

Shengyi Tech (600183 CH)

1H22 results miss; Maintain HOLD

Shengyi Tech's 2Q22 revenue/NP to shareholders declined 13.5%/47.9% YoY to RMB4,607mn/RMB453mn. 2Q results miss was due to 1) weak demand from consumer markets, 2) ASP pressure due to peers' aggressive price war and 3) significant energy cost increase. GPM decreased slightly to 23.2% in 2Q from 23.6% in 1Q. Looking forward, we expect PCB to outperform CCL business, driven by capacity ramp up for auto market and easing margin pressure. We cut our forecasts for 2022/23E and slightly tweaked TP to RMB19.2. Maintain HOLD.

- **CCL business under pressure.** CCL/prepreg sales declined 18.3%/4.4% YoY/QoQ in 2Q (vs. 4.0%/-4.8% in 1Q). GPM decreased to 22.7% in 1H22 from 25.7%/29.3% in 2H21/1H21. 2Q may be the weakest quarter for CCL, due to deteriorating demand and price war. However, 2H22 could still be challenging as market demand is still on its way of slow recovery, especially for consumers. ASP should have reached the bottom given little room to cut price further.
- **PCB business to continue outperform.** PCB sales grew 14.2%/9.1% YoY/QoQ in 2Q (vs. 7.2%/-12.2% in 1Q). GPM decreased to 21.2% in 1H22 from 16.5%/18.8% in 2H21/1H21. The majority of PCB sales were from the telecom market, which remain stable. We believe the growth was mainly from the auto market. Auto PCB has experienced fast growth in 2021, with revenue contribution increasing from 1% to 8%, thanks to production ramp up. Prismark forecasts PCB market to grow 4.2% YoY in 2022, moderate growth after significant growth of 24.1% YoY in 2021. We think Shengyi will outperform peers, driven by strong demand from auto market, increasing capacity and easing margin pressure.
- **Maintain HOLD, TP adjusted to RMB19.2.** We cut Shengyi's FY22-23E revenue by 9%-10% considering CCL demand recovery could be slow. We derive our TP using the same 16.6x target P/E multiple, ~ avg. 1-yr forward P/E. TP was adjusted to RMB19.2 on valuation rollover to 2023E P/E. Potential downside risks include: 1) worse-than-expected global economy that curbs consumer spending, 2) continuous ASP pressure and 3) increasing manufacturing costs, i.e. energy costs.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Turnover (RMB mn)	14,687	20,274	20,264	22,738	25,717
YoY growth (%)	10.9%	38.0%	0.0%	12.2%	13.1%
Gross margin (%)	26.8%	26.8%	24.5%	25.0%	25.6%
Net profit (RMB mn)	1,681	2,830	2,226	2,675	3,186
EPS (RMB)	0.74	1.23	0.96	1.16	1.38
YoY growth (%)	12.1%	66.2%	-21.7%	20.1%	19.1%
Consensus EPS (RMB)	NA	NA	1.04	1.22	0.00
PE (x)	23.6	14.2	18.1	15.1	12.7
Yield (%)	0.0%	3.4%	2.7%	3.3%	3.9%
ROE (%)	17.0%	21.6%	16.0%	17.2%	18.3%
Gearing Ratio (%)	18.0%	6.7%	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	RMB 19.20
(Previous TP)	RMB 19.00)
Up/Downside	+10.1%
Current Price	RMB 17.44

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Stock Data

Mkt. Cap. (RMB mn)	40,507
Avg. 3mths t/o (RMB mn)	221
52W High/Low (RMB)	27.7/15.03
Total Issued Shares (mn)	2,322.7

Source: Bloomberg

Shareholding Structure

Guangdong Guangxin Holdings	24.64%
Dongguan Guohong Invest.	13.82%
Weihua Electronics	12.70%

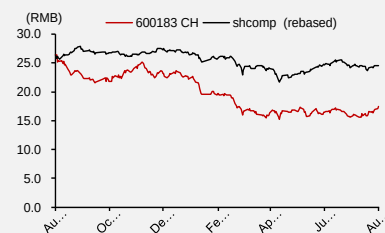
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	10.2%	8.5%
3-mth	2.0%	-4.0%
6-mth	-13.1%	-8.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: GP CPAs

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2. Weaker 4Q21 with limited pricing upside in 2022; D/G to HOLD – 27 Jan 2022 ([Link](#))

Earnings Review

Figure 1: Quarterly results

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	QoQ	YoY
Revenue	4,505	5,326	5,547	4,896	4,768	4,607	-3.4%	-13.5%
Gross Profit	1,259	1,566	1,454	1,158	1,127	1,069	-5.2%	-31.8%
Operating Profit	675	1,009	1,111	521	593	553	-6.7%	-45.2%
Net profit	544	870	925	490	482	453	-6.1%	-47.9%
EPS (RMB)	0.24	0.38	0.40	0.21	0.21	0.19	-9.5%	-50.0%
Gross Margin	27.9%	29.4%	26.2%	23.7%	23.6%	23.2%	-0.5 ppt	-6.2 ppt
Operating Margin	15.0%	18.9%	20.0%	10.6%	12.4%	12.0%	-0.4 ppt	-6.9 ppt
Net Margin	12.1%	16.3%	16.7%	10.0%	10.1%	9.8%	-0.3 ppt	-6.5 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

US\$ mn	FY19E	New FY20E	FY21E	FY19E	Old FY20E	FY21E	Diff (%)	FY19E	FY20E	FY21E
Revenue	20,264	22,738	25,717	20,818	22,802	26,046	-3%		0%	-1%
Gross Profit	4,974	5,692	6,573	5,170	5,670	6,752	-4%		0%	-3%
Operating Profit	2,726	3,234	3,877	2,889	3,293	3,919	-6%		-2%	-1%
Net profit	2,226	2,675	3,186	2,351	2,764	3,250	-5%		-3%	-2%
EPS (US\$ cents)	0.96	1.16	1.38	1.04	1.22	1.41	-7%		-5%	-2%
Gross Margin	24.5%	25.0%	25.6%	24.8%	24.9%	25.9%	-0.3 ppt	0.2 ppt		-0.4 ppt
Operating Margin	13.5%	14.2%	15.1%	13.9%	14.4%	15.0%	-0.4 ppt	-0.2 ppt		0 ppt
Net Margin	11.0%	11.8%	12.4%	11.3%	12.1%	12.5%	-0.3 ppt	-0.4 ppt		-0.1 ppt

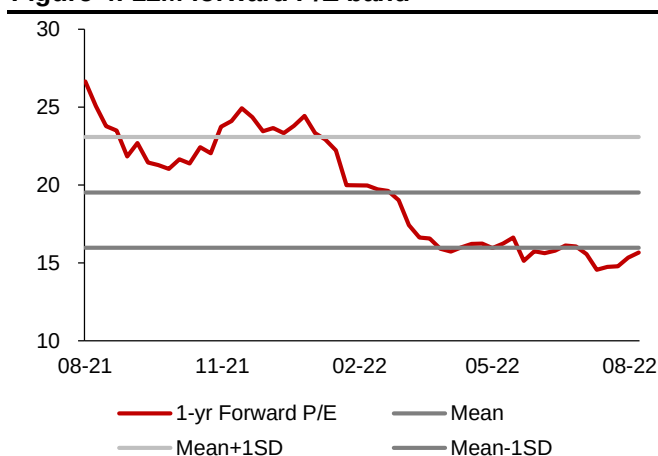
Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

US\$ mn	FY19E	CMBIGM FY20E	FY21E	FY19E	Consensus FY20E	FY21E	Diff (%)	FY19E	FY20E	FY21E
Revenue	20,264	22,738	25,717	22,367	25,142	27,650	-9%		-10%	-7%
Gross Profit	4,974	5,692	6,573	5,593	6,353	7,048	-11%		-10%	-7%
Operating Profit	2,726	3,234	3,877	3,015	3,536	4,024	-10%		-9%	-4%
Net profit	2,226	2,675	3,186	2,570	3,016	3,431	-13%		-11%	-7%
EPS (US\$ cents)	0.96	1.16	1.38	1.11	1.30	1.48	-13%		-11%	-7%
Gross Margin	24.5%	25.0%	25.6%	25.0%	25.3%	25.5%	-0.5 ppt	-0.2 ppt		0.1 ppt
Operating Margin	13.5%	14.2%	15.1%	13.5%	14.1%	14.6%	0 ppt	0.2 ppt		0.5 ppt
Net Margin	11.0%	11.8%	12.4%	11.5%	12.0%	12.4%	-0.5 ppt	-0.2 ppt		0 ppt

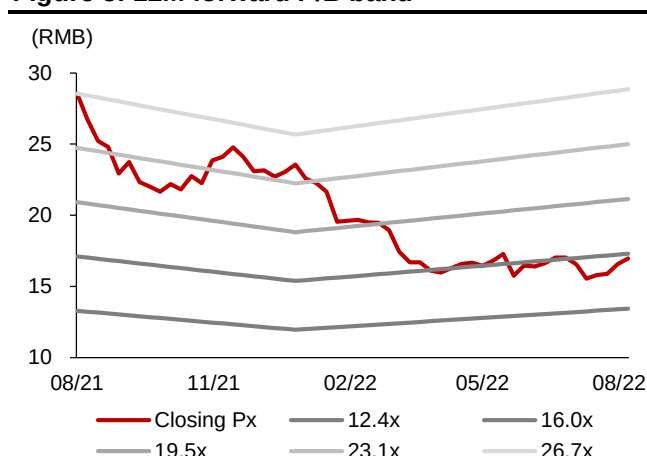
Source: Company data, CMBIGM estimates

Figure 4: 12M forward P/E band



Source: Company data, CMBIGM estimates

Figure 5: 12M forward P/B band



Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	14,687	20,274	20,264	22,738	25,717
Cost of sales	(10,754)	(14,837)	(15,291)	(17,046)	(19,143)
Gross profit	3,933	5,437	4,974	5,692	6,573
Selling exp	(179)	(231)	(249)	(269)	(310)
Admin exp	(720)	(910)	(819)	(896)	(1,014)
R&D exp	(711)	(964)	(1,026)	(1,117)	(1,282)
Finance costs	(114)	(102)	(137)	(103)	(97)
Other operating exp.	3,567	4,329	4,478	4,843	5,400
Operating profit	2,090	3,316	2,726	3,234	3,877
Other non-oper exp.	(7)	(6)	(1)	(4)	(3)
Pre-tax profit	2,083	3,310	2,726	3,231	3,874
Income tax expense	(283)	(385)	(362)	(429)	(515)
Minority interests	120	95	137	127	173
Net profit to shareholders	1,681	2,830	2,226	2,675	3,186

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	1,800	2,925	2,363	2,801	3,359
Depreciation/amortization	513	633	694	747	807
Change in working capital	(832)	(1,935)	2,631	(2,381)	868
Others	277	153	(214)	305	(153)
Net cash from operating	1,758	1,776	5,475	1,473	4,881
Capex	(1,761)	(1,787)	(1,521)	(1,638)	(1,809)
Other	(72)	(93)	3	179	133
Net cash from investing	(1,833)	(1,880)	(1,518)	(1,459)	(1,675)
Share issuance	189	189	0	0	0
Dividend paid	(1,101)	(1,101)	(1,612)	(1,284)	(1,503)
Other	696	2,309	(1,016)	41	(46)
Net cash from financing	(215)	1,398	(2,628)	(1,243)	(1,550)
Net change in cash	(290)	1,293	1,329	(1,229)	1,657
Cash at beginning of the year	1,051	818	2,105	3,434	2,205
Exchange difference	58	(6)	0	0	0
Cash at the end of the year	818	2,105	3,434	2,205	3,862

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	9,716	14,720	13,465	15,701	16,867
Cash & equivalents	850	2,287	3,512	2,334	3,965
Account receivables	4,888	6,120	4,873	6,714	6,391
Inventory	2,519	4,520	3,691	4,716	4,725
Prepayment	20	24	25	27	31
Other current assets	1,439	1,769	1,365	1,910	1,756
Non-current assets	8,642	9,711	10,368	11,246	12,146
PPE	6,374	7,071	7,407	7,870	8,524
Deferred tax assets	120	158	153	174	187
Other non-current assets	2,148	2,482	2,808	3,202	3,435
Total assets	18,357	24,431	23,833	26,947	29,013
Current liabilities	6,804	7,253	5,471	6,741	6,685
ST borrowings	2,157	1,693	454	417	331
Account payables	2,903	3,296	3,092	4,029	3,969
Tax payable	125	173	91	147	135
Other current liabilities	1,619	2,091	1,833	2,148	2,251
Non-current liabilities	910	2,312	2,520	2,653	2,727
LT borrowings	605	1,590	1,813	1,891	1,930
Deferred tax liability	16	32	304	189	287
Other non-current	289	689	404	573	510
Total liabilities	7,714	9,565	7,990	9,394	9,412
Share capital	2,291	2,312	2,312	2,312	2,312
Reserve	2,795	4,078	4,078	4,078	4,078
Retained earnings	3,690	5,386	6,056	7,435	9,068
Other	1,113	1,322	1,491	1,695	1,937
Minority interest	754	1,770	1,907	2,033	2,207
Total equity	10,643	14,866	15,843	17,553	19,601
Total liabilities and equity	18,357	24,431	23,833	26,947	29,013

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
CCL	10,849	16,190	15,703	16,995	18,961
PCB	3,558	3,508	3,984	5,166	6,179
Others	280	577	577	577	577
Growth (%)					
Revenue	10.9%	38.0%	0.0%	12.2%	13.1%
Gross profit	11.5%	38.2%	-8.5%	14.4%	15.5%
Operating profit	15.8%	58.6%	-17.8%	18.6%	19.9%
Net profit	16.0%	68.4%	-21.3%	20.1%	19.1%
Profit & loss ratio (%)					
Gross margin	26.8%	26.8%	24.5%	25.0%	25.6%
Operating margin	14.2%	16.4%	13.5%	14.2%	15.1%
Net profit margin	11.4%	14.0%	11.0%	11.8%	12.4%
Balance sheet ratio					
Net debt/total equity (%)	18.0%	6.7%	Net	Net	Net
Current ratio (x)	1.4	2.0	2.5	2.3	2.5
Receivable turnover days	118	99	99	93	93
Inventory turnover days	(78)	(87)	(98)	(90)	(90)
Payable turnover days	(94)	(76)	(76)	(76)	(76)
Profitability (%)					
ROE	17.0%	21.6%	16.0%	17.2%	18.3%
ROA	9.2%	11.6%	9.3%	9.9%	11.0%
Per share data (RMB)					
EPS	0.74	1.23	0.96	1.16	1.38
DPS	0.00	0.60	0.47	0.57	0.68
BPS	4.35	5.67	6.03	6.71	7.52

Source: Company data, CMBIGM estimates

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