

FY15 review: positive on China TV margin

Quick Note

FY15 adjusted net profit grows 41% y-y, 16% higher than consensus

Skyworth reported 41% y-y net profit growth in 2015, driven by 2% y-y revenue growth, 0.7pp GPM improvement and 2% opex decline. FY15 operating profit and adjusted net profit came in 13% and 16% above Bloomberg consensus, respectively.

Positive on China TV margin, negative on white appliance and LCD

The major positives include: 1) margin expansion in China TV, 2) ASP expansion in overseas TV. The major negatives include 1) operating loss in white appliance and 2) earnings decline in LCD module business.

FY16F TV shipments guidance

Skyworth also provided its FY16F shipment targets including: 1) 10mn shipments in China TV (+5.7% y-y), 2) 5mn units in overseas TV (+35% y-y), and 3) SmartTV penetration rate to reach 65% (vs. 47% in FY15). We think the guidance is in line with market expectations.

Fig. 1: Skyworth: earnings summary

(HKD mn)	1H15		2H15		FY14			FY15			(CON)	diff.
	A	A	A	A	A	A	A	A	A			
Turnover	18,478	21,657			39,480	40,135				41,551	-3%	
% chg yoy	-8%	11%			4%	2%						
COGS	(14,866)	(17,246)			(31,851)	(32,112)						
Gross Profit	3,612	4,411	16%		7,629	8,023	5%					
OPEX	(2,496)	(3,190)	6%		(5,822)	(5,686)	-2%					
Operating profit	1,116	1,221	54%		1,807	2,337	29%			2,066	13%	
% chg yoy	10%	54%			-9%	29%						
Net Finance Costs	(13)	95	-173%		(87)	82	-194%					
Asset disposal gain	-	1,755			-	1,755						
Pretax income	1,099	3,077			1,700	4,176						
% chg yoy	13%	323%			-12%	146%						
Taxes	(191)	(635)			(267)	(826)						
Minority adjustments	(84)	(138)			(179)	(222)						
Net income	824	2,304	331%		1,254	3,128	149%					
Net income (adjusted)	824	942	76%		1,254	1,766	41%			1,520	16%	
% chg yoy	15%	76%			-16%	41%						
EPS (HKD, cents)												
-Diluted (HK\$, cents)	29.1	81.5	328%		0.45	1.11	148%					
Ratios (%)												
Gross margin	19.5%	20.4%	0.9pp		19.3%	20.0%	0.7pp					
SG&A / revenue	13.5%	14.7%	-0.7pp		14.7%	14.2%	-0.6pp					
Operating Profit margin	6.0%	5.6%	1.6pp		4.6%	5.8%	1.2pp					
Pretax income/revenue	5.9%	14.2%	10.5pp		4.3%	10.4%	6.1pp					
Tax rates	-17.4%	-20.6%	-6.9pp		15.7%	19.8%	4.1pp					
NPM (adjusted)	4.5%	4.3%	1.6pp		3.2%	4.4%	1.2pp					

Source: Company data, Nomura research. We are reviewing our target price.

Major positives

- Regardless of 16% y-y ASP contraction for China TVs in FY15, per-unit profit still managed to increase 32%, thanks to ramp-up of high-end Smart TVs, declining panel price and product line automation.
- Overseas TV business achieved strong turnaround in FY15, and recorded operating profit of HKD120mn vs. loss of HKD10mn in FY14, thanks to 32% y-y growth in ASP.

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Global Markets Research

19 June 2015

Rating **Buy**
Remains

Target price **HKD 6.00**
Remains

Closing price **HKD 7.47**
19 June 2015

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major negative

- White appliance recorded 35% decline in revenues and HKD11mn operating loss in FY15.

Fig. 2: Skyworth: earnings summary by business segments

(HKD mn)	1H15	2H15	y-y (%)	FY14	FY15	y-y (%)
	A	A		A	A	
Turnover	18,478	21,657		39,480	40,135	
% chg yoy	-8%	11%		4%	2%	
Sales by segment						
China TV	11,396	12,983	3%	26,244	24,379	-7%
Volume (k units)	4,328	5,130	17%	8,602	9,459	10%
ASP (HKD)	2,633	2,531	-12%	3,051	2,577	-16%
Overseas TV	2,040	3,722	155%	3,240	5,762	78%
Volume	1,610	2,105	54%	2,748	3,715	35%
ASP (HKD)	1,267	1,768	66%	1,179	1,551	32%
Digital Set-top boxes	2,270	2,106		4,162	4,376	
LCD module	348	1,845		859	2,193	
Property rental income	122	127		122	249	
White appliances	2,424	752		4,853	3,176	-35%
Operating profit	1,116	1,221		1,807	2,337	
% of sales	6.0%			4.6%	5.8%	
% chg yoy	10%	54%		-9%	29%	
By segments						
China TV	774	917		1,163	1,691	
Per unit profit	179	179		135	179	32%
Overseas TV	50	70		(14)	120	
Digital Set-top boxes	279	215		428	494	
LCD module	85	62		236	147	
Property rental income	82	79		85	161	
White appliances	8	(19)		186	(11)	

Source: Company data, Nomura research

Skyworth to host analysts' briefing on 22 June at 9:30am

We expect investors to focus on:

- Smart TV strategy including collaboration with Tencent.
- China TV market outlook.
- Overseas TV growth strategy.

For additional reading, please refer to our previous reports:[Skyworth \(751 HK, Buy\) – Implications of Tencent/Hisense partnership](#)[Skyworth \(751 HK, Buy\) – Nomura Investment forum 2014, Tokyo](#)[Skyworth \(751 HK, Buy\) – 1H15 review: positive on China TV profits](#)

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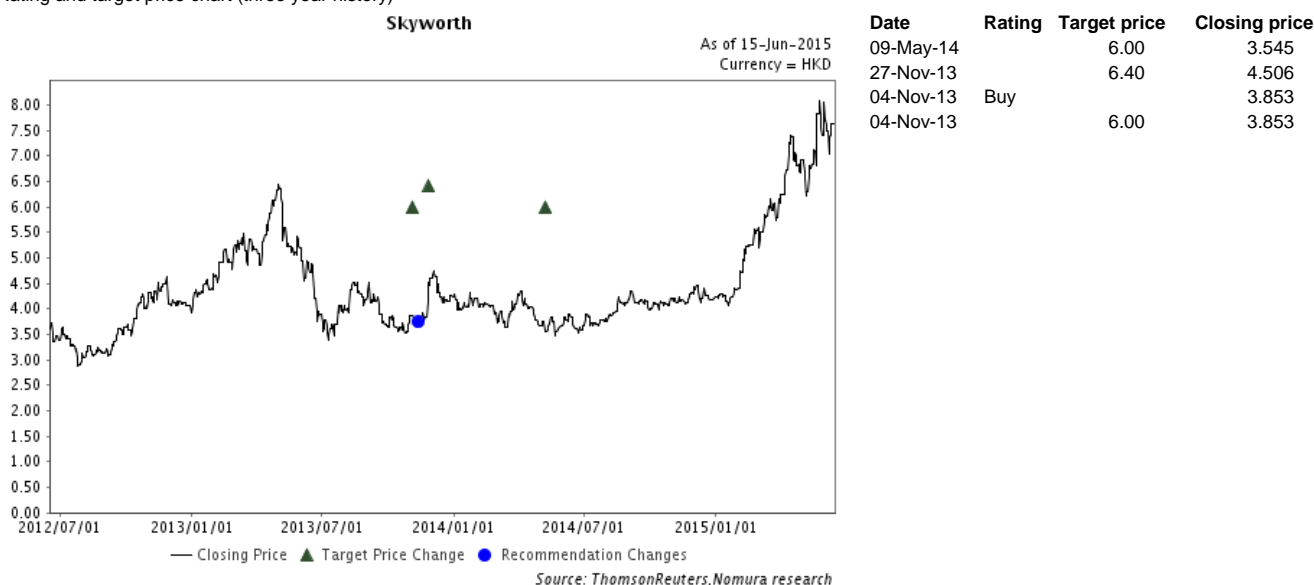
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Skyworth	751 HK	HKD 7.47	19-Jun-2015	Buy	N/A	

Skyworth (751 HK)

HKD 7.47 (19-Jun-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of HKD6 is based on 9x FY15F EPS of HKD0.62. 9x P/E is the median of China technology peers. The benchmark index for this stock is MSCI China.

Risks that may impede the achievement of the target price Downside risks include: 1) slower-than-expected growth in 4K2K TV and smart TV; 2) intensified competition from internet players; 3) the inability to create a mature smart TV eco-system and to monetize; and 4) overseas and other business segments incur bigger-than-expected losses.

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