

Hikvision (002415 CH)

Resilient 3Q21 with high inventory buffer

Hikvision reported in-line FY3Q21 with revenue/ operating profit growth of +22%/ 24% YoY respectively. Innovative business growth remained strong at +53% YoY with revenue contribution reaching 17%. Although power cut impact is limited as Hikvision has high inventory on hand (FY3Q21 inventory +26% QoQ), weakening macro environment could weigh on FY22E growth outlook. Maintain BUY with lowered target price of RMB76.25 (prior RMB79.62).

- **Resilient FY3Q21.** Hikvision reported in-line FY3Q21. Revenue was at RMB21.7bn (+22% YoY) and net profit was at RMB4.5bn (+18% YoY). Excluding the time-lag of tax credit impact (recorded earlier in 2Q this year), operating profit grew at +24% YoY on higher GPM (+1.5 pct pts YoY to 46.4%).
- **Demand: Innovative business remained strong, property sector weakness to be reflected in FY2H22.** Hikvision products cover 70 industries now as camera applications expanded by embedding AI/ sensor technology. Innovative businesses (smart home products/ robotics/ industrial cameras, etc.) continued to gain shape with revenue growth of +53% YoY to RMB3.7bn in FY3Q21, contributing 17% of revenue. Regarding weakening macro environment, as it is turning more difficult to acquire new land and newly started construction area has been declining in China, EBG business could be negatively affected in FY2H22.
- **Supply: Record-high inventory level to minimize power cut risk.** As we [flagged](#) before, there is no direct impact from power cut to Hikvision production plants although some upstream component suppliers were being affected. Hikvision maintained a high-inventory level strategy and expanded the supplier list to minimize the potential risk. In FY3Q21, Hikvision inventory level came to a record high of RMB19.1bn (+71% YoY, +26% QoQ). Inventory as % of sales was at 0.88, still lower than the level in 1Q20 at 1.32 (Hikvision being added to entity list in Oct 2019).
- **Maintain BUY.** We cut FY21-23E net profit by 2-5% to reflect lower sales (macro to affect SMBG business) and lower margin on higher logistics cost and R&D. Maintain BUY with new target price of RMB76.25 (prior RMB79.62), based on unchanged 36x FY22 P/E. Key downside risks include raw material shortage that could last for longer time, higher logistic cost and weaker than expected demand.

Earnings Summary

(YE 31 Dec)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (RMB mn)	57,658	63,503	80,796	94,686	108,649
YoY growth (%)	16%	10%	27%	17%	15%
Net profit (RMB mn)	12,415	13,386	16,454	19,775	22,833
EPS (RMB)	1.33	1.43	1.76	2.12	2.45
YoY growth (%)	8%	8%	23%	20%	15%
Consensus EPS (RMB)	1.33	1.43	1.81	2.26	2.70
PE (x)	41.7	38.7	31.5	26.2	22.7
PB (x)	11.5	9.6	8.2	8.0	7.9
Dividend Yield (%)	0.01	0.01	0.03	0.04	0.04
ROE (%)	30%	27%	28%	31%	35%
Net debt to equity	net cash	net cash	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB76.25**
 (Previous TP **RMB79.62**)
 Up/Downside **+37.5%**
 Current Price **RMB55.44**

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Stock Data

Mkt Cap (RMB mn)	517,577
Avg 3 mths t/o (RMB mn)	2,165.40
52w High/Low (RMB)	70.48/ 38.92
Total Issued Shares (mn)	9,336

Source: Bloomberg

Shareholding Structure

CETC	38.9%
Kung Hong Ka - Chairman	10.3%

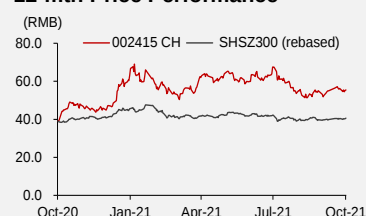
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	0.3%	-1.2%
3-mth	-18.1%	-14.5%
6-mth	-10.9%	-7.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

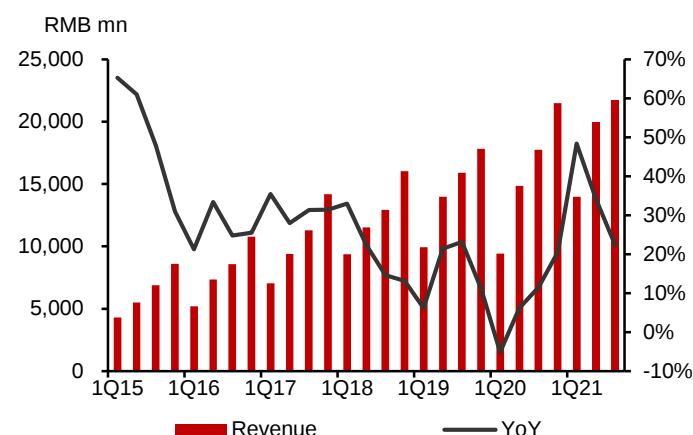
Auditor: Deloitte

Related Reports

1. China AI surveillance – Gov't projects picking up, power cuts impact limited - 12 Oct 2021
2. Hikvision (002415 CH) – Innovative business gaining momentum - 26 Jul 2021

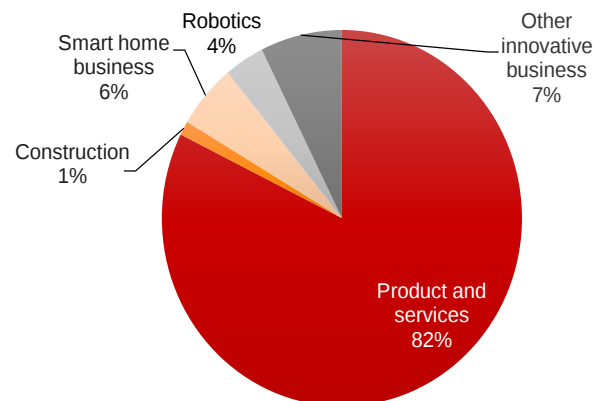
Focus Charts

Figure 1: Quarterly revenue and YoY growth



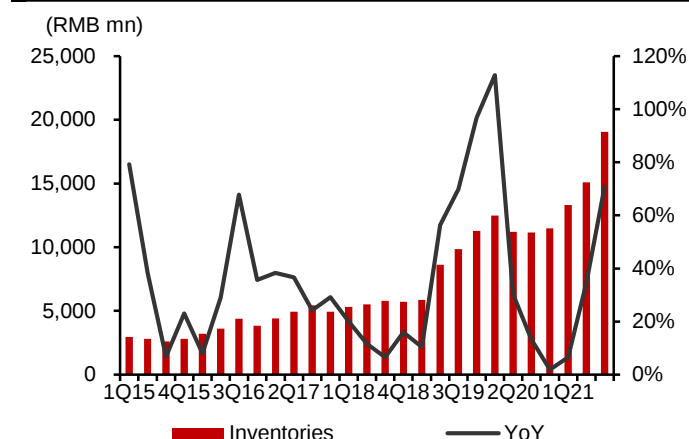
Source: Company data, CMBIS

Figure 2: Revenue breakdown (1H21)



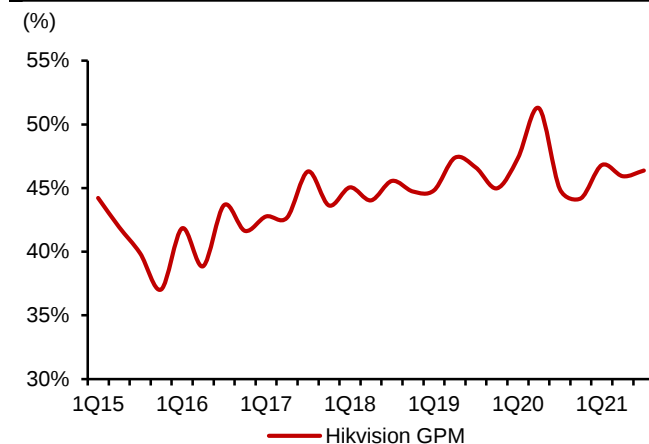
Source: Company data, CMBIS

Figure 3: Quarterly inventory and YoY growth



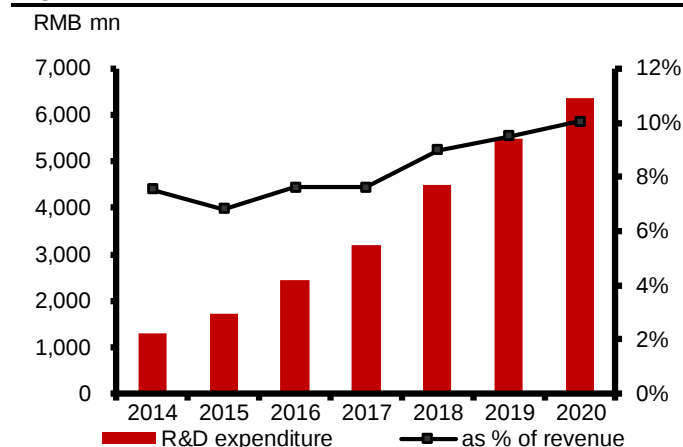
Source: Company data, CMBIS

Figure 4: Gross margin trend



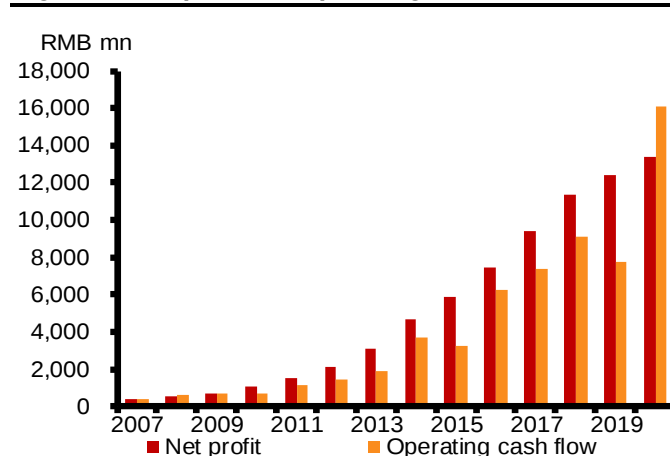
Source: Company data, CMBIS

Figure 5: R&D



Source: Company data

Figure 6: Net profit vs. operating cash flow



Source: Company data

FY3Q21 results review

- **Revenue** was at RMB21,727mn (+22% YoY, +9% QoQ), in-line with our and consensus estimates.
- **Gross profit** was at RMB10,078mn (+26% YoY, +10% QoQ), beat our estimate by 2% and consensus by 5%.
- **Gross margin** was at 46.4%, (+1.5 pct pts YoY, +0.4 pct pts QoQ), beat our estimate by 0.6 pct pts and consensus by 1.9 pct pts.
- **Operating profit** was at RMB4,826mn (+24% YoY, +24% QoQ), beat our estimate by 4%.
- **Operating margin** was at 22.2% (+0.3 pct pts YoY, +2.6 pct pts QoQ), above our estimate by 0.7 pct pts.
- **Net profit** was at RMB4,484mn (+18% YoY, +4% QoQ), beat our estimate by 2% and consensus by 2%.
- **EPS** was at RMB0.48 (+18% YoY, +4% QoQ), above our estimate by 2% and consensus by 10%.

Figure 7: FY3Q21 results review

	Sep-20 3Q20	Jun-21 2Q21	Sep-21 3Q21			Sep-21 3Q21	versus	Sep-21 3Q21	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	17,750	19,914	21,727	22%	9%	21,519	1%	21,506	1%
Gross profit	7,973	9,148	10,078	26%	10%	9,857	2%	9,556	5%
Gross margin	44.9%	45.9%	46.4%	1.5 pct pts	0.4 pct pts	45.8%	0.6 pct pts	44.4%	1.9 pct pts
Operating profit (adjusted)	3,896	3,899	4,826	24%	24%	4,628	4%	4,190	15%
Operating margin (adjusted)	21.9%	19.6%	22.2%	0.3 pct pts	2.6 pct pts	21.5%	0.7 pct pts	19.5%	2.7 pct pts
Net non-op	211	474	604			866		1,109	
PBT	4,107	4,372	5,430	32%	24%	5,494	-1%	5,299	2%
Tax	-197	48	-788			-989		-915	
Minorities	-95	-108	-158			-112			
Net income	3,815	4,312	4,484	18%	4%	4,393	2%	4,384	2%
EPS RMB	0.41	0.46	0.48	18%	4%	0.47	2%	0.44	10%

Source: Company data, CMBIS

Earnings revision

Figure 8: Hikvision earnings revision

RMB mn	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	80,796	80,448	0%	94,686	95,131	-0%	108,649	108,819	0%
Gross profit	37,354	37,033	1%	43,861	44,107	-1%	50,844	50,899	-0%
OP Profit	16,833	17,119	-2%	20,491	21,247	-4%	24,361	25,060	-3%
PBT	18,867	19,421	-3%	22,560	23,519	-4%	26,354	27,687	-5%
Net profit	16,454	16,800	-2%	19,775	20,647	-4%	22,833	24,048	-5%
EPS	1.76	1.80	-2%	2.12	2.21	-4%	2.45	2.58	-5%
Margins									
GM	46.2%	46.0%	20 bps	46.3%	46.4%	-4 bps	46.8%	46.8%	2 bps
OPM	20.8%	21.3%	-45 bps	21.6%	22.3%	-69 bps	22.4%	23.0%	-61 bps
PBT margin	23.4%	24.1%	-79 bps	23.8%	24.7%	-90 bps	24.3%	25.4%	-119 bps
Net margin	20.4%	20.9%	-52 bps	20.9%	21.7%	-82 bps	21.0%	22.1%	-108 bps

Source: Company data, CMBIS

Figure 9: Hikvision CMBI estimates vs. consensus

RMB mn	CMBI	2021		CMBI	2022		CMBI	2023	
		Street	Diff		Street	Diff		Street	Diff
Sales	80,796	79,850	1%	94,686	95,640	-1%	108,649	113,685	-4%
Gross profit	37,354	36,590	2%	43,861	44,035	-0%	50,844	52,486	-3%
OP Profit	16,833	19,026	-12%	20,491	23,434	-13%	24,361	28,156	-13%
PBT	18,867	19,196	-2%	22,560	23,688	-5%	26,354	28,203	-7%
Net profit	16,454	16,789	-2%	19,775	20,766	-5%	22,833	24,768	-8%
EPS	1.76	1.80	-2%	2.12	2.20	-4%	2.45	2.62	-7%
Margins									
GM	46.2%	45.8%	41 bps	46.3%	46.0%	28 bps	46.8%	46.2%	63 bps
OPM	20.8%	23.8%	-299 bps	21.6%	24.5%	-286 bps	22.4%	24.8%	-234 bps
PBT margin	23.4%	24.0%	-69 bps	23.8%	24.8%	-94 bps	24.3%	24.8%	-55 bps
Net margin	20.4%	21.0%	-66 bps	20.9%	21.7%	-83 bps	21.0%	21.8%	-77 bps

Source: Company data, CMBIS, Bloomberg

Operating model

Figure 10: Operating model

RMB mn	2019	2020	2021E	2022E	2023E
Revenues	57,658	63,503	80,796	94,686	108,649
Cost of sales	(31,140)	(33,958)	(43,441)	(50,825)	(57,805)
Gross Profit	26,518	29,546	37,354	43,861	50,844
<i>Gross margin</i>	<i>46.0%</i>	<i>46.5%</i>	<i>46.2%</i>	<i>46.3%</i>	<i>46.8%</i>
R&D	(5,484)	(6,379)	(8,756)	(9,921)	(11,345)
SG&A	(9,079)	(9,168)	(11,160)	(12,791)	(14,360)
Operating Income	11,538	13,583	16,833	20,491	24,361
<i>Operating margin</i>	<i>20.0%</i>	<i>21.4%</i>	<i>20.8%</i>	<i>21.6%</i>	<i>22.4%</i>
Non-Operating Income	2,218	1,690	2,034	2,069	1,992
Profit Before Tax	13,755	15,273	18,867	22,560	26,354
Income tax (expense) gain	(1,290)	(1,595)	(1,800)	(2,143)	(2,635)
Minorities	(51)	(293)	(613)	(643)	(885)
Net Income to Shareholders	12,415	13,386	16,454	19,775	22,833
<i>Net margin</i>	<i>21.5%</i>	<i>21.1%</i>	<i>20.4%</i>	<i>20.9%</i>	<i>21.0%</i>
EPS (RMB)	1.33	1.43	1.76	2.12	2.45
DPS (RMB)	0.60	0.70	1.60	1.97	2.36
Revenue breakdown					
Core camera solution	52,130	55,721	66,335	74,235	83,143
Construction	1,091	1,614	1,670	1,837	2,021
Smart home business	2,592	2,919	4,337	5,763	7,203
Robotics	814	1,359	2,825	4,359	5,666
Other innovative business	1,030	1,891	5,628	8,493	10,616
PBG	15,586	16,304			
EBG	12,591	15,180			
SMBG	9,356	9,683			
Domestic	41,420	45,807			
Export	16,239	17,697			
Gross margin breakdown					
Core camera solution	47.3%	48.4%	47.6%	48.0%	48.2%
Construction	22.7%	16.2%	24.7%	20.8%	21.7%
Innovative business	36.7%	37.3%	41.5%	42.2%	44.0%
Domestic	46.0%	44.9%			
Export	45.9%	50.7%			
Growth YoY					
Revenues	16%	10%	27%	17%	15%
Gross profit	19%	11%	26%	17%	16%

Source: Company data, CMBIS

Figure 11: Quarterly operating model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21E
Revenues	9,429	14,842	17,750	21,482	13,988	19,914	21,727	25,166
Gross Profit	4,466	7,612	7,973	9,495	6,549	9,148	10,078	11,579
Operating profit	1,472	3,088	3,896	5,126	2,569	3,899	4,826	5,539
Net profit (loss)	1,496	3,128	3,815	4,947	2,169	4,312	4,484	5,488
EPS (RMB)	0.16	0.33	0.41	0.53	0.23	0.46	0.48	0.59
Margins								
Gross margin	47.4%	51.3%	44.9%	44.2%	46.8%	45.9%	46.4%	46.0%
Operating margin	15.6%	20.8%	21.9%	23.9%	18.4%	19.6%	22.2%	22.0%
Net margin	15.9%	21.1%	21.5%	23.0%	15.5%	21.7%	20.6%	21.8%
Growth (QoQ)								
Revenues	-47%	57%	20%	21%	-35%	42%	9%	16%
Gross Profit	-44%	70%	5%	19%	-31%	40%	10%	15%
Operating profit	-60%	110%	26%	32%	-50%	52%	24%	15%
Net profit (loss)	-66%	109%	22%	30%	-56%	99%	4%	22%
Growth (YoY)								
Revenues	-5%	6%	12%	21%	48%	34%	22%	17%
Gross Profit	0%	15%	7%	18%	47%	20%	26%	22%
Operating profit	-11%	10%	13%	41%	74%	26%	24%	8%
Net profit (loss)	-3%	17%	0%	13%	45%	38%	18%	11%

Source: Company data, CMBIS

Valuation

Hikvision (002415 CH, BUY, TP RMB76.25)

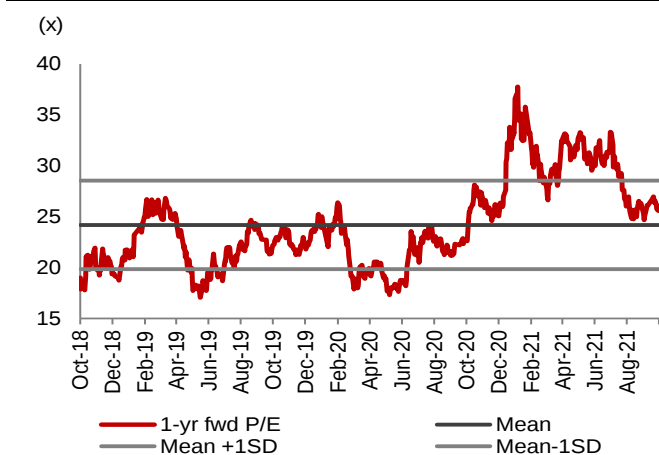
We cut target price to RMB76.25 (prior RMB79.62), based on unchanged 36x FY22 P/E, 50% above its 3-year mean. We believe Hikvision deserves re-rating as supply chain risk is mitigated after two years of product re-design, new growth drivers (AI) in enterprise segment is emerging and gross margin continues to expand. Also, Hikvision announced plan to spin-off its smart home business (Ezviz Network) on STAR board. We believe the spin-off could provide new financing channel to support IoT/ AI R&D.

Figure 12: Peers' valuation

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	P/E FY21E	P/E FY22E	ROE FY21E	ROE FY22E	Sales CAGR FY20-23	EPS CAGR FY20-23
Hikvision	002415 CH	BUY	81,042	55.44	76.25	31.5	26.2	28.2	31.0	20%	19%
Dahua	002236 CH	HOLD	10,605	22.61	24.37	15.8	13.1	19.1	19.3	19%	16%
China Transinfo	002373 CH	NR	3,473	14.03	N/A	17.4	14.1	9.7	10.9	16%	18%
iFlytek	002230 CH	NR	19,358	53.74	N/A	69.6	52.8	12.0	14.2	33%	34%
Cambricon Tech	688256 CH	NR	4,747	75.78	N/A	N/A	N/A	-13.3	-17.0	30%	2%
Mean						33.4	26.2	11.1	11.3	24%	18%
Median						24.1	19.4	12.0	14.2	22%	18%

Source: Bloomberg, CMBIS

Figure 13: Hikvision 12M forward P/E chart



Source: Bloomberg, CMBIS

Figure 14: Hikvision 12M forward P/E band



Source: Bloomberg, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	57,658	63,503	80,796	94,686	108,649
Cost of sales	(31,140)	(33,958)	(43,441)	(50,825)	(57,805)
Gross profit	26,518	29,546	37,354	43,861	50,844
Selling exp	(7,257)	(7,378)	(9,075)	(10,341)	(11,552)
Admin exp	(1,822)	(1,790)	(2,085)	(2,450)	(2,809)
R&D exp	(5,484)	(6,379)	(8,756)	(9,921)	(11,345)
Other operating exp.	(417)	(416)	(605)	(658)	(777)
Operating profit	11,538	13,583	16,833	20,491	24,361
Finance costs	640	(396)	225	257	269
Other non-oper exp.	1,578	2,086	1,809	1,812	1,723
Pre-tax profit	13,755	15,273	18,867	22,560	26,354
Income tax expense	(1,290)	(1,595)	(1,800)	(2,143)	(2,635)
Minority interests	(51)	(293)	(613)	(643)	(885)
Net profit to S/H	12,415	13,386	16,454	19,775	22,833

Cash flow summary

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Net profit	12,415	13,386	16,454	19,775	22,833
Depreciation/amortization	699	845	1,134	1,327	1,472
Change in working capital	(7,153)	597	(12,917)	(44)	9,799
Others	1,807	1,260	1,358	643	885
Net cash from operating	7,768	16,088	6,029	21,701	34,988
Capex	(1,927)	(2,004)	(2,724)	(2,361)	(2,519)
Other	4	(551)	(177)	0	0
Net cash from investing	(1,923)	(2,555)	(2,900)	(2,361)	(2,519)
Net borrowings	187	2,049	850	341	(2,384)
Dividend paid	(5,609)	(6,542)	(14,943)	(18,369)	(22,076)
Other	(14)	(189)	7,148	(643)	(885)
Net cash from financing	(5,436)	(4,681)	(6,946)	(18,670)	(25,345)
Net change in cash	408	8,852	(3,817)	669	7,124
Cash at beginning of the year	26,552	27,072	35,460	31,547	32,216
Exchange difference	111	(464)	(96)	0	0
Cash at the end of the year	27,072	35,460	31,547	32,216	39,341

Balance sheet

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Current assets	64,026	74,763	80,645	89,442	103,648
Cash & equivalents	27,072	35,460	31,547	32,216	39,341
Account receivables	23,146	24,098	32,544	36,717	41,225
Inventory	11,268	11,478	12,411	15,820	17,491
Other current assets	2,540	3,727	4,144	4,689	5,591
Non-current assets	11,332	13,939	16,356	17,390	18,437
PPE	6,423	7,301	8,783	9,817	10,864
Intangible assets	1,407	1,634	1,697	1,697	1,697
Other non-current assets	3,502	5,003	5,876	5,876	5,876
Total assets	75,358	88,702	97,001	106,832	122,085
Current liabilities	23,521	31,225	28,910	37,220	52,237
ST borrowings	2,726	7,507	8,298	8,524	6,661
Account payables	13,940	14,631	9,678	16,293	31,122
Accrued expense	5,941	6,173	8,274	8,583	9,636
Other current liabilities	914	2,914	2,660	3,820	4,817
Non-current liabilities	6,364	2,997	3,557	3,672	3,151
LT borrowings	4,604	1,961	2,314	2,430	1,908
Other non-current liabilities	1,760	1,036	1,243	1,243	1,243
Total liabilities	29,885	34,222	32,467	40,892	55,388
Share capital	9,345	9,343	9,336	9,336	9,336
Capital surplus	4,127	5,179	5,337	5,337	5,337
Retained earnings	33,634	40,479	49,475	50,881	51,638
Other reserves	(2,202)	(1,207)	(1,128)	(1,128)	(1,128)
Minority interest	569	685	1,515	1,515	1,515
Total equity	44,904	53,794	63,019	64,425	65,182
Total liabilities and	74,789	88,016	95,486	105,317	120,570

Key ratios

YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
Revenue mix					
Core camera solution	90%	88%	82%	78%	77%
Construction	2%	3%	2%	2%	2%
Smart home business	4%	5%	5%	6%	7%
Robotics	1%	2%	3%	5%	5%
Other innovative business	2%	3%	7%	9%	10%
Growth (%)					
Revenue	16%	10%	27%	17%	15%
Operating profit	13%	18%	24%	22%	19%
EPS	8%	8%	23%	20%	15%
Profit & loss ratio (%)					
Gross margin	46.0%	46.5%	46.2%	46.3%	46.8%
Operating margin	20.0%	21.4%	20.8%	21.6%	22.4%
Net profit margin	21.5%	21.1%	20.4%	20.9%	21.0%
Balance sheet ratio					
Current ratio (x)	2.72	2.39	2.79	2.40	1.98
Receivable turnover days	137	136	128	133	131
Inventory turnover days	54	65	54	54	56
Payable turnover days	163	157	81	117	105
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Profitability (%)					
ROE	30.1%	27.1%	28.2%	31.0%	35.2%
ROIC	45.1%	42.7%	41.0%	40.9%	52.8%
Per share data (RMB)					
EPS (RMB)	1.33	1.43	1.76	2.12	2.45
DPS (RMB)	0.60	0.70	1.60	1.97	2.36
BVPS (RMB)	4.81	5.76	6.75	6.90	6.98

Source: Company data, CMBIS estimates

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