EPS (HKD)	0.119	0.083	43.4%	
Gross profit margin (%)	12.1	12.9	(0.8ppt)	Affected by fierce market competition
Net profit margin (%)	2.1	1.8	0.3ppt	Improvement due to economies of scale effect

Source: the Company.

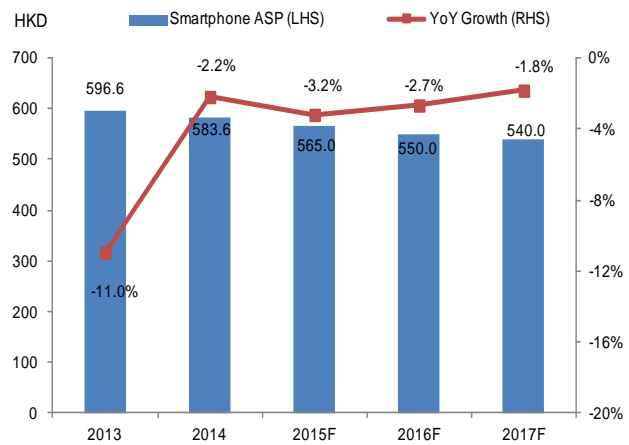
FY15-17 smartphone shipments are expected to be 50 million/61 million/70 million, respectively. Smartphone shipments in FY14 was 42 million, up 20% yoy, lower than expected due to the reduction of handset subsidies by telecom operators in FY14. Chinese telecom operators are going to trim their handset subsidies in FY15. To cope with the reduction of handset subsidies, Coolpad is deploying two measures including explore the e-commerce distribution channel and overseas opportunities. Telecom operators accounted for 80% of Coolpad's smartphone sales in FY14, and the Company is going to reduce the revenue proportion from telecom operators to 60% in FY15 by having more contributions from e-commerce platforms. Overseas market accounted for 5% of Coolpad's revenue income in FY14 and the Company targets to raise the percentage to 7% in FY15 by expanding the market share in India and North America. FY15-17 smartphone shipments are expected to be 50 million/61 million/70 million, respectively. Due to Chinese telecom operators' reduction of handset subsidies and stronger market competition, we revise down FY15-16 smartphone shipment estimations by 37.9%/37.5%, respectively. Smartphone ASP in FY14 was HKD580, up 2.8% yoy, lower than expected due to higher contributions from 4G smartphones. We expect Coolpad's smartphone ASP would decline in FY15 due to fiercer market competition and the launch of low end 4G multi-mode smartphones to suit for the market needs. FY15-17 smartphone ASP is expected to be HKD565/HKD550/HKD540, respectively.

Figure-1: Coolpad's Smartphone Shipments and YoY Growth



Source: the Company, Guotai Junan International.

Figure-2: Coolpad's Smartphone ASP and YoY Growth



Source: the Company.

FY15-17 gross profit margin is expected to be 11.8%/11.6%/11.4%, respectively. FY14 gross profit margin was 12.1%, down 0.8ppt yoy, due to fierce market competition and telecom operators' reduction of handset subsidies. We expect Coolpad's gross profit margin in FY15-17 would decline due to fiercer market competition and the proliferation of low end 4G smartphones. FY15-17 gross profit margin is expected to be 11.8%/11.6%/11.4%, respectively. Selling and marketing as a percentage of revenue in FY14 was 5.8%, down 0.8ppt yoy, thanks to the economies of scale effect and stringent cost control. We estimate the percentage in FY15-17 to be 5.5%/5.3%/5.2%, respectively. Administrative costs as a percentage of revenue was 5.0% in FY14, same as that in FY13, and we expect this percentage would stabilize in FY15-17.

Profit Revision:

FY15-16 net profit is revised down by 19.0%/20.0%, respectively. Due to the revisions of smartphone shipment estimations, we revise down FY15-16 revenue by 19.0%/20.0%, respectively. FY15-16 net profit is revised down by 19.0%/20.0%, respectively.

Table-2: Financial Estimation Revisions

HKD (Million)	OLD			NEW			CHANGE		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Total Revenue	38,511	46,980	N.A.	29,268	34,765	39,148	(24.0%)	(26.0%)	N.A.
Gross Profit	4,372	5,238	N.A.	3,454	4,033	4,463	(21.0%)	(23.0%)	N.A.
Net Profit	710	820	N.A.	575	656	715	(19.0%)	(20.0%)	N.A.
EPS (HKD)	0.165	0.191	N.A.	0.134	0.153	0.166	(19.0%)	(20.0%)	N.A.

Source: Guotai Junan International.

Valuation:

Maintain the investment rating of "Buy" and cut the TP from HK\$2.75 to HK\$2.30. We maintain the Company's investment rating of "Buy" due to the exploration of overseas market and e-commerce channel. The new TP represents 17.2x FY15 PER, 15.1x FY16 PER, 13.8x FY17 PER and 3.1x FY15 PBR.

Table-3: Peer Comparisons:

Company	Ticker	Currency	Price	PER			PB			ROE(%)	D/Y(%)	ROA (%)
				15F	16F	17F	15F	16F	17F	15F	15F	15F
HK Listed Companies												
TCL Communications	2618 HK	HKD	7.870	7.2	6.5	6.0	1.9	1.6	1.3	28.9	5.0	6.5
Haier Electronics	1169 HK	HKD	20.400	15.1	12.8	n.a.	3.3	2.7	n.a.	24.8	0.7	10.7
ZTE	763 HK	HKD	17.300	14.1	12.4	11.1	1.7	1.5	1.4	12.6	1.6	2.7
Hisense Kelon	921 HK	HKD	6.750	5.8	4.8	n.a.	n.a.	n.a.	n.a.	31.6	0.9	8.2
Coolpad Group Ltd.	2369 HK	HKD	1.390	10.4	9.4	8.7	1.6	1.2	0.9	14.3	1.6	4.2
Lenovo Group	992HK	HKD	11.280	17.8	14.5	11.2	3.9	3.3	2.8	22.8	2.1	4.0
Simple Average				11.7	10.1	9.3	2.5	2.0	1.6	22.5	2.0	6.1
Weighted Average				15.1	12.7	10.9	3.0	2.5	2.1	20.7	1.7	5.2
Japan Listed Companies												
Sony Corp.	6758 JP	YEN	3165.000	n.a.	20.7	15.3	1.6	1.5	1.4	(6.4)	0.1	(1.0)
Panasonic Group	6752 JP	YEN	1527.500	18.6	16.4	14.5	2.0	1.8	1.6	10.9	1.1	3.8
NEC Corp.	6701 JP	YEN	355.000	18.0	13.2	11.7	1.2	1.2	1.1	6.6	1.2	2.0
Toshiba Corp.	6502 JP	YEN	531.500	16.5	11.9	10.5	1.6	1.5	1.3	10.1	1.6	2.4
Simple Average				17.7	15.5	13.0	1.6	1.5	1.3	5.3	1.0	1.8
Weighted Average				17.8	16.7	13.7	1.7	1.6	1.4	4.3	0.9	1.7
US & Europe Listed Companies												
Ascom Holding	ASCN SW	EUR	16.600	15.4	13.2	11.6	2.3	2.1	2.1	14.3	2.4	8.2
Nokia	NOK1V FH	EUR	7.030	22.4	19.9	18.2	3.0	2.8	2.6	15.4	2.3	8.6
Apple	AAPL US	USD	124.240	14.4	13.3	12.2	5.4	4.5	3.6	39.9	1.6	19.5
Simple Average				17.4	15.4	14.0	3.6	3.1	2.8	23.2	2.1	12.1
Weighted Average				14.7	13.5	12.4	5.3	4.4	3.6	39.0	1.6	19.1
Overall Average				15.6	13.7	12.1	2.6	2.2	1.9	17.0	1.7	6.6
Overall Weighted Average				15.9	14.3	12.4	3.4	2.8	2.4	21.3	1.4	8.6

Source: Bloomberg.

Financial Statements and Ratios

Income Statement					
Year end Dec 31, HKD m	2013A	2014A	2015F	2016F	2017F
Total revenue	19,624	24,900	29,268	34,765	39,148
4G smartphones sales	514	12,331	28,250	33,550	37,800
3G smartphones sales	18,935	12,179	0	0	0
Service income	106	349	978	1,173	1,302
Finance service	0	4	9	16	24
Others	69	37	31	26	22
Cost of sales	(17,094)	(21,885)	(25,815)	(30,732)	(34,685)
Gross profit	2,530	3,015	3,454	4,033	4,463
Other income & gains	382	432	430	457	487
Selling & Distribution costs	(1,302)	(1,435)	(1,595)	(1,856)	(2,047)
Admin costs	(984)	(1,234)	(1,450)	(1,723)	(1,940)
Other operating expenses	(166)	(84)	(59)	(45)	(36)
Finance costs	(23)	(87)	(99)	(89)	(80)
share of profits & losses of associates	(0)	(1)	(1)	(1)	(1)
Profit before tax	437	607	680	776	845
Income tax	(89)	(93)	(104)	(118)	(129)
Net income	349	513	575	656	715
Non-controlling interest	(0)	1	1	2	2
EPS (HKD)	0.083	0.119	0.134	0.153	0.166

Cash Flow Statement					
Year end Dec 31, HKD m	2013F	2014F	2015F	2016F	2017F
Profit before tax	437	607	680	776	845
Adjustments for					
Bank interest income	(63)	(58)	(51)	(45)	(39)
D&A	119	125	130	136	142
Finance costs	23	87	99	89	80
Write down of inventories	16	17	17	18	19
Others	18	16	15	13	14
Change in working capital	221	(225)	(225)	(307)	(399)
Tax paid	(74)	(77)	(91)	(108)	(127)
Cash flow from operations	698	492	574	572	534
CAPEX	(131)	(144)	(159)	(175)	(192)
Bank interest received	63	58	51	45	39
Proceeds from disposals	4	4	5	5	5
Decrease in pledged deposits	10	58	77	68	60
Others	(185)	(199)	(214)	(230)	(248)
Cash flow from investment	(240)	(224)	(240)	(288)	(336)
Proceeds from share issue	20	21	23	25	27
Bank loan change	43	1,276	(222)	(199)	(179)
Dividend paid	(42)	(43)	(43)	(43)	(43)
Others	(123)	(190)	(205)	(198)	(193)
Cash flow from finance	(102)	1,064	(447)	(416)	(387)
Cash & cash equivalent change	357	1,332	(114)	(131)	(190)
Cash balance at year begin	1,274	1,628	2,959	2,843	2,710
Effect of FX	(2)	(2)	(2)	(2)	(2)
Cash balance at year end	1,628	2,959	2,843	2,710	2,517

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end Dec 31, HKD m	2013A	2014A	2015F	2016F	2017F
PP&E	568	906	632	681	735
Investment properties	218	113	102	92	82
Prepaid land lease payments	153	268	308	355	408
Intangible assets	174	113	222	242	262
Investment in associates	54	59	61	64	68
Available for sale investments	29	56	62	68	75
Other non-current assets	55	110	114	119	125
Total non-current assets	1,251	1,626	1,502	1,620	1,755
Inventory	2,595	2,798	2,938	3,084	3,239
Receivables	3,210	3,863	3,942	4,392	4,931
Prepayments, deposits & other receivables	679	957	1,101	1,266	1,456
Pledged deposits	699	642	565	497	437
Cash & cash equivalent	1,628	2,959	2,843	2,710	2,517
Total current assets	8,811	11,219	11,388	11,949	12,580
Total assets	10,062	12,844	12,890	13,569	14,335
Trade & bill payables	4,572	4,297	4,554	4,828	5,117
Other payables & accruals	1,988	2,853	3,025	3,206	3,398
Interest bearing bank borrowing	603	548	488	434	386
Others	80	81	95	112	131
Total current liabilities	7,243	7,780	8,162	8,579	9,033
Interest bearing bank borrowing	0	1,616	1,454	1,309	1,178
Deferred tax liabilities	48	55	57	59	62
Others	10	34	30	26	23
Total non-current liabilities	58	1,704	1,541	1,394	1,263
Total liabilities	7,301	9,484	9,703	9,973	10,296
Issued capital	21	43	42	42	41
Reserves	2,737	3,310	3,139	3,550	3,997
Others	(0)	0	0	0	0
Total shareholders' equity	2,758	3,353	3,181	3,592	4,038
Non-controlling interests	3	7	5	4	2
BPS (HKD)	0.657	0.782	0.742	0.837	0.941

Financial Ratios					
Year end Dec 31	2013A	2014A	2015F	2016F	2017F
Profitability (%)					
Gross margin	12.9	12.1	11.8	11.6	11.4
Net margin	1.8	2.1	2.0	1.9	1.8
ROA	3.8	4.5	4.5	5.0	5.1
ROE	13.5	16.8	17.6	19.4	18.7
Liquidity & Solvency					
Current ratio (x)	1.2	1.4	1.4	1.4	1.4
Quick ratio (x)	0.9	1.1	1.0	1.0	1.0
Debt to equity ratio (x)	21.9	64.5	61.0	48.5	38.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Days of inventory	34	33	29	26	24
AR Days	48	44	40	39	40
AP Days	39	33	31	28	26
Cash conversion days	44	43	39	37	38

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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