

TCL Communication Tech

2618.HK 2618 HK

EQUITY: TECHNOLOGY

Attractive valuation

Cut TP to HKD8, maintain Buy

Action: Attractive valuation, with 33% implied upside

We revise down our FY15-16F earnings for TCL Communication (TCLC) by 7-15% to reflect weaker-than-expected smartphone demand in emerging markets. Our target price falls to HKD8, based on 8x FY16 EPS of ~HKD1.0. However, we reaffirm our Buy rating on its attractive valuation (5x FY16F EPS, based on Bloomberg consensus), stabilising emerging market currencies/economies, and rising smartphone penetration.

Catalysts: Monthly shipments, GPM trend, and FX trends (especially the euro and Brazil real)

3Q15 review: US remains strong, but EMs dragging performance

Despite significant FX fluctuations in emerging markets, TCLC managed to deliver 8% y-y earnings growth in 3Q15, driven by higher-than-expected GPM and FX gains from hedging. But Latin America (LATAM) and Asia Pacific (APAC) recorded 10% and 37% y-y declines in sales volumes, respectively.

Accumulate for attractive valuation, rising smartphone penetration in Middle East and Africa (MEA), and demand recovery in LATAM

Despite weak smartphone sales in recent quarters, we still believe TCLC has a strong global smartphone distribution network and a solid management team, with a strong track record of managing risks when the market is volatile. Looking into 2016, we see potential smartphone growth in emerging markets such as MEA (pick-up in penetration) and South America (demand recovery).

Valuation: New TP of HKD8, based on 8x FY16F EPS of ~HKD1.0

We conservatively derive our target FY16F P/E of 8x by applying a 40% discount to TCLC's China technology peers. Downside risks include: weaker-than-expected recovery of smartphone demand in emerging markets and deterioration in ASPs or GPM from intensifying competition.

Year-end 31 Dec	FY14	FY15F		FY16F		FY17F	
Currency (HKD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	30,691	39,111	32,140	45,970	33,760		35,786
Reported net profit (mn)	1,093	1,259	1,177	1,455	1,239		1,290
Normalised net profit (mn)	1,093	1,259	1,177	1,455	1,239		1,290
FD normalised EPS	88.25c	1.06	91.93c	1.20	94.59c		96.35c
FD norm. EPS growth (%)	232.2	22.5	4.2	13.7	2.9		1.9
FD normalised P/E (x)	6.8	N/A	6.6	N/A	6.4	N/A	6.3
EV/EBITDA (x)	5.5	N/A	4.4	N/A	3.8	N/A	3.2
Price/book (x)	1.8	N/A	1.6	N/A	1.4	N/A	1.2
Dividend yield (%)	6.4	N/A	5.4	N/A	5.6	N/A	5.7
ROE (%)	31.2	29.4	26.5	27.5	23.8		21.3
Net debt/equity (%)	84.8	66.0	41.9	43.7	22.0		5.8

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

Global Markets Research

21 October 2015

Rating Remains	Buy
Target Price Reduced from 10.00	HKD 8.00
Closing price 20 October 2015	HKD 6.03
Potential upside	+32.7%

Anchor themes

TCLC is leveraging its overseas distribution network to expand its presence in the smartphone market. We expect demand recovery from emerging markets in 2016, and we find TCLC's current valuations attractive.

Nomura vs consensus

Our FY15-17F revenue estimates are more bearish than consensus. However, we are more bullish on GPM and net profit for TCLC.

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Key data on TCL Communication Tech

Relative performance chart



Source: Thomson Reuters, Nomura research

Notes:

Performance

(%)	1M	3M	12M		
Absolute (HKD)	5.1	-6.2	-11.7	M cap (USDmn)	980.1
Absolute (USD)	5.0	-6.2	-11.6	Free float (%)	36.6
Rel to MSCI China	-0.9	2.2	-14.6	3-mth ADT (USDmn)	2.3

Income statement (HKDmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue	19,362	30,691	32,140	33,760	35,786
Cost of goods sold	-15,690	-24,774	-25,661	-27,062	-28,834
Gross profit	3,672	5,918	6,479	6,698	6,952
SG&A	-3,643	-5,251	-5,785	-5,908	-6,084
Employee share expense					
Operating profit	30	667	694	790	869
EBITDA	1,165	2,019	2,194	2,370	2,489
Depreciation	-1,136	-1,352	-1,500	-1,580	-1,620
Amortisation					
EBIT	30	667	694	790	869
Net interest expense	-8	31	61	61	61
Associates & JCEs					
Other income	277	452	509	479	455
Earnings before tax	298	1,149	1,263	1,330	1,384
Income tax	18	-41	-78	-82	-85
Net profit after tax	316	1,108	1,185	1,248	1,299
Minority interests	-3	-15	-8	-9	-9
Other items					
Preferred dividends					
Normalised NPAT	313	1,093	1,177	1,239	1,290
Extraordinary items					
Reported NPAT	313	1,093	1,177	1,239	1,290
Dividends	-117	-473	-412	-434	-451
Transfer to reserves	196	619	765	805	838

Valuations and ratios

Reported P/E (x)	21.9	6.6	6.3	6.2	6.0
Normalised P/E (x)	21.9	6.6	6.3	6.2	6.0
FD normalised P/E (x)	22.7	6.8	6.6	6.4	6.3
Dividend yield (%)	1.7	6.4	5.4	5.6	5.7
Price/cashflow (x)	11.1	3.6	1.8	2.3	2.3
Price/book (x)	2.4	1.8	1.6	1.4	1.2
EV/EBITDA (x)	9.1	5.5	4.4	3.8	3.2
EV/EBIT (x)	358.4	16.7	14.0	11.3	9.3
Gross margin (%)	19.0	19.3	20.2	19.8	19.4
EBITDA margin (%)	6.0	6.6	6.8	7.0	7.0
EBIT margin (%)	0.2	2.2	2.2	2.3	2.4
Net margin (%)	1.6	3.6	3.7	3.7	3.6
Effective tax rate (%)	-6.0	3.6	6.2	6.2	6.1
Dividend payout (%)	37.4	43.3	35.0	35.0	35.0
ROE (%)	12.0	31.2	26.5	23.8	21.3
ROA (pretax %)	0.2	4.0	3.7	4.4	4.8

Growth (%)

Revenue	60.9	58.5	4.7	5.0	6.0
EBITDA	271.4	73.3	8.6	8.0	5.0
Normalised EPS		233.0	4.0	2.8	1.8
Normalised FDEPS		232.2	4.2	2.9	1.9

Source: Company data, Nomura estimates

Cashflow statement (HKDmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
EBITDA	1,165	2,019	2,194	2,370	2,489
Change in working capital	-631	-377	1,433	565	525
Other operating cashflow	106	441	590	543	515
Cashflow from operations	640	2,083	4,217	3,478	3,529
Capital expenditure	-1,489	-2,155	-2,155	-2,155	-2,155
Free cashflow	-849	-71	2,062	1,323	1,374
Reduction in investments					
Net acquisitions					
Dec in other LT assets	-69	-331	-21	-21	-21
Inc in other LT liabilities	11	16	-9	0	0
Adjustments	285	205	-152	-132	-71
CF after investing acts	-623	-181	1,880	1,170	1,282
Cash dividends	0	-274	-473	-412	-434
Equity issue					
Debt issue	-2,884	779	1,000	1,000	1,000
Convertible debt issue					
Others	2,679	8	12	12	12
CF from financial acts	-205	512	539	600	578
Net cashflow	-828	331	2,419	1,770	1,861
Beginning cash	970	142	473	2,892	4,663
Ending cash	142	473	2,892	4,663	6,523
Ending net debt	3,022	3,467	2,008	1,237	377

Balance sheet (HKDmn)

As at 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Cash & equivalents	142	473	2,892	4,663	6,523
Marketable securities	1,698	1,914	1,914	1,914	1,914
Accounts receivable	7,284	9,905	8,120	7,600	7,080
Inventories	2,649	3,293	3,080	3,250	3,460
Other current assets	93	419	419	419	419
Total current assets	11,866	16,006	16,426	17,846	19,397
LT investments					
Fixed assets	2,150	2,953	3,600	4,200	4,700
Goodwill					
Other intangible assets					
Other LT assets	407	738	759	780	801
Total assets	14,423	19,696	20,785	22,826	24,898
Short-term debt	2,968	3,941	4,900	5,900	6,900
Accounts payable	3,875	5,167	4,700	5,000	5,300
Other current liabilities	4,378	6,300	6,201	6,116	6,031
Total current liabilities	11,221	15,408	15,801	17,016	18,231
Long-term debt	196	0	0	0	0
Convertible debt					
Other LT liabilities	93	109	100	100	100
Total liabilities	11,510	15,517	15,901	17,116	18,331
Minority interest	4	90	90	90	90
Preferred stock	0	0	0	0	0
Common stock	2,909	4,089	4,793	5,619	6,476
Retained earnings					
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	2,909	4,089	4,793	5,619	6,476
Total equity & liabilities	14,423	19,696	20,784	22,826	24,897

Liquidity (x)

Current ratio	1.06	1.04	1.04	1.05	1.06
Interest cover	3.7	na	na	na	na

Leverage

Net debt/EBITDA (x)	2.59	1.72	0.92	0.52	0.15
Net debt/equity (%)	103.9	84.8	41.9	22.0	5.8

Per share

Reported EPS (HKD)	27.50c	91.58c	95.28c	97.97c	99.71c
Norm EPS (HKD)	27.50c	91.58c	95.28c	97.97c	99.71c
FD norm EPS (HKD)	26.56c	88.25c	91.93c	94.59c	96.35c
BVPS (HKD)	2.49	3.33	3.82	4.37	4.93
DPS (HKD)	0.10	0.39	0.33	0.34	0.34

Activity (days)

Days receivable	112.1	102.2	102.4	85.2	74.9
Days inventory	45.5	43.8	45.3	42.8	42.5
Days payable	73.3	66.6	70.2	65.6	65.2
Cash cycle	84.3	79.4	77.5	62.4	52.1

Source: Company data, Nomura estimates

3Q15 results

TCLC reported a 9% y-y decline in sales, which came in weaker than guidance of 10% revenue growth in 2H15; GPM of 21.8% was up 2.7pp from the 3Q14 level, ahead of guidance of c18-19% in 2H15. This was mainly due to stronger-than-expected feature phone demand after Microsoft quit the market in mid-2015. As a result, TCLC reported 8% y-y earnings growth, which was also partly helped by a HKD74mn FX gain in non-operating income.

Fig. 1: TCLC: 3Q15 earnings preview

(HKD mn)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	y-y	4Q15F (NOM)
	A	A	A	A	A	A	A		
Turnover	5,541	6,677	7,779	10,695	6,690	6,537	7,056	-9%	11,857
% chg yoy	126%	69%	43%	43%	21%	-2%	-9%		11%
COGS	(4,454)	(5,383)	(6,297)	(8,639)	(5,411)	(5,261)	(5,519)		(9,470)
Gross Profit	1,087	1,294	1,481	2,055	1,278	1,276	1,537	4%	2,387
OPEX	(971)	(1,115)	(1,437)	(1,728)	(1,209)	(1,189)	(1,349)	-6%	(2,038)
Operating Income	116	179	44	328	70	87	188		349
% chg yoy	-138%	-262%	-70%	104%	-40%	-51%	325%		
Non-Operating Income	72	94	263	53	119	192	163		96
Pretax income	188	273	308	381	188	279	351	14%	445
% chg yoy	-178%	1861%	40%	24%	0%	2%	14%		
Net income	177	254	294	368	185	268	316	8%	408
% chg yoy	n.a.	546%	30%	25%	5%	5%	8%		11%
EPS (HKD cents)	15	21	25	31	16	22	27		
Ratios (%)									
Gross margin	19.6%	19.4%	19.0%	19.2%	19.1%	19.5%	21.8%	2.7pp	20.1%
SG&A / revenue	17.5%	16.7%	18.5%	16.2%	18.1%	18.2%	19.1%	0.6pp	17.2%
OPM	2.1%	2.7%	0.6%	3.1%	1.0%	1.3%	2.7%		2.9%
PTI-to-sales	3.4%	4.1%	4.0%	3.6%	2.8%	4.3%	5.0%		3.8%
Net Income margin	3.2%	3.8%	3.8%	3.4%	2.8%	4.1%	4.5%	0.7pp	3.4%
Volume (mn units)	13.6	16.3	18.7	24.9	15.8	18.0	23.9	28%	28.3
% chg yoy	60%	34%	21%	30%	16%	10%	28%		14%
Feature phone	7.3	7.6	7.8	9.3	2.2	7.9	14.2		12.0
Smartphone	6.3	8.7	10.9	15.5	13.6	10.1	9.7	-11%	16.3
ASP (US\$)	52.2	52.4	53.4	55.1	54.3	46.6	37.8	-29%	
% chg yoy	40%	25%	18%	10%	4%	-11%	-29%		
Feature phone	17.7	16.9	16.7	14.0	40.7	10.3	7.7		
Smartphone	92.0	83.4	79.6	79.9	56.5	74.9	82.0		
% chg yoy	-14%	-15%	-5%	-8%	-39%	-10%	3%		

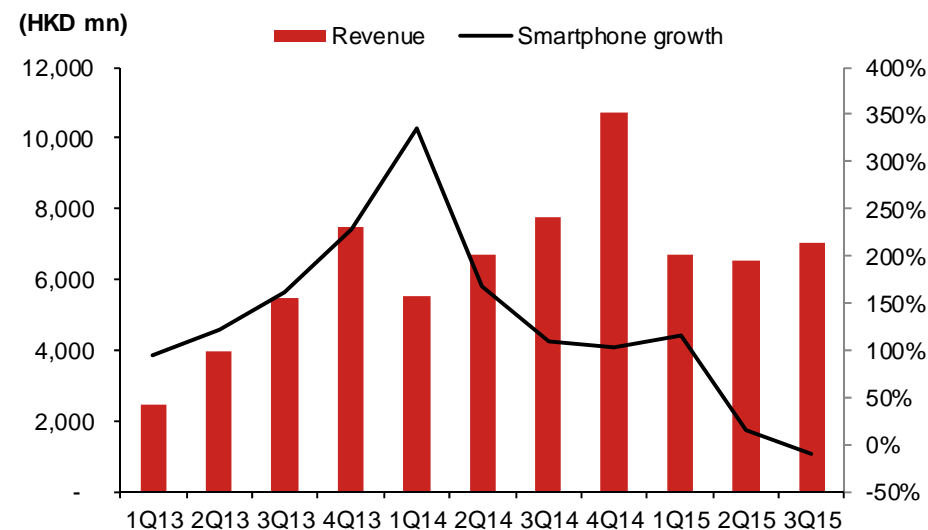
Source: Company data, Nomura estimates

3Q15 positives

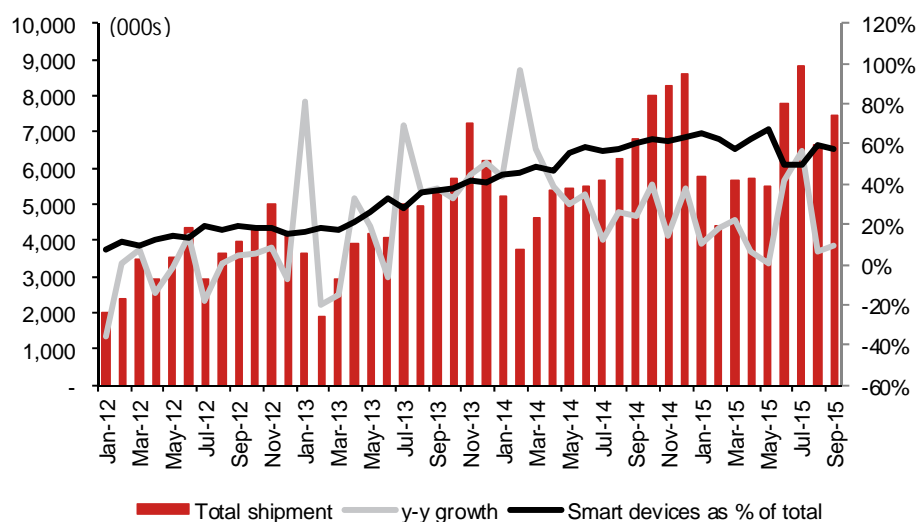
- Sales volumes in North America almost doubled y-y, and rose 31% y-y in Europe.
- Feature phone shipments rose 83% y-y.
- Gross margin expanded to 22% in 3Q15, from 19% in 3Q14.
- TCLC recorded a FX gain of HKD74mn, reflecting its successful hedging strategies.

3Q15 negatives

- Smartphone shipments were down 11% y-y.
- Blended ASP dropped 29% y-y, due to: 1) unfavourable product mix changes, and 2) intense competition in the global handset market, especially the smartphone market.
- Sales in APAC declined 37% y-y on competition from China smartphone brands.
- LATAM sales declined 10% y-y mainly owing to the weak macro environment, which resulted in less demand for smartphones.

Fig. 2: TCLC: Revenue trends and smartphone volume growth (y-y)

Source: Company data, Nomura research

Fig. 3: TCLC: Monthly shipment trends

Source: Company data, Nomura research

2016F outlook, ASP trend

We revise down our China smartphone and top-10 Chinese brands' global shipment volume forecasts by 2%/11% for 2015F and by 4%/11% for 2016F, respectively, after the 1H15 results season ([URL](#)). However, we still expect exports to drive growth for Chinese smartphone brands. According to Gartner, the overseas market share of Chinese vendors expanded to 18% in 2Q15, from 15% in 1Q15.

TCLC has a strong overseas customer base, inherited from Alcatel. As shown below, we think TCLC's global sales and distribution network, for both operators as well as major retailers, is its most valuable asset. We believe TCLC is well positioned to continue to expand its overseas market share in 2016.

Fig. 4: TCLC has a strong distribution network globally



Source: Company data, Nomura research

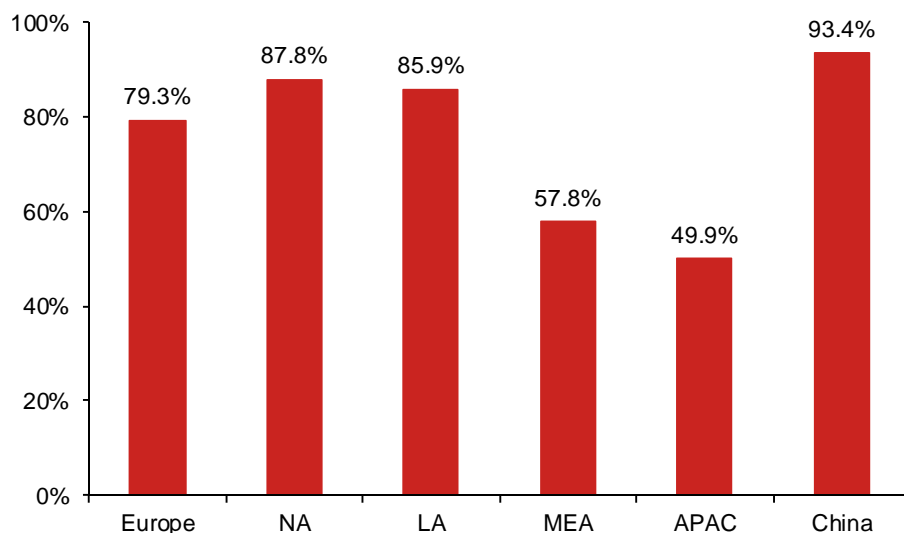
2016F growth outlook

We look into the smartphone market in each region to analyse TCLC's potential growth in 2016F.

Fig. 5: Market share ranking by region

FY15F Growth	2Q15 Market share ranking										Others	China OEM
	1	2	3	4	5	6	7	8	9	10		
Europe	Samsung	Apple	Huawei	Sony	Microsoft	TCL	ZTE	Lenovo	HTC	Kyocera	18.1%	18.7%
11.50%	30.2%	16.2%	7.3%	6.0%	6.0%	4.5%	3.7%	3.2%	2.5%	2.3%		
NA	Apple	Samsung	LG	ZTE	Lenovo	TCL	HTC	Microsoft	BLU	Huawei	3.1%	16.2%
7.20%	36.4%	23.3%	14.4%	8.3%	3.8%	2.7%	2.7%	2.3%	1.6%	1.4%		
LA	Samsung	BLU	Lenovo	Kyocera	TCL	ZTE	Microsoft	Huawei	Apple	Sony	5.2%	30.6%
22.50%	30.9%	12.0%	11.3%	9.7%	8.5%	5.9%	5.3%	4.9%	4.7%	1.6%		
MEA	Samsung	Huawei	Apple	Tecno	LG	Lenovo	Sony	TCL	ZTE	Mi-Fone	17.3%	19.7%
43.10%	44.8%	11.5%	5.0%	4.4%	4.3%	4.2%	3.1%	2.1%	1.9%	1.5%		
APAC	Samsung	Micromax	Apple	Intex	Lenovo	Lava	Xiaomi	Asus	Huawei	Microsoft	35.4%	11.3%
18.10%	24.3%	8.1%	5.2%	5.2%	4.1%	4.0%	4.0%	3.5%	3.3%	2.9%		
China	Huawei	Xiaomi	Apple	Vivo	OPPO	Samsung	Lenovo	Coolpad	Meizu	ZTE	17.5%	63.3%
2.30%	14.6%	13.8%	12.2%	7.2%	7.1%	7.0%	6.5%	6.0%	4.7%	3.2%		
Global	Samsung	Apple	Huawei	Lenovo	Xiaomi	LG	ZTE	TCL	Microsoft	OPPO	30.1%	26.6%
17.40%	21.9%	14.6%	7.8%	5.0%	4.9%	4.4%	3.6%	2.8%	2.5%	2.5%		

Source: Gartner, Nomura estimates

Fig. 6: Smartphone penetration by region (2Q15)

Source: Gartner, Nomura research

TCLC ranks among the Top 10 in most regions, except APAC and China, as of 2Q15. Meanwhile, we note that smartphone penetration remains low in MEA and APAC.

Grow with market in MEA and recovery in LATAM

We expect TCLC to continue to enjoy growth in MEA, especially as the smartphone penetration rate picks up. Meanwhile, LATAM is not ex-growth and we believe TCLC should regain sales momentum in 2016F after recovery of the macro environment.

Market share gains in developed markets (Europe and North America)

TCLC ranked No.6 in both the North America and Europe markets as of 2Q15. While Samsung Electronics and Apple dominated in both markets, with combined market shares of 46.4% in Europe and 59.7% in North America, while the market shares of other Android players were all roughly the same. We think TCLC may continue to enjoy solid growth in these two regions, with a combination of natural growth and incremental market share from other Android players.

With fierce competition in APAC and the China market from other Chinese smartphone brands, we expect a stabilised market position or single-digit growth in APAC and China markets, albeit from a low base. As the global smartphone market slows, we believe that regions which still have organic growth or low smartphone penetration should be the key focus for TCLC in the near future. We forecast TCLC will achieve 5%/6% revenue growth in FY16/17F.

ASPs – a major concern

The ASPs of TCLC's products remain a major concern in the market. TCLC's ASPs have continued to decline q-q since 4Q14, and management noted during our China Investor Forum (CIF) 2015 meetings that ASPs will likely continue to be under pressure due to the intensifying competition, while unfavourable product mix changes in 2015 will likely exacerbate the situation. Management also noted that TCLC will focus on cost control and continue to develop cost-competitive mass-market smartphones, and it expects smartphone demand to pick up in 2016 after demand recovers in emerging markets. We forecast TCLC to maintain stable ASPs of around USD48 in 2015-17F.

Earnings revisions

We lower our FY15F/16F revenue forecasts by 18%/27% to reflect the global weakness in smartphone demand. We revise upward FY15F/16F GPM by 1.6pp/1.5pp to reflect the better-than-expected GPM achieved in 9M15. Meanwhile, we also revise down FY15F/16F operating expenses by 10%/21%, noting TCLC's continued efforts in cost control management.

As a result, our net profit forecasts for FY15F/16F are down by 7%/15%, generally reflecting the global slowdown in the smartphone market.

Fig. 7: TCLC: Earnings revisions

(HKD mn)	2014 A	2015E (NOM)	2016E (NOM)	2017E (NOM)	2015E (OLD)	2016E (OLD)	2015E	2016E
Turnover	30,691	32,140	33,760	35,786	39,111	45,970	-18%	-27%
% chg yoy	59%	5%	5%	6%	27%	18%		
COGS	(24,774)	(25,661)	(27,062)	(28,834)	(31,834)	(37,558)		
Gross Profit	5,918	6,479	6,698	6,952	7,277	8,412	-11%	-20%
OPEX	(5,251)	(5,785)	(5,908)	(6,084)	(6,417)	(7,450)	-10%	-21%
Operating Income	667	694	790	869	860	962	-19%	-18%
% chg yoy	2150%		14%	10%	29%	12%		
Non-Operating Income	482	569	540	515	424	519	34%	4%
Pretax income	1,149	1,263	1,330	1,384	1,341	1,550	-6%	-14%
% chg yoy	285%		5%	4%	17%	16%		
Net income	1,093	1,177	1,239	1,290	1,259	1,455	-7%	-15%
% chg yoy	249%	8%	5%	4%	15%	16%		
EPS (HKD cents)	92	95	98	100	104	117		
Ratios (%)								
Gross margin	19.3%	20.2%	19.8%	19.4%	18.6%	18.3%	1.6pp	1.5pp
SG&A / revenue	17.1%	18.0%	17.5%	17.0%	16.4%	16.2%	0.7pp	1.8pp
OPM	2.2%	2.2%	2.3%	2.4%	2.2%	2.1%	0.0pp	0.2pp
PTI-to-sales	3.7%	3.9%	3.9%	3.9%	3.4%	3.4%	0.5pp	0.6pp
Net Income margin	3.6%	3.7%	3.7%	3.6%	3.2%	3.2%	0.4pp	0.5pp
Volume (mn units)	73.5	87.2	90.6	96.8	85.4	98.9	2%	-8%
% chg yoy	33%		4%	7%	111%	16%		
Feature phone	32.0	41.6	39.5	39.5	30.4	28.9	37%	37%
Smartphone	41.5	45.6	51.1	57.2	55.0	70.0	-17%	-27%
ASP (US\$)	53.8	47.5	48.0	47.7	53.6	54.3	-11%	-12%
% chg yoy	19%	-12%	1%	-1%	16%	1%		
Feature phone	16.3	15.1	14.5	13.9				
Smartphone	82.9	77.1	74.0	71.0				

Source: Company data, Nomura estimates

Our FY15F/16F/17F revenue forecasts are 3%/9%/12% below Bloomberg consensus, reflecting our cautious view on global smartphone demand. However, our FY15F/16F/17F earnings are 5%/7%/4% above Bloomberg consensus, reflecting our view that TCLC can maintain relatively stable ASPs and healthy GPMs.

Fig. 8: TCLC: Nomura vs consensus

(HKD)	FY2014	FY2015			FY2016			FY2017		
		(NOM)	(CON)	diff	(NOM)	(CON)	diff	(NOM)	(CON)	diff
Revenue	30,691	32,140	33,145	-3.0%	33,760	37,209	-9.3%	35,786	40,419	-11.5%
Operating Profit	667	694	1,120	-38%	790	1,218	-35%	869	1,374	-37%
Pretax Profit	1,149	1,263	1,202	5%	1,330	1,255	6%	1,384	1,356	2%
Net Profit	1,093	1,177	1,118	5%	1,239	1,155	7%	1,290	1,238	4%
EPS	0.92	0.95	0.90	6%	0.98	0.92	6%	1.00	0.99	0%

Source: Company data, Bloomberg, Nomura estimates

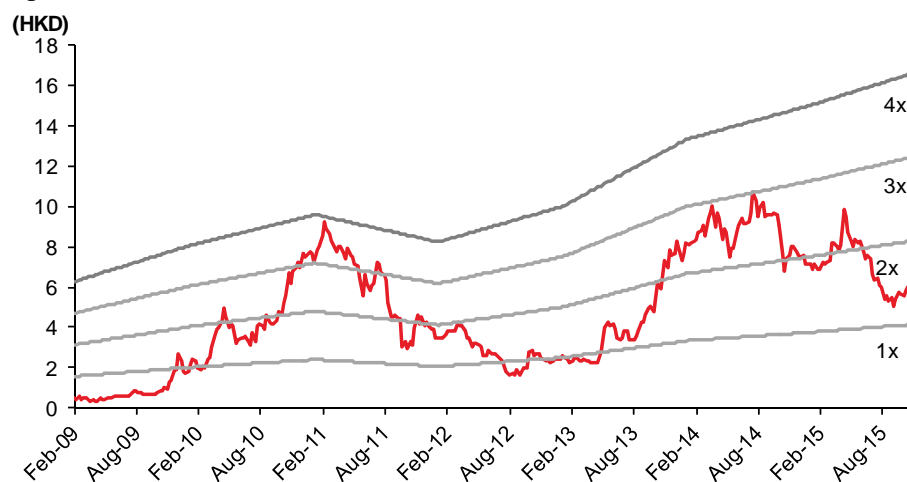
Valuation methodology and risks

Our revised TP of HKD8 is based on 8x FY16F EPS of ~HKD1.0. We conservatively apply a 40% discount to TCLC's China technology peers for FY16F (Fig 11) to derive our target P/E multiple of 8x, in case the GPMs/ASPs are worse than expected, or demand recovery is slower than expected. We apply new target multiple of 8x (40% discount to peers) instead of 9x (previously 20% discount to peers) to reflect weaker-than-expected demand in the smartphone market. We also roll forward our one-year forward valuation to FY16F EPS from FY15F. Our new TP implies 8.4x FY15F EPS of HKD1.0, 2.1x FY15F BVPS of HKD3.8, 5.9x EV/EBITDA, and 4.1% dividend yield.

Risks

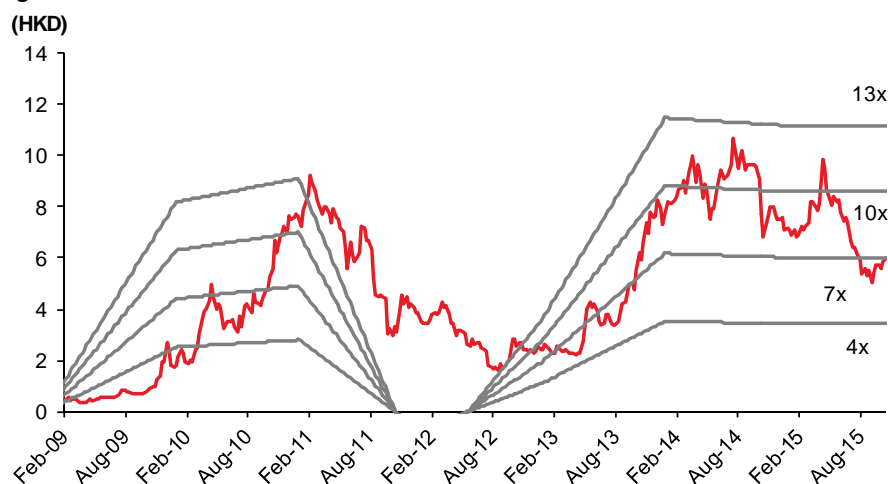
Potential downside risks include: 1) weaker-than-expected recovery of smartphone demand in emerging markets, and 2) deterioration in ASPs or GPM from intensified competition.

Fig. 9: TCLC: 12-month forward P/B band



Source: Company data, Bloomberg, Nomura estimates

Fig. 10: TCLC: 12-month forward P/E band



Source: Company data, Bloomberg, Nomura estimates

Fig. 11: Peer valuation comparison

Code	Company	Nomura	Price	Target	MCaps	P/E(x)		P/B(x)		ROE	EPS Growth		Share Price	
		Rating	20-Oct	Price	USDm	FY15F	FY16F	FY15F	FY16F	FY16F	FY16F 5D	3M	YTD	
China Technology														
1211 HK	BYD	Buy	48.1	64.0	21,954	41.0	39.8	2.5	2.4	6%	3%	3%	31%	58%
992 HK	Lenovo	Buy	7.3	11.5	10,392	11.7	55.0	2.5	2.7	5%	-79%	-6%	-23%	-29%
763 HK	ZTE Corp	Buy	19.1	25.0	11,484	18.6	16.5	2.4	2.1	14%	13%	3%	1%	36%
981 HK	SMC	Buy	0.75	1.1	4,069	23.0	19.7	1.0	0.7	4%	17%	0%	-3%	6%
1347 HK	Hua Hong	Buy	8.1	15.0	1,086	9.5	8.8	0.7	0.6	8%	9%	1%	-12%	-21%
2382 HK	Sunny Optical	Buy	17.1	17.6	2,420	21.2	16.3	4.0	3.3	22%	30%	4%	-8%	28%
285 HK	BYDE	Buy	5.3	5.8	1,538	10.3	8.8	0.9	0.8	10%	17%	-5%	-40%	-29%
2618 HK	TCL Com	Buy	6.0	8.0	980	5.7	5.0	1.5	1.3	28%	13%	3%	-6%	-16%
2369 HK	Coolpad	Neutral	1.5	1.3	859	10.9	8.5	0.8	0.7	9%	29%	-4%	-33%	0%
751 HK	Skyworth	Buy	6.4	9.0	2,368	5.8	9.3	1.3	1.2	14%	-37%	-1%	3%	52%
861 HK	Digital China	Buy	8.2	13.5	1,164	29.4	23.5	1.7	1.6	7%	25%	3%	-2%	15%
819 HK	Tianneng	Buy	5.3	5.8	750	11.3	6.1	1.6	1.4	24%	84%	7%	43%	155%
China Technology Median						14.8	13.2	1.6	1.5	12%	15%	1%	-7%	14%
2498 TT	HTC	Reduce	81	55	2,075	na	na	1.0	1.2	-20%	na	10%	17%	-43%
AAPL US	Apple	Buy	112	145	637,165	12.2	11.4	4.9	4.1	42%	44%	0%	-15%	1%
005930 KS	Samsung	Buy	1,266,000	1,500,000	165,081	9.1	9.5	1.1	1.0	12%	-10%	1%	-1%	-5%

Source: Bloomberg, Nomura estimates. Note: 19 October share price for Apple

For more reading, please refer to our previous notes:[Scorecard for China 1H results – Vol 10: Technology & Telecom](#)[TCL \(2618 HK, Buy\) – 2Q15: revenues miss due to FX fluctuations](#)[TCLC \(2618 HK, Buy\) – 1Q15 review: smartphone growth on track](#)[TCLC \(2618 HK, Buy\) – 4Q14 review: surprise in GPM/China/APAC](#)

Appendix A-1

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
TCL Communication Tech	2618 HK	HKD 6.03	20-Oct-2015	Buy	N/A	A1,A2

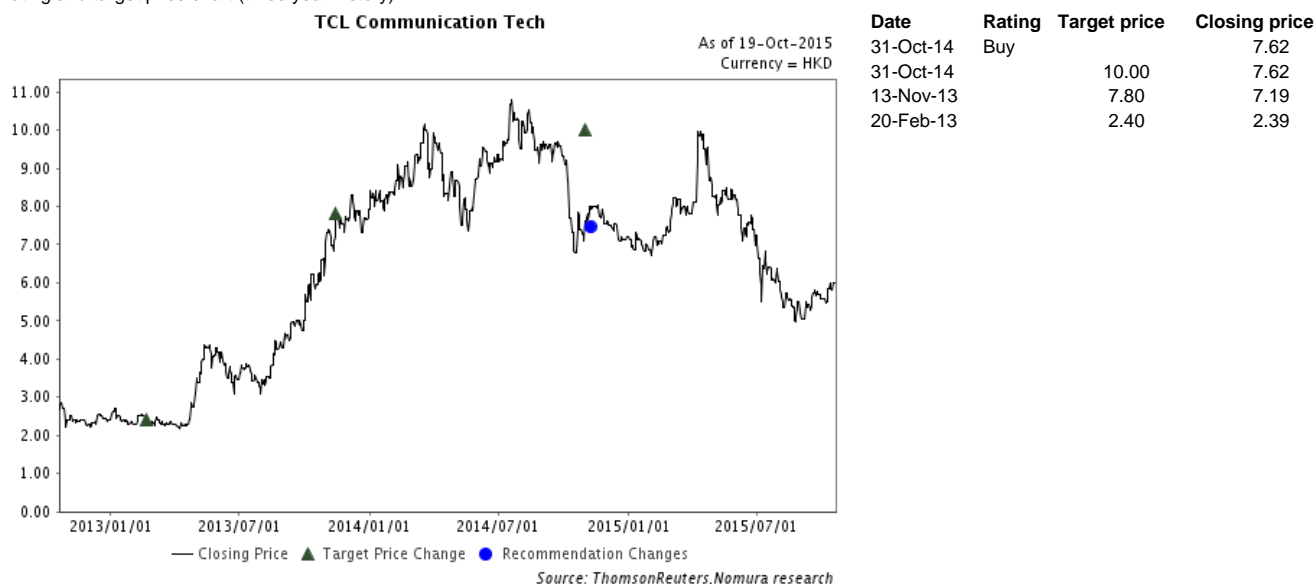
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TCL Communication Tech (2618 HK)

HKD 6.03 (20-Oct-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of HKD8 is based on 8x FY16F EPS of ~HKD1.0. We conservatively apply a 40% discount to TCLC's China technology peers for FY16F to derive our target P/E multiple of 8x, in case the GPMs/ASPs are worse than expected, or demand recovery is slower than expected. The benchmark index for this stock is MSCI China.

Risks that may impede the achievement of the target price Potential downside risks include: 1) weaker-than-expected recovery of smartphone demand in emerging markets, and 2) deterioration in ASP/GPM from intensifying competition.

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