



General Information

- Since 2011 HTC smartphone market share declined
- In the beginning of 2018 Google purchased a large chunk of HTC smartphone design talent for \$1.1B
- For the last 10 years HTC stock price showing really bad declining (CAGR -9,2%), means every year for 10 years your investment will decrease 9,2% in value
- Now HTC primarily focused on the Vive product line
- HTC Vive is one of the best available VR platform

GENERAL INFORMATION			
Company	HTC Corporation		
Sector	Technology		
Industry	Communication Equipment		
Founded IPO Stock Code	May-97	Mar-26th-2002	TPE: 2498
Share Price (Feb 13th 2020)	34,15		
Number of Outstanding Shares (million)	819		
Market Cap (in TWD Billion)	28		
Full Time Employees	4810		
Current Source of Revenue	Smartphone, VR, AR, AI, Healthcare		

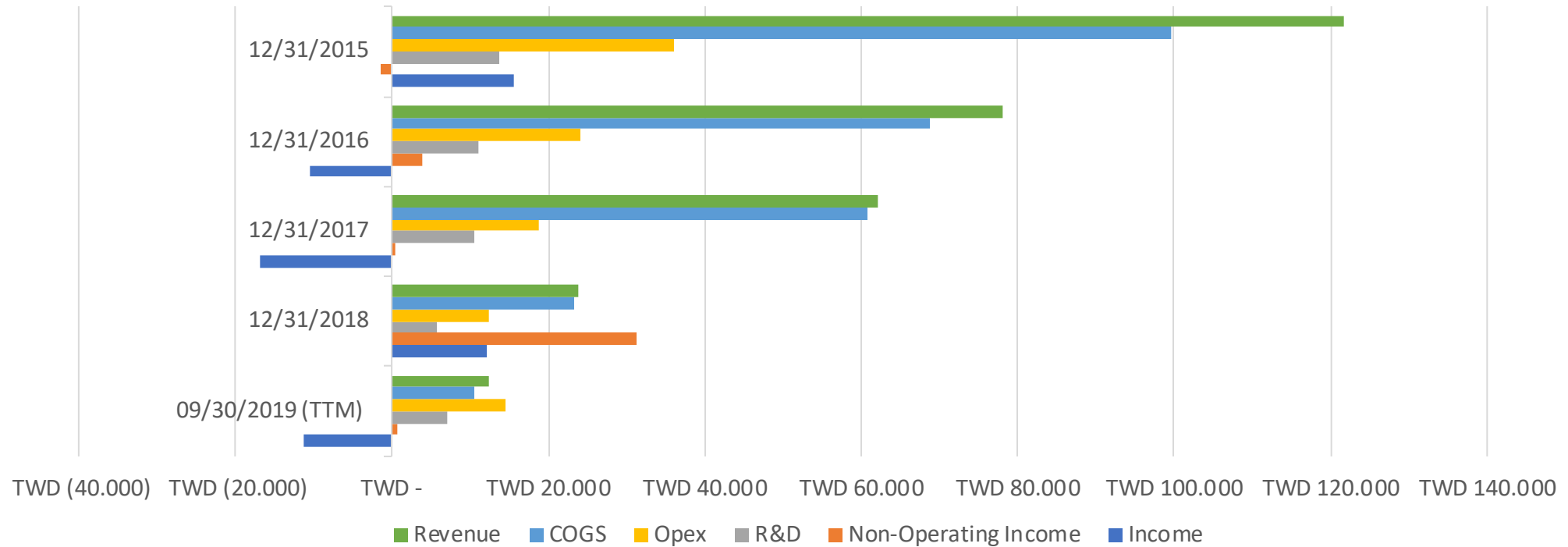


Income Statements

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- HTC have declining revenues in the past 5 years (actually since 2012), the highest revenue was in the 2011
- In 2018 HTC officially sell big chunk of it's smartphone division to Google for \$1.1B in cash, shown in the table as the non-operating income
- Since 2018 HTC **more focus on developing VR** (that had been started since 2016) while still producing smartphone. 51% of it's revenues yielded from VR Headset.

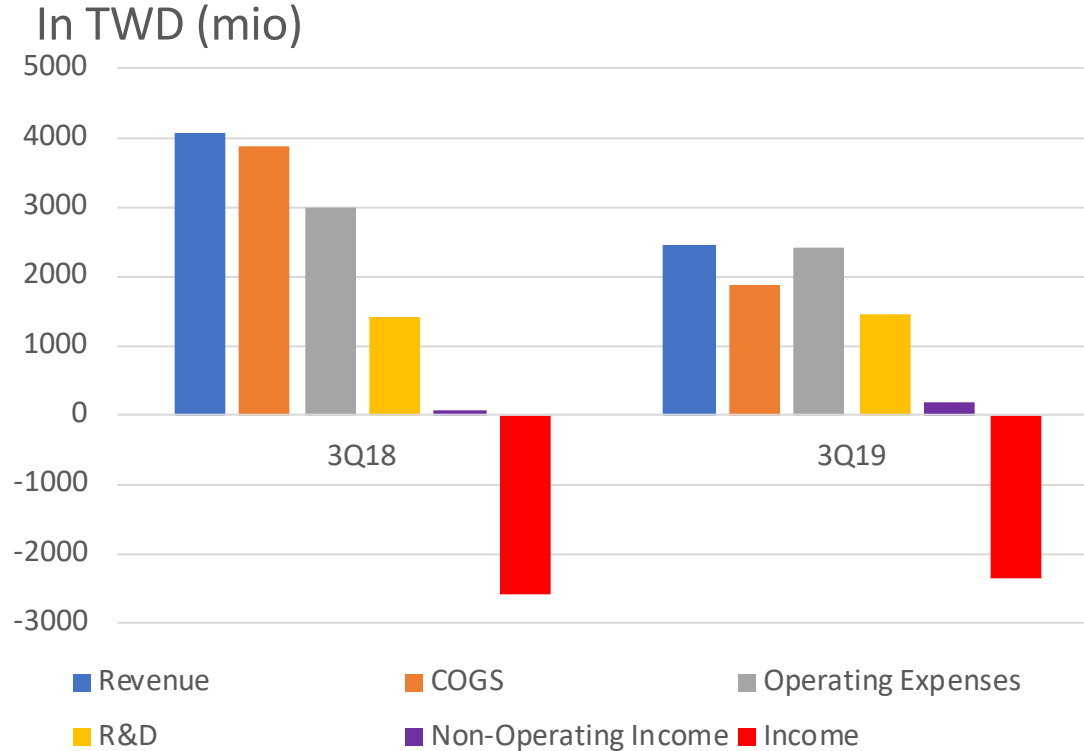
HTC Income Statement History (in TWD mio)



- Gross Profit Margin (GPM) ranged between 18% to 15% (in 2019 TTM), **no growth for the last 5 years**
- Operating Profit Margin (OPM) getting bigger **(2019 TTM is the worst)**, operating expenses getting bigger compared to its declining revenues
- **R&D Allocation getting bigger (over allocated) compared to its revenue (46% in 2018),**
- Net Profit Margin (NPM) always negative except for 2018 **(got cash from Google by selling assets)**

From its income statements data, indicated that HTC is still on a bad financial conditions in the last 5 years

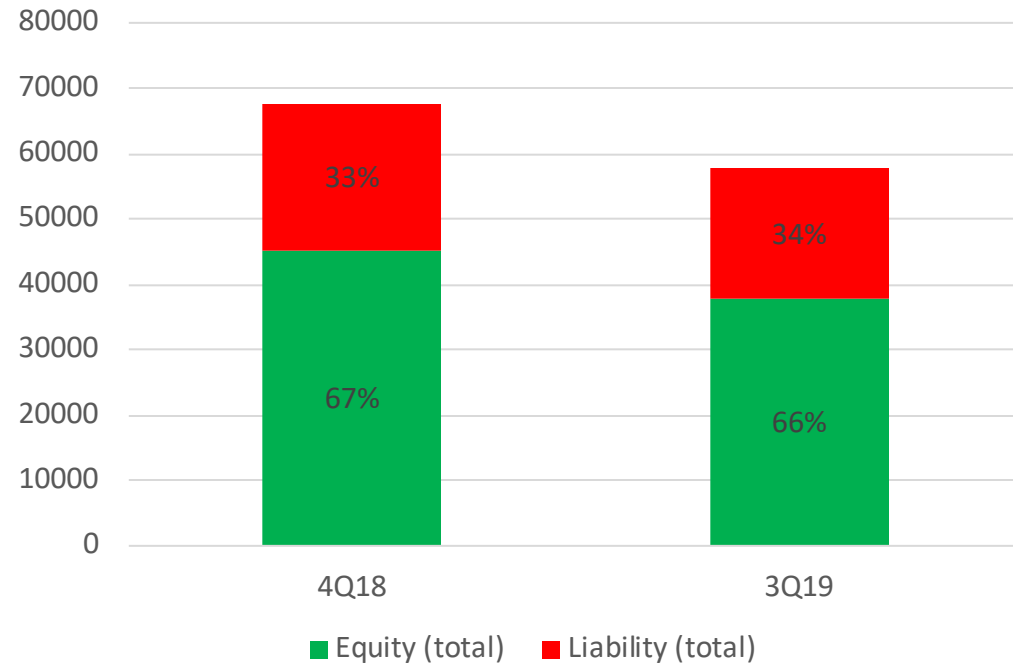
Income Statement: Latest Condition (Q319 vs Q318)



- Revenues down by 40% QoQ, **bad**
- GPM increased from 5% to 23%, **not bad**
- **Over R&D budget Allocation** (Apple only allocated 7,9% from it's revenue and successfully resulted a successful product)
- **Big Loss of Money (NPM -95%, previous NPM -64%)**
- **Latest EPS: TWD -2.86**

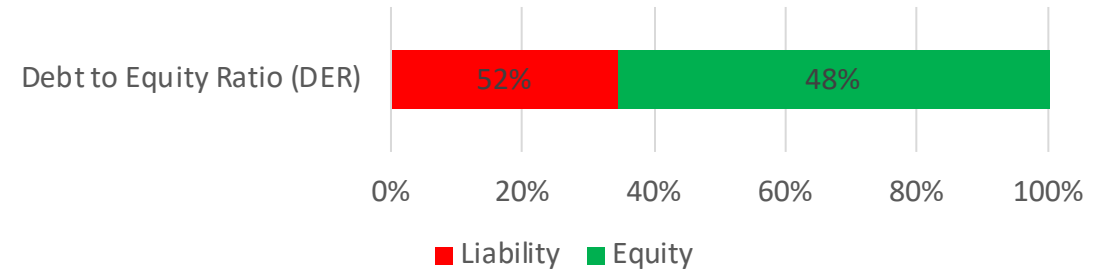
Balance Sheets: Latest Condition (4Q18 vs Q319)

HTC Asset (in TWD mio)



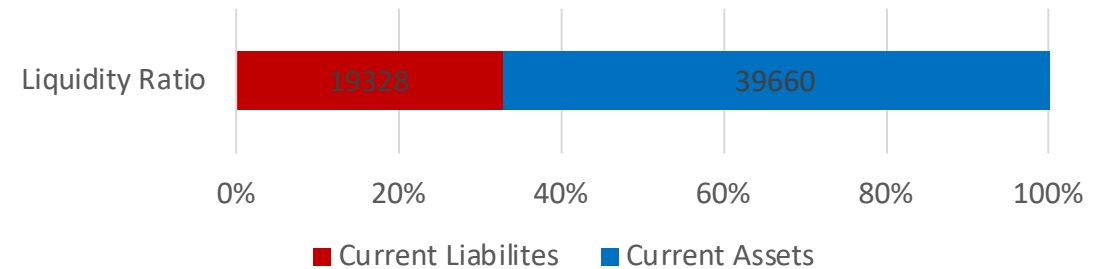
- Decreasing total Asset by 17%, **bad**
- 66% of its current total asset contributed by equity, **good**.

Debt to Equity Ratio (DER)



- DER: 0.52, means in the long term period (more than 1 year) company **still be able** to pay liabilities.

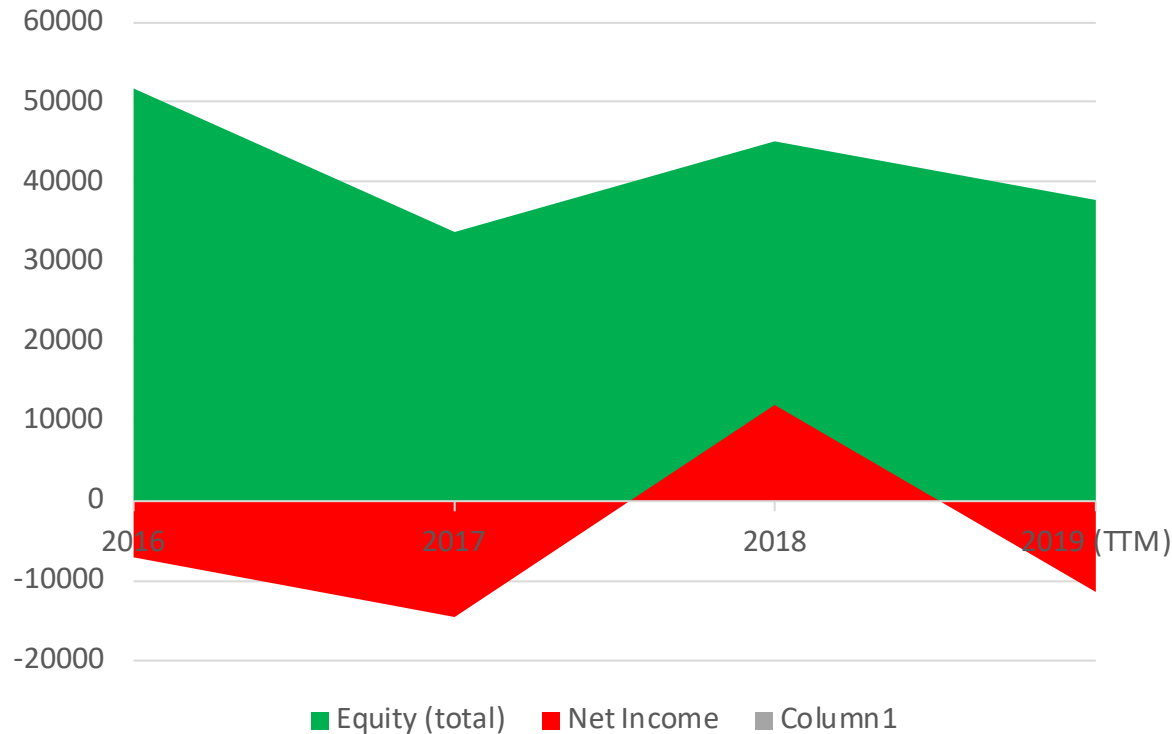
Liquidity Ratio



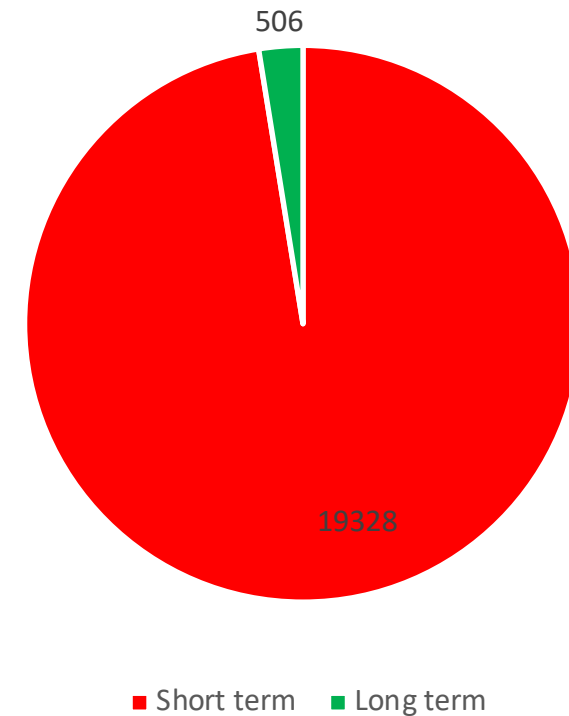
- Liquidity Ratio: 2.05, means in the sort term period (within 1 year) company still at **safe condition**

Balance Sheet: Latest Condition

Return on Equity



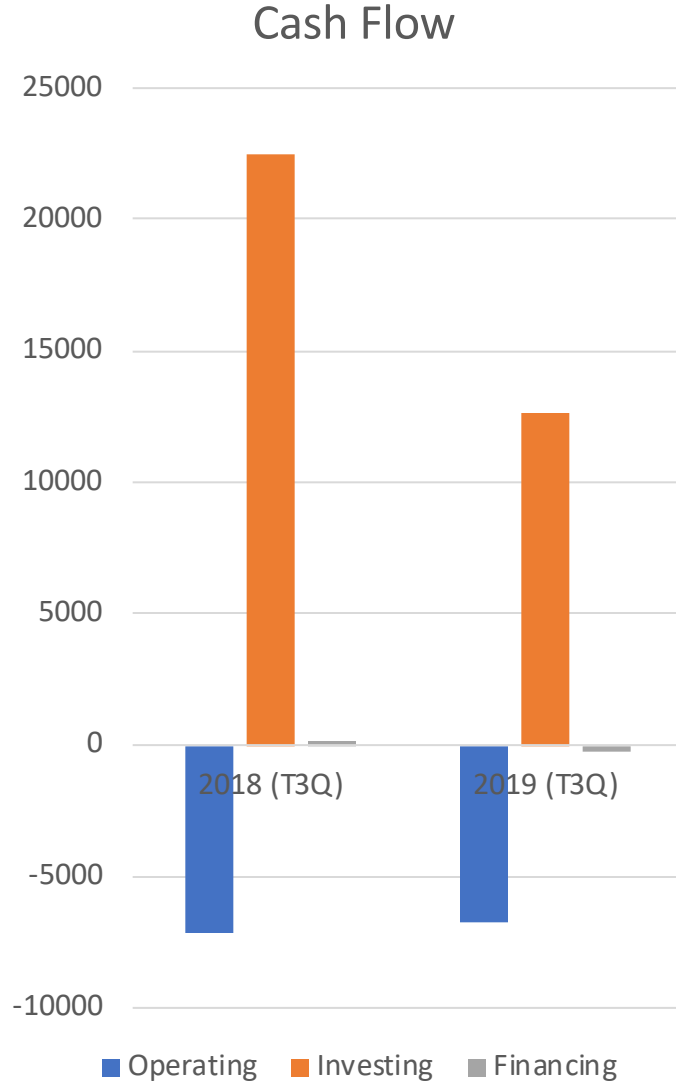
Total Liabilities (in TWD mio)



- Company still not successfully use it's equity for profit,
- 2018 company generated **26% on ROE** by **selling assets to Google**

- Most of it's debt (97%) is short term (must be payed within 1 year)
- Liquidity ratio = 2.05, means **still safe**

Cash Flow: Latest Condition



- 2018(T3Q) proceeds from disposal assets = TWD 31285 mio, yielded TWD 15324 mio in cash increase
- 2019(T3Q) from financial assets = TWD 12974 mio, yielded TWD 5448 mio in cash increase
- HTC is not generating money (losing money) from it's operation

Dividends



From its income (generated by selling assets) in 2018 HTC paid cash dividend to investors TWD 311k (written in 3Q19 Financial Report)



Dividend Payout Ratio: 2,6%



Dividend Yield: 1.11%

Current Valuation

- PBV: 0.62, HTC valued by market below it's book value or equity (because HTC is non yet making profit from it's operating activity at least for the last 5 years)



Estimate Fair Price (using Book Value)

- HTC Fair Price 17,68
- Assumptions
 - Continue making same or slightly different net income (loss)
 - ROE still -20%

Price	Intrinsic Value	Margin of Safety	Equity (in Mio)	ROE (anz)
34,4	17,68185354	-49%	TWD 45219	-20%

Year	Current BV	Projected BV	PBV	0,62
1	55,21245421	43,96784697		
2		35,01332434		
3		27,88248609		
4		22,20391937		
5		17,68185354		
Fair Price	17,68185354			

VR Business



After almost 4 years since VR headset launched (oculus and HTC), there is no data in financial statement that reveal the VR sales data



Meanwhile as of December 31 2019, PSVR sales number hit 5 Millions (presumed to be the most successful of the three headset). PSVR sales nearly hit 5% of PS4 sales number



Currently VR is too expensive, complicated, not good enough

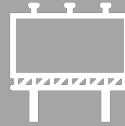


VR don't have killer app yet

Qualitative Analysis: What makes HTC dying



Poor Marketing, weird phone names (Desire, ChaCha, Rhyme, Salsa, Incredible, Sensation...)



had a bad slogan “Quietly Brilliant”, no ambition



2009 was the peak power of HTC, released 100 phones (try capturing every possible phone market, but led to no clear phone classification) in contrast with Apple (just 1 product) and Samsung (with S and A classes)



Failure to innovate and keeping up with current trends led to downfall like Nokia

HTC (Help This Company) Summary

Bad fundamental (financial) condition

Historically had a bad marketing strategy

Entering industry (VR) that not yet selling very well right now