

Sunway (300136 CH)

Maintain HOLD on continuous margin pressure

Sunway released 1H21 results with revenue +19.5% YoY but NP -47.5% YoY. 1H21 revenue/NP accounted for 38%/31% and 34%/14% of our and consensus FY21E estimates (vs. 1H20 rev/NP for 40%/34% in FY20). The miss was mainly driven by record-low gross margin (15.7% in 2Q21, vs. 40.5% in 3Q20) due to new business ramp-up, seasonality, and increasing material costs. We revised down FY21-23E EPS by 26-38% to reflect continuous pressure on gross margin. We maintain HOLD given severe margin deterioration, and cut TP to RMB26.6 based on lower 27x FY22E P/E (previous 31x 21E P/E).

- Revenue to grow sequentially in 2H21E given peak season.** 2Q21 revenue was disappointing with -4.6% YoY/ -10.6% QoQ decline. The decline was due to new business ramp-up, such as LCP, BTB, UWB, passive components, and low seasonality. We believe revenue will recover gradually in 2H21E, driven by peak season of consumer electronics market.
- Cautious on deteriorated gross margin outlook.** The significant decline in 1H21 NP was mainly due to record-low gross margin (15.7% in 2Q21, vs. 40.5%/21.2%/21.4% in 3Q20/4Q20/1Q21). GPM of domestic/overseas sales contracted to 20.0%/17.8% in 1H21 from 30.2%/30.2% in FY20. We believe margin pressure will remain a major concern in the future, given longer-than-expected margin improvement for new business, 2) intense competition and 3) increasing material costs. We estimate FY21/22E GPM will reach 20.1%/ 22.1%, vs. 30.2% in FY20.
- Maintain HOLD and adjust TP to RMB 26.6.** We cut FY21-23E EPS by 26-38%, and our new EPS are 30-56% below consensus. We maintain HOLD and trimmed TP to RMB 26.6 based on lower rollover 27x FY22E P/E. We are cautious on near-term outlook, given concerns over deteriorating margin and delay in new business ramp-up. We expect the GPM will recover in 2H21 but it is difficult to reach previous level. Currently trading at 26.6x 22E P/E, we think the stock is fairly valued. We are conservative on mgmt. guidance, and selling pressure is likely to continue in near term. Potential risks include slower-than-expected market share gain and continued delay in ramp-up of new business.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB)	5,134	6,394	8,083	9,895	12,726
YoY growth (%)	9.1%	24.5%	26.4%	22.4%	28.6%
Gross margin (%)	37.3%	30.2%	20.1%	22.1%	24.0%
Net profit (RMB)	1,020	972	558	950	1,454
YoY growth (%)	3.2%	-4.7%	-42.7%	70.4%	53.1%
EPS (RMB)	1.049	1.007	0.578	0.985	1.508
Consensus EPS (RMB)	-	1.007	1.329	1.729	2.159
PE (x)	-	-	45.3	26.6	17.4
PB (x)	5.4	4.6	4.1	3.7	3.1
ROE (%)	21.4%	17.5%	9.1%	13.7%	17.7%
Net gearing (%)	38.1%	18.2%	18.7%	18.5%	6.0%

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	RMB 26.6
(Previous TP)	RMB 29.4)
Up/Downside	+1.5%
Current Price	RMB 26.20

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	25,350
Avg. 3mths t/o (RMB mn)	718
52W High/Low (RMB)	66.28/25.01
Total Issued Shares (mn)	967.6

Source: Bloomberg

Shareholding Structure

Peng Hao	19.48%
HKSCC	3.72%
National Social Security Fund	3.05%

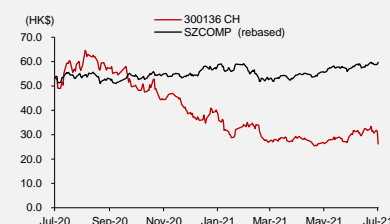
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	7.6%	4.2%
3-mth	9.9%	1.7%
6-mth	-19.8%	-21.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Bakertilly

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2Q21 Results Review

Figure 1: 1Q21 results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Revenue	1,045	1,513	1,783	2,054	1,613	1,443	-10.6%	-4.6%
Gross Profit	251	521	722	436	345	227	-34.3%	-56.4%
Operating Profit	70	295	482	85	142	64	-55.4%	-78.5%
Net profit	63	266	417	226	115	57	-50.3%	-78.5%
EPS (RMB)	0.06	0.27	0.43	0.23	0.12	0.06	-50.4%	-78.4%
Gross Margin	24.0%	34.4%	40.5%	21.2%	21.4%	15.7%	-5.7 ppt	-18.7 ppt
Operating Margin	6.7%	19.5%	27.0%	4.1%	8.8%	4.4%	-4.4 ppt	-15.1 ppt
Net Margin	6.0%	17.6%	23.4%	11.0%	7.1%	4.0%	-3.2 ppt	-13.6 ppt

Source: Company data, CMBIS estimates

Earnings Revision

Figure 2: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,083	9,895	12,726	8,589	11,409	15,124	-6%	-13%	-16%
Gross Profit	1,623	2,186	3,052	2,214	3,091	4,437	-27%	-29%	-31%
Operating Profit	571	1,002	1,552	989	1,450	2,207	-42%	-31%	-30%
Net profit	558	950	1,454	908	1,297	1,971	-39%	-27%	-26%
EPS (RMB)	0.578	0.985	1.508	0.938	1.340	2.037	-38%	-27%	-26%
Gross Margin	20.1%	22.1%	24.0%	25.8%	27.1%	29.3%	-5.7 ppt	-5 ppt	-5.4 ppt
Operating Margin	7.1%	10.1%	12.2%	11.5%	12.7%	14.6%	-4.5 ppt	-2.6 ppt	-2.4 ppt
Net Margin	6.9%	9.6%	11.4%	10.6%	11.4%	13.0%	-3.7 ppt	-1.8 ppt	-1.6 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,083	9,895	12,726	9,030	11,596	14,550	-10%	-15%	-13%
Gross Profit	1,623	2,186	3,052	2,825	3,626	4,487	-43%	-40%	-32%
Operating Profit	571	1,002	1,552	1,399	1,861	2,353	-59%	-46%	-34%
Net profit	558	950	1,454	1,257	1,661	2,149	-56%	-43%	-32%
EPS (RMB)	0.578	0.985	1.508	1.329	1.729	2.159	-56%	-43%	-30%
Gross Margin	20.1%	22.1%	24.0%	31.3%	31.3%	30.8%	-11.2 ppt	-9.2 ppt	-6.9 ppt
Operating Margin	7.1%	10.1%	12.2%	15.5%	16.1%	16.2%	-8.4 ppt	-5.9 ppt	-4 ppt
Net Margin	6.9%	9.6%	11.4%	13.9%	14.3%	14.8%	-7 ppt	-4.7 ppt	-3.3 ppt

Source: Bloomberg, CMBIS estimates

Figure 4: Revenue breakdown

RMB mn	FY19A	FY20A	FY21E	FY22E	FY23E
Antenna/RF modules	2,105	2,302	3,190	3,313	3,420
...YoY	-5%	9%	39%	4%	3%
Wireless charging	719	1,215	1,478	1,896	2,469
...YoY	27%	69%	22%	28%	30%
EMC/EMI	1,720	2,110	2,532	3,038	3,646
...YoY	26%	23%	20%	20%	20%
Cables/connectors	590	767	882	1,015	1,167
...YoY	5%	30%	15%	15%	15%
RFFE	0	0	0	633	2,024
...YoY	-	-	-	-	220%
Total	5,134	6,394	8,083	9,895	12,726
...YoY	9%	25%	26%	22%	29%

Source: Company data, CMBIS estimates

Figure 5: P&L forecast

RMB mn	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	5,134	6,394	8,083	9,895	12,726
...YoY	9%	25%	26%	22%	29%
Cost of sales	(3,217)	(4,464)	(6,460)	(7,709)	(9,674)
Gross profit	1,917	1,930	1,623	2,186	3,052
GPM (%)	37%	30%	20%	22%	24%
...YoY	2%	-19%	-33%	10%	9%
SG&A	(324)	(404)	(408)	(480)	(592)
...% of rev	-6%	-6%	-5%	-5%	-5%
R&D	(430)	(586)	(687)	(792)	(1,018)
...% of rev	-8%	-9%	-9%	-8%	-8%
Operating profit	1,174	932	571	1,002	1,552
OPM (%)	23%	15%	7%	10%	12%
...YoY	-5%	-36%	-52%	43%	20%
Net profit	1,020	972	558	950	1,454
NPM (%)	20%	15%	7%	10%	11%
...YoY	-5%	-23%	-55%	39%	19%

Source: Company data, CMBIS estimates

Valuation

Maintain HOLD and TP at RMB26.6 (1.5% upside)

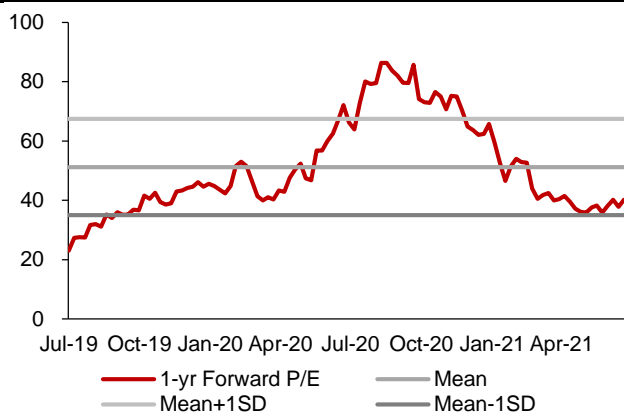
We maintain our previous HOLD rating and adjust the TP to RMB26.6 based on lower 27x FY22E P/E, vs previous 31x 21E P/E. We are cautious in the near-term outlook, given concerns over deteriorating margin and delay in new business ramp-up. We expect the GPM will recover in 2H21 but is difficult to reach previous level. Potential risks include slower-than-expected market share gain and continued delay in ramp-up of new business.

Figure 6: Peers' valuation

Company	Ticker	Rating	Mkt Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Antenna												
Sunway	300136 CH	Hold	3,919	26.20	26.59	1%	45.3	26.6	4.1	3.7	9.1	13.8
Amphenol	APH US	NR	41,923	70.15	NA	NA	30.8	27.6	7.3	6.5	25.4	25.8
Average							38.1	27.1	5.7	5.1	17.3	19.8
Wireless charging												
Sunway	300136 CH	Hold	3,919	26.20	26.59	4%	45.3	26.6	4.1	3.7	9.1	13.8
Luxshare	002475 CH	NR	45,739	42.05	NA	NA	31.7	24.3	8.0	6.2	26.6	26.8
Lingyi iTech	002600 CH	NR	7,855	7.20	NA	NA	16.3	12.9	1.4	1.2	17.0	17.5
Anjie Tech	002635 CH	NR	1,358	12.52	NA	NA	25.0	14.6	1.4	1.3	5.8	9.4
Amphenol	APH US	NR	41,923	70.15	NA	NA	30.8	27.6	7.3	6.5	25.4	25.8
Average							29.8	21.2	4.5	3.8	16.8	18.7

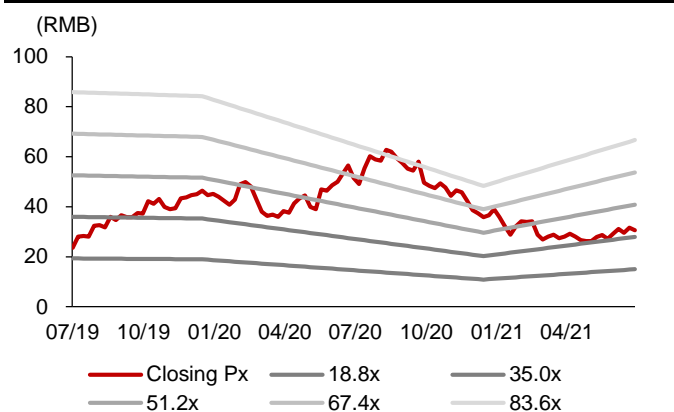
Source: Bloomberg, CMBIS

Figure 7: 12M forward P/E chart



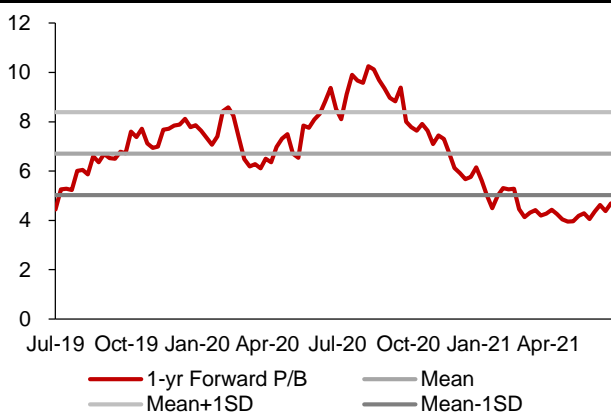
Source: Company data, CMBIS estimates

Figure 8: 12M forward P/E band



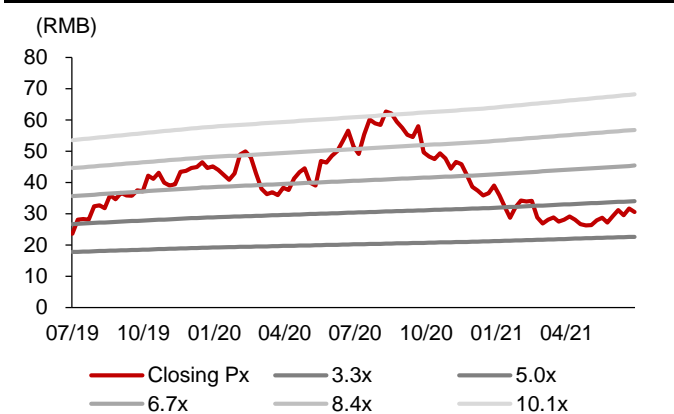
Source: Company data, CMBIS estimates

Figure 9: 12M forward P/B chart



Source: Company data, CMBIS estimates

Figure 10: 12M forward P/B band



Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	5,134	6,394	8,083	9,895	12,726	Pretax profit	1,027	974	560	954	1,461
COGS	-3,217	-4,464	-6,460	-7,709	-9,674	D&A	239	356	317	356	405
Gross Profit	1,917	1,930	1,623	2,186	3,052	Change in working capital	-665	19	-347	-509	38
SG&A	-324	-404	-408	-480	-592	Others	76	148	107	92	124
R&D exp.	-430	-586	-687	-792	-1,018	Net cash from operating	677	1,498	637	893	2,028
Financing exp.	-64	-25	8	5	17	Capex	-1,064	-917	-727	-849	-992
Other opex	74	17	35	82	92	Purchase/sale of investments	19	-81	-2	0	0
Operating profit	1,174	932	571	1,002	1,552	Purchase/sale of subs	0	0	-23	-0	-0
Non-operating income	0	163	70	86	110	Other	2	254	17	-4	-6
Non-operating exp.	-3	-6	-8	-10	-13	Net cash from investing	-1,043	-743	-735	-853	-998
Pre-tax profit	1,171	1,089	632	1,077	1,649	Change in shares	11	0	112	5	5
Income tax expenses	-144	-115	-72	-123	-188	Change in debt	135	615	-108	458	206
Net profit	1,027	974	560	954	1,461	Dividend/interests paid	-90	-105	-129	-184	-237
Non-controlling interests	7	1	3	4	7	Other	-186	27	-0	-0	-0
Net profit to shareholders	1,020	972	558	950	1,454	Net cash from financing	-129	537	-125	279	-27
Adj. EBITDA	1,412	1,289	888	1,357	1,957	Net change in cash	-495	1,292	-223	319	1,003
						Cash, beginning	935	439	1,733	1,510	1,829
						Exchange difference	-1	2	0	0	0
						Cash, end	439	1,733	1,510	1,829	2,832

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	4,162	6,837	5,906	6,994	7,934	Revenue by segment					
Cash & equivalents	444	1,756	1,513	1,832	2,835	Antenna/RF modules	2,105	2,302	3,190	3,313	3,420
Trade & other receivables	2,941	2,590	1,996	2,481	2,572	Wireless charging	719	1,215	1,478	1,896	2,469
Inventories	609	2,176	2,107	2,388	2,229	EMC/EMI	1,720	2,110	2,532	3,038	3,646
Other current assets	167	316	290	293	297	Cables/connectors	590	767	882	1,015	1,167
						RFFE	0	0	0	633	2,024
Non-current assets	4,208	4,126	4,799	5,311	5,917	Total	5,134	6,394	8,083	9,895	12,726
PPE	1,543	2,196	2,168	2,202	2,287	Growth (%)					
Intangibles	823	252	271	294	325	Revenue	9.1%	24.5%	26.4%	22.4%	28.6%
Goodwill	545	545	569	569	569	Adj. EBITDA	12.9%	-8.8%	-31.1%	52.9%	44.2%
Other non-current assets	1,296	1,132	1,791	2,245	2,737	Net profit	3.2%	-4.7%	-42.7%	70.4%	53.1%
Total assets	8,369	10,962	10,705	12,305	13,851	Profit & loss ratio (%)					
Current liabilities	2,746	4,042	3,098	3,884	4,159	Gross margin	37.3%	30.2%	20.1%	22.1%	24.0%
ST debt & LT debt to mature	1,444	1,501	1,411	1,870	2,075	EBITDA margin	27.5%	20.2%	11.0%	13.7%	15.4%
Trade & other payables	1,167	2,325	1,553	1,879	1,946	Net profit margin	19.9%	15.2%	6.9%	9.6%	11.4%
Other current liabilities	135	217	134	135	138	Balance sheet ratio					
Non-current liabilities	862	1,353	1,464	1,464	1,464	Net debt/total equity (%)	38.1%	18.2%	18.7%	18.5%	6.0%
LT debt	817	1,271	1,252	1,252	1,252	Debt/EBITDA	1.6	2.2	3.0	2.3	1.7
Bonds payables	0	0	0	0	0	Interest coverage	-	-	27.6	34.5	45.9
Other non-current liabilities	45	82	212	212	212	Cash conversion cycle (days)	141.4	155.6	138.5	126.5	102.5
Total liabilities	3,608	5,395	4,562	5,348	5,623	Profitability (%)					
Total equity	4,762	5,567	6,143	6,957	8,228	ROE	21.4%	17.5%	9.1%	13.7%	17.7%
Share capital	969	963	968	972	977	ROA	12.2%	8.9%	5.2%	7.7%	10.5%
Reserves	214	280	387	387	387	Per share data (RMB)					
Retained earnings	3,358	3,964	4,369	5,079	6,194	EPS	1.05	1.01	0.58	0.98	1.51
Other equities	175	318	373	468	614	BVPS	4.85	5.72	6.32	7.16	8.47
Minority interests	46	43	45	50	57						
Total liabilities and equity	8,369	10,962	10,705	12,305	13,851						

Source: Company data, CMBIS estimates

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