

First Read

Stock Connect

Shenzhen O-Film Tech

O-Film to acquire Sony's factory in China

O-Film to acquire Sony Electronics' factory in China for US\$234m

O-Film announced its plan to buy Sony Electronics Huanan (SEH) for US\$234m. The consideration includes US\$95/139m for equity/debt. Upon completion of the deal, O-Film will invest US\$32m more for operation of SEH's projects.

Acquisition likely to substantially boost revenue growth when completed

SEH is Sony (China)'s factory in Guangzhou and reported 2015 revenue of Rmb6.828bn and net profit of Rmb109m. Since O-Film's Q1-Q316 camera module revenue was close to Rmb5.5bn, we estimate that after the acquisition is completed, the factory may be c25%/15% accretive to O-Film's revenue/net profit and could help double the size of its camera module business.

The acquisition is also likely to improve technology/management capabilities

We believe dual-camera modules are likely to start becoming widely used in Chinese-made smartphones in 2017. Considering Sony's advanced development and packaging technologies for camera modules, we believe the acquisition could help O-Film strengthen its capability to develop such products to further improve product mix and market share. O-Film is also likely to further improve its product quality and operational management capabilities through the acquisition.

Valuation: Maintain Buy

We maintain our DCF-based price target of Rmb42 (WACC 7.6%) and Buy rating.

Equities

China
Electric Components & Equipment

12-month rating **Buy**

12m price target **Rmb42.00**

Price **Rmb38.16**

RIC: 002456.SZ **BGG:** 002456 CH

Trading data and key metrics

52-wk range	Rmb39.56-19.80
Market cap.	Rmb39.3bn/US\$5.82bn
Shares o/s	1,031m (ORDA)
Free float	78%
Avg. daily volume ('000)	18,010
Avg. daily value (m)	Rmb651.7
Common s/h equity (12/16E)	Rmb6.90bn
P/BV (12/16E)	5.7x
Net debt / EBITDA (12/16E)	1.8x

EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/16E	1.00	0.84
12/17E	1.42	1.22
12/18E	1.90	1.60

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Highlights (Rmbm)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	9,102	19,539	18,498	24,753	31,470	32,900	33,104	32,479
EBIT (UBS)	799	1,021	872	1,418	1,846	2,500	2,729	2,840
Net earnings (UBS)	571	722	478	1,026	1,463	1,962	2,150	2,292
EPS (UBS, diluted) (Rmb)	0.62	0.74	0.46	1.00	1.42	1.90	2.09	2.22
DPS (Rmb)	0.19	0.10	0.07	0.15	0.21	0.29	0.31	0.33
Net (debt) / cash	(1,798)	(1,516)	(2,427)	(3,256)	(3,675)	(2,673)	(1,257)	570
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	8.8	5.2	4.7	5.7	5.9	7.6	8.2	8.7
ROIC (EBIT) %	20.2	16.1	10.9	15.2	16.8	20.6	21.5	21.9
EV/EBITDA (core) x	21.2	16.8	24.8	22.7	18.1	13.7	12.2	11.1
P/E (UBS, diluted) x	33.8	30.6	59.7	38.3	26.9	20.0	18.3	17.2
Equity FCF (UBS) yield %	(5.9)	(5.9)	(2.0)	(1.9)	(0.7)	3.1	4.4	5.5
Net dividend yield %	0.9	0.4	0.3	0.4	0.6	0.7	0.8	0.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rmb38.16 on 07 Nov 2016 21:36 HKT

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Forecast returns

Forecast price appreciation	+10.1%
Forecast dividend yield	0.4%
Forecast stock return	+10.5%
Market return assumption	7.7%
Forecast excess return	+2.8%

Valuation Method and Risk Statement

We use DCF as our valuation method.

Risks to our forecast include: 1) a lower-than-expected adoption rate for fingerprint modules in smartphone applications; 2) worse-than-expected smartphone demand in 2016/17; and 3) sharply lower ASPs for CCM and touch panels amid fierce competition.

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Buy	FSR is > 6% above the MRA.	45%	28%
Neutral	FSR is between -6% and 6% of the MRA.	39%	25%
Sell	FSR is > 6% below the MRA.	15%	17%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 September 2016.

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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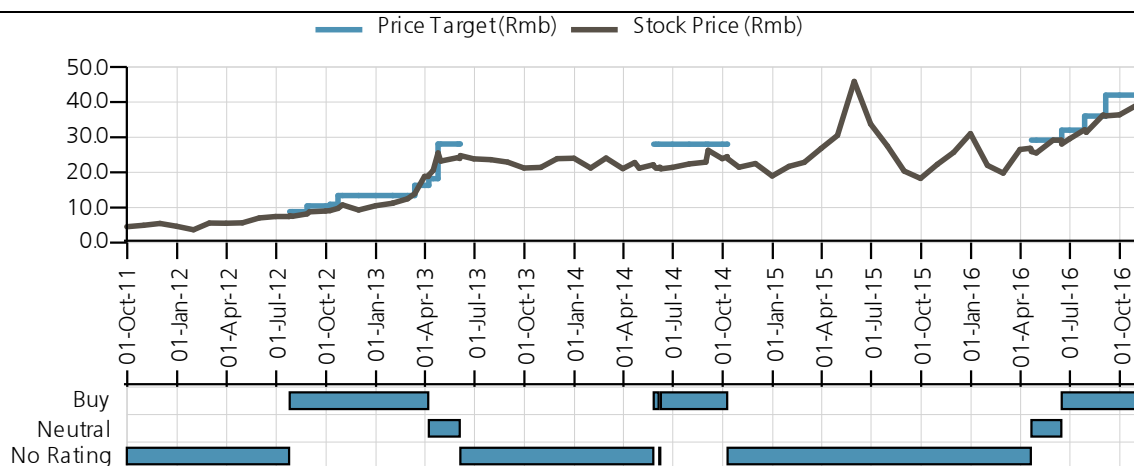
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Shenzhen O-Film Tech	002456.SZ	Buy	N/A	Rmb38.16	07 Nov 2016

Source: UBS. All prices as of local market close.

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Shenzhen O-Film Tech (Rmb)



Source: UBS; as of 07 Nov 2016

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