招银国际 CMB INTERNATIONAL
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Shengyi Technology (600183 CH)

Weaker 4Q21 with limited pricing upside in 2022; D/G to HOLD

Shengyi Tech announced FY21 preliminary results, expecting FY21 net profit to grow 56-73% YoY to RMB2.62bn-RMB2.90bn. Mid-point of 4Q21 net profit is expected to reach RMB421mn, representing +11% YoY and -55% QoQ. Mid-point of FY21 result is ~6%/-9% below consensus/our forecasts. We lowered FY21-22E EPS by 9% and adjusted TP to RMB23.50 based on 19x FY22E P/E (vs. previous 22.5x FY22E P/E). **Downgrade to HOLD.**

- **Robust FY21 results but weaker 4Q net profit.** The company delivered robust 9M21 growth of 44% YoY, but 4Q21 earnings declined 55% QoQ, mainly due to weaker sales and lower GPM. Looking forward, we see slower growth due to high base in FY21 and uncertainty in macro economy.
- **Resistance to transfer material cost pressure to downstream clients.** The copper price has increased significantly in past year, with 50% YoY based on average daily close price. LME 3M Copper price remains high, closed at US$9,846 per ton as of Jan 25, 2020. We believe demand have deteriorated due to prolonged period of increasing material costs. Meanwhile, it also put pressure on GPM, due to increasing difficulty to transfer the price cost to downstream clients.
- **Bright spot on auto PCB.** Shengyi's auto-related business accounted for ~25% of total revenue. Its clients include traditional and EV auto companies. In 2021, auto sales had the highest order visibility and higher price upside. We expect the auto sales will continue to grow in 2022, driven by robust EV market demand and continuous electrification.
- **Downgrade to HOLD and adjusted TP to RMB23.5.** Our new TP of RMB23.5 is based on lowered 19x FY22 P/E (vs. previous 22.5x due to limited CCL ASP upside). Trading at 17.4x FY22E P/E, we think the valuation is fair due to slower earnings growth in FY22/23E. Potential upsides include continuing transferring of material costs and higher-than-expected market demand. Potential risks include less-than-expected transfer of material costs and weaker market demand.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Turnover (RMB mn)	13,241	14,687	19,952	21,799	24,231
YoY growth (%)	10.5%	10.9%	35.8%	9.3%	11.2%
Gross margin (%)	26.6%	26.8%	26.9%	26.5%	26.4%
Net profit (RMB mn)	1,449	1,681	2,760	2,878	3,236
EPS (RMB)	0.66	0.74	1.19	1.23	1.38
YoY growth (%)	40.4%	12.1%	61.0%	2.9%	12.4%
Consensus EPS (RMB)	NA	NA	1.23	1.32	1.50
PE (x)	31.2	27.8	17.3	16.8	14.9
PB (x)	5.3	4.8	3.6	3.2	2.9
Yield (%)	1.9%	1.9%	3.5%	3.6%	4.0%
ROE (%)	16.4%	17.0%	21.0%	19.3%	19.1%

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Down)

Target Price	RMB 23.50
(Previous TP	RMB 30.50)
Up/Downside	+14.3%
Current Price	RMB 20.56

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Stock Data

Mkt. Cap. (RMB mn)	47,526
Avg. 3mths t/o (RMB mn)	622
52W High/Low (RMB)	29.85/20.36
Total Issued Shares (mn)	2,311.6

Source: Bloomberg

Shareholding Structure

Guangdong Guangxin Holdings	24.76%
Dongguan Guohong Invest.	13.89%
Weihua Electronics	12.76%

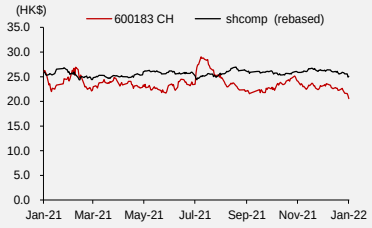
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.2%	-3.3%
3-mth	-6.2%	-1.3%
6-mth	-9.6%	-6.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: GP CPAs

Recent Reports:
1. Solid 3Q21; Cost pressure ahead – 28 Oct 2021 (Link)

4Q21 Results Review

Figure 1: 4Q21 results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
Revenue	3,072	3,807	3,811	3,997	4,505	5,326	5,547			
Gross Profit	882	1,091	992	968	1,259	1,566	1,454			
Operating Profit	432	602	575	482	675	1,009	1,111			
Net profit	339	487	477	378	544	870	925	421	-54.5%	11.4%
EPS (RMB)	0.15	0.21	0.21	0.16	0.24	0.38	0.40			
Gross Margin	28.7%	28.6%	26.0%	24.2%	27.9%	29.4%	26.2%			
Operating Margin	14.0%	15.8%	15.1%	12.1%	15.0%	18.9%	20.0%			
Net Margin	11.0%	12.8%	12.5%	9.4%	12.1%	16.3%	16.7%			

Source: Company data, CMBIS estimates

Figure 2: CMBIS earnings revisions

	New			Old			Change (%)		
RMB mn	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	19,952	21,799	24,231	20,758	23,379	26,276	-4%	-7%	-8%
Gross Profit	5,374	5,772	6,385	5,714	6,284	6,940	-6%	-8%	-8%
Operating Profit	3,352	3,432	3,859	3,613	3,776	4,193	-7%	-9%	-8%
Net profit	2,760	2,878	3,236	3,038	3,175	3,525	-9%	-9%	-8%
EPS (RMB)	1.19	1.23	1.38	1.31	1.35	1.50	-9%	-9%	-8%
Gross Margin	26.9%	26.5%	26.4%	27.5%	26.9%	26.4%	-0.6 ppt	-0.4 ppt	-0.1 ppt
Operating Margin	16.8%	15.7%	15.9%	17.4%	16.2%	16.0%	-0.6 ppt	-0.4 ppt	0 ppt
Net Margin	13.8%	13.2%	13.4%	14.6%	13.6%	13.4%	-0.8 ppt	-0.4 ppt	-0.1 ppt

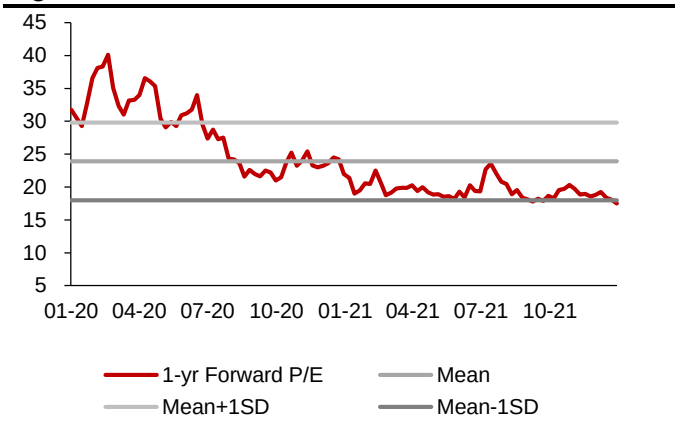
Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

	CMBIS			Consensus			Diff (%)		
RMB mn	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	19,952	21,799	24,231	20,761	23,120	25,784	-4%	-6%	-6%
Gross Profit	5,374	5,772	6,385	5,957	6,390	7,254	-10%	-10%	-12%
Operating Profit	3,352	3,432	3,859	3,594	3,792	4,281	-7%	-9%	-10%
Net profit	2,760	2,878	3,236	2,927	3,062	3,461	-6%	-6%	-6%
EPS (RMB)	1.19	1.23	1.38	1.23	1.32	1.50	-3%	-7%	-8%
Gross Margin	26.9%	26.5%	26.4%	28.7%	27.6%	28.1%	-1.8 ppt	-1.2 ppt	-1.8 ppt
Operating Margin	16.8%	15.7%	15.9%	17.3%	16.4%	16.6%	-0.5 ppt	-0.7 ppt	-0.7 ppt
Net Margin	13.8%	13.2%	13.4%	14.1%	13.2%	13.4%	-0.3 ppt	0 ppt	-0.1 ppt

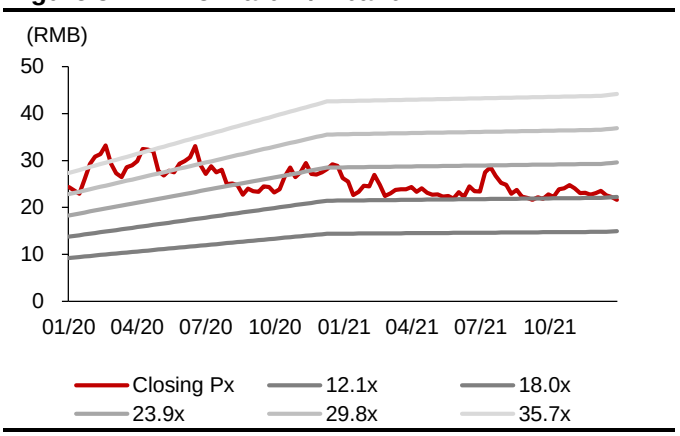
Source: Company data, CMBIS estimates

Figure 4: 12M forward P/E chart



Source: Company data, CMBIS estimates

Figure 5: 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**	**19,952**	**21,799**	**24,231**
Cost of sales	(9,713)	(10,754	(14,578	(16,026	(17,846
Gross profit	**3,528**	**3,933**	**5,374**	**5,772**	**6,385**
Selling exp	(288)	(179)	(235)	(257)	(286)
Admin exp	(644)	(720)	(862)	(942)	(1,047)
R&D exp	(605)	(711)	(880)	(961)	(1,069)
Finance costs	(142)	(114)	(132)	(146)	(152)
Other operating exp.	3,403	3,567	4,131	4,646	5,079
Operating profit	**1,805**	**2,090**	**3,352**	**3,432**	**3,859**
Other non-oper exp.	0	(7)	(5)	(6)	(6)
Pre-tax profit	**1,805**	**2,083**	**3,347**	**3,427**	**3,853**
Income tax expense	(242)	(283)	(435)	(445)	(501)
Minority interests	115	120	101	103	116
Net profit to shareholders	**1,449**	**1,681**	**2,760**	**2,878**	**3,236**

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	1,563	1,800	2,912	2,981	3,352
Depreciation/amortization	409	531	462	530	597
Change in working capital	(479)	(832)	(1,324)	(763)	(1,350)
Others	198	258	(860)	57	(462)
Net cash from operating	**1,692**	**1,758**	**1,190**	**2,806**	**2,137**
Capex	(1,580)	(1,761)	(2,166)	(2,027)	(1,761)
Other	14	(72)	263	356	324
Net cash from investing	**(1,566)**	**(1,833)**	**(1,903)**	**(1,671)**	**(1,437)**
Share issuance	0	189	1,431	515	499
Dividend paid	(872)	(1,101)	(916)	(1,656)	(1,727)
Other	699	696	1,280	277	430
Net cash from financing	**(173)**	**(215)**	**1,794**	**(864)**	**(798)**
Net change in cash	**(50)**	**(232)**	**1,082**	**271**	**(98)**
Cash at beginning of the year	1,101	1,051	818	1,900	2,170
Exchange difference	(3)	58	0	0	0
Cash at the end of the year	**1,051**	**818**	**1,900**	**2,170**	**2,073**

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	**8,712**	**9,716**	**13,453**	**13,935**	**15,529**
Cash & equivalents	1,062	850	1,924	2,194	2,096
Account receivables	4,598	4,888	6,197	6,626	7,220
Inventory	2,100	2,519	3,555	3,568	4,364
Prepayment	11	20	32	31	36
Other current assets	941	1,439	1,746	1,516	1,812
Non-current assets	**6,823**	**8,642**	**10,702**	**12,184**	**13,503**
PPE	5,003	6,374	7,526	8,784	9,842
Deferred tax assets	76	120	152	167	184
Other non-current assets	1,744	2,148	3,024	3,232	3,477
Total assets	**15,535**	**18,357**	**24,155**	**26,119**	**29,032**
Current liabilities	**5,257**	**6,804**	**8,402**	**8,722**	**9,386**
ST borrowings	1,519	2,157	2,651	2,917	3,087
Account payables	2,656	2,903	3,828	3,626	3,968
Tax payable	116	125	179	186	211
Other current liabilities	965	1,619	1,745	1,992	2,120
Non-current liabilities	**925**	**910**	**1,683**	**1,487**	**1,611**
LT borrowings	732	605	935	1,029	1,089
Deferred tax liability	13	38	132	99	134
Other non-current	179	267	615	359	387
Total liabilities	**6,181**	**7,714**	**10,085**	**10,208**	**10,997**
Share capital	2,276	2,291	2,316	2,347	2,377
Reserve	2,505	2,795	4,201	4,685	5,154
Minority interest	520	754	855	958	1,074
Total equity	**9,354**	**10,643**	**14,019**	**15,859**	**17,983**
Total liabilities and equity	**15,535**	**18,357**	**24,104**	**26,067**	**28,980**

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix					
CCL	76	74	78	67	63
PCB	23	24	20	31	35
Others	1	2	3	3	2
Growth (%)					
Revenue	10.5%	10.9%	35.8%	9.3%	11.2%
Gross profit	32.8%	11.5%	36.7%	7.4%	10.6%
Operating profit	46.9%	15.8%	60.4%	2.4%	12.4%
Net profit	44.8%	16.0%	64.2%	4.3%	12.4%
Profit & loss ratio (%)					
Gross margin	26.6%	26.8%	26.9%	26.5%	26.4%
Operating margin	13.6%	14.2%	16.8%	15.7%	15.9%
Net profit margin	10.9%	11.4%	13.8%	13.2%	13.4%
Balance sheet ratio					
Net debt/total equity (%)	12.7%	18.0%	11.9%	11.0%	11.6%
Current ratio (x)	1.7	1.4	1.6	1.6	1.7
Receivable turnover days	116	118	101	107	104
Inventory turnover days	(72)	(78)	76	81	81
Payable turnover days	(85)	(94)	(84)	(85)	(78)
Profitability (%)					
ROE	16.4%	17.0%	21.0%	19.3%	19.1%
ROA	9.3%	9.2%	11.4%	11.0%	11.1%
Per share data (RMB)					
EPS	0.66	0.74	1.19	1.23	1.38
DPS	0.40	0.40	0.71	0.74	0.83
BPS	3.88	4.32	5.68	6.35	7.21

Source: Company data, CMBIS estimates

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