

Equities

Hong Kong/China

Company Update

Company Report

TCL Electronics (1070.HK)

27 August 2018

Strong 1H18 results

TCL Electronics (TCL) announced a set of strong 1H18 results with turnover and net profit increasing by 23.7% and 278.6% YoY to HK\$21,050m and HK\$573m respectively. The results were better than our expectation. TCL declared an interim dividend of HK\$0.098 per share. In view of the strong results, we raise our 2018&19 earnings estimates by 25% and 25% respectively. Based on 10% discount to its 5-year average P/B of 1.1x, we set our target price at HK\$4.3, equivalent to 1.0x 2018E PB. Upgrade to Buy.

- Strong 1H18 results.** TCL Electronics (TCL) announced a set of strong 1H18 results with turnover and net profit increasing by 23.7% and 278.6% YoY to HK\$21,050m and HK\$573m respectively. The results were better than our expectation. The strong results were primarily attributable to its effective cost control measures. Its overall expense ratio decreased from 13.7% in 1H17 to 12.6% in 1H18, which also hit a record low since 2003.
- Outperform the PRC industry average.** According to CMM's omni-channel data, the overall TV sales volume in the PRC TV market rose by 0.7% YoY in 1H18. TCL managed to grow its LCD TV sales volume by 26.4% YoY to 4.89 million sets in 1H18, significantly outperforming the industry average.
- Solid growth in overseas market.** In the overseas markets, total LCD TV sales volume grew by 44.4% YoY to 8.3 million sets in 1H18. The strong performance was mainly attributable to the outstanding shipment growth in the European markets, especially France, Spain and Poland. Moreover, the North American market maintained steady growth while the emerging markets developed rapidly.
- Market leader remained.** According to the latest Sigmaintell data, TCL ranked No.3 in the global TV market with a market share of 11.8% in terms of sales volume in 1H18. According to CMM omni-channel data, TCL ranked No.3 in the PRC TV market with a market share of 11.4% and 12.9% in terms of sales volume and turnover respectively.
- Earnings revised upward.** In view of better-than-expected 1H18 results, we lower our expenses assumptions and raise our 2018&19 earnings estimates by 25% and 25% respectively.
- Upgrade to Buy.** Based on 10% discount to its 5-year average P/B of 1.1x, we set our target price at HK\$4.3, equivalent to 1.0x 2018E PB. In view of over 20% upside potential, we upgrade our recommendation to Buy from Accumulate.
- Key risks** include 1) rapid change in technologies and customer preference, 2) keen competition, 3) fluctuation of raw material prices, 4) economic slowdown and 5) currency risk.

Investment Summary

FY-end 31 Dec	2015	2016	2017	2018E	2019E
Turnover (HK\$ m)	34,017	33,361	40,822	46,965	48,831
Growth (%)	1.5	(1.9)	22.4	15.0	4.0
Net profit (HK\$ m)	26	183	815	973	1,061
Growth (%)	(89.0)	608.1	345.7	19.5	9.0
EPS (HK\$)	0.01	0.09	0.36	0.42	0.46
Growth (%)	(89.1)	487.6	316.1	17.4	9.0
PER (x)	244.7	41.6	10.0	8.5	7.8
OCF/Share (HK\$)	0.2	0.6	0.4	0.4	0.5
P/B (x)	1.1	0.9	0.8	0.8	0.8
EV/EBITDA (x)	11.2	7.1	3.7	2.3	1.9
DPS (HK\$)	0.00	0.00	0.19	0.17	0.18
Yield (%)	0.0	0.0	5.3	4.7	5.1

Sources: Company data, CER estimates

HK & China / Consumer Electronics

BUY

Share Price	Target Price	Upside
HK\$3.56	HK\$4.30	20.8%

(As of 24 August 2018)

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Profit & Loss (Consolidated)

FY-end 31 Dec (HK\$ m)	2015	2016	2017	2018E	2019E
Sales	34,017	33,361	40,822	46,965	48,831
Cost of sales	(28,264)	(27,546)	(34,521)	(39,562)	(41,195)
Gross profit	5,753	5,816	6,301	7,402	7,636
Other income	546	356	821	611	672
Operating expenses	(6,014)	(5,876)	(6,072)	(6,809)	(7,001)
Operating profit	285	296	1,050	1,205	1,307
Finance cost, net	(186)	(93)	(229)	(211)	(219)
Asso. & JCE	(62)	(1)	112	122	130
Pre-tax profit	10	177	797	953	1,040
Tax	(27)	(24)	(136)	(163)	(178)
Minorities	16	6	18	20	21
Net profit	26	183	815	973	1,061
EBITDA	368	514	874	1,448	1,568
EBIT	113	274	649	1,169	1,270
EPS (HK\$)	0.01	0.09	0.36	0.42	0.46
DPS (HK\$)	0.00	0.00	0.19	0.17	0.18

Sources: Company, CER estimates

Cash Flow (Consolidated)

FY-end 31 Dec (HK\$ m)	2015	2016	2017	2018E	2019E
Operating cash flow	312	1,097	746	867	1,106
Net profit	26	183	815	973	1,061
Depreciation & amortization	255	240	226	278	297
Change in working capital	87	634	(225)	(222)	(67)
Others	(57)	41	(70)	(163)	(185)
Investment cash flow	203	(153)	(231)	(524)	(314)
Net Capex	(142)	(168)	(158)	(560)	(351)
Disposal	17	14	23	0	0
Change in LT investment	153	(123)	(134)	0	0
Change in other assets	175	124	38	35	37
Free cash flow	515	944	515	343	792
Financing cash flow	(1,521)	821	1,331	2,101	(256)
Change in share capital	28	2,118	38	2,015	0
Net change in debt	(1,478)	(1,291)	1,530	437	133
Dividend paid	(70)	0	(51)	(351)	(389)
Net impact of exchange fluctuation	(158)	(97)	182	0	0
Net cash flow	(1,164)	1,667	2,028	2,444	536

Balance Sheet (Consolidated)

FY-end 31 Dec (HK\$ m)	2015	2016	2017	2018E	2019E
Total assets	18,178	20,309	26,063	31,409	32,889
Current assets	15,198	17,464	22,710	27,652	28,949
Cash & ST investments	2,296	3,882	5,910	8,354	8,890
Marketable securities & ST inv	-	-	-	-	-
Account & notes receivable	9,610	9,186	11,509	13,240	13,767
Inventories	3,283	4,349	5,059	5,820	6,051
Others	9	46	232	238	241
Non-current assets	2,981	2,846	3,354	3,757	3,940
LT investments	107	100	108	108	108
Net fixed assets	2,195	1,940	1,802	2,083	2,136
Others	679	805	1,444	1,566	1,696
Total liabilities	13,76	13,75	18,36	21,09	21,92
Current liabilities	12,605	13,733	18,330	21,059	21,888
Account payable	7,198	8,376	10,060	11,574	12,034
ST borrowings	1,460	1,354	2,905	3,342	3,475
Others	3,947	4,003	5,365	6,143	6,379
Non-current liabilities	1,165	20	37	37	37
Long-term debts	5	2	22	22	22
Others	1,160	19	15	15	15
Total equities	4,409	6,556	7,697	10,313	10,964
Shareholders' equity	4,297	6,452	7,629	10,266	10,938
Minority shareholders	112	104	68	47	26
Total liabilities + SH equities	18,178	20,309	26,063	31,409	32,889
Net cash / (debt)	823	2,527	2,983	4,990	5,393
Working capital	2,593	3,731	4,380	6,593	7,061
Total capital employed	5,882	7,912	10,623	13,677	14,461
Shareholders' equity + Minorities	4,409	6,556	7,697	10,313	10,964
Net gearing (%)	(19)	(39)	(39)	(48)	(49)

Sources: Company, CER estimates

Financial Summary

FY-end 31 Dec	2015	2016	2017	2018E	2019E
Growth (%)					
Revenue	1.5	(1.9)	22.4	15.0	4.0
EBITDA	(43.0)	39.6	70.2	65.6	8.3
EBIT	(67.9)	142.8	137.0	80.3	8.6
Net profit	(89.0)	608.1	345.7	19.5	9.0
EPS	(89.1)	487.6	316.1	17.4	9.0
Margins (%)					
Gross	16.9	17.4	15.4	15.8	15.6
EBITDA	1.1	1.5	2.1	3.1	3.2
EBIT	0.3	0.8	1.6	2.5	2.6
Net	0.1	0.5	2.0	2.1	2.2
Others (%)					
Effective tax rate	72.7	12.1	14.6	14.6	14.6
Payout ratio	0.0	0.0	43.1	40.0	40.0
RoCE	0.4	2.3	7.7	7.1	7.4
Average RoE	0.6	2.8	10.7	9.5	9.7
Average RoA	0.1	0.9	3.1	3.1	3.2
Interest cover (x)	0.8	3.6	3.3	6.7	7.0

Sources: Company, CER estimates

China Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

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