

Truly International ----- Maintain OUTPERFORM
Inventory adjustment closing to an end: 2007 final results review

EPS: ▼ TP: ▼

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- Truly's net income increased by 32% YoY in 2007, 13% below consensus estimate. The weaker-than-expected 4Q07 was caused by Truly's slashing selling prices of TFT display modules to reduce its panel inventory in late November 2007.
- The Chinese handset market saw inventory adjustment from 4Q07 on component overstocking. Truly has seen orders picking up since mid-March 2008. Nevertheless, China's credit tightening has affected the cash flow of the small handset distributors, affecting the sales of the Chinese handset brands.
- New orders of CSTN display modules from Samsung AnyCall and organic growth of Chinese handsets should contribute to Truly's topline growth in 2008. When the contribution of non-handset application TFT panels kicks in, we expect its margins to improve and net profit to grow 54% YoY in 2H08.
- We are lowering our 08-09E profit forecasts by 26-28% on a more conservative industry outlook. Our target price is set at HK\$14.30 (7x 09E P/E). Maintain our OUTPERFORM rating.

adjustment, we believe that the overstocking is close to its end when Truly has seen orders picking up since mid-March 2008. We expect its sales to accelerate to HK\$1.9 bn in 2Q08. Nevertheless, China's credit tightening has affected the cash flow of the small handset distributors. This has an adverse impact to the distribution, and hence, sales of the Chinese handset brands, which are Truly's major customers.

Figure 1: Truly's profit grows 32% in 2007

YE Dec (HK\$ mn)	2007	2006	YoY	2H07	1H07	HoH
Turnover	6,493	4,524	43.5%	3,652	2,841	28.5%
- TFT	3,817	2,202	73.4%	2,202	1,615	36.4%
- CSTN	954	1,409	-32.3%	425	529	-19.6%
- MSTN	1,591	793	100.7%	950	640	48.4%
- Others	131	120	9.3%	74	57	30.5%
Gross profit	1,106	900	22.9%	503	603	-16.6%
Operating profit	826	652	26.7%	359	467	-23.3%
Net profit	702	532	31.9%	295	407	-27.4%
EPS (HK\$)	1.49	1.15	29.9%	0.63	0.86	-27.7%
DPS (HK\$)	0.55	0.48	14.6%	0.30	0.25	20.0%
Gross margin (%)	17.0	19.9	-2.9 p.p.	13.8	21.2	-7.5 p.p.
Net margin (%)	10.8	11.8	-0.9 p.p.	8.1	14.3	-6.2 p.p.

Source: Company data, Credit Suisse estimates.

Non-handset TFT panels to contribute in 2H08

New orders of CSTN display modules from Samsung AnyCall and the organic growth of Chinese handsets should contribute to Truly's topline growth in 2008. Its new TFT line has been ramping up smoothly with yields touching the 90% mark. Truly is planning to shift from self-supplying small-sized TFT handset panels to selling medium-sized non-handset applications, an area offering wider profit margins, in mid-3Q08. Before this, Truly's margins will be affected by the additional depreciation of the TFT line. We estimate that its net profit will fall 36% and 7% in 1Q08 and 2Q08 respectively, compared with a year ago before the installation of the TFT line. When the contribution of non-handset application panels kicks in, we expect its margins to improve and net profit to grow 54% YoY in 2H08.

Figure 2: Truly's quarterly earnings forecasts

	1Q07	2Q07	3Q07	4Q07	1Q08F	2Q08F	3Q08F	4Q08F
Turnover	1,256	1,586	1,737	1,915	1,351	1,893	2,105	2,506
YoY growth (%)	14.8	41.6	58.2	58.0	7.6	19.4	21.2	30.8
Gross Profit	274	329	324	178	217	349	396	379
YoY growth (%)	4.0	23.7	47.7	18.4	-20.8	6.1	22.0	112.7
Margin (%)	21.9	20.7	18.7	9.3	16.1	18.4	18.8	15.1
Net Profit	189	218	203	92	121	204	247	211
YoY growth (%)	2.7	33.0	36.6	158.6	-35.6	-6.6	21.3	129.9
Margin (%)	15.0	13.8	11.7	4.8	9.0	10.8	11.7	8.4

Source: Company data, Credit Suisse estimates.

Undemanding at 5.5x P/E with 7% yield

We are lowering our 08-09F profit forecasts by 26-28% to account for the more conservative industry outlook. In view of the reduced market risk appetite, we set its 12-month target at HK\$14.30 (from HK\$26.30), based on 7x 09E P/E, or the midpoint of its historical P/E band range. With healthy cash flow, Truly should maintain its dividend payout of 38-40%, implying a dividend yield of 7% at 5.5x 08E P/E. We are maintaining our OUTPERFORM rating.

Bbg/RIC	732 HK / 0732.HK	Price (28 Mar 08, HK\$)	9.03		
Rating (prev. rating)	O (O)	TP (HK\$) (prev. TP)	14.30 (26.30)		
Shares outstanding (mn)	472.74	Est. pot. % chg. to TP	58		
Daily trad vol-6m avg (mn)	0.5	52-wk range (HK\$)	30.90 - 7.20		
Daily trad val-6m avg (US\$ mn)	1.1	Mkt cap (HK\$/US\$ mn)	4,268.9/ 548.6		
Free float (%)	53.5	Performance	1M 3M 12M		
Major shareholders	Lam family (46.5%)	Absolute	(21.3) (49.3) 23.9		
		Relative	(16.9) (40.4) 4.0		
Year	12/06A	12/07A	12/08E	12/09E	12/10E
Revenues (HK\$ mn)	4,524	6,493	7,855	9,233	10,541
EBITDA (HK\$ mn)	792	1,072	1,339	1,564	1,757
Net profit (HK\$ mn)	532	702	783	966	1,108
EPS (HK\$)	1.15	1.49	1.66	2.04	2.34
- Change from prev. EPS (%)	n.a.	n.a.	-28	-26	n.a.
- Consensus EPS (HK\$)	n.a.	n.a.	2.45	2.77	0.00
EPS growth (%)	(25.6)	30.2	11.0	23.3	14.7
P/E (x)	7.9	6.0	5.5	4.4	3.9
Dividend yield (%)	5.3	6.1	6.9	8.6	10.0
EV/EBITDA (x)	5.1	4.8	3.4	2.4	1.7
P/B (x)	1.8	1.4	1.2	1.0	0.9
ROE (%)	22.5	23.2	22.1	23.0	22.6
Net debt/equity (%)	net cash	28	8	net cash	net cash

Note 1: Ord/ADR=1. Note 2: Truly manufactures liquid crystal display products mainly for the handset display market in China, electronic consumer products including calculators, MP3 players and electronic components.

Higher sales marred by price cut and depreciation

Truly reported a net profit of HK\$702 mn (+32%) for 2007, 13% below consensus estimates. The weaker-than-expected 4Q07 was caused by Truly's slashing selling prices of TFT display modules to reduce its panel inventory in late November 2007. This factor, coupled with the additional quarterly depreciation of HK\$60 mn from the newly-installed TFT line, resulted in the gross margin contraction of 9.4 p.p. in 4Q07.

Inventory adjustment close to an end

Due to the overstocking by handset makers on component shortage fear, the once fast-growing Chinese handset market saw inventory adjustment from 4Q07. Truly continues to see a soft 1Q08, which we expect its revenue to grow 8% YoY to HK\$1.4 bn. After five months of

Companies Mentioned (Price as of 28 Mar 08)
 Truly International (0732.HK, HK\$9.03, OUTPERFORM, TP HK\$14.30)

Disclosure Appendix

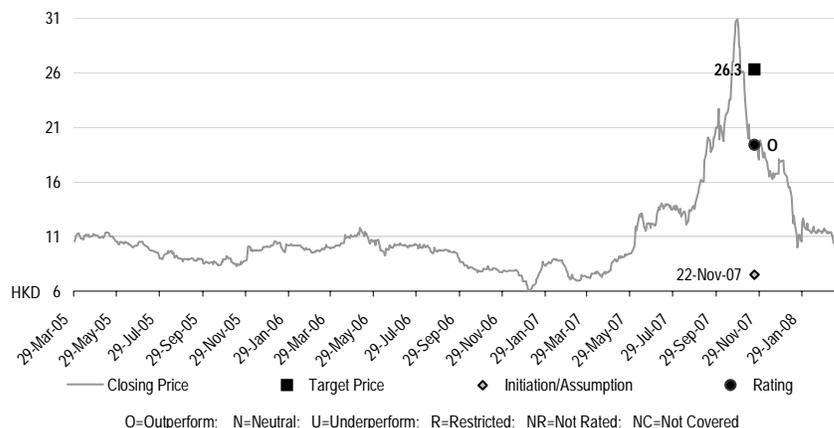
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3-Year Price, Target Price and Rating Change History Chart for 0732.HK

0732.HK	Closing Price	Target Price	Initiation/	
Date	(HKD)	(HKD)	Rating	Assumption
22-Nov-07	19.4	26.3	O	X



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Price Target: (12 months) for (0732.HK)

Method: Our 12-month target price for Truly International of HK\$14.30 is based on a P/E multiple of 7x 2009E EPS of HK\$2.04. The 7x FY09 P/E is based on the midpoint of the P/E band chart.

Risks: The key risks to our target price of HK\$14.30 for Truly International include: 1) major slowdown in the Chinese economy, which could lead to weaker demand for mobile phones and affect handset components suppliers such as Truly, 2) an unexpected tight TFT supply, which would push Truly's panel cost higher, affecting its margins and profitability, and 3) delays or obstructions with the installation of new capacity could prevent the company from achieving our estimated earnings.

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