



Skyworth Digital Holdings

Stock price expected to adjust slightly in the short term

Company Update

What's new

Skyworth announced domestic TV shipments of 1.362mn sets for January~February. Also, the company's president Yang Dongwen resigned.

Comments

- ▶ **Decline in earnings exceed market expectations:**
 - 1) 2HFY16/17 has a high base** – 2HFY15/16 saw domestic TV GPM hit a historic peak of 25.9%, panel prices declined rapidly and 4K TV promotion was very successful.
 - 2) Poor operating environment in 2HFY16/17.** Cost of panels, transport, and packaging all increased significantly. Although TV ASP largely increased since December, it is still not enough to offset the cost increase. We expect 1Q17 to have poor profitability. And, **3) TV industry has cyclical nature.** TV ASP will continue to rise; a financial turning point will appear in 2Q17.
- ▶ **Performance below expectation.** President Yang Dongwen's resignation had a negative impact on market confidence; we expect the stock price to adjust in S-T.
- ▶ **Buy on dips as cycle doesn't affect company's L-T value:** **1)** the company's profitability will be restored in the future; and, **2)** its assets have significant value; its office and industrial land in Shenzhen is expected to add >HK\$10bn if revalued at market prices: three office buildings in Science & Tech. Park (170k sqm); planned building area of Skyworth Int'l HQ in Qianhai (56k sqm); Shiyuan Science & Tech. Park (1mn sqm); and, Longgang production base (130k sqm). The company holds 56.5% of Skyworth Digital (000810.SZ) whose current market value is Rmb14.6bn. CooCaa will be an important platform for the entry of online video traffic. On September 13, 2016, iQIYI invested in CooCaa, the deal values CooCaa at Rmb3bn.

Valuation and recommendation

We trim our FY16/17 and FY17/18 EPS forecasts by 12% and 6% to HK\$0.58 and HK\$0.75. Maintain BUY rating and TP of HK\$6.14, implying 10.6x FY17/18 P/E.

Risks

Costs rise.

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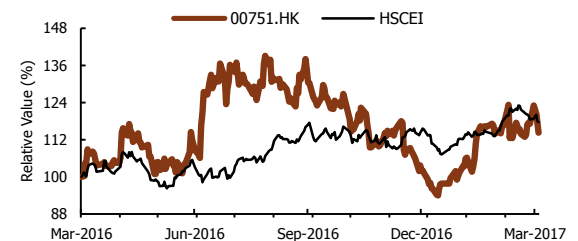
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Maintain BUY

| | |
|------------------------|----------|
| Ticker | 00751.HK |
| CICC investment rating | BUY |
| Last close | HK\$5.07 |
| CICC target | HK\$6.14 |

| | |
|-------------------------|-------------------------------|
| 52wk price range | HK\$6.21~4.13 |
| Market cap (bn) | HK\$15 |
| Daily value (mn) | HK\$87.15 |
| Shares outstanding (mn) | 3,036 |
| Free float (%) | 100 |
| Daily volume (mn sh) | 16.66 |
| Business sector | Home Appliances & Electronics |



| (HK\$ mn) | 2015A | 2016A | 2017E | 2018E |
|----------------|--------|--------|--------|--------|
| Revenue | 40,135 | 42,695 | 43,852 | 48,600 |
| (+/-) | 1.7% | 6.4% | 2.7% | 10.8% |
| Net profit | 3,128 | 2,170 | 1,734 | 2,244 |
| (+/-) | 149.4% | -30.6% | -20.1% | 29.4% |
| EPS | 1.04 | 0.72 | 0.58 | 0.75 |
| BPS | 5.08 | 5.58 | 5.87 | 6.53 |
| DPS | 0.19 | 0.20 | 0.19 | 0.24 |
| CPS | 1.27 | 0.40 | 0.40 | 0.46 |
| P/E | 4.9 | 7.0 | 8.8 | 6.8 |
| P/B | 1.0 | 0.9 | 0.9 | 0.8 |
| EV/EBITDA | 5.3 | 5.0 | 6.1 | 5.2 |
| Dividend yield | 3.7% | 3.8% | 3.6% | 4.7% |
| ROAA | 9.6% | 5.8% | 4.2% | 5.3% |
| ROAE | 23.6% | 13.6% | 10.1% | 12.1% |

Source: Wind, Bloomberg, company data, CICC Research



Financial summary

| Financial statement (HKD mn) | 2015A | 2016A | 2017E | 2018E | Financial ratios | 2015A | 2016A | 2017E | 2018E |
|-------------------------------|---------|---------|---------|---------|---------------------------|----------|--------|--------|-------|
| Income statement | | | | | Growth ability | | | | |
| Revenue | 40,135 | 42,695 | 43,852 | 48,600 | Revenue | 1.7% | 6.4% | 2.7% | 10.8% |
| COGS | -32,112 | -33,332 | -34,646 | -38,049 | Operating profit | 38.7% | 31.3% | -15.7% | 24.4% |
| Selling expenses | -4,835 | -4,756 | -4,911 | -5,346 | EBITDA | 34.1% | 33.1% | -14.1% | 21.2% |
| Administrative expenses | -1,736 | -2,581 | -3,070 | -3,208 | Net profit | 149.4% | -30.6% | -20.1% | 29.4% |
| Other ops income (expense) | 25 | -55 | 150 | 0 | Profitability | | | | |
| Operating profit | 2,582 | 3,389 | 2,857 | 3,553 | Gross margin | 20.0% | 21.9% | 21.0% | 21.7% |
| Finance costs | -161 | -239 | -424 | -440 | Operating margin | 6.4% | 7.9% | 6.5% | 7.3% |
| Other income (expense) | 1,755 | 0 | 0 | 0 | EBITDA margin | 7.6% | 9.5% | 7.9% | 8.7% |
| Profit before income tax | 4,176 | 3,150 | 2,433 | 3,113 | Net margin | 7.8% | 5.1% | 4.0% | 4.6% |
| Income tax | -826 | -623 | -462 | -592 | Liquidity | | | | |
| Minority interest | 222 | 357 | 237 | 277 | Current ratio | 1.56 | 1.50 | 1.60 | 1.64 |
| Net profit | 3,128 | 2,170 | 1,734 | 2,244 | Quick ratio | 1.24 | 1.21 | 1.30 | 1.27 |
| EBITDA | 3,042 | 4,050 | 3,478 | 4,215 | Cash ratio | 0.20 | 0.22 | 0.20 | 0.18 |
| Recurrent net income | 1,766 | 2,170 | 1,734 | 2,244 | Liabilities / assets | 54.4% | 60.3% | 56.3% | 55.3% |
| Balance sheet | | | | | Net debt / equity | net cash | 19.0% | 22.4% | 20.9% |
| Cash and bank balances | 3,217 | 4,621 | 3,743 | 3,570 | Return | | | | |
| Trade and bill receivables | 14,649 | 16,282 | 15,583 | 17,098 | RoA | 9.6% | 5.8% | 4.2% | 5.3% |
| Inventories | 5,172 | 6,257 | 5,622 | 7,424 | RoE | 23.6% | 13.6% | 10.1% | 12.1% |
| Other current assets | 2,023 | 4,816 | 4,840 | 4,893 | Per-share data | | | | |
| Total current assets | 25,061 | 31,976 | 29,787 | 32,985 | EPS (HKD) | 1.04 | 0.72 | 0.58 | 0.75 |
| Fixed assets and CIP | 5,223 | 5,818 | 6,236 | 6,613 | BPS (HKD) | 5.08 | 5.58 | 5.87 | 6.53 |
| Intangible assets and others | 3,038 | 4,266 | 4,226 | 4,188 | DPS (HKD) | 0.19 | 0.20 | 0.19 | 0.24 |
| Total non-current assets | 8,261 | 10,084 | 10,463 | 10,801 | Cash flow per share (HKD) | 1.27 | 0.40 | 0.40 | 0.46 |
| Total assets | 33,322 | 42,060 | 40,250 | 43,786 | Valuation | | | | |
| Short-term borrowings | 1,274 | 4,950 | 4,950 | 4,950 | P/E | 4.9 | 7.0 | 8.8 | 6.8 |
| Trade and bill payables | 8,931 | 15,614 | 12,756 | 14,009 | P/B | 1.0 | 0.9 | 0.9 | 0.8 |
| Other current liabilities | 5,864 | 737 | 893 | 1,209 | EV/EBITDA | 5.3 | 5.0 | 6.1 | 5.2 |
| Total current liabilities | 16,069 | 21,301 | 18,599 | 20,169 | Dividend yield | 3.7% | 3.8% | 3.6% | 4.7% |
| Long-term borrowings | 1,312 | 3,155 | 3,155 | 3,155 | | | | | |
| Total non-current liabilities | 2,050 | 4,059 | 4,059 | 4,059 | | | | | |
| Total liabilities | 18,119 | 25,360 | 22,658 | 24,228 | | | | | |
| Share capital | 285 | 295 | 295 | 295 | | | | | |
| Retained profit | 13,454 | 14,797 | 15,452 | 17,142 | | | | | |
| Equity | 15,203 | 16,700 | 17,592 | 19,559 | | | | | |
| Total liabilities & equity | 33,322 | 42,060 | 40,250 | 43,786 | | | | | |
| Cash flow statement | | | | | | | | | |
| Pretax profit | 3,128 | 2,170 | 1,734 | 2,244 | | | | | |
| Depreciation & amortization | 460 | 661 | 621 | 662 | | | | | |
| Change in working capital | 1,528 | -2,031 | -1,392 | -1,801 | | | | | |
| Others | -1,317 | 387 | 237 | 277 | | | | | |
| Cash flow from operations | 3,799 | 1,187 | 1,201 | 1,383 | | | | | |
| Capital expenditure | -1,161 | -1,662 | -1,000 | -1,000 | | | | | |
| Others | 1,502 | -2,574 | 0 | 0 | | | | | |
| Cash flow from investing | 341 | -4,236 | -1,000 | -1,000 | | | | | |
| Equity financing | 2 | 70 | 0 | 0 | | | | | |
| Bank borrowings | -3,112 | 5,585 | 0 | 0 | | | | | |
| Others | -725 | -778 | -1,079 | -555 | | | | | |
| Cash flow from financing | -3,835 | 4,877 | -1,079 | -555 | | | | | |
| Foreign exchange gain (loss) | -6 | -157 | 0 | 0 | | | | | |
| Net changes in cash | 299 | 1,671 | -878 | -172 | | | | | |

Source: Company data, CICC Research

Company description

Skyworth is a private enterprise that mainly produces and sells color TVs, set-top boxes and has set foot in refrigerators and washing machines. The company has a profound understanding of the color TV market and was able to grasp the market's consumption upgrade trend and gradually gain advantages in China's market.

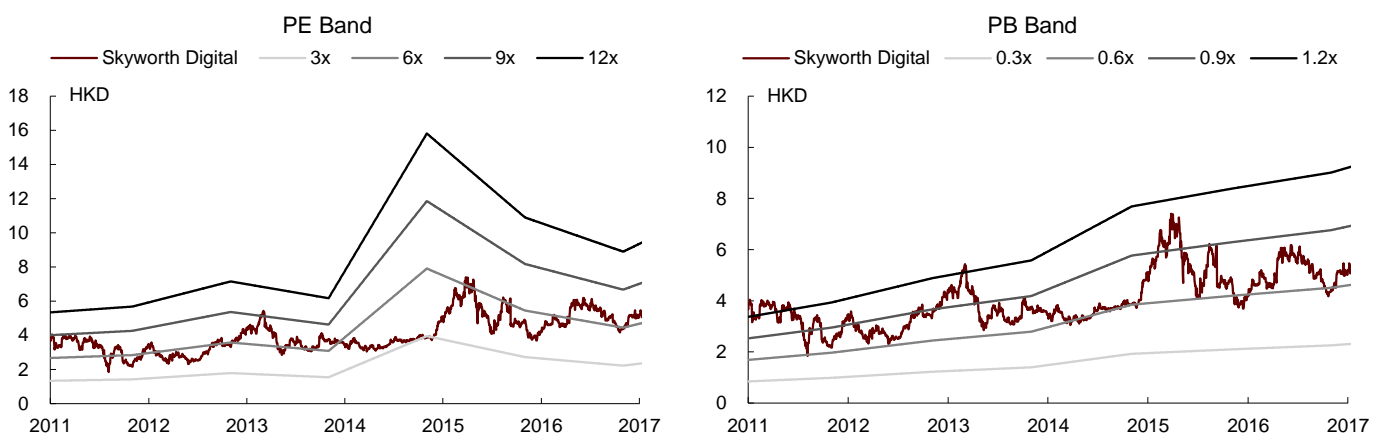


Figure 1: Income forecast adjustment

| (HK\$ mn) | Old | | New | | %Change | |
|--------------------------------------|----------|----------|----------|----------|----------|----------|
| | FY16/17E | FY17/18E | FY16/17E | FY17/18E | FY16/17E | FY17/18E |
| Revenue | 43,852 | 48,600 | 43,852 | 48,600 | 0% | 0% |
| Major revenue | 43,852 | 48,600 | 43,852 | 48,600 | 0% | 0% |
| YoY | 2.7% | 10.8% | 2.7% | 10.8% | | |
| Total cost | -42,726 | -46,845 | -43,050 | -47,043 | 1% | 0% |
| COGS | -34,326 | -37,860 | -34,646 | -38,049 | 1% | 1% |
| Distribution costs | -4,911 | -5,346 | -4,911 | -5,346 | 0% | 0% |
| Administrative expenses | -3,070 | -3,208 | -3,070 | -3,208 | 0% | 0% |
| Financial Costs | -420 | -432 | -424 | -440 | 1% | 2% |
| Research and development costs | 0 | 0 | - | - | | |
| Other operating income | 1,482 | 1,556 | 1,482 | 1,556 | 0% | 0% |
| Operating Profit | 3,177 | 3,743 | 2,857 | 3,553 | -10% | -5% |
| YoY | -6% | 18% | -16% | 24% | | |
| Profit from a discontinued operation | 0 | 0 | - | - | | |
| Profit before taxation | 2,757 | 3,311 | 2,433 | 3,113 | -12% | -6% |
| YoY | -12% | 20% | -23% | 28% | | |
| Tax | -524 | -629 | -462 | -592 | -12% | -6% |
| Minority interest | 268 | 295 | 237 | 277 | -12% | -6% |
| Net Profit (Recurrent) | 1,965 | 2,387 | 1,734 | 2,244 | -12% | -6% |
| EPS (Rmb) | 0.66 | 0.80 | 0.58 | 0.75 | | |
| Financial Ratio | | | | | | |
| Gross margin | 21.7% | 22.1% | 21.0% | 21.7% | | |
| Distribution costs to revenue | 11.2% | 11.0% | 11.2% | 11.0% | | |
| Admin expenses to revenue | 7.0% | 6.6% | 7.0% | 6.6% | | |
| Financial Costs to revenue | 1.0% | 0.9% | 1.0% | 0.9% | | |
| Operating Margin | 7.2% | 7.7% | 6.5% | 7.3% | | |
| Excluding other operating income | 3.9% | 4.5% | 3.1% | 4.1% | | |
| Effective tax rate | 19.0% | 19.0% | 19.0% | 19.0% | | |
| Net margin | 4.5% | 4.9% | 4.0% | 4.6% | | |

Source: CICC Research

Figure 2: P/E and P/B bands



Source: Wind Info, CICC Research



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