

## Truly International (732 HK)

**Another solid quarter; More drivers to kick in; Reiterate Buy**

**We reiterate our BUY rating on Truly due to rising conviction on display and touch panel (TLI) component growth supported by accelerated Chinese smartphone upgrade, project wins in new smart devices, share gains in overseas clients and attractive valuations. Given upcoming 4G launch and increasing content /video/games consumption, we believe adoption of TLI touch panels and large displays with high resolution will accelerate in smartphone upgrade cycle in 2014. Post results, our EPS estimates remain largely unchanged. Maintain BUY and TP of HK\$7.15.**

**Strong shipment momentum and resilient margin in 3Q.** Revenue came in at HK\$5,892mn (+76.6% YoY, +11.6% QoQ), primarily driven by touch panels (+448% YoY), CCM (+55.6% YoY), and handset display (+31.9% YoY). GPM was 12.3%, up 89bps YoY, down 284bps QoQ on seasonality. Net profit grew 156% YoY to HK\$446mn (+156% YoY, +0.3% QoQ excl 2Q one-off gain), in-line with our estimates. We lift our 2013-15E revenue forecast by 5%/9%/12% to reflect stronger touch panel volume and vehicle/handset display ASP, which is offset by higher R&D cost (under COGS) and increased effective tax rate estimates.

**Best hardware proxy for 4G upgrade and mobile games.** As smartphone upgrade cycle kicks off on 4G-LTE launch and increasing demand for user experience in mobile games and video consumption, we believe Truly is the key beneficiary of spec upgrade trend in displays (larger screen, higher resolution) and touch panels (higher sensitivity, accuracy) in 2014. We expect 5.5", FHD (1080\*1920) and OGS TLI to become mainstream spec for mid/high-end Chinese models.

**Accelerated growth from Chinese high-end brands and global customers.** Truly focuses on advanced camera, display and TLI components for Chinese high-end smartphone brands (e.g. BBK, OPPO, TCL) and overseas vendors (Samsung, Sony) with demanding spec and quality requirements. With an expanding product portfolio for one-stop shopping, customized offerings and rapid time-to-market, we believe Truly will continue to enjoy improving ASP, share gains at existing clients and project wins in new overseas customers (Sony, HTC).

**Promising outlook; Attractive valuation; Reiterate BUY.** Trading at 6.7x of our 2014E EPS, we believe valuation is compelling considering Truly's premium customer base, strengthening product portfolio and market leadership. We reiterate BUY rating with TP of HK\$7.15, based on unchanged 14E PE of 10.6x. Catalysts include monthly revenue data and new product launches. Downside risks include pricing pressure, surging labor cost and slower replacement demand.

### Financials

(Yr-end Dec, HK\$ mn)	2011	2012	2013E	2014E	2015E
Revenue	10,504	12,374	20,924	26,975	32,011
Growth (%)	36	18	69	29	19
Net income	381	710	1,565	1,863	2,209
Growth (%)	21	87	120	19	19
EPS (HK\$)	0.14	0.26	0.56	0.67	0.79
DPS (HK\$)	0.04	0.07	0.15	0.18	0.22
P/E (x)	32.4	17.4	8.0	6.7	5.7
P/B (x)	2.8	2.4	1.9	1.6	1.3
ROE (%)	8.7	13.8	24.3	23.4	22.6

Source: Company data, CMS (HK) estimate

**Buy**

(Previous: Buy)

**Target Price: HK\$7.15**

Current price: HK\$4.47

China Merchants Securities (HK)  
Alex Ng  
(852) 3189 6125  
nglh@cmschina.com.hk

22 Nov 2013

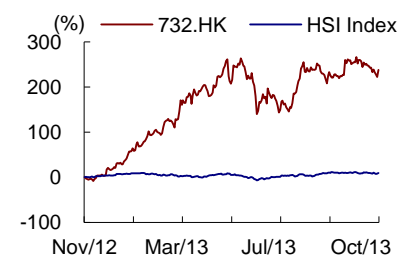
### Key data

HSI Index	23696.28
HSCEI Index	11448.74
S/O(mn)	2,900.6
S/O (HK)(mn)	2,900.6
Mkt cap (HK\$) (mn)	13,342.7
BVPS(HKD)	1.86

Major shareholder	Holding (%)
WAI WAH LAM	44.00
Free float	45.32
Industry	Hardware Tech

### Share performance

%	1m	6m	12m
Absolute	-11	4	226
Relative	-13	-1	213



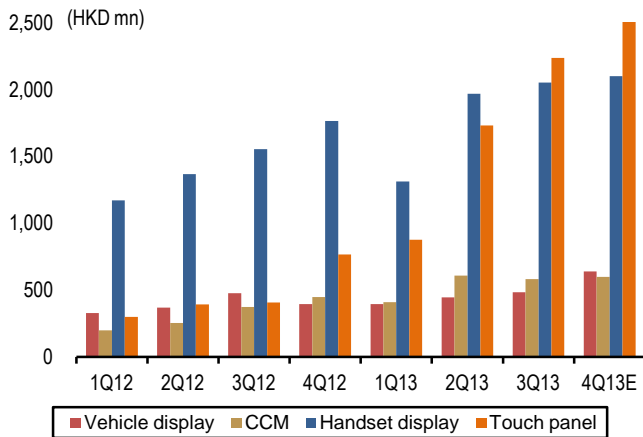
Source: Bloomberg

### Related research

1. Sector Report – Truly Intl (732.HK): Undervalued all-rounder with multiple drivers ahead - 2013/8/13
2. Truly Intl (732.HK): 1H13 results well above estimates; raising TP to HK\$7.15 – 2013/8/21

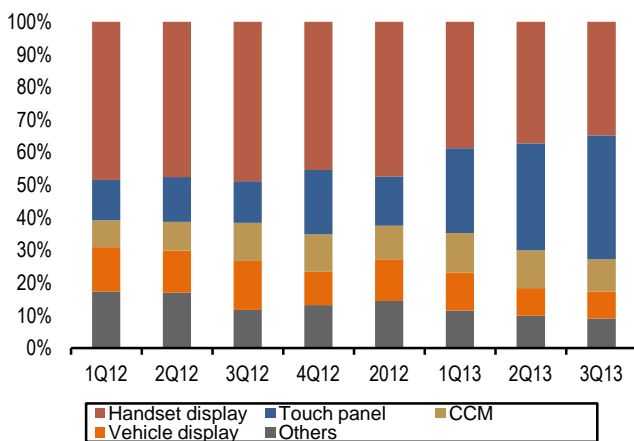
## Focus charts

Figure 1: Handset display and touch panels are key drivers



Source: Company, CMS (HK)

Figure 3: Revenue breakdown by product



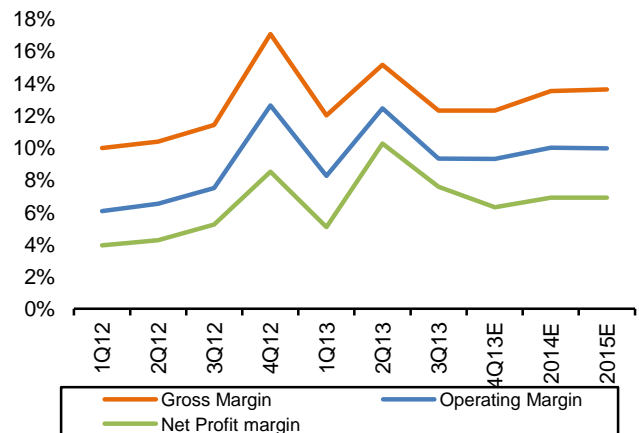
Source: Company, CMS(HK)

Figure 5: Truly's customer smartphone products vs peers in 3Q

	Apple iPhone 5S	Samsung Note 3	Sony Xperia	TCL IdolX	TCL Hero	Meizu MX3	BBK Vivo X3	OPPO N1	Xiaomi Mi3	Lenovo Vibe X	Coolpad 9970
<b>Screen Size</b>	4"	5.7"	5"	5"	6"	5.1"	5"	5.9"	5"	5"	5.9"
<b>Resolution</b>	1136x640 326ppi	1920x1080 386ppi	1920x1080 441ppi	1920x1080 441ppi	1920x1080 367ppi	1800x1080 415ppi	1280x720 294ppi	1920x1080 377ppi	1920x1080 441ppi	1920x1080 441ppi	1920x1080 330ppi
<b>Processor</b>	A7 64-bit	Qualcomm Quad-Core 1.9GHz	Qualcomm Quad-Core 2.3GHz	MediaTek Quad-Core 1.5GHz	MediaTek Quad-Core 1.5GHz	Samsung Oct-Core 1.6GHz	MediaTek Quad-Core 1.5GHz	Qualcomm Quad-Core 2.7GHz	Qualcomm Quad-Core 2.4GHz	MediaTek Quad-Core 1.5GHz	Nvidia Quad-Core 1.8GHz
<b>RAM/ROM</b>	1GB/16GB	3GB/64GB	2GB/16GB	2GB/16GB	2GB/64GB	2GB/16GB	1GB/16GB	2GB/16GB	2GB/64GB	2GB/16GB	2GB/16GB
<b>Camera</b>	8MP / 1.2MP	13MP / 2MP	21MP / 2MP	13MP / 2MP	13MP / 2MP	8MP / 2MP	8MP / 5MP	13MP	13MP/2MP	13MP / 5MP	13MP / 2MP
<b>Battery</b>	1570 mAh	3200 mAh	3000 mAh	2000 mAh	3400 mAh	2400 mAh	2000 mAh	2610 mAh	3050 mAh	2000 mAh	3000 mAh
<b>OS</b>	iOS 7	Android 4.2	Android 4.2	Android 4.2	Android 4.2	Flyme 3.0	Android 4.2	Color OS	MIUI V5	Android 4.2	Android 4.2
<b>Launch Date</b>	Sept 2013	Sept 2013	Sept 2013	Sept 2013	Oct 2013	Sept 2013	Sept 2013	Sept 2013	Sept 2013	Sept 2013	Sept 2013
<b>Retail Price</b>	5288	5699	4450	1699	1999	2499	2498	3498	1999	2899	3980

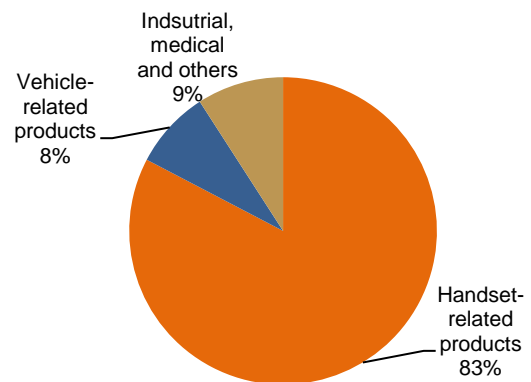
Source: Company, CMS(HK)

Figure 2: Margins are expected to trend upwards



Source: Company, CMS(HK)

Figure 4: Revenue breakdown by application (3Q13)



Source: Company, CMS(HK)

## 3Q13 results review

### Strong revenue driven by display/TLI /CCM; ASP mixed on CCM

Truly reported 3Q13 revenue of HK\$5,892mn, up 76.6% YoY and 11.6% QoQ. All major segments reported strong growth: touch panel (+448% YoY), CCM (+55.6% YoY), handset display (+31.9% YoY), vehicle display (+1.7% YoY). On segment level, increasing adoption of advanced components attributed to continued ASP expansion in vehicle display, touch panel and handset display. However, as expected, CCM blended ASP declined to HK\$23.5 in 3Q from HK\$29.6 in 2Q, largely due to pricing contraction in low-end 5MP. 8MP+ ASP remains resilient, with HK\$82.8/unit in 3Q vs HK\$81.8/unit in 2Q. We think Truly is well on track to beat mgmt's 2013 full year revenue guidance of HK\$20bn.

### GPM decline compensated by better cost control

While 3Q gross margin declined 284bps QoQ to 12.3% due to higher R&D expense (booked under COGS) in 3Q and margin pressure in low-end 5MP CCM, mgmt expects 4Q gross margin will stay flat vs 3Q and rebound in 2014. 3Q operating expense ratio was 2.98%, flat vs 2Q13 and down from 3.9% in 3Q12. Truly also stated that investment in automation will increase from HK\$400mn in 2013 to HK\$500mn+ in 2014, in order to improve operating efficiency and offset wage inflation.

Figure 6: Truly's results review

(HKD mn)	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13
Vehicle display	329	369	477	396	396	445	485
Capacitive touch panel (TLI, separate)	300	394	408	767	878	1,732	2,237
Compact camera module (CCM)	200	254	374	449	409	609	582
Handset display	1,172	1,369	1,556	1,765	1,313	1,970	2,052
Others	419	490	374	512	391	528	537
<b>Total Revenue</b>	<b>2,420</b>	<b>2,876</b>	<b>3,336</b>	<b>3,742</b>	<b>3,386</b>	<b>5,280</b>	<b>5,892</b>
YoY growth	14.2%	28.8%	16.4%	13.9%	39.9%	83.6%	76.6%
Operating profit	147	187	250	472	279	657	549
<b>Adj. Net Profit (excl one-time item)</b>	<b>95</b>	<b>123</b>	<b>174</b>	<b>318</b>	<b>172</b>	<b>445</b>	<b>446</b>
<b>EPS (HK\$)</b>	<b>0.034</b>	<b>0.044</b>	<b>0.063</b>	<b>0.115</b>	<b>0.062</b>	<b>0.160</b>	<b>0.208</b>
<b>Gross margin</b>	<b>10.0%</b>	<b>10.4%</b>	<b>11.4%</b>	<b>17.0%</b>	<b>12.0%</b>	<b>15.1%</b>	<b>12.3%</b>
Operating margin	6.1%	6.5%	7.5%	12.6%	8.2%	12.4%	9.3%
<b>Adjusted net margin</b>	<b>3.9%</b>	<b>4.3%</b>	<b>5.2%</b>	<b>8.5%</b>	<b>5.1%</b>	<b>8.4%</b>	<b>7.6%</b>

Source: Company, CMS (HK)

## Takeaways from mgmt meeting

We attended Truly's analyst meeting in Shenzhen and also met with mgmt regarding business outlook in different segments. Our discussion involved, 1) business strategy, 2) technology trends, 3) competitive landscape, 4) ASP trends, 5) product pipeline, and 6) profitability targets.

### Chinese high-end smartphone customers should continue to power growth

Being the largest handset display panel maker, largest TLI supplier and 2<sup>nd</sup> largest CCM supplier in China, Truly has been supplying high-end handset components (e.g. FHD display, OGS TLI, 8MP+ CCM) to selected best-quality Chinese smartphone clients (e.g. TCL, OPPO, BBK, Gionee) with premium branding and strong open channel network.

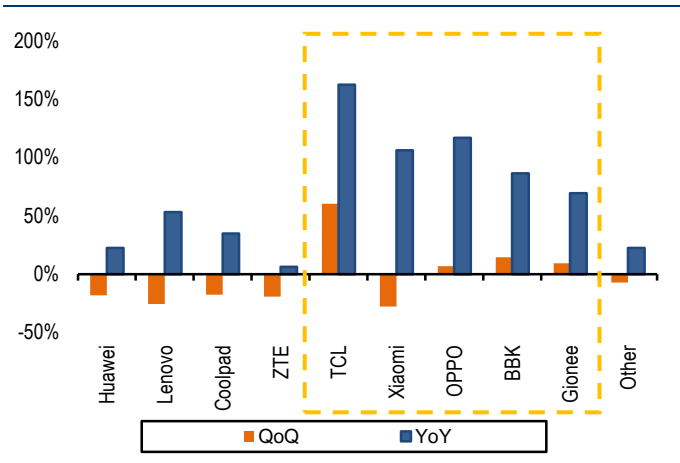
As secondary smartphone replacement cycle has kicked off in China, we believe these smartphone brands with market position for user experience and brand building would outperform traditional handset brands. We noted local brands with high-end spec and mid-end price have been gaining share since 2012, and Truly is the key beneficiary of the downstream growth momentum.

Figure 7: Chinese smartphone market share

	4Q12	1Q13	2Q13	3Q13E
Huawei	11.3%	10.8%	13.5%	12.0%
Lenovo	8.8%	10.4%	14.4%	11.6%
ZTE	10.1%	9.8%	10.8%	9.4%
Coolpad	6.9%	10.1%	10.5%	9.3%
TCL	2.5%	2.1%	4.0%	6.9%
OPPO	3.0%	4.5%	4.6%	5.2%
Gionee	3.3%	4.5%	4.1%	4.8%
BBK	2.6%	3.3%	3.4%	4.2%
Xiaomi	3.8%	4.5%	5.1%	4.0%
Other	46.4%	37.9%	26.5%	29.1%




Source: Digitimes, Company, CMS (HK)

Figure 8: Shipment growth of Chinese brands (Oct 13')



Source: Digitimes, Company, CMS (HK)

Figure 9: Truly is the major high-end component supplier for flagship models

Brand	Description
 <b>TCL</b>	<ul style="list-style-type: none"> <li>First 6-inch FHD (1080*1920) smartphone in the world</li> <li>Supplied by Truly: OGS touch panel, 6-inch FHD display, TLI, 13MP camera</li> <li>Release time: Sept 2013, Mass-production schedule: Sept 2013</li> </ul>
 <b>BBK</b>	<ul style="list-style-type: none"> <li>First 6-inch Quad-HD (1440*2560) smartphone in the world</li> <li>Supplied by Truly: GFF touch panel, 6-inch Quad-HD display, TLI</li> <li>Release time: Oct 2013, Mass-production schedule: Dec 2013</li> </ul>
 <b>Gionee</b>	<ul style="list-style-type: none"> <li>First 5.5-inch FHD (1080*1920) smartphone in China</li> <li>Supplied by Truly: GFF touch panel, 5.5-inch FHD display, TLI, 13MP camera</li> <li>Release time: Nov 2013, Mass-production schedule: Dec 2013 (Expected)</li> </ul>

Source: Company, CMS (HK)

## Market share expansion at Samsung and Sony

In addition to high-end domestic smartphone brands, Truly's broad client base include overseas major brands such as Samsung and Sony, accounting for 25%+ of total handset-related revenue based on our estimates. In particular, Truly's broad product portfolio (e.g. display, TLI touch panel, cameras) to offer one-stop shopping has strengthened its market competitiveness, as most customers intend to source multiple components from a single reliable supplier.

For instance, Samsung is Truly's largest overseas client, with shipments for display panels, CCM and touch panel (started in 2013). Mgmt expects Samsung's order for touch panels will double in 2014. Another example is Sony, which is currently Truly's sixth largest client. Leveraging its well-established relationship with Sony, Mgmt expects to double display and touch panel shipments and start to supply CCM products to Sony 2014.

Given the cost advantage, customized offerings and rapid time-to-market of Chinese component manufacturers, we expect the overseas smartphone brands to continue to increase order allocations to leading Chinese suppliers, including Truly, for cost down and design flexibility.

## 4G launch and improving mobile internet ecosystem to accelerate display/touch panel upgrade

As 4G-LTE service is set to launch in China in 2014, we expect data and content consumption will increase exponentially in next few years, leading to accelerating demand for better display and video quality on mobile devices. Coupled with significant improvement in Chinese mobile internet ecosystem in 2013, particularly in areas like mobile games and video content, we believe consumers will continue to demand for spec upgrade in displays (larger screen, higher resolution) and touch panels (higher sensitivity, accuracy) in 2014, in order to improve input/output interaction experience on mobile devices.

For instance, the latest SoC solutions from two chipset leaders, Qualcomm and Mediatek, have put huge emphasis on upgrading graphics and video processing power. Qualcomm's Snapdragon 805 comes with a new Adreno 420 GPU that can record 4K FHD videos. MediaTek's MT6592 also comes with a new GPU, Mali-450MP4, that allows 4K FHD video playback and supports cameras 16MP filming in 1080p. Huawei, ZTE, TCL and Coolpad have confirmed to adopt M6592 for their next flagship models. We expect 5.5", FHD and OGS TLI to be mainstream spec for mid/high-end models.

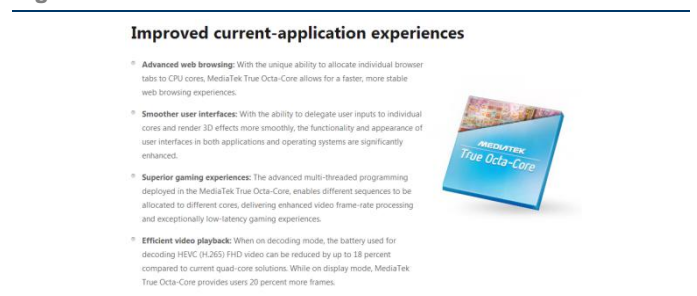
From operators' perspective, according to mgmt, China Mobile plans to upgrade a significant portion of display size of its TD/LTE smartphones from 4"/4.5" to 5"+ in 2014. We expect continued upgrade in screen size will support Truly's ASP expansion, as evidenced in past few quarters.

Figure 10: Qualcomm's latest Snapdragon 805 chipset



Source: Qualcomm, CMS (HK)

Figure 11: MediaTek's latest octo-core MT6592



Source: MediaTek, CMS (HK)

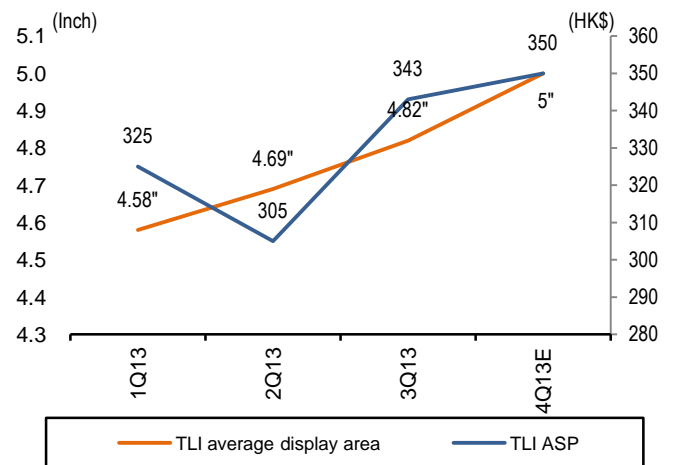


Figure 12: China Mobile's smartphone plan in 2014

TD smartphones					
Product Model Strategy	Mass market	Competitive		Brand-building	Mid/high-end
Display	4"/4.5"	4.5"/5"	5"/5.5"	5.5"	5.5"/6"
Camera	2MP+	5MP+	8MP+		
4G-LTE smartphones					
Product Model Strategy	Mass market	Brand-building	Mid/high-end	Flagship	
Display	5"	5"/5.5"	5.5"	5.5"/6"	
Camera	5MP+		8MP+		

Source: Company, CMS (HK)

Figure 13: Larger TLI touch panel size boosts product ASP



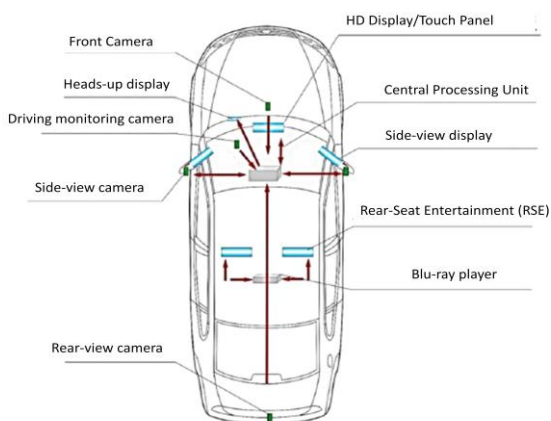
Source: Company, CMS (HK)

### Opportunity from non-handset presents upside potential

Apart from handset-related components, Truly has a strong presence in automotive-related products, accounting for around 10% of 2013E revenue. Truly is supplying display panels to most global auto brands, such as Volkswagen, Jaguar, BMW, Land Rover and Cadillac. Ranked as the largest global B&W vehicle display maker and 8<sup>th</sup> largest TFT vehicle display maker in 2012, we believe this high-margin, high-barrier business segment should provide a stable cash flow to Truly, as there is increasing demand for Central Information Display (CID), instrument clusters, Rear-Seat Entertainment (RSE) systems, and Heads-Up Display (HUD).

In addition, Truly revealed project wins with two European auto brands in vehicle TLI solutions. Mgmt believe the development pattern of the automotive displays will follow that of smartphone displays, which transitioned from resistive touch panels, capacitive touch panels, to capacitive screen TLI, providing automotive users with a better view angle, higher contrast ratio and darker standby mode effects. Leveraging its leading position in automotive display, we believe Truly can repeat its TLI success in vehicle space in coming few years.

Figure 14: Increasing usage of automotive display



Source: Company, CMS (HK)

Figure 15: Automotive TLI will provide potential upside



Source: Company, CMS (HK)

## Earnings revisions

We maintain our 2013E-15E earnings but revise revenue and gross margin estimates due to shipment volatility and lower ASP assumptions.

- We raised our 2013E-15E revenue estimates by 5%/9%/12% to reflect stronger shipment and ASP for TLI and CCM products.
- We revised down 2013-15E gross margin estimates to 13.0%/13.5%/13.6% for higher R&D cost (booked under COGS) and CCM pricing pressure.
- We lowered 2013-15E SG&A expense ratio to 3.04%/3.50%/3.65% for better cost control and scaling benefits. We also raised 2013'-15E effective tax rate from 16.2%/18.0%/18.0% to 17.8%/22.0%/22.0%.

**Figure 16: Key assumptions**

		1Q13	2Q13	3Q13	4Q13E	2013E	2014E	2015E
Vehicle	Shipment (mn)	6.3	8.5	9.6	9.0	33.4	35.1	36.8
	ASP (HKD)	62.9	52.4	70.0	71.0	58.8	65.0	70.0
Revenue (HKD mn)		396	445	485	639	1,965	2,280	2,578
Touch Panels	Shipment (mn)	6.9	10.7	10.2	13.0	40.9	51.1	58.1
	ASP (HKD)	48.9	55.1	72.0	72.0	62.0	57.0	52.0
	Revenue (HKD mn)	3,386	5,280	5,892	6,360	20,924	26,975	32,011
CCM	Shipment (mn)	16.7	20.6	24.8	25.0	87.1	108.9	125.2
	ASP (HKD)	24.6	29.6	23.5	24.0	25.3	26.0	28.0
	Revenue (HKD mn)	409	609	582	600	2,200	2,831	3,506
Handset	Shipment (mn)	25.3	30.0	29.3	30.0	114.5	120.3	126.3
Display	ASP (HKD)	51.9	65.7	70.0	70.0	64.9	67.0	69.0
	Revenue (HKD mn)	1,313	1,970	2,052	2,100	7,435	8,057	8,713
Total Revenue (HKD mn)		3,386	5,280	5,892	6,360	20,924	26,975	32,011
Gross Margin		12.0%	15.1%	12.3%	12.3%	13.0%	13.5%	13.6%

Source: Company, CMS (HK)

**Figure 17: Truly estimate revisions**

(HKD mn)	New			Old			Change (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Revenue	20,924	26,975	32,011	19,995	24,851	28,703	4.6%	8.5%	11.5%
Gross profit	2,717	3,642	4,354	2,796	3,529	4,105	-2.8%	3.2%	6.1%
Operating profit	2,161	2,698	3,185	2,114	2,584	3,014	2.2%	4.4%	5.7%
Pretax profit	2,088	2,624	3,112	2,043	2,514	2,943	2.2%	4.4%	5.7%
Net profit	1,565	1,863	2,209	1,566	1,876	2,196	0.0%	-0.7%	0.6%
EPS (HKD)	0.56	0.67	0.79	0.56	0.67	0.79	0.0%	0.0%	0.0%
Gross margin	13.0%	13.5%	13.6%	14.0%	14.2%	14.3%			
Operating margin	10.3%	10.0%	10.0%	10.6%	10.4%	10.5%			
Net Margin	7.5%	6.9%	6.9%	7.8%	7.5%	7.7%			

Source: Company, CMS (HK)

## Estimates vs Consensus

**Figure 18: CMS (HK) estimates vs consensus**

(HKD mn)	CMS (HK)			Consensus			Diff (%)		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Revenue	20,924	26,975	32,011	19,856	23,781	26,950	5%	13%	19%
Gross profit	2,717	3,642	4,354	2,669	3,231	3,669	2%	13%	19%
Net profit	1,565	1,863	2,209	1,366	1,620	1,864	15%	15%	19%
EPS (HKD)	0.56	0.67	0.79	0.47	0.55	0.65	19%	21%	22%
Gross margin	13.0%	13.5%	13.6%	13.4%	13.6%	13.6%			
Net Margin	7.5%	6.9%	6.9%	6.9%	6.8%	6.9%			

Source: CMS (HK), Bloomberg

## Valuation

We set our 12-month price target of HK\$7.15 based on our target P/E multiple of 10.6x and 2014E EPS of HK\$0.67, in-line with HK/TW-listed peers. Trading at P/E of 6.7x 14E, we see the valuation is compelling and maintain our BUY rating.

Catalysts include monthly revenue data and new product launches. Downside risks include component pricing pressure, surging labor cost and slower replacement demand.

## Peers Comparison

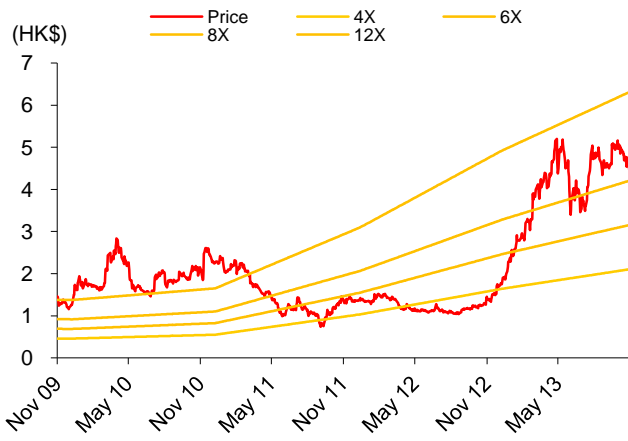
**Figure 19: Sector valuation comparison**

Company	Ticker	Rating	Mkt Cap (USD mn)	Current Price (local)	Target Price (HKD)	Upside (%)	P/E (x)		P/B (x)		ROE (%)	
							FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Truly	732 HK	Buy	1,721	4.6	7.15	55%	8.0	6.7	1.9	1.6	24.3	23.4
Sunny	2382 HK	Neutral	1,036	7.32	8.37	14%	13.0	9.9	2.9	1.9	19.2	20.7
AAC Tech	2018 HK	Neutral	5,243	33.1	40	21%	13.1	12.4	4.8	3.4	34.6	29.5
BYD Elec	285 HK	N/A	1,049	3.61	N/A	N/A	11.4	9.0	0.8	0.7	6.0	7.5
FIH	2038 HK	N/A	3,732	3.82	N/A	N/A	44.8	19.7	1.0	1.0	2.2	4.1
JuTeng	3336 HK	N/A	753	5	N/A	N/A	7.7	6.0	1.0	0.9	12.1	14.1
Catcher	2474 TT	N/A	4,390	173	N/A	N/A	9.9	10.2	2.1	-	20.1	17.5
Largen	3008 TT	N/A	4,557	1005	N/A	N/A	15.0	13.2	5.8	3.9	34.4	31.7

Source: CMS(HK), Bloomberg



**Figure 20: Forward P/E band**



Source: Company, CMS (HK)

**Figure 21: Forward P/B band**



Source: Company, CMS (HK)

**Appendix: Financial summary**
**Statement of financial position**

HKD million	2011	2012	2013E	2014E	2015E
<b>Current Assets</b>	<b>5,286</b>	<b>6,471</b>	<b>10,410</b>	<b>11,537</b>	<b>15,823</b>
Cash & equivalents	868	1,331	1,337	2,523	3,421
Trading investments	0	0	0	0	0
Trade notes	0	0	0	0	0
Trade receivables	3,291	4,009	6,883	7,011	9,477
Other receivables	0	0	0	0	0
Inventories	883	1,016	2,076	1,887	2,811
Other current assets	244	115	115	115	115
<b>Non-current assets</b>	<b>4,813</b>	<b>5,116</b>	<b>5,494</b>	<b>5,664</b>	<b>5,778</b>
Investment property	0	0	0	0	0
PPE	4,560	4,893	5,264	5,430	5,540
Intangible assets	480	333	333	333	333
Other non-current assets	(227)	(110)	(103)	(99)	(95)
<b>Total assets</b>	<b>10,099</b>	<b>11,587</b>	<b>15,904</b>	<b>17,201</b>	<b>21,601</b>
<b>Liquid Liabilities</b>	<b>4,865</b>	<b>5,505</b>	<b>8,508</b>	<b>8,248</b>	<b>10,808</b>
Bank loans	2,234	2,249	2,249	2,249	2,249
Trade payables	2,357	3,092	5,987	5,648	8,143
Prepaid Accounts	0	0	0	0	0
Other liquid liabilities	274	164	272	351	416
<b>Long term Liabilities</b>	<b>837</b>	<b>942</b>	<b>966</b>	<b>984</b>	<b>999</b>
Loans	798	906	906	906	906
Others	39	36	61	78	93
<b>Total Liabilities</b>	<b>5,702</b>	<b>6,447</b>	<b>9,474</b>	<b>9,232</b>	<b>11,807</b>
Issued capital	55	55	55	55	55
Capital reserves	0	0	0	0	0
Reserves	4,341	4,922	6,061	7,471	9,077
NCI	0	163	314	498	717
Parents	4,397	4,977	6,116	7,471	9,077
<b>Total equity and liabilities</b>	<b>10,099</b>	<b>11,587</b>	<b>15,904</b>	<b>17,201</b>	<b>21,601</b>

**Statement of cash flows**

HKD million	2011	2012	2013E	2014E	2015E
<b>CF from OA</b>	<b>584</b>	<b>1,067</b>	<b>1,506</b>	<b>2,618</b>	<b>2,422</b>
Net profit	381	174	172	713	446
D&A	506	562	629	684	740
Finance costs	65	73	73	73	73
Investment income	0	0	0	0	0
Changes of WC	(700)	(176)	(1,038)	(278)	(894)
Others	(104)	(387)	(245)	(486)	(608)
<b>CF from IA</b>	<b>(1,160)</b>	<b>(651)</b>	<b>(1,000)</b>	<b>(850)</b>	<b>(850)</b>
Capital expenditure	(764)	(799)	(1,000)	(850)	(850)
Other investments	(396)	148	0	0	0
<b>CF from FA</b>	<b>580</b>	<b>40</b>	<b>(500)</b>	<b>(581)</b>	<b>(675)</b>
Borrowings	769	123	0	0	0
Share capital	22	0	0	0	0
Changes of reserves	0	0	0	0	0
Dividends	(123)	(194)	(427)	(508)	(602)
Others	(0)	0	(0)	(0)	(0)
<b>Net cash flow</b>	<b>4</b>	<b>456</b>	<b>6</b>	<b>1,187</b>	<b>897</b>

**Statement of comprehensive income**

HKD million	2011	2012	2013E	2014E	2015E
<b>Revenues</b>	<b>10,504</b>	<b>12,374</b>	<b>20,924</b>	<b>26,975</b>	<b>32,011</b>
Cost of sales	(9,194)	(10,818)	(18,206)	(23,334)	(27,658)
Selling exp	(189)	(206)	(261)	(351)	(432)
Admin exp	(303)	(365)	(447)	(647)	(800)
Op expenses	(467)	(500)	(557)	(944)	(1,168)
<b>Op Profit</b>	<b>842</b>	<b>1,056</b>	<b>2,161</b>	<b>2,698</b>	<b>3,185</b>
Fin. costs	(65)	(73)	(73)	(73)	(73)
Impairments	(106)	0	0	0	0
FV changes	0	0	0	0	0
Inv income	0	0	0	0	0
Non-op inc	0	0	0	0	0
Non-op exp	0	0	0	0	0
<b>PBT</b>	<b>671</b>	<b>984</b>	<b>2,088</b>	<b>2,624</b>	<b>3,112</b>
Taxes	(291)	(268)	(372)	(577)	(685)
Net Profit	381	716	1,716	2,047	2,427
NCI	0	6	151	184	218
<b>Parents</b>	<b>381</b>	<b>710</b>	<b>1,565</b>	<b>1,863</b>	<b>2,209</b>
<b>EPS (HKD)</b>	<b>0.14</b>	<b>0.26</b>	<b>0.56</b>	<b>0.67</b>	<b>0.79</b>

**Ratios**

	2011	2012	2013E	2014E	2015E
<b>YoY growth rate</b>					
Revenue	36%	18%	69%	29%	19%
Op profit	58%	25%	105%	25%	18%
Net profit	21%	87%	120%	19%	19%
<b>Profitability</b>					
Gross margin	12.5%	12.6%	13.0%	13.5%	13.6%
NP margin	3.6%	5.7%	7.5%	6.9%	6.9%
ROE	8.7%	13.8%	24.3%	23.4%	22.6%
ROIC	6.5%	10.8%	20.9%	22.4%	24.7%

**Liquidity**

D/A	30.0%	27.2%	19.8%	18.3%	14.6%
ND/A	21.4%	15.7%	11.4%	3.7%	-1.2%
Liquid ratio	1.1	1.2	1.2	1.4	1.5
Quick ratio	0.9	1.0	1.0	1.2	1.2

**Operating efficiency**

Asset turnover	2.0	1.9	2.0	2.3	2.0
Inventory turnover	10.4	10.6	8.8	12.4	9.8
AR turnover	3.2	3.1	3.0	3.8	3.4
AP turnover	2.8	2.7	2.6	3.3	2.9

**Per share ratios (HKD)**

EPS	0.14	0.26	0.56	0.67	0.79
CFS	0.21	0.39	0.54	0.94	0.87
BVPS	1.59	1.86	2.30	2.85	3.50
DPS	0.04	0.07	0.15	0.18	0.22

**Valuation**

PE	32.4	17.4	8.0	6.7	5.7
PB	2.8	2.4	1.9	1.6	1.3
EV/EBITDA	26.7	15.2	8.1	7.5	6.5

Source: Company data, CMS (HK) estimates

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RATING	DEFINITION
<b>BUY</b>	Expected to outperform the market index by >10% over the next twelve months
<b>NEUTRAL</b>	Expected to outperform or underperform the market index by 10% or less over the next twelve months
<b>SELL</b>	Expected to underperform the market index by >10% over the next twelve months

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China Merchants Securities (HK) Co., Ltd  
48/F, One Exchange Square, Central, Hong Kong  
Website: <http://www.newone.com.hk>  
Tel: (852) 3189-6888 Fax: (852) 3101-0828