

# Zhejiang Jingsheng (300316 CH)

## 2Q23 net profit +73% YoY in line; Arms race still good for equipment makers

Zhejiang Jingsheng (JSG)'s net profit in 1H23 surged 83% YoY to RMB2.2bn, in line with the pre-announced profit released in mid-Jul. Net profit in 2Q23 grew 73% YoY to RMB1.3bn, a record high. As of end-Jun 23, total backlog reached RMB27.8bn (solar/semiconductor: 88%/12%), which continues to offer visibility over the coming 18 months. We maintain our TP at RMB106, based on 32x 2023E P/E, on the back of 32% earnings CAGR in 2023E-24E. While the solar sector has been under pressure, we expect equipment makers will outperform other segments in the supply chain due to the arms race to expand and upgrade capacity. Upcoming catalysts include: (1) new orders on solar cell & module equipment; and (2) spin-off of crucible business unit.

- 1H23 results: Explosive growth of materials segment.** Revenue grew 92% YoY to RMB8.4bn in 1H23. By segment, equipment revenue (solar + semiconductor) grew 71% YoY RMB6.1bn. Materials revenue (crucibles, diamond wire saw & sapphire) surged 2.4x YoY and 1x HoH to RMB1.88bn. Materials gross margin sharply expanded by 27.3ppt YoY to 54.7%, which more than offset the 2.4ppt contraction of equipment segment (to 40.1%). Blended gross margin therefore expanded 2.7ppt YoY to 42.7%. Administrative expense ratio dropped 1ppt YoY to only 2% in 1H23. R&D expense ratio increased 0.8ppt YoY to 7.1% which we believe is essential given JSG's continuous development of new technology. In 1H23, JSG recognized RMB70mn of fair value gain (1H22: nil). Operating cash inflow reached RMB1bn in 1H23, a strong recovery from an outflow of ~RMB52mn in 1H22.
- Key highlights of 2Q23 results.** Revenue surged 99% YoY to RMB4.8bn. Gross margin expanded 4.2ppt YoY and 3.6ppt HoH to 44.2%, driven by the ASP hike of materials segment. Minority interest surged 12x YoY to RMB208mn due to the strong growth of non-wholly owned material business. Net profit grew 73% YoY to RMB1.3bn.
- Strong pricing power reflected in the growth of customers' downpayment.** As at end Jun 2023, contract liabilities (an indicator of down-payment from customers) surged 49% YoY to RMB10.4bn.
- Risks:** 1) Slowdown in solar power capex; 2) lower-than-expected gross margin; (3) decline in crucible price.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,961	10,638	17,198	20,322	23,412
YoY growth (%)	56.4	78.5	61.7	18.2	15.2
Adjusted net profit (RMB mn)	1,711.7	2,923.6	4,338.8	5,117.9	5,902.9
EPS (Reported) (RMB)	1.33	2.25	3.32	3.91	4.51
YoY growth (%)	99.3	69.3	47.2	18.0	15.3
Consensus EPS (RMB)	na	na	3.55	4.36	5.10
P/E (x)	40.0	28.8	16.7	14.1	12.3
P/B (x)	10.0	7.9	5.0	3.9	3.1
Yield (%)	0.5	0.7	1.2	1.4	1.6

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB106.00

(Previous TP) RMB106.00)

**Up/Downside** 91.5%

**Current Price** RMB55.35

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### Stock Data

Mkt Cap (RMB mn)	72,388.4
Avg 3 mths t/o (RMB mn)	350.0
52w High/Low (RMB)	83.11/55.35
Total Issued Shares (mn)	1307.8

Source: FactSet

### Shareholding Structure

Shaoxing Shangyu Jingsheng	48.2%
Invst. Mgmt. a	
QIU Minxiu	3.0%

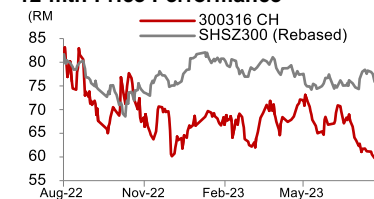
Source: SZSE

### Share Performance

	Absolute	Relative
1-mth	-12.8%	-12.0%
3-mth	-23.7%	-20.4%
6-mth	-17.2%	-9.3%

Source: FactSet

### 12-mth Price Performance

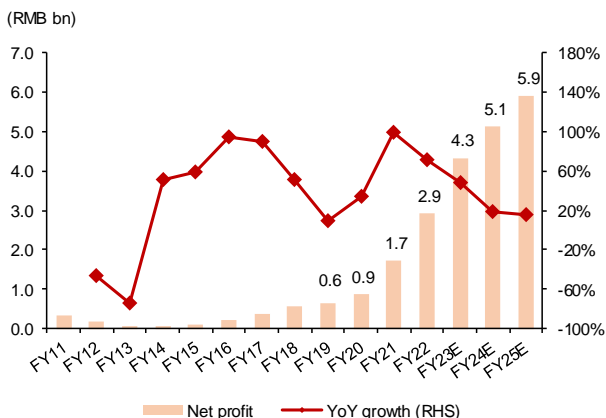


Source: FactSet

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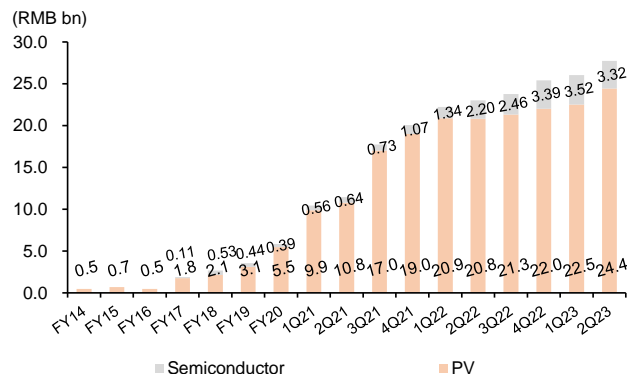
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**Figure 1: Jingsheng's net profit growth**



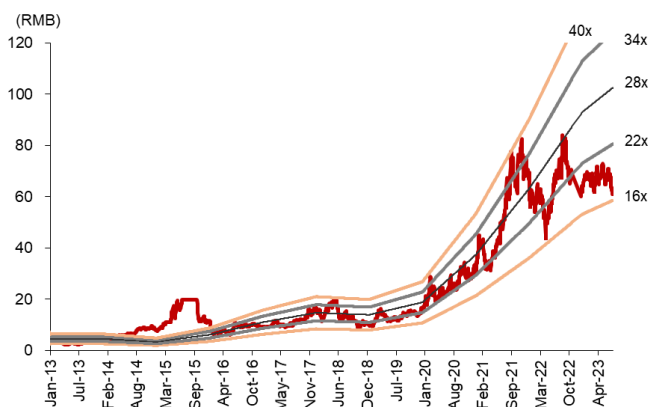
Source: Company data, CMBIGM estimates

**Figure 2: Jingsheng's total backlog reached RMB25.4bn as at end-Dec 2022**



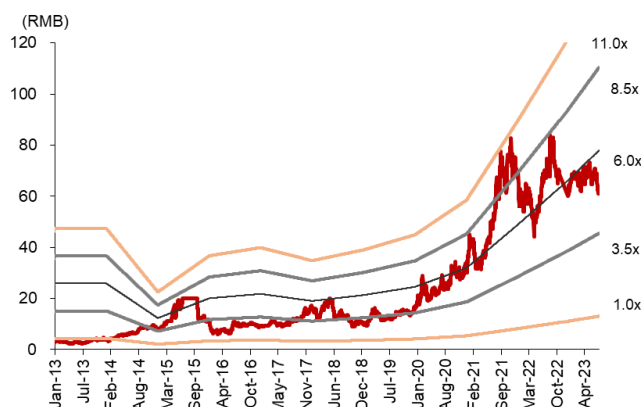
Source: Company data, CMBIGM

**Figure 3: Jingsheng's P/E band**



Source: Company data, Bloomberg, CMBIGM estimates

**Figure 4: Jingsheng's P/B band**



Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>3,811</b>	<b>5,961</b>	<b>10,638</b>	<b>17,198</b>	<b>20,322</b>	<b>23,412</b>
Cost of goods sold	(2,416)	(3,593)	(6,420)	(10,229)	(12,261)	(14,272)
<b>Gross profit</b>	<b>1,395</b>	<b>2,368</b>	<b>4,218</b>	<b>6,969</b>	<b>8,061</b>	<b>9,140</b>
Selling expense	(33)	(30)	(45)	(69)	(77)	(87)
Admin expense	(136)	(200)	(287)	(447)	(508)	(538)
R&D expense	(227)	(354)	(796)	(1,290)	(1,351)	(1,522)
Others	(44)	(84)	(126)	(204)	(241)	(278)
<b>Operating profit</b>	<b>955</b>	<b>1,701</b>	<b>2,964</b>	<b>4,959</b>	<b>5,883</b>	<b>6,715</b>
Other income	169	369	646	587	610	632
Other gains/(losses)	(137)	(100)	(210)	(395)	(471)	(547)
<b>Net Interest income/(expense)</b>	<b>4</b>	<b>14</b>	<b>19</b>	<b>16</b>	<b>28</b>	<b>68</b>
<b>Pre-tax profit</b>	<b>992</b>	<b>1,984</b>	<b>3,419</b>	<b>5,167</b>	<b>6,049</b>	<b>6,868</b>
Income tax	(140)	(256)	(341)	(517)	(605)	(687)
<b>After tax profit</b>	<b>852</b>	<b>1,728</b>	<b>3,078</b>	<b>4,650</b>	<b>5,445</b>	<b>6,181</b>
Minority interest	6	(17)	(154)	(312)	(327)	(278)
<b>Adjusted net profit</b>	<b>858</b>	<b>1,712</b>	<b>2,924</b>	<b>4,339</b>	<b>5,118</b>	<b>5,903</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>7,962</b>	<b>13,190</b>	<b>22,590</b>	<b>29,960</b>	<b>36,037</b>	<b>43,379</b>
Cash & equivalents	851	1,785	3,509	3,563	4,819	7,391
Restricted cash	88	82	0	0	0	0
Account receivables	3,713	4,147	5,444	10,319	12,193	14,047
Inventories	2,580	6,051	12,391	14,832	17,779	20,695
Prepayment	167	534	958	958	958	958
Other current assets	563	591	288	288	288	288
<b>Non-current assets</b>	<b>2,536</b>	<b>3,693</b>	<b>6,297</b>	<b>7,508</b>	<b>8,514</b>	<b>9,320</b>
PP&E	1,135	1,509	2,573	3,669	4,572	5,284
Investment in JVs & assos	824	977	951	1,075	1,202	1,333
Intangibles	221	246	429	434	439	443
Other non-current assets	356	961	2,344	2,330	2,300	2,260
<b>Total assets</b>	<b>10,498</b>	<b>16,884</b>	<b>28,887</b>	<b>37,468</b>	<b>44,551</b>	<b>52,699</b>
<b>Current liabilities</b>	<b>5,201</b>	<b>9,620</b>	<b>17,510</b>	<b>22,029</b>	<b>24,535</b>	<b>27,526</b>
Short-term borrowings	22	29	1,091	1,141	1,191	1,201
Account payables	2,775	4,147	6,350	9,717	11,035	12,845
Other current liabilities	401	480	604	604	604	604
Contract liabilities	2,003	4,964	9,465	10,568	11,706	12,877
<b>Non-current liabilities</b>	<b>46</b>	<b>147</b>	<b>164</b>	<b>164</b>	<b>164</b>	<b>164</b>
Long-term borrowings	11	2	1	1	1	1
Other non-current liabilities	35	146	163	163	163	163
<b>Total liabilities</b>	<b>5,247</b>	<b>9,767</b>	<b>17,674</b>	<b>22,193</b>	<b>24,700</b>	<b>27,690</b>
<b>Total shareholders equity</b>	<b>5,240</b>	<b>6,835</b>	<b>10,773</b>	<b>14,524</b>	<b>18,774</b>	<b>23,653</b>
Minority interest	12	281	440	751	1,078	1,356
<b>Total equity and liabilities</b>	<b>10,498</b>	<b>16,884</b>	<b>28,887</b>	<b>37,468</b>	<b>44,551</b>	<b>52,699</b>

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	852	1,728	3,078	4,650	5,445	6,181
Depreciation & amortization	136	153	395	332	442	544
Change in working capital	(124)	(744)	(3,487)	(2,846)	(2,366)	(1,789)
Others	90	599	1,327	21	19	15
<b>Net cash from operations</b>	<b>954</b>	<b>1,737</b>	<b>1,314</b>	<b>2,158</b>	<b>3,539</b>	<b>4,951</b>
<b>Investing</b>						
Capital expenditure	(229)	(778)	(2,323)	(1,420)	(1,320)	(1,220)
Others	(54)	(108)	371	(84)	(82)	(80)
<b>Net cash from investing</b>	<b>(283)</b>	<b>(886)</b>	<b>(1,952)</b>	<b>(1,504)</b>	<b>(1,402)</b>	<b>(1,300)</b>
<b>Financing</b>						
Dividend paid	(132)	(174)	(360)	(589)	(868)	(1,024)
Net borrowings	(44)	(4)	1,063	50	50	10
Proceeds from share issues	18	265	1,498	0	0	0
Others	(209)	(11)	(106)	(61)	(64)	(66)
<b>Net cash from financing</b>	<b>(366)</b>	<b>75</b>	<b>2,094</b>	<b>(600)</b>	<b>(882)</b>	<b>(1,079)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	542	847	1,783	3,238	3,293	4,548
Exchange difference	0	9	0	0	0	0
<b>Cash at the end of the year</b>	<b>847</b>	<b>1,783</b>	<b>3,238</b>	<b>3,293</b>	<b>4,548</b>	<b>7,120</b>

GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	22.5%	56.4%	78.5%	61.7%	18.2%	15.2%
Gross profit	26.2%	69.8%	78.1%	65.2%	15.7%	13.4%
Operating profit	30.5%	78.1%	74.3%	67.3%	18.6%	14.1%
Adj. net profit	34.6%	99.5%	70.8%	48.4%	18.0%	15.3%

PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	36.6%	39.7%	39.6%	40.5%	39.7%	39.0%
Operating margin	25.1%	28.5%	27.9%	28.8%	28.9%	28.7%
Adj. net profit margin	22.5%	28.7%	27.5%	25.2%	25.2%	25.2%

GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Current ratio (x)	1.5	1.4	1.3	1.4	1.5	1.6
Receivable turnover days	302.9	216.4	147.2	162.3	202.2	204.5
Inventory turnover days	190.1	264.2	316.4	288.9	292.8	299.9
Payable turnover days	350.8	351.6	298.4	286.7	308.9	305.4

VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
P/E	37.8	40.0	28.8	16.7	14.1	12.3
P/B	6.2	10.0	7.9	5.0	3.9	3.1
Div yield (%)	0.5	0.5	0.7	1.2	1.4	1.6

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

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