Corporate Snippet

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SBI Research Team
(852) 2533 3700
sbie2research@softbank.com.h

Looking ahead — Hong Kong Electronics

TPV Technology (903 HK, HK$5.39) — BUY (unchanged)

Target price: HK$6.55 (+21.5%)

Results below expectations. TPV reported 3Q FY12/06 revenue of US$1,945m (+49% YoY) and net profit of US$38.4m (-8% YoY). Revenue was within our expectation but net profit was 22% below our expectation of US$49.1m.

Strong shipments of LCD monitors and LCD TVs drive revenue growth. TPV shipped a total of 11.1m desktop monitors (ie. consisting of 8.6m LCD monitors and 2.5m CRT monitors) and 0.7m units of LCD TVs. LCD monitors continued to be the largest revenue contributor with a 69% share on the back of 95% YoY and 33% QoQ growth in shipment. Meanwhile, shipment of LCD TVs doubled YoY as a result of low base in prior period and this fast-growing segment now contributed close to 15% of 9M06's revenue vs. 5% in prior period.

Margins squeezed. 3Q gross margins declined sequentially to 5%, from 1Q's 5.7% and 2Q's 5.2%. This is below our expectation of 5.5%. We believe the margin squeeze is due to: 1) keen competition, especially from Innolux (3481 TT, TWD54.00, NR) and 2) management's decision to share the panel's cost increase with a few long-term customers in LCD monitors segment. Operating margin also declined to 2.5% (vs 1Q's 3.3% and 2Q's 3.1%), attributed to higher than expected admin. expenses and R&D costs.

Table 1: Summary of 3Q FY06 results

Year to Dec (US$m)	3Q06	3Q05	YoY%
Revenue	1,945	1,303	*49.2*
Gross Profit	96.8	75.7	*27.8*
Operating profit	48.9	46.3	*5.5*
Pre-tax profit	40.0	44.3	*(9.7)*
Net profit	38.4	41.6	*(7.7)*
Margins			
Gross (%)	*5.0*	*5.8*	
Pre-tax (%)	*2.1*	*3.4*	
Net (%)	*2.0*	*3.2*	

Source: Company data

Looking ahead to 2007. We expect 4Q outlook to be equally unexciting as margin pressure will remain due to keen competition. However, we believe outlook for 2007 remains positive due to: 1) higher demand of LCD

Table 1: Financial summary

Year to Dec	Net profit US$m	EPS* US$	EPS Δ%	P/E x	P/B x	EV/EBITDA x	Yield %	ROE %	ROCE %	N. Gearing %
04A	108.3	0.35	55.7	15.2	2.9	10.9	2.5	28.9	37.2	Cash
05A	149.6	0.49	38.1	11.0	1.8	6.7	3.2	26.1	14.5	18.9
06F	151.0	0.49	1.0	10.9	2.1	4.7	2.9	15.8	17.6	37.0
07F	200.8	0.66	33.0	8.2	1.7	4.9	3.8	17.6	23.0	28.4
08F	220.6	0.72	9.9	7.5	1.1	4.6	4.3	16.3	14.7	23.1

** Fully diluted EPS*

monitors spurred by lower retail price; 2) launch of Windows Vista; and 3) expected easing in pricing pressure from competitors such as Innolux. As a result, we expect shipment growth for LCD monitors to be healthy and gross margin to be maintained at 5.0-5.5%. Meanwhile, shipment for LCD TVs is expected to double in 2007. The pricing pressure environment will force more branded TV makers to outsource their productions. With current worldwide market share at only 5.7%, we believe TPV is well positioned to benefit from this outsourcing trend.

Reducing our estimates. We have reduced our FY06 and FY07 estimates by 19% and 17% to US$151m and US$201m respectively after factoring in lower ASP and margin assumptions. Our new target price is HK$6.55, based on 10x FY07F P/E.

Maintain BUY. We believe the share price correction during recent two months has factored in the weaker margin outlook and other negative factors. TPV now offers good entry opportunity for long-term investors. Our target price of HK$6.55 offers a 22% upside potential. Maintain BUY.