

Shengyi Technology (600183 CH)

CCL upcycle to continue; Maintain BUY

Shengyi Tech reported 1H21 results with revenue of RMB9.8bn (43% YoY) and net profit of RMB1.4bn (71% YoY), largely in-line with its preannounced earnings earlier. We believe Shengyi's solid results confirmed the upcycle for CCL segment. Although PCB business remains under pressure due to rising raw material costs which partially offset the growth from CCL, we remain positive on Shengyi Tech's outlook. We revised up FY21-23E EPS by 3-12% and raised TP to RMB31.90. Maintain BUY.

- Strong 2Q21 results driven by CCL upcycle; PCB business remains weak.** By segment, CCL/pregreg revenue/net profit grew 62%/171% YoY and PCB grew revenue/net profit declined 25%/66% YoY. CCL/pregreg GPM is flattish QoQ at 29.3% in 2Q21 (vs 29.3%/26.4% for 1Q21/2Q20), while PCB GPM continued to decline to 16.0% (vs. 21.6%/28.5% for 1Q21/2Q20). As global No.2 CCL supplier, we believe Shengyi Tech was able to transfer the material cost pressure to downstream PCB manufacturers. However, blended GPM decreased to 25.7% in 2Q21 (vs 27.9% in 1Q21) given 1) deteriorated margin from PCB business and 2) limited margin upside from CCL business as rising costs may curb downstream demand.
- Expect another strong quarter in 3Q and stable 4Q may have higher uncertainty.** Looking forward, we think the Company will deliver a strong 3Q21 given peak season and high order visibility. We believe 1) auto market will continue its momentum and remain as the key driver for CCL and 2) telecom equipment demand will pick up given that 5G deployment has resumed with stable GPM and ASP. Overall, we think 2H revenue growth will be similar to 1H given 1) limited room for CCL suppliers to increase ASP and 2) increasing demand uncertainty from downstream clients in 4Q due to high cost pressure.
- Maintain BUY with new TP of RMB31.90.** We slightly adjusted our TP to RMB31.90 based on higher earnings forecasts and lower 25.0x FY22/P/E (vs previous 30x due to limited CCL ASP upside and demand uncertainty). Trading at 23.2x/20.7x FY21/22E P/E, the stock remains attractive. Potential risks include less-than-expected transfer of material costs and less-than-expected market demand.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Turnover (RMB mn)	13,241	14,687	19,740	22,234	26,039
YoY growth (%)	10.5	10.9	34.4	12.6	17.1
Gross margin (%)	26.6	26.8	27.8	27.4	27.6
Net profit (RMB mn)	1,449	1,681	2,600	2,923	3,495
EPS (RMB)	0.66	0.74	1.13	1.28	1.53
YoY growth (%)	39.7	12.1	53.3	12.4	19.6
Consensus EPS (RMB)	NA	NA	1.12	1.28	1.48
PE (x)	39.9	35.6	23.2	20.7	17.3
PB (x)	6.8	6.1	4.7	4.3	3.8
Yield (%)	1.5	1.5	2.6	2.9	3.5
ROE (%)	16.4	17.0	20.4	20.7	22.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB 31.90
(Previous TP)	RMB 30.48)
Up/Downside	+21.0%
Current Price	RMB 26.35

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	61,522
Avg. 3mths t/o (RMB mn)	771
52W High/Low (RMB)	30.46/21.20
Total Issued Shares (mn)	2,302.5

Source: Bloomberg

Shareholding Structure

Guangdong Guangxin Holdings	22.65%
Dongguan Guohong Invest.	14.94%
Weihua Electronics	14.17%

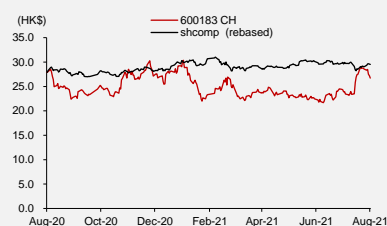
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	11.3%	12.1%
3-mth	16.3%	14.3%
6-mth	16.6%	20.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: GP CPAs

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2Q21 Results Review

Figure 1: 2Q21 results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Revenue	3,072	3,807	3,811	3,997	4,505	5,326	18.2%	39.9%
Gross Profit	882	1,091	992	968	1,259	1,566	24.4%	43.6%
Operating Profit	432	602	575	482	675	1,009	49.4%	67.7%
Net profit	339	487	477	378	544	870	59.9%	78.9%
EPS (RMB)	0.15	0.21	0.21	0.16	0.24	0.38	58.3%	78.4%
Gross Margin	28.7%	28.6%	26.0%	24.2%	27.9%	29.4%	1.5 ppt	0.8 ppt
Operating Margin	14.0%	15.8%	15.1%	12.1%	15.0%	18.9%	3.9 ppt	3.1 ppt
Net Margin	11.0%	12.8%	12.5%	9.4%	12.1%	16.3%	4.3 ppt	3.6 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	19,740	22,234	26,039	18,976	22,591	25,237	4%	-2%	3%
Gross Profit	5,483	6,098	7,184	5,172	6,215	7,025	6%	-2%	2%
Operating Profit	3,200	3,597	4,276	2,915	3,539	4,065	10%	2%	5%
Net profit	2,600	2,923	3,437	2,327	2,826	3,246	12%	3%	6%
EPS (RMB)	1.13	1.28	1.50	1.02	1.23	1.42	12%	3%	6%
Gross Margin	27.8%	27.4%	27.6%	27.3%	27.5%	27.8%	0.5 ppt	-0.1 ppt	-0.2 ppt
Operating Margin	16.2%	16.2%	16.4%	15.4%	15.7%	16.1%	0.8 ppt	0.5 ppt	0.3 ppt
Net Margin	13.2%	13.1%	13.2%	12.3%	12.5%	12.9%	0.9 ppt	0.6 ppt	0.3 ppt

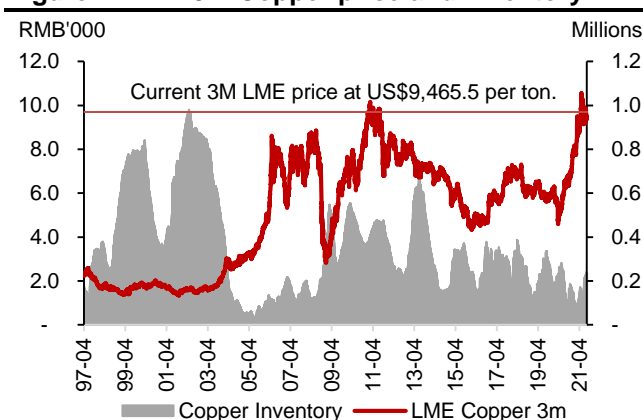
Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	19,740	22,234	26,039	19,510	22,444	25,454	1%	-1%	2%
Gross Profit	5,483	6,098	7,184	5,444	6,238	7,103	1%	-2%	1%
Operating Profit	3,200	3,597	4,276	3,222	3,702	4,374	-1%	-3%	-2%
Net profit	2,600	2,923	3,437	2,583	2,950	3,393	1%	-1%	1%
EPS (RMB)	1.13	1.28	1.50	1.12	1.28	1.48	1%	-1%	2%
Gross Margin	27.8%	27.4%	27.6%	27.9%	27.8%	27.9%	-0.1 ppt	-0.4 ppt	-0.3 ppt
Operating Margin	16.2%	16.2%	16.4%	16.5%	16.5%	17.2%	-0.3 ppt	-0.3 ppt	-0.8 ppt
Net Margin	13.2%	13.1%	13.2%	13.2%	13.1%	13.3%	-0.1 ppt	0 ppt	-0.1 ppt

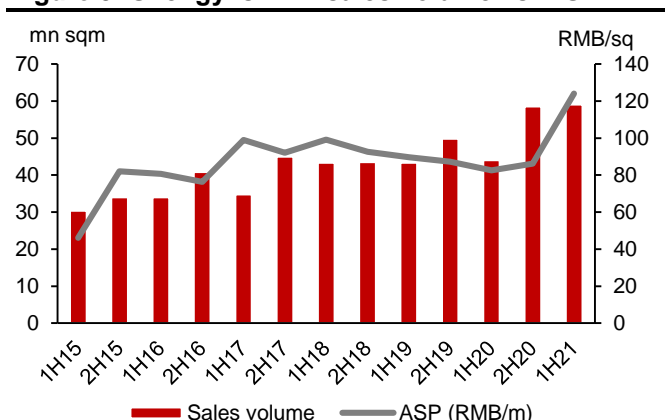
Source: Company data, CMBIS estimates

Figure 4: LME 3m Copper price and inventory



Source: Wind, CMBIS estimates

Figure 5: Shengyi's CCL sales volume vs. ASP



Source: Company data, CMBIS estimates

Figure 6: P&L forecasts

RMB mn	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,241	14,687	19,740	22,234	26,039
...YoY	11%	11%	34%	13%	17%
Cost of sales	(9,713)	(10,754)	(14,257)	(16,136)	(18,855)
Gross profit	3,528	3,933	5,483	6,098	7,184
GPM (%)	27%	27%	28%	27%	28%
...YoY	33%	11%	39%	11%	18%
SG&A	(932)	(899)	(1,138)	(1,237)	(1,422)
...% of rev	-7%	-6%	-6%	-6%	-5%
R&D	(605)	(711)	(888)	(956)	(1,120)
...% of rev	-5%	-5%	-5%	-4%	-4%
Operating profit	1,805	2,090	3,200	3,597	4,276
OPM (%)	14%	14%	16%	16%	16%
...YoY	47%	16%	53%	12%	19%
Net profit	1,449	1,681	2,600	2,923	3,437
NPM (%)	11%	11%	13%	13%	13%
...YoY	45%	16%	55%	12%	18%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP at RMB31.90 (21% upside)

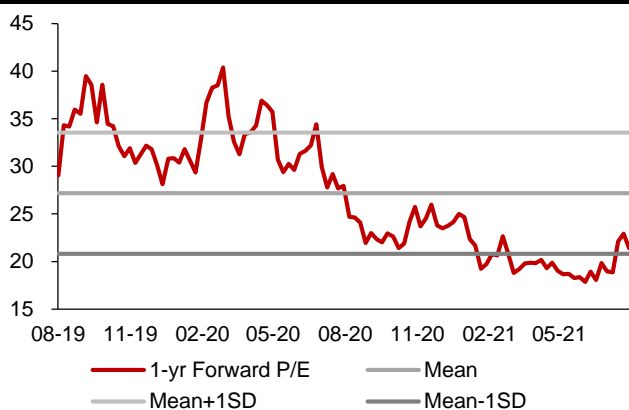
We maintain BUY rating with slightly adjusted TP of RMB31.90 based on lower 25x FY22E P/E. We believe the valuation is justified given that there is limited room for CCL ASP to increase and potential uncertainty in downstream demand due to material cost pressure. Trading at 23.2x/20.7x FY21/22E P/E, the stock remains attractive. Potential risks include less-than-expected transfer of material costs and less-than-expected market demand.

Figure 7: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
CCL												
Shengyi Tech	600183 CH	Buy	9,368	26.35	31.9	21%	23.2	20.7	4.8	4.2	20.4	20.7
Nanya	1303 TT	NR	24,467	85.90	NA	NA	10.4	12.9	1.7	1.7	17.4	13.3
ITEQ	6213 TT	NR	1,531	128.00	NA	NA	13.2	11.0	3.3	3.0	25.8	29.2
Kingboard	1888 HK	NR	5,780	14.42	NA	NA	7.1	7.2	2.6	2.3	38.2	32.8
Sumitomo	4203 JT	NR	2,194	4840.00	NA	NA	19.7	13.5	1.2	1.0	8.4	8.2
Rogers	ROG US	NR	3,771	201.32	NA	NA	27.4	24.0	3.3	2.9	12.0	12.0
Average							17.2	14.9	2.9	2.6	20.4	19.6
PCB												
Shengyi Tech	600183 CH	Buy	9,368	26.35	31.9	21%	23.2	20.7	4.8	4.2	20.4	20.7
Shennan Circuits	002916 CH	Hold	7,627	100.95	101.92	2%	36.6	29.7	5.9	5.2	16.2	17.4
WUS	002463 CH	NR	3,693	12.61	NA	NA	17.4	14.1	3.3	2.8	19.4	20.0
DSBJ	002384 CH	NR	5,328	20.18	NA	NA	18.1	14.3	2.4	2.1	13.4	14.7
Zhen Ding	4958 TT	NR	3,124	96.40	NA	NA	9.9	8.5	1.1	1.0	10.3	11.1
TTM	TTMI US	NR	1,518	14.08	NA	NA	11.0	9.4	1.0	0.9	8.5	8.5
UMTC	3037 TT	NR	7,377	136.50	NA	NA	22.2	16.3	3.7	3.3	16.8	20.5
Tripod	3044 TT	NR	2,095	111.00	NA	NA	9.2	8.3	1.5	1.4	16.7	16.8
Comped	2313 TT	NR	1,667	38.95	NA	NA	9.6	8.3	1.4	1.3	15.6	16.6
SEMCO	009150 KS	NR	11,498	179500.00	NA	NA	14.0	12.6	2.1	1.8	15.7	15.1
Average							16.6	13.6	2.6	2.3	15.7	16.6

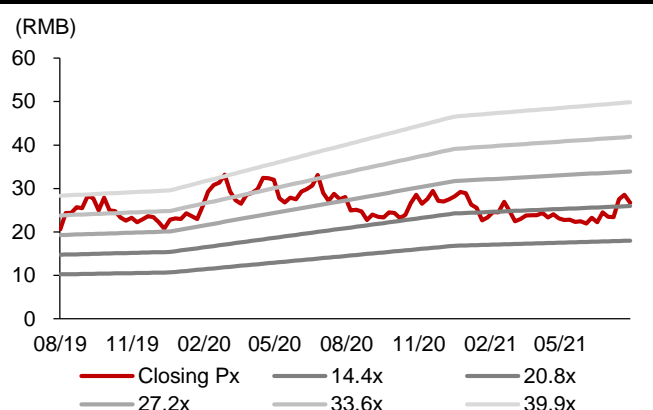
Source: Bloomberg, CMBIS estimates

Figure 8: 12M forward P/E chart



Source: Company data, CMBIS estimates

Figure 9: 12M forward P/E band



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,241	14,687	19,740	22,234	26,039
Cost of sales	9,713	10,754	14,257	16,136	18,855
Gross profit	3,528	3,933	5,483	6,098	7,184
Selling exp	288	179	230	259	303
Admin exp	644	720	908	978	1,120
R&D exp	605	711	888	956	1,120
Finance costs	142	114	144	173	199
Other operating exp.	44	119	113	135	167
Operating profit	1,805	2,090	3,200	3,597	4,276
Other non-oper exp.	0	(7)	-	-	0
Pre-tax profit	1,805	2,083	3,200	3,597	4,276
Income tax expense	242	283	434	488	580
Minority interests	115	120	166	187	259
Net profit to shareholders	1,449	1,681	2,600	2,923	3,437

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	1,563	1,800	2,766	3,109	3,696
Depreciation/amortization	409	531	465	541	630
Change in working capital	(479)	(832)	(1,287)	(277)	(1,003)
Others	198	258	(204)	173	199
Net cash from operating	1,692	1,758	1,739	3,547	3,522
Capex	(1,580)	(1,761)	(2,045)	(2,295)	(2,691)
Other	14	(72)	(2)	0	0
Net cash from investing	(1,566)	(1,833)	(2,047)	(2,295)	(2,691)
Share issuance	0	189	1,154	0	0
Dividend paid	(872)	(1,101)	(916)	(1,560)	(1,754)
Other	699	696	1,154	369	481
Net cash from financing	(173)	(215)	1,392	(1,191)	(1,272)
Net change in cash	(50)	(232)	1,084	61	(441)
Cash at beginning of the year	1,101	1,051	818	1,902	1,963
Exchange difference	(3)	58	0	0	0
Cash at the end of the year	1,051	818	1,902	1,963	1,522

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	8,712	9,716	12,940	13,369	15,095
Cash & equivalents	1,062	850	1,926	1,987	1,546
Account receivables	4,598	4,888	6,079	6,274	7,431
Inventory	2,100	2,519	3,421	3,594	4,604
Prepayment	11	20	33	33	33
Other current assets	941	1,439	1,481	1,481	1,481
Non-current assets	6,823	8,642	10,632	12,386	14,446
PPE	5,003	6,374	7,517	8,903	10,503
Deferred tax assets	76	120	157	157	157
Other non-current assets	1,744	2,148	2,959	3,327	3,787
Total assets	15,535	18,357	23,572	25,755	29,541
Current liabilities	5,257	6,804	8,231	8,985	10,682
ST borrowings	1,519	2,157	2,743	3,261	3,678
Account payables	2,656	2,903	3,679	3,770	4,935
Tax payable	116	125	161	161	161
Other current liabilities	965	1,619	1,647	1,792	1,907
Non-current liabilities	925	910	1,694	1,574	1,721
LT borrowings	732	605	968	1,151	1,298
Deferred tax liability	13	38	32	32	32
Other non-current	179	267	694	391	391
Total liabilities	6,181	7,714	9,925	10,558	12,402
Share capital	2,276	2,291	2,302	2,302	2,302
Reserve	2,505	2,795	3,938	3,938	3,938
Minority interest	520	754	920	1,107	1,365
Total equity	9,354	10,643	13,647	15,196	17,139
Total liabilities and equity	15,535	18,357	23,572	25,755	29,541

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix					
CCL	76	74	79	71	68
PCB	23	24	19	27	30
Others	1	2	2	2	2
Growth (%)					
Revenue	10.5	10.9	34.4	12.6	17.1
Gross profit	32.8	11.5	39.4	11.2	17.8
Operating profit	46.9	15.8	53.1	12.4	18.9
Net profit	39.7	12.1	53.3	12.4	17.6
Profit & loss ratio (%)					
Gross margin	26.6	26.8	27.8	27.4	27.6
Operating margin	13.6	14.2	16.2	16.2	16.4
Net profit margin	10.9	11.4	13.2	13.1	13.2
Balance sheet ratio					
Net debt/total equity (%)	12.7	18.0	13.1	16.0	20.0
Current ratio (x)	1.7	1.4	1.6	1.5	1.4
Receivable turnover days	116	118	101	101	96
Inventory turnover days	72	78	76	79	79
Payable turnover days	85	94	84	84	84
Profitability (%)					
ROE	16.4	17.0	20.4	20.7	21.8
ROA	9.3	9.2	11.0	11.3	11.6
Per share data (RMB)					
EPS	0.66	0.74	1.13	1.28	1.50
DPS	0.40	0.40	0.68	0.77	0.98
BPS	3.88	4.32	5.56	6.15	6.89

Source: Company data, CMBIS estimates

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