

## Company Report

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

### Cowell (1415 HK)

**Undervalued Apple proxy with multi-year growth story; Reiterate BUY**

- Poised to gain shares in global CCM market with Apple's shipment strength and rear-camera penetration.
- Earnings growth could surprise on the upside: Apple's camera spec migration, higher rear-cam share and faster dual-cam adoption
- Maintain TP HK\$11.08 (51% upside) on same 12.1x FY16E P/E.

#### Global share gainer with sustainable improving margins

Upon strong market interests in Cowell, we met with 30+ HK/China investors recently and believe recent pullback from its peak reflects profit-taking after strong rally. Our view of Cowell's continued share gain in Apple's iPhone/iPad and conviction in rear-cam/dual-cam penetration to fuel earnings growth in FY15-17E remains intact. Given strong growth profile and increasing visibility of Apple's camera upgrade, we believe recent weakness provides good entry point ahead of strong 1H results and new iPhone/iPad launch in 3Q.

#### 29% EPS upside on 14% Apple's rear-cam share in FY16E

Our sensitivity analysis suggested that Cowell's 14% share allocation (vs 8% in base case) and USD16.8 ASP (vs USD16-19 for iP6+ w/ OIS) of Apple's rear-cam represents 29% upside to our FY16E EPS estimate. Market could be too conservative on volume/ASP impact from Apple's rear-cam and Cowell's technology leadership for higher Apple's order allocation ahead, representing further upside to earnings/multiples.

#### Camera supply chain turns bullish in dual-cam adoption

We believe Apple's major suppliers including Sony (CMOS sensors) and Largan (Lens) are aggressively increasing production capacity in FY16E, in-line with higher component demand from Apple's dual-cam adoption in FY16-17E. Recent bullish comment from another CCM leader, Sunny Optical, also reaffirmed our confidence in dual-camera outlook in FY16E.

#### Stock appears undervalued vs 26% FY15E-17E EPS CAGR

Trading at 10.5x/8.2x FY15/16E P/E, we believe the stock is underpriced vs. its camera peers in HK/China with 11x/34x FY16 P/E, given Cowell's strong earnings outlook and improving profitability with strong rear-cam/dual-cam growth prospect. Upcoming catalysts include projects wins for rear camera of iPad/iPhone and SiP camera modules in FY16E.

#### Financials

USD'000	2013	2014	2015E	2016E	2017E
Revenue	813,936	886,467	1,139,842	1,429,720	1,751,326
Growth (%)	54%	9%	29%	25%	22%
Net profit	50,242	53,245	76,968	97,475	122,881
Growth (%)	281%	6%	45%	27%	26%
EPS (USD)	0.07	0.07	0.09	0.12	0.15
P/E (x)	14.5	13.7	10.5	8.2	6.0
P/B (x)	5.2	3.8	2.1	1.7	1.3
ROE (%)	36%	28%	20%	20%	20%

Source: Company, CMS (HK) estimates

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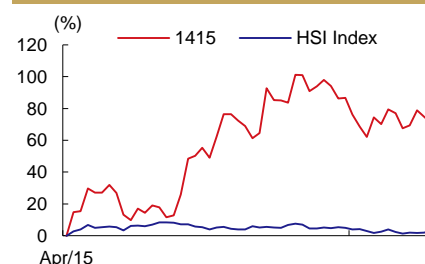
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### WHAT'S NEW

#### BUY

Previous	BUY
Price	HK\$7.34
12-month Target Price (Potential upside)	HK\$11.08 (+51%)
Previous	HK\$11.08

#### Price Performance



Source: Bigdata

%	1m	6m	12m
1415 HK	6.2	74.9	74.9
HSI	(3.4)	15.8	15.5

#### Hardware Technology

Hang Seng Index	27081
HSCEI	13186

#### Key Data

52-week range (HKD)	4.02-8.85
Market cap (HK\$ mn)	6103
Avg. daily volume (mn)	7.79
BVPS (USD)	0.28

#### Shareholdings Structure

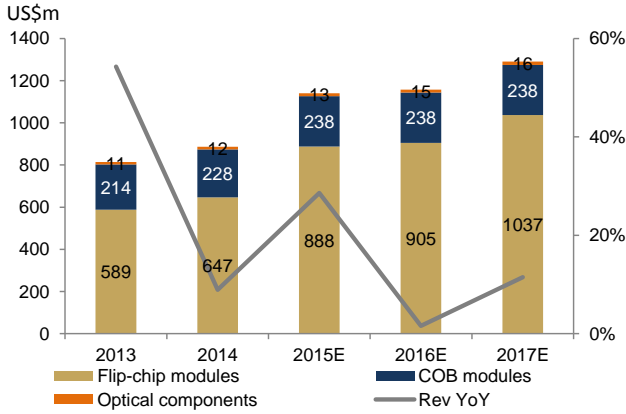
Kwak Joung Hwan	45.0%
Hahn & Company LLC	26.2%
BlackRock	5.2%
No. of shares outstanding (mn)	832
Free float	25%

#### Related Research

1. Cowell (1415 HK) – To ride high on Apple camera momentum; Initiate at BUY (4 Jun 2015)
2. Cowell (1415 HK) – Company visit takeaways: Major beneficiary of Apple's camera upgrade cycle (7 May 2015)

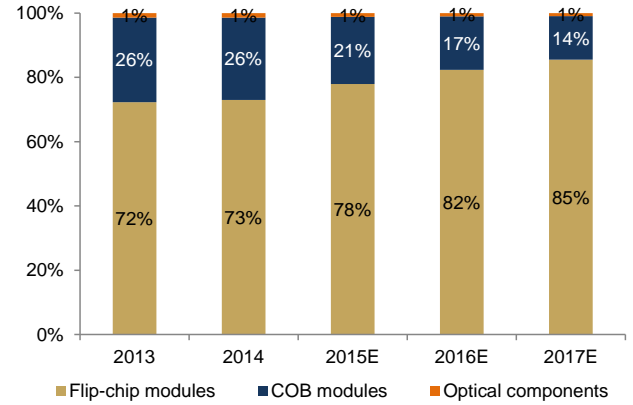
Focus charts

Figure 1: 24% Rev CAGR during FY15E-17E



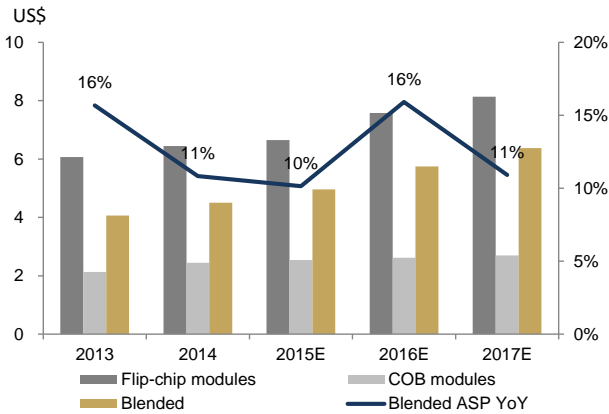
Source: Company, CMS(HK)

Figure 2: ~80% of revenue comes from flip-chip modules, solely supply to Apple



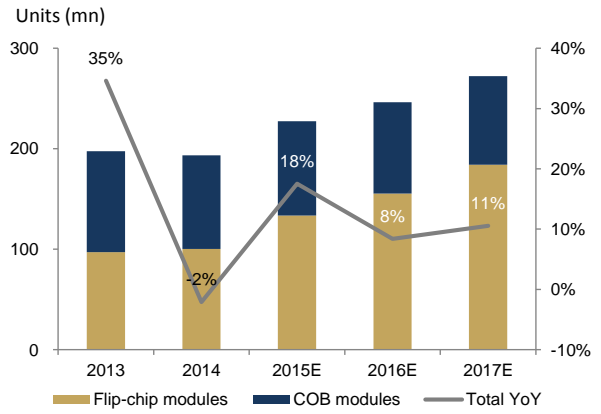
Source: Company, CMS(HK)

Figure 3: ASP to grow at 13% CAGR thanks to front camera specs migration and winning Apple's rear camera order



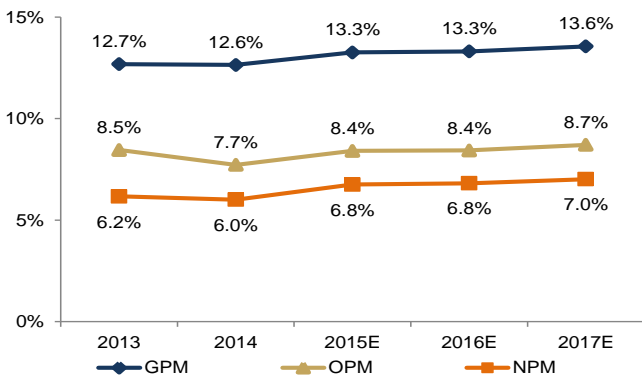
Source: Company, CMS(HK)

Figure 4: Shipment to grow at 18%/8%/11% during FY15E/16E/17E, sensitive to Apple's product upgrade cycle



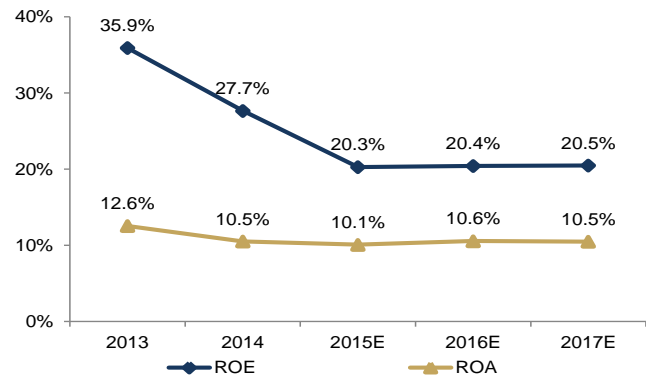
Source: Company, CMS(HK)

Figure 5: Expanding margins with specs migration and improving production yield



Source: Company, CMS(HK)

Figure 6: High ROE/ROA despite lower asset turnover with more self-owned machinery



Source: Company, CMS(HK)

### 1. Why does Cowell deserve higher multiple on valuation?

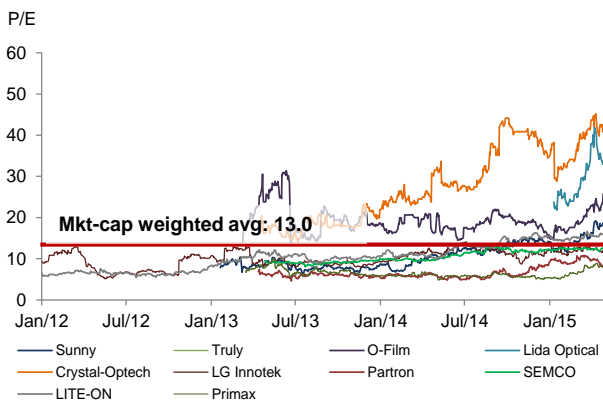
Trading at 8.2x FY16E P/E, 34%/49% discount to CCM/packaging peers, we believe Cowell deserves a re-rating given higher earnings growth and limited downside risk from share allocation loss.

Market is concerned that Cowell is already fairly-priced given limited visibility on near-term catalysts and single customer risk. However, after recent 21% correction from peak, we believe Cowell deserves re-rating as current valuation of 8.2x FY16E P/E is lower than both, 1) historical trading range between 13.0x and 16.1x, and 2) existing 1-year forward P/E average of 16.5x/ 23.0x for CCM/ advanced packaging peers.

Compared with other CCM/ packaging peers focusing on the niche Chinese handset market, being the major supplier of trend-setter Apple, we think Cowell is poised to deliver above-average earnings growth in the long term as the overall China's smartphone shipment has been slowing down at 8% CAGR vs. 11% shipment CAGR for Apple and 12% for Cowell during FY15E-17E.

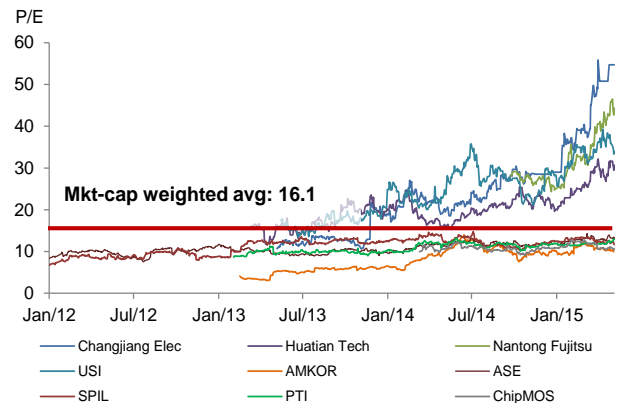
Moreover, we expect further valuation expansion as Cowell is well-positioned to ride on Apple's upcoming product upgrade cycle, with 1) limited risks of losing front-cam share given proven track record with Apple (the only player that is involved in every generation iPhone), 2) continuous share gains in global CCM market (5% in 2013, vs 2% in 2010) with project wins in Apple's supply chain, and 3) strong R&D capability/ technology expertise in CCM/packaging (approx. 80% of 360 engineers have advanced packaging experience).

Figure 7: Historical mean of CCM peers 1-yr fwd P/E is 13.0x



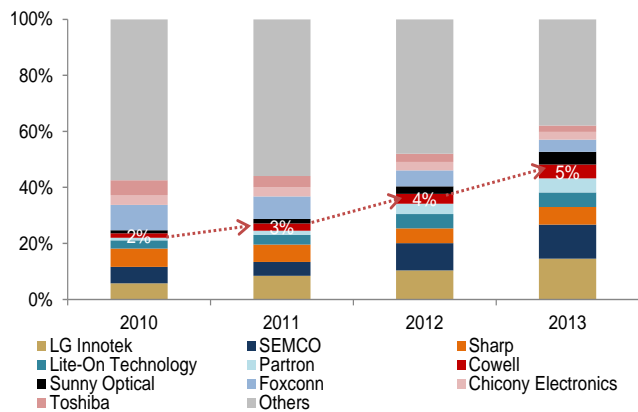
Source: Bloomberg, CMS(HK)

Figure 8: Historical mean of Advanced Packaging peers 1-yr fwd P/E is 16.1x



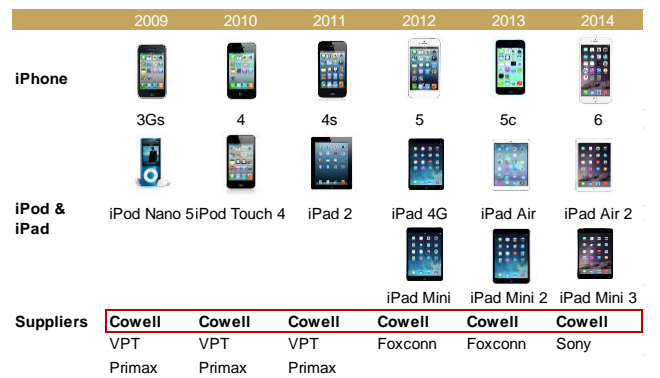
Source: Bloomberg, CMS(HK)

Figure 9: Cowell continues to gain share in global camera modules market



Source: International Business Strategies, CMS(HK)

Figure 10: Cowell is the only front CCM supplier involved in every generation iPhone/iPad since 2009



Source: Apple, Company, CMS(HK) estimates

## 2. How sensitive is ASP/ share allocation of rear camera to Cowell's earnings?

**29% upside to our FY16E EPS estimate with 14% rear camera share allocation and ASP at US\$16.8, in-line with existing iPhone 6/6 plus camera module.** We ran a sensitivity test on impacts of ASP/ share allocation to our EPS estimates based on

- 1) ASP to be in-line with existing rear camera module. We estimate that iPhone 6/ 6 plus rear camera module ASP is between US\$12-20, depending on whether the camera supports OIS.
- 2) Potential rear camera share allocation to Cowell. Cowell stated in IPO prospectus to use 66% of proceeds to expand camera module capacity by 29% by 1H16. We expect the approx. 4-5kk/m capacity (existing 14.8kk/m) will be used to supply rear-camera modules. If no change in Apple shipment in FY16E (240m units in FY14), Cowell capacity can accommodate approx. 15% of share allocation in Apple's rear camera (including iPhone & iPad), based on 70% utilization rate.

We expect Cowell to be one of the new rear-cam suppliers in FY16E, with order allocation of 7%/10% for iPhone/iPad respectively, contributing US\$317mn (19% of total) revenue. We have not factored in the potential ASP upside if dual-camera/ SiP is adopted in next-gen iPhone due to limited visibility currently.

Figure 11: Sensitivity Analysis on FY16E EPS

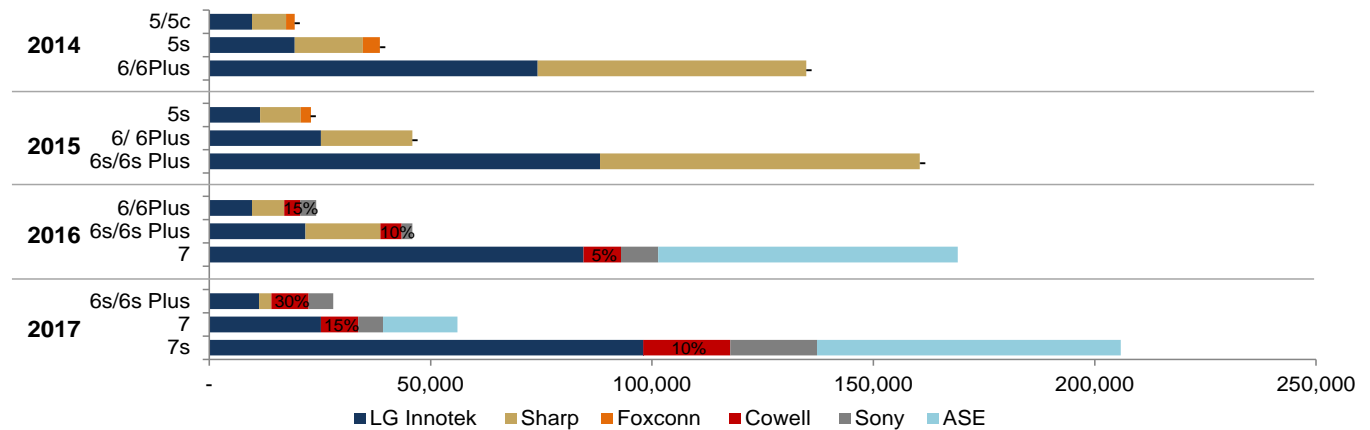
FY16E (US\$)		Rear Camera ASP				
		7.2	9.6	12.0	14.4	16.8
Rear Cam (iPhone & iPad) Share Allocation	2%	0.10	0.10	0.10	0.10	0.10
	5%	0.10	0.11	0.11	0.11	0.11
	8%	0.11	0.11	0.12	0.12	0.13
	11%	0.11	0.12	0.13	0.13	0.14
	14%	0.12	0.13	0.13	0.14	0.15

FY16E (% Δ)		Rear Camera ASP				
		7.2	9.6	12.0	14.4	16.8
Rear Cam (iPhone & iPad) Share Allocation	2%	-17%	-16%	-15%	-14%	-14%
	5%	-12%	-10%	-8%	-5%	-3%
	8%	-8%	-4%	0%	4%	8%
	11%	-3%	2%	8%	13%	18%
	14%	1%	8%	15%	22%	29%

Source: CMS(HK) estimates

Figure 12: iPhone rear camera share allocation and shipment assumptions



Source: CMS(HK) estimates

### 3. Is Apple likely to adopt dual camera in next-gen iPhone?

**It is highly likely for Apple to adopt dual camera in next-gen iPhone, providing potential ASP/margin upside to Cowell, in our view.** Although we have not factored in the earnings impacts on dual-camera adoption given limited visibility on product launch timing/ pricing, we are positive on Cowell given its leading position in optical advanced packaging technology and solid track record in Apple’s camera supply chain.

#### 1) More top-tier smartphone brands to adopt dual lens; Reaffirmed by Sunny Optical’s bullish view

Dual camera is the next big trend in FY15-16E, given increasing adoption by top-tier smartphone brands including HTC (HTC One M8 released in Oct 2014), Coolpad (Grand 5 released in Dec 2014) and Huawei (Honor 6 Plus released in Mar 2015). We believe Apple/ Samsung/ LG to adopt dual camera given the advantages on 1) better image quality, 2) faster auto focus and zoom feature, 3) depth of field and 4) thinner devices.

Our view of increasing adoption is reaffirmed by recent positive comment from Cowell’s peer, Sunny Optical. As the sole dual camera supplier of Huawei Honor 6 Plus, the company indicated dual camera mass production to start from 4Q15 in a reverse roadshow held during 15-16 Jun 2015. Sunny’s mgmt. believes the inflection point of market mass adoption will come when Apple, as the trend setter, start incorporating dual-lens feature in next-gen iPhone.

#### 2) Apple acquired Israeli camera technology company LinX

Apple announced to have acquired LinX, an Israel-based camera technology company for USD20mn in Apr 2015. LinX builds miniature multi-aperture cameras which support background focus blur, parallax images and 3D picture capture on mobile devices. We believe the acquisition hints the potential dual camera adoption in next-gen iPhone as Apple would like to improve image quality further as well as capturing opportunity in 3D-image development.

#### 3) Apple’s camera supply chain key players are aggressively increasing production capacity

Our check suggested that Apple’s camera major suppliers including Sony (CMOS sensors) and Largan (Lens) are aggressively increasing production capacity. We believe the capacity expansion is in-line with Apple’s dual-cam adoption as camera components demand will be doubled. Sony has announced twice in 2015 (Feb and Apr) to increase capex by ¥150bn on image sensor capacity expansion. Sony plans to increase the capacity by 45% to 87,000 wafer equivalents/ month from 60,000/ month by the end of Sep 2016. For Largan, the company has started new plant construction (capex is approx. NT\$20bn) in 2015, new capacity is expected to kick in by 4Q16 or 1Q17.

Figure 13: LinX Imaging’s camera module products



Source: LinX, CMS(HK)

Figure 14: Dual camera can emulate images with finite shallow depth-of-field control



Source: HTC, CMS(HK)

## Competitive Landscape

Company	Ticker	Packaging rev as % of total	Product offerings	Major customers	Camera module capacity	Latest development
<b>Cowell (Korea)</b>	<b>1415 HK</b>	<b>99%</b>	<b>Camera modules, Optical components</b>	<b>Apple, LG, Samsung</b>	<b>30kk/m</b>	<b>Penetrating into Apple's rear camera module business, Increasing capex on flip-chip/ SiP development, Opportunities in non-camera modules packaging business</b>
LG Innotek (Korea)	011070 KS	40-50%	Camera modules, Motor; Sensor; Display, PCB	Apple, LG	35-40kk/m	Expanding share in Chinese smartphone market. Currently largest Apple's rear camera supplier (>50% share). Potential upside from better-than-expected LG model G4 shipment.
SEMCO (Korea)	009150 KS	25-30%	Camera modules, Motor; Antenna, Touch panel	Samsung, Xiaomi	35-40kk/m	Expanding share in Chinese smartphone market. Expect earnings recovery with strong Samsung Galaxy S6 sales
Partron (Korea)	091700 KS	75-80%	RF, Camera modules, Isolator, Sensor, Filter	Samsung	25-30kk/m	Sensors to be next growth driver while antenna/camera modules business remain stable
Sharp (Japan)	6753 JP	<10%	Image sensors, Camera modules, Display, Home Appliances etc.	Apple, Nokia	25-30kk/m	Potential market share loss in Apple supply chain given financial weakness
Sony (Japan)	6758 JP	<10%	Image sensor, Camera modules, Batteries, LCD televisions, Cameras	Apple, Samsung, Motorola	N/A	Being the global largest image sensors maker with continuous capex investment, Sony is expanding vertically to provide one-stop camera solution (CIS, camera module and system solution).
Lite-on Tech (Taiwan)	2301 TT	27%	Power Supplies, Opto components, Camera modules, Casing	Samsung, Huawei, Lenovo, Xiaomi, HTC	35-40kk/m	Focusing on turning around mobile mechanics/camera module segment
O'film (China)	002456 CH	N/A	Touch panel, Camera modules	Huawei, Lenovo, Oppo	25-30kk/m	Partnered with Stockholm-listed Fingerprint Cards (FINGB SS) and expect to supply fingerprint sensor modules starting from 2Q15
Sunny Optical (China)	2382 HK	80%	Optical lens, Camera modules, Analytical instruments	Huawei, Xiaomi, Oppo, Lenovo, Coolpad	25-30kk/m	Benefiting from HCM upgrade demand in China smartphone; handset/vehicle lens sets to ramp up
Truly (China)	732 HK	15%	Touch panel, Camera modules, Fingerprint recognition module	OPPO, BBK, Huawei, K-touch, TCL	8.5kk/m	Fingerprint modules mass production to start in June 2015. Expect AMOLED/ automotive display/ touch panel shipment in FY16E
Q-tech (China)	1478 HK	100%	Camera modules	Huawei, OPPO, ZTE, TCL, Coolpad, Lenovo	13.0kk/m	Expanded capacity for OIS camera modules
Foxconn (Taiwan)	2317 TT	N/A	Connector, Battery, Assembly, Display, Optics	Apple, Tesla	N/A	Re-gaining shares in Apple supply chain
USI (China)	601231 CH	100%	Apple Watch, Wireless Module, Desktop main boards, LED modules, Display panels,	Apple, Intel, Lenovo, IBM, Innolux, Panasonic, Motorola, Valeo	N/A	Apple Watch and Force Touch SiP are key growth drivers, leveraging on semi back-end leader ASE (holds >50% of USI) to offer SiP modules
ASE (Taiwan)	2311 TT	90%	Fingerprint recognition SiP, Wi-Fi module	Qualcomm, Broadcom, Mediatek, Marvell, Toshiba	N/A	Benefiting from increasing SiP demand, Higher capex on SiP in 4Q14, Expect new SiP product (other than fingerprint module)
SPIL (Taiwan)	2325 TT	80-90%	Substrate base packages (wire bond/ flip-chip)	Qualcomm, Broadcom, Mediatek, Marvell	N/A	Developing SiP related products including integrated microcontrollers, bluetooth modules built in antenna, automotive wireless modules

Source: Company, CMS(HK)

## Valuation and risks

**Maintain BUY with TP of HK\$11.08 (51% upside)**, based on unchanged 12.1x FY16E P/E multiple, in-line with camera module companies 1-yr fwd P/E historical mean. Despite +76% share price rise since Apr, we believe Cowell is still undervalued. Trading at 8.2x FY16E P/E, 25%/ 76% discount to HK/ China-listed camera peers, we believe Cowell deserves valuation premium over its camera module peers given its advanced packaging knowhow (flip-chip) and increasing capex on SiP technology.

### Risks

#### **Customer concentration and potential share loss from Apple**

Cowell relies substantially on Apple. Any product failure or share loss will heavily impact Cowell's revenue/ net income. Also, Cowell may lose some share in Apple's front camera module if more suppliers get into Apple's supply chain. Margin contraction may result from increasing customer base/ product/ price cut.

#### **Technology bottleneck**

Cowell may face technology bottleneck given increasing difficulty to retain expertise with packaging experience. Any failure in meeting technological upgrade demand will result in order/ market share loss.

#### **Potential shares selling after 6-month lock-up period by major share holder**

Share price pressure may arise if major shareholders start selling part of its stake after the 6-month lock-up period ending on 30 Sep 2015.

Peers comparison

Company	Ticker	Rating	Market Cap (US\$ mn)	Current Price (LC\$)	TP (LC\$)	Upside	52-Wk Price Range (LC\$)	Avg Turnover (US\$ mn)	P/E (x)		P/B (x)		ROE (%)	
									FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
<b>Camera</b>														
Cowell	1415 HK	BUY	787	7.34	11.08	151%	3.54 / 8.85	N/A	10.5	8.2	2.1	1.7	20%	20%
<b>HK-listed</b>														
Sunny	2382 HK	BUY	2,584	18.26	N/A	N/A	9.32 / 19.94	15.87	19.9	16.1	4.0	3.4	22%	23%
Truly	732 HK	BUY	1,279	3.41	N/A	N/A	2.49 / 5.02	5.04	7.6	6.8	1.1	1.0	16%	16%
Q-tech	1478 HK	NR	401	3.06	N/A	N/A	1.76 / 3.89	1.54	10.7	9.8	1.9	1.6	19%	18%
<b>Simple Avg</b>									<b>12.7</b>	<b>10.9</b>	<b>2.3</b>	<b>2.0</b>	<b>19%</b>	<b>19%</b>
<b>China-listed</b>														
O-film	002456 CH	NR	6,672	40.20	N/A	N/A	17.92 / 54.38	238.13	39.5	30.6	6.3	5.4	15%	18%
Lida Optical	002189 CH	NR	1,256	39.15	N/A	N/A	10.4 / 57.6	58.87	39.9	27.8	N/A	N/A	N/A	N/A
Crystal-Optech	002273 CH	NR	2,230	36.10	N/A	N/A	16.84 / 54.9	99.81	58.2	42.5	8.8	7.7	15%	18%
<b>Simple Avg</b>									<b>45.9</b>	<b>33.6</b>	<b>7.5</b>	<b>6.5</b>	<b>15%</b>	<b>18%</b>
<b>Overseas</b>														
LG Innotek	011070 KS	NR	2,347	109,000	N/A	N/A	80,100 / 151,000	17.30	13.2	9.9	1.4	1.2	11%	13%
Patron	091700 KS	NR	418	8,480	N/A	N/A	7,610 / 15,600	11.94	7.3	5.9	1.3	1.1	19%	20%
SMECO	009150 KS	NR	3,521	51,800	N/A	N/A	39,800 / 82,000	35.38	17.6	14.6	0.9	0.8	5%	6%
Lite-on tech	2301 TT	NR	2,701	35.40	N/A	N/A	35.15 / 55.22	7.39	10.2	9.3	1.0	1.0	10%	11%
Primax	4915 TT	NR	539	37.70	N/A	N/A	30.25 / 54.2	10.06	9.0	7.7	1.5	1.4	18%	21%
<b>Simple Avg</b>									<b>11.5</b>	<b>9.5</b>	<b>1.2</b>	<b>1.1</b>	<b>13%</b>	<b>14%</b>
<b>Camera Avg</b>									<b>21.2</b>	<b>16.5</b>	<b>2.8</b>	<b>2.5</b>	<b>15%</b>	<b>16%</b>
<b>Packaging</b>														
<b>China-listed</b>														
Changjiang Elec	600584 CH	NR	3,689	23.27	N/A	N/A	8.14 / 32.57	103.46	72.9	45.5	5.7	5.1	9%	12%
Huatian Tech	002185 CH	NR	2,366	21.08	N/A	N/A	10.55 / 28.38	86.03	35.0	26.0	5.3	4.4	15%	17%
Nantong Fujitsu	002156 CH	NR	2,754	22.86	N/A	N/A	7.12 / 31.7	59.27	68.2	49.4	5.0	4.6	8%	11%
China Wafer	603005 CH	NR	2,085	57.11	N/A	N/A	35.6 / 75.37	46.03	40.9	28.6	N/A	N/A	27%	25%
USI	601231 CH	NR	7,244	41.35	N/A	N/A	27.45 / 54.18	81.93	41.5	28.0	6.2	5.2	16%	20%
<b>Simple Avg</b>									<b>51.7</b>	<b>35.5</b>	<b>5.5</b>	<b>4.8</b>	<b>15%</b>	<b>17%</b>
<b>Overseas</b>														
Amkor	AMKR US	NR	1,541	6.49	N/A	N/A	5.77 / 11.65	9.89	9.8	8.0	1.2	1.0	12%	14%
ASE	2311 TT	NR	11,187	43.55	N/A	N/A	33.75 / 48.05	43.61	13.6	11.7	2.1	2.0	16%	18%
SPIL	2325 TT	NR	4,810	47.40	N/A	N/A	38.6 / 57.9	22.31	11.4	10.4	2.0	1.9	18%	19%
PTI	6239 TT	NR	1,662	65.50	N/A	N/A	47.1 / 68.7	15.47	13.6	12.2	1.5	1.4	11%	12%
ChipMOS	8150 TT	NR	1,181	41.95	N/A	N/A	35.4 / 52.1	2.83	11.3	10.4	1.8	1.6	16%	17%
<b>Simple Avg</b>									<b>11.9</b>	<b>10.5</b>	<b>1.7</b>	<b>1.6</b>	<b>15%</b>	<b>16%</b>
<b>Packaging Avg</b>									<b>31.8</b>	<b>23.0</b>	<b>3.4</b>	<b>3.0</b>	<b>15%</b>	<b>16%</b>

Source: Bloomberg, CMS(HK)



## 1H15 Results Preview: Revenue/ Net Profit to grow 79%/207% YoY

Figure 15: Cowell's P&L and Assumptions

US\$m, Dec-YE	1H2014	2H2014	2014	1H2015E	2H2015E	2015E	1H2016E	2H2016E	2016E
<b>Flip-chip</b>									
Shipment ('000)	30,193	70,161	100,354	62,476	71,014	133,490	73,172	82,182	155,354
ASP (US\$)	5.5	6.9	6.4	6.2	7.1	6.7	6.9	8.2	7.6
<b>COB</b>									
Shipment ('000)	42,152	50,894	93,046	40,887	52,930	93,817	39,661	51,342	91,003
ASP (US\$)	2.6	2.3	2.4	2.7	2.5	2.5	2.7	2.5	2.6
<b>P&amp;L</b>									
Camera module	274	601	874	494	632	1,127	614	801	1,415
Flip-chip	165	482	647	386	502	888	506	671	1,177
Front camera	-	-	647	386	502	888	397	508	905
Rear camera	-	-	-	-	-	-	109	163	272
COB	109	119	228	109	130	238	109	130	238
Optical components	5	7	12	6	7	13	6	8	15
<b>Total revenue</b>	<b>279</b>	<b>607</b>	<b>886</b>	<b>500</b>	<b>640</b>	<b>1,140</b>	<b>621</b>	<b>809</b>	<b>1,430</b>
...YoY	-8%	19%	9%	79%	5%	29%	24%	26%	25%
Cost of sales	(249)	(526)	(774)	(437)	(552)	(989)	(539)	(701)	(1,239)
<b>Gross profit</b>	<b>30</b>	<b>82</b>	<b>112</b>	<b>64</b>	<b>88</b>	<b>151</b>	<b>82</b>	<b>108</b>	<b>190</b>
...Gross Margin	10.8%	13.5%	12.6%	12.7%	13.7%	13.3%	13.2%	13.4%	13.3%
...YoY	0.0%	0.0%	8.6%	110.4%	7.0%	34.8%	29.0%	23.7%	25.9%
SGA	18	26	44	27	29	55	30	39	70
SGA ratio	6.5%	4.2%	4.9%	5.3%	4.5%	4.9%	4.9%	4.9%	4.9%
<b>Operating Profit</b>	<b>12</b>	<b>56</b>	<b>68</b>	<b>37</b>	<b>59</b>	<b>96</b>	<b>52</b>	<b>69</b>	<b>121</b>
...Operating Margin	4.3%	9.3%	7.7%	7.4%	9.2%	8.4%	8.3%	8.5%	8.4%
...YoY	0.0%	0.0%	-0.5%	205.9%	4.4%	40.0%	39.5%	17.1%	25.8%
<b>Net profit</b>	<b>0</b>	<b>0</b>	<b>53</b>	<b>30</b>	<b>47</b>	<b>77</b>	<b>42</b>	<b>56</b>	<b>97</b>
...NP margin	0.0%	0.0%	6.0%	6.0%	7.4%	6.8%	6.8%	6.9%	6.8%
...YoY	0%	0%	6%	207%	8%	45%	42%	19%	27%
<b>Key assumptions</b>									
<b>Apple shipment ('000)</b>									
iPhone	78,922	113,740	192,662	106,966	122,311	229,278	109,321	132,157	241,478
...YoY	0%	0%	26%	36%	8%	19%	2%	8%	5%
iPad	29,626	33,735	63,361	23,572	30,943	54,515	25,265	31,652	56,916
...YoY	0%	0%	-15%	-20%	-8%	-14%	7%	2%	4%
<b>Share allocation to Cowell</b>									
<b>iPhone</b>									
Front camera	35%	59%	49%	54%	53%	53%	53%	48%	50%
Rear camera							7%	7%	7%
<b>iPad</b>									
Front camera	20%	20%	20%	20%	20%	20%	20%	20%	20%
Rear camera							10%	10%	10%

Source: Company, CMS(HK)

## Financial Summary

### Balance Sheet

USD'000	2013	2014	2015E	2016E	2017E
<b>Current assets</b>	<b>293,893</b>	<b>389,780</b>	<b>616,879</b>	<b>715,810</b>	<b>931,297</b>
Cash & equivalents	45,220	82,224	221,389	240,035	349,778
Account receivables	167,401	221,001	278,416	348,010	419,326
Inventories	55,034	66,002	96,522	107,212	141,639
Restricted cash	26,238	19,126	19,126	19,126	19,126
Other current assets	-	1,427	1,427	1,427	1,427
<b>Non-current assets</b>	<b>106,330</b>	<b>116,071</b>	<b>145,526</b>	<b>205,980</b>	<b>239,434</b>
Property, plant and equipment	95,945	103,253	132,707	193,161	226,615
Investment property	3,655	3,427	3,427	3,427	3,427
Other receivables	5,288	6,823	6,823	6,823	6,823
Other non-current assets	1,443	2,569	2,569	2,569	2,569
<b>Total assets</b>	<b>400,223</b>	<b>505,851</b>	<b>762,405</b>	<b>921,789</b>	<b>1,170,731</b>
<b>Current liabilities</b>	<b>259,503</b>	<b>311,892</b>	<b>381,478</b>	<b>443,387</b>	<b>569,447</b>
ST borrowings	121,809	91,939	119,341	150,121	183,889
Account payables	123,115	209,746	250,738	278,969	368,044
Tax payables	12,579	10,207	11,398	14,297	17,513
Other current liabilities	2,000	-	-	-	-
<b>Non-current liabilities</b>	<b>857</b>	<b>1,526</b>	<b>1,526</b>	<b>1,526</b>	<b>1,526</b>
Retirement obligation	534	788	788	788	788
Other non-current liabilities	323	738	738	738	738
<b>Total liabilities</b>	<b>260,360</b>	<b>313,419</b>	<b>383,004</b>	<b>444,913</b>	<b>570,973</b>
Share capital	2,993	2,993	112,993	112,993	112,993
Reserves	136,870	189,439	266,407	363,883	486,764
Minority interest	-	-	-	-	-
<b>Shareholders' equity</b>	<b>139,863</b>	<b>192,432</b>	<b>379,401</b>	<b>476,876</b>	<b>599,757</b>
<b>Total equity and liabilities</b>	<b>400,223</b>	<b>505,851</b>	<b>762,405</b>	<b>921,789</b>	<b>1,170,731</b>

### Cashflow Statement

USD'000	2013	2014	2015E	2016E	2017E
<b>Operating cashflow</b>	<b>46,793</b>	<b>87,563</b>	<b>53,239</b>	<b>78,636</b>	<b>147,327</b>
Net income before tax	63,803	67,564	96,210	122,032	153,869
Depreciation and amortization	10,964	13,118	20,546	29,546	36,546
Share-based payments	-	-	-	-	-
Interest income	(592)	(309)	(822)	(2,214)	(2,400)
Other operating cash flow	6,564	3,449	2,298	2,984	3,753
Change in working capital	(28,834)	21,307	(46,942)	(52,053)	(16,669)
Income tax paid	(5,112)	(17,567)	(18,051)	(21,658)	(27,772)
<b>Investing cashflow</b>	<b>(15,821)</b>	<b>(22,570)</b>	<b>(49,178)</b>	<b>(87,786)</b>	<b>(67,600)</b>
Capital expenditure	(15,808)	(21,523)	(50,000)	(90,000)	(70,000)
Disposal of PPE	444	24	-	-	-
Purchase of intangibles	(1,050)	(1,381)	-	-	-
Interest income	592	309	822	2,214	2,400
<b>Financing cashflow</b>	<b>577</b>	<b>(27,863)</b>	<b>135,104</b>	<b>27,796</b>	<b>30,016</b>
Net proceeds from borrowings	(20,118)	(29,854)	27,403	30,779	33,769
Share issue/ (repurchase)	-	-	-	-	-
Interest paid	(5,182)	(3,121)	(2,298)	(2,984)	(3,753)
Other financing cashflow	25,878	5,112	110,000	-	-
Net change in cash	31,549	37,129	139,166	18,646	109,743
<b>Cash at year end</b>	<b>45,220</b>	<b>82,224</b>	<b>221,389</b>	<b>240,035</b>	<b>349,778</b>

Source: Company data, CMS (HK) estimates

### Profit & Loss Statement

USD'000	2013	2014	2015E	2016E	2017E
<b>Revenues</b>	<b>813,936</b>	<b>886,467</b>	<b>1,139,842</b>	<b>1,429,720</b>	<b>1,751,326</b>
Cost of sales	(710,689)	(774,364)	(988,686)	(1,239,378)	(1,513,846)
<b>Gross profit</b>	<b>103,247</b>	<b>112,103</b>	<b>151,156</b>	<b>190,341</b>	<b>237,480</b>
Selling exp	(5,892)	(6,483)	(9,119)	(11,438)	(14,011)
Other admin exp	(28,512)	(37,147)	(46,176)	(58,333)	(70,929)
<b>Operating profit</b>	<b>68,843</b>	<b>68,474</b>	<b>95,861</b>	<b>120,571</b>	<b>152,540</b>
Interest income	<b>137,686</b>	<b>136,947</b>	<b>191,722</b>	<b>241,141</b>	<b>305,081</b>
Finance cost	(5,182)	(3,121)	(2,298)	(2,984)	(3,753)
Other income	723	1,674	1,596	2,002	2,452
Other no-op	(1,173)	230	230	230	230
<b>Pre-tax profit</b>	<b>63,803</b>	<b>67,564</b>	<b>96,210</b>	<b>122,032</b>	<b>153,869</b>
Income tax	(13,561)	(14,320)	(19,242)	(24,557)	(30,988)
<b>After-tax profit</b>	<b>50,242</b>	<b>53,245</b>	<b>76,968</b>	<b>97,475</b>	<b>122,881</b>
Non-controlling	-	-	-	-	-
<b>Net profit</b>	<b>50,242</b>	<b>53,245</b>	<b>76,968</b>	<b>97,475</b>	<b>122,881</b>
<b>Basic EPS</b>	<b>0.07</b>	<b>0.07</b>	<b>0.09</b>	<b>0.12</b>	<b>0.15</b>
DPS (USD)	-	-	-	-	-

### Financials

	2013	2014	2015E	2016E	2017E
<b>YoY growth rate</b>					
Revenue	54%	9%	29%	25%	22%
Operating profit	314%	-1%	40%	26%	27%
Net profit	281%	6%	45%	27%	26%
<b>Profitability</b>					
Gross margin	13%	13%	13%	13%	14%
Operating margin	17%	15%	17%	17%	17%
Net margin	6%	6%	7%	7%	7%
ROE	36%	28%	20%	20%	20%
ROA	13%	11%	10%	11%	10%
<b>Liquidity</b>					
D/A	0.30	0.18	0.16	0.16	0.16
ND/A	19%	2%	-13%	-10%	-14%
Current ratio	1.1	1.2	1.6	1.6	1.6
Quick ratio	0.3	0.3	0.6	0.6	0.7
<b>Operating efficiency</b>					
Asset turnover	2.03	1.75	1.50	1.55	1.50
Inventory	12.91	11.73	10.24	11.56	10.69
AR turnover	4.86	4.01	4.09	4.11	4.18
AP turnover	5.77	3.69	3.94	4.44	4.11
<b>Per share ratios</b>					
EPS	0.07	0.07	0.09	0.12	0.15
CFPS	0.06	0.12	0.06	0.09	0.18
BPS	0.19	0.26	0.46	0.57	0.72
DPS	0	0	0	0	0
<b>Valuation ratios</b>					
PE	14.5	13.7	10.5	8.2	6.0
PB	5.2	3.8	2.1	1.7	1.3
EV/EBITDA	38.5	41.8	30.3	23.9	18.0

## 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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