

Truly Int'l ----- Maintain OUTPERFORM

Murky waters ahead before a fightback in 2009: 1Q08 results review

EPS: ▼ TP: ▼

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- Truly saw sales grow 9% and profit contract 21% with gross margin contracted 4.7 p.p. to 17.2%. The anticipated weakness was due to the inventory adjustments, China's credit tightening and additional depreciation charge for the new TFT line.
- Truly saw a brief rebound in business in March and April, but sales became lacklustre again in May 2008. Limited new handset launches and small handset distributors' tight cashflow held back the demand for LCD displays. We project Truly's revenue to grow 5% QoQ, with net margin remaining unchanged at 10.8% in 2Q08.
- We expect Truly's 1H08 profit to fall 25% on contracted margins. China's handset replacement and the upcoming 3G markets will provide a long-term growth impetus for handset displays. Its non-handset TFT panels should begin contributing in 2H08, making the full-year sales increase by 7% despite a weakened 1H08.
- We cut our EPS forecasts by 15-18% and TP to HK\$10.9 (from HK\$14.3) to factor in the uncertainties. The stock offers good value at 08E P/E of 6.7x and 6% yield. Maintain OUTPERFORM.

Bbg/RIC	732 HK / 0732.HK	Price (30 May 08, HK\$)	9.40		
Rating (prev. rating)	O (O) [V]	TP (HK\$) (prev. TP)	10.90 (14.30)		
Shares outstanding (mn)	472.75	Est. pot. % chg. to TP	16		
Daily trad vol-6m avg (mn)	0.5	52-wk range (HK\$)	30.90 - 8.22		
Daily trad val-6m avg (US\$ mn)	0.8	Mkt cap (HK\$/US\$ mn)	4,443.9/ 569.5		
Free float (%)	53.5	Performance	1M 3M 12M		
Major shareholders	Lam family (46.5%)	Absolute	1.3 (19.9) (0.3)		
		Relative	6.3 (20.6) (17.5)		
Year	12/06A	12/07A	12/08E	12/09E	12/10E
Revenues (HK\$ mn)	4,524	6,493	6,922	7,956	9,021
EBITDA (HK\$ mn)	792	1,072	1,207	1,379	1,537
Net profit (HK\$ mn)	532.0	702.0	664.6	793.7	910.2
EPS (HK\$)	1.15	1.49	1.41	1.68	1.93
- Change from prev. EPS (%)	n.a.	n.a.	-15	-18	-18
- Consensus EPS (HK\$)	n.a.	n.a.	2.03	2.04	2.34
EPS growth (%)	(25.6)	30.2	(5.8)	19.4	14.7
P/E (x)	8.2	6.3	6.7	5.6	4.9
Dividend yield (%)	5.1	5.9	5.9	6.8	7.9
EV/EBITDA (x)	5.4	5.0	4.0	3.0	2.2
P/B (x)	1.9	1.5	1.3	1.1	1.0
ROE (%)	22.5	23.2	19.3	20.1	20.1
Net debt/equity (%)	net cash	28	9	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.

1Q08 is history ...

Truly saw revenue grow 9% YoY to HK\$1.37 bn in 1Q08. Despite an increase in revenue, net profit fell 21% YoY to HK\$148 mn, largely due to a compressed gross margin. The inventory adjustments in 4Q07 and 1Q08, caused by overstocking by handset makers on component shortage fears earlier, affected Truly's sales growth and gross margins. In addition, credit tightening caused some cash flow hitches at the small handset distributors, impacting the distribution and sales of non-major Chinese handset makers, which are Truly's major customers. 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 4.3 p.p. YoY to 17.2% in 4Q07.

Figure 1: Truly's profit fell 21% on compressed gross margin in 1Q08

YE 31 Dec (HK\$ mn)	1Q08A	1Q07A	YoY
Turnover	1,374	1,256	9.4%
Gross profit	236	270	-12.6%
Net profit	148	189	-21.4%
EPS (HK\$)	0.31	0.40	-21.8%
Gross margin (%)	17.2	21.5	-4.3 p.p.
Net margin (%)	10.8	15.0	-4.2 p.p.

Source: Company data, Credit Suisse estimates.

But 2Q08 to see history repeat itself ...

Truly saw a brief rebound in business in March and April 2008, but sales became lacklustre again in May. Management added that handset makers have launched limited new models YTD to hold back the demand for LCD displays. The credit tightening in China is still taking its toll on the small handset distributors. Although we do not expect the situation to worsen dramatically, there is little visibility pointing to a significant reversal in the near-term. We project Truly's revenue to come in at HK\$1.45 bn, or +5% QoQ, with net margin remaining unchanged at 10.8% in 2Q08.

Figure 2: Truly is to see a small profit contraction of 5% in 2008

YE 31 Dec (HK\$ mn)	2008E	2007A	YoY
Turnover	6,922	6,493	6.6%
- TFT	4,153	3,817	8.8%
- CSTN	1,012	954	6.0%
- MSTN	1,622	1,591	2.0%
- Others	135	131	3.0%
Gross profit	1,188	1,106	7.5%
Net profit	665	702	-5.3%
EPS (HK\$)	1.41	1.49	-5.8%
DPS (HK\$)	0.55	0.55	-
Gross margin (%)	17.2	17.0	0.1 p.p.
Net margin (%)	9.6	10.8	-1.2 p.p.

Source: Company data, Credit Suisse estimates.

Not all is bad ... Truly to play catch-up in 2H

We expect to see 1H revenue flat YoY at HK\$2.82 bn, with a lower net profit of HK\$305 mn (-25% YoY) due to a contracted margin. Despite the blurred short-term visibility, Truly expects the China handset market to see improvement in 2H08 after three softened quarters. China's handset replacement and the upcoming 3G markets will provide a long-term growth impetus for handset displays. We could also see a small augmentation when Truly's non-handset application TFT panels begin contributing in the second-half. We estimate that Truly's revenue will grow 12% YoY to HK\$4.1 bn in 2H08, making the full-year sales increase by 7% despite a weakened 1H08.

Reduced forecasts but attractive at 6.7x P/E with 6% yield

We reduce our 08-10E EPS forecasts by 15-18% to reflect the softer industry and slower-than-expected contribution from the new TFT line. We also lower our 12-month target to HK\$10.90 (from HK\$14.30), based on 6.5x 09E P/E, or 0.4x PEG of a 3-year EPS CAGR of 17%. Although 2008 is a challenging year, Truly's 6.7x 08E P/E with 6% yield make it attractive when contribution from the TFT line should start to kick in next year. We maintain our OUTPERFORM rating.

Companies Mentioned (Price as of 30 May 08)
 Truly International (0732.HK, HK\$9.40, OUTPERFORM [V], TP HK\$10.90)

Disclosure Appendix

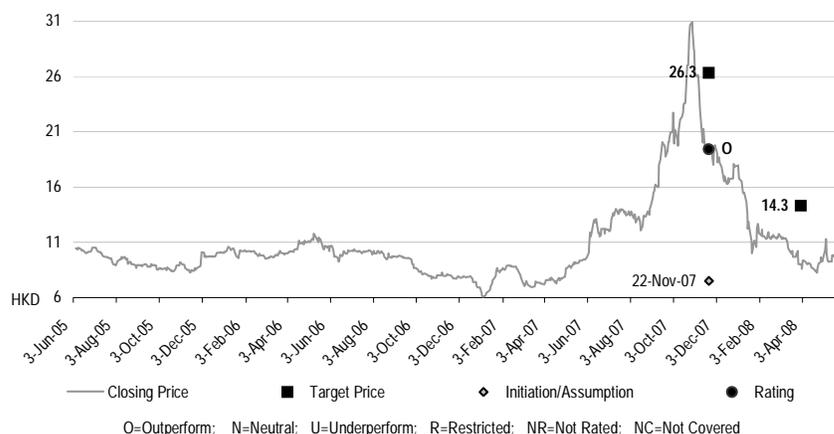
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3-Year Price, Target Price and Rating Change History Chart for 0732.HK

0732.HK	Closing Price	Target Price	Initiation/
Date	(HKD)	(HKD)	Rating Assumption
22-Nov-07	19.4	26.3	O X
31-Mar-08	9.03	14.3	



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

Method: Our 12-month target price for Truly International of HK\$10.90 is based on a price/earnings (P/E) multiple of 6.5x 2009E earnings per share (EPS) of HK\$1.68. Our valuation assumes that the company will post a three-year FY08-10E EPS compound annual growth rate (CAGR) of 17%. The 6.5x multiple represents 0.4x price/earnings growth (PEG), lower than the average of 0.65x of the Hong Kong industrials universe to factor in the commodity nature of Truly's LCD business and uncertain outlook in 2H08.

Risks: The key risks to our target price of HK\$10.90 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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