

Willsemi (603501 CH)

Expect sequential improvement ahead

Willsemi released FY24 prelim results. Rev. is expected to grow by 20.9% to 22.8% YoY to the range of RMB25.4bn to RMB25.8bn, driven by a higher penetration rate of CIS products in high-end smartphone market (**smartphone CIS: 52% of CIS revenue in 1H24**) and autonomous driving (AD) tech (**auto CIS: 31%**). Mid-point rev. was slightly below BBG consensus/our estimate by 3.2%/2.6%. Net profit is expected to be between RMB3.2bn and RMB3.4bn, up 468% to 504% YoY, which mgmt. attributed to **market share expansion** (11% of global CIS market in 2023 per Yole) and improved GPM (9M24/FY23: 29.6%/21.8%). Looking forward, we expect Willsemi to be a key beneficiary of 1) domestic consumer subsidy plan and 2) rapid expansion of several key markets, such as EVs (AD), edge AI (e.g. AI glasses, XR headsets), robotics (e.g. humanoid & industrial robots), etc. **Maintain BUY, with TP unchanged at RMB130.**

- **Sustained sequential growth drives strong 2024 performance.** 4Q24 mid-point revenue is expected to be RMB6.7bn, up 12.8% YoY but down 1.7% QoQ, after a record-high quarterly revenue at RMB6.8bn in 3Q24. Revenue grew sequentially in 2Q/3Q24 by 14.2%/5.7% on the company's 1) continued market share expansion in flagship smartphone models with premium products such as OV50H/OV50K40, 2) robust camera shipments as smart driving solutions (e.g., OX08D10) expanded from premium models to mass-market vehicles, and 3) increased integration of AI-driven tech.
- **CIS revenue estimated to grow 26% in 2025, driven by higher number of cameras used in EVs/robotaxis and benefiting from China digital product subsidy plan.** Auto/smartphone CIS sales accounted for 24%/40% of the company's total revenue in 1H24. We think these two segments will continue to be the key growth drivers, with 35%/23% revenue growth projected for 2025E. We see the number of sensors adopted in vehicles growing significantly for safety concerns. It is common to see 10+ cameras on vehicles (Alphabet-owned self-driving car company Waymo has the most with 29 cameras). As for smartphone CIS, we think Willsemi will be a key beneficiary of China's new consumer subsidy plan, which offers 15% subsidies on smartphones, tablets and smart wearables priced below RMB6k (~US\$830) for up to RMB500. We expect the plan to stimulate demand.
- **Continued growth driven by market share expansion and rising demand across key segments.** We believe the company is set for further growth driven by market share gains and rising demand across several markets. Meanwhile, given the intensified competition, local OEMs are also looking for domestic components/solutions, benefitting Willsemi and other Chinese names. The stock is currently trading at RMB108.3, est. 38x 2024 P/E or 26x 2025E P/E. We forecast 2025 EPS growth to exceed 40%. **Maintain BUY, with TP at RMB130, corresponding to 31.7x 2025E P/E.**

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	20,078	21,021	26,295	32,356	38,349
YoY growth (%)	(16.7)	4.7	25.1	23.0	18.5
Gross margin (%)	30.8	21.8	29.8	30.9	31.7
Net profit (RMB mn)	990.1	555.6	3,368.4	4,886.6	6,389.4
YoY growth (%)	(77.9)	(43.9)	506.2	45.1	30.8
EPS (Reported) (RMB)	0.84	0.47	2.83	4.11	5.37
YoY growth (%)	(78.1)	(44.0)	502.2	45.1	30.8
P/E (x)	127.0	226.9	37.7	26.0	19.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB130.00
Up/Downside 21.9%
Current Price RMB106.65

China Semiconductors

Lily YANG, Ph.D

(852) 3916 3716

lilyyang@cmbi.com.hk

Kevin ZHANG

(852) 3761 8727

kevinzhang@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	126,916.9
Avg 3 mths t/o (RMB mn)	2,056.7
52w High/Low (RMB)	117.92/79.22
Total Issued Shares (mn)	1190.0

Source: FactSet

Shareholding Structure

Yu Renrong	27.5%
SX WEIHAO EQU INVEST	6.1%
FUND	

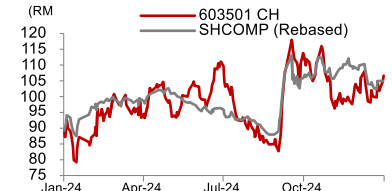
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.5%	6.5%
3-mth	-6.2%	-5.4%
6-mth	-4.0%	-11.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	24,104	20,078	21,021	26,295	32,356	38,349
Cost of goods sold	(15,790)	(13,903)	(16,446)	(18,463)	(22,348)	(26,185)
Gross profit	8,314	6,175	4,574	7,832	10,008	12,164
Operating expenses	(3,292)	(3,719)	(3,297)	(3,968)	(4,208)	(4,642)
Selling expense	(515)	(516)	(467)	(565)	(679)	(767)
Admin expense	(23)	(25)	(33)	(41)	(50)	(59)
SG&A expense	(685)	(765)	(623)	(736)	(809)	(959)
R&D expense	(2,110)	(2,496)	(2,234)	(2,691)	(2,750)	(2,953)
Others	42	82	60	66	81	96
Operating profit	5,022	2,456	1,277	3,865	5,800	7,522
Other income	5	5	26	53	81	86
Other expense	(3)	(2)	(2)	(3)	(3)	(4)
Gain/loss on financial assets at FVTPL	(178)	(1,425)	(367)	(275)	(296)	(306)
Investment gain/loss	614	1,047	73	84	86	87
Other gains/(losses)	(103)	(186)	140	(18)	(21)	(24)
EBIT	5,358	1,895	1,148	3,706	5,648	7,361
Interest income	25	27	96	340	389	426
Interest expense	(410)	(494)	(534)	(321)	(316)	(308)
Net Interest income/(expense)	(385)	(467)	(438)	18	73	118
Other income/expense	29	(127)	(19)	0	0	0
Pre-tax profit	5,002	1,301	691	3,724	5,720	7,480
Income tax	(456)	(343)	(148)	(372)	(858)	(1,122)
After tax profit	4,546	958	544	3,352	4,862	6,358
Minority interest	70	(32)	(12)	(17)	(24)	(32)
Net profit	4,476	990	556	3,368	4,887	6,389

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	20,296	19,613	20,264	22,320	27,079	33,551
Cash & equivalents	7,671	4,026	9,086	9,841	13,108	18,520
Account receivables	2,878	2,502	4,031	4,543	5,413	6,053
Inventories	8,781	12,356	6,322	6,881	7,393	7,655
Prepayment	220	236	221	526	582	690
Financial assets at FVTPL	15	14	133	12	12	12
Other current assets	730	479	472	517	570	621
Non-current assets	11,784	15,577	17,479	17,820	18,001	18,270
PP&E	1,863	2,047	2,586	3,079	3,162	3,141
Right-of-use assets	236	209	176	159	151	149
Intangibles	1,604	2,018	2,305	2,211	2,127	2,037
Goodwill	2,998	3,169	3,861	3,864	3,864	3,864
Other non-current assets	5,084	8,134	8,551	8,507	8,696	9,079
Total assets	32,080	35,190	37,743	40,139	45,080	51,821
Current liabilities	8,700	10,373	9,069	9,021	8,294	8,521
Short-term borrowings	2,387	3,632	2,671	2,153	890	685
Account payables	2,574	1,128	1,663	2,384	2,515	2,651
Tax payable	589	145	229	189	243	262
Other current liabilities	2,746	5,079	4,055	3,824	4,075	4,267
Contract liabilities	149	125	187	224	275	326
Accrued expenses	255	263	264	247	296	330
Non-current liabilities	7,076	6,717	7,180	7,517	8,523	8,973
Long-term borrowings	3,448	2,750	2,977	3,134	3,915	4,046
Bond payables	2,250	2,347	2,444	2,503	2,503	2,503
Obligations under finance leases	179	145	122	123	142	161
Deferred income	34	24	25	30	32	37
Other non-current liabilities	1,166	1,451	1,611	1,727	1,932	2,225
Total liabilities	15,776	17,090	16,248	16,537	16,817	17,494
Share capital	876	1,185	1,216	1,216	1,216	1,216
Retained earnings	8,049	8,572	9,008	12,175	16,810	22,843
Other reserves	7,274	8,261	11,227	10,185	10,234	10,297
Total shareholders equity	16,198	18,018	21,451	23,575	28,260	34,356
Minority interest	106	82	44	27	3	(29)
Total equity and liabilities	32,080	35,190	37,743	40,139	45,080	51,821

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,546	958	544	3,352	4,862	6,358
Depreciation & amortization	927	1,045	1,166	1,190	1,317	1,470
Change in working capital	(3,564)	(5,300)	5,175	(347)	(926)	(526)
Others	284	1,303	651	(137)	375	290
Net cash from operations	2,192	(1,993)	7,537	4,057	5,629	7,591
Investing						
Capital expenditure	(1,122)	(2,259)	(1,048)	(1,213)	(1,357)	(1,493)
Net proceeds from disposal of short-term investments	3	7	7	32	40	44
Others	(1,780)	(1,765)	(1,422)	0	(19)	(32)
Net cash from investing	(2,899)	(4,017)	(2,464)	(1,180)	(1,337)	(1,481)
Financing						
Dividend paid	(569)	(822)	(574)	(489)	(518)	(601)
Net borrowings	3,066	3,242	(2,009)	(529)	(482)	(73)
Proceeds from share issues	1,203	273	3,394	(862)	0	0
Others	(767)	(438)	(875)	(170)	(24)	(24)
Net cash from financing	2,932	2,255	(64)	(2,050)	(1,025)	(699)
Net change in cash						
Cash at the beginning of the year	5,423	7,630	3,995	9,055	9,813	13,081
Exchange difference	(18)	120	51	(69)	0	0
Others	2,226	(3,755)	5,009	827	3,267	5,412
Cash at the end of the year	7,630	3,995	9,055	9,813	13,081	18,493
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	21.6%	(16.7%)	4.7%	25.1%	23.0%	18.5%
Gross profit	40.2%	(25.7%)	(25.9%)	71.2%	27.8%	21.5%
Operating profit	63.9%	(51.1%)	(48.0%)	202.6%	50.1%	29.7%
EBIT	64.0%	(64.6%)	(39.4%)	222.7%	52.4%	30.3%
Net profit	65.4%	(77.9%)	(43.9%)	506.2%	45.1%	30.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	34.5%	30.8%	21.8%	29.8%	30.9%	31.7%
Operating margin	20.8%	12.2%	6.1%	14.7%	17.9%	19.6%
Return on equity (ROE)	32.6%	5.8%	2.8%	15.0%	18.9%	20.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.3	1.9	2.2	2.5	3.3	3.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	27.8	127.0	226.9	37.7	26.0	19.9
P/E (diluted)	27.8	127.0	226.9	37.7	26.0	19.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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