招銀国际
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Maxscend (300782 CH)

3Q performance dragged by weak mobile; It is always darkest before dawn

Maxscend announced its 3Q22 results. 3Q revenue declined 30.5% YoY and 13.6% QoQ to RMB782mn. NP to shareholders fell 54.6% YoY and 20.5% QoQ to RMB233mn. The decline was mainly attributable to the weak mobile market. 3Q GPM increased slightly to 54.1% (vs. 52.4%/52.7% for 1Q/2Q22). We lowered our forecasts for 2022/23E sales by 25%/30%, due to both tough macro environment and prolonged weakness observed in mobile, particularly in Android names. However, considering a series of solid progress achieved from internal R&D (e.g., SAW filter, Diplexer, DiFEM, etc.), we expect the Company will continue to roll out products in new categories that are dominated by overseas names. We maintain a positive outlook for Maxscend, given its leading position in domestic RFFE market and proven track record of its management team. Maintain BUY, with revised TP of RMB107.8 reflecting reducing 22/23E sales.

- **Industry headwind may provide an opportunity for Maxscend.** Despite mobile weakness, Maxscend's 3Q results were resilient. The Company reported GPM of 54.1% (up 1.3% from 2Q), showing its relatively strong position in a broad weak market. GPM is estimated to drop 2% in 2023 due to increasing yield of new products, but will remain stable at ~50%, much higher than its peers (figure 3). The high GPM will help Maxscend to maintain its leading position in domestic RFFE market by continuously investing in R&D (3Q R&D exp. grew 55.1% YoY). Meanwhile, some smaller peers are struggling to survive. We believe Maxscend will be a beneficiary of a potential sector consolidation, following the same path of its global peers (e.g., Skyworks and Qorvo).
- **Maxscend's product portfolio expansion is on schedule.** Maxscend's new fab line has entered mass production. The Company's own filter products have been shipped. Meanwhile, diplexer and multiplexers are under client testing. We expect the Company to deliver more progress on high-end filter and integrated modules next year. Although the recent U.S. export curb has no impact on RFFE sector, China's semi localization trend is certain. This will create more opportunities for domestic players.
- **Maintain BUY with TP revised up to RMB107.8.** The new TP is based on 36x rollover 23E P/E, lower than 1SD below 2-yr hist. avg. of 43.6x forward P/E. We kept the valuation of 36x P/E unchanged as we believe 1) semi localization trend is certain and 2) Maxscend is venturing into some key RFFE component areas which are dominated by overseas suppliers (domestic presence in certain components/modules are nearly zero).
- Potential risks include 1) disappointing demand in mobile, 2) intensified competition, 3) slower-than-expected R&D and 4) further deterioration in macro environment. Potential upside includes M&A opportunities.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMBmn)	2,792	4,634	3,849	4,698	5,957
YoY growth (%)	84.6%	66.0%	-16.9%	22.1%	26.8%
Gross margin (%)	52.6%	57.7%	53.0%	51.1%	50.2%
Net profit (RMBmn)	1,073	2,135	1,237	1,598	2,087
YoY growth (%)	115.8%	99.0%	-42.1%	29.2%	30.6%
EPS (RMB)	2.07	4.01	2.32	2.99	3.91
Consensus EPS (RMB)	NA	NA	7.67	9.81	0.00
PE (x)	45.2	23.3	40.3	31.2	23.9
Yield (%)	1.1%	0.7%	0.7%	0.7%	0.7%
Roe (%)	40.3%	27.9%	14.4%	15.9%	17.5%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB107.8**
(Previous TP	RMB138.0)
Up/Downside	**+15.3%**
Current Price	**RMB93.50**

China Technology Sector

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Stock Data

Mkt Cap (RMB mn)	49,297
Avg 3 mths t/o (RMB$ mn)	654.61
52w High/Low (RMB$)	240.63/78.25
Total Issued Shares (mn)	533.7

Source: Bloomberg

Shareholding Structure

WX HUIZHI UNITED INV ENT	12.79%
Feng Chenhui	7.87%
Tang Zhuang	7.67%

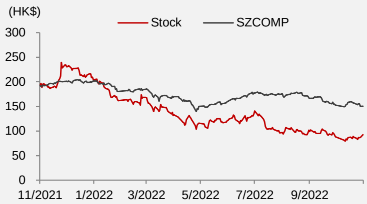
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.8%	-0.1%
3-mth	-9.7%	4.8%
6-mth	-25.1%	-25.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

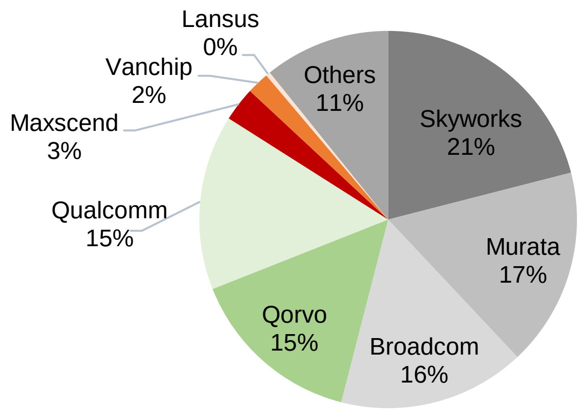
Auditor: BDO

Figure 1: Domestic RFFE suppliers' product offerings

	CMOS PA	GaAs PA	SOI Switch	LNA	Filter	Receiver module	Transmitter module	Wi-Fi module
Maxscend	-	✓	✓	✓	✓	✓	✓	✓
Vanchip	-	✓	✓	✓	-	✓	✓	✓
Smartermicro	-	✓	✓	✓	-	✓	✓	-
Onmicro	✓	✓	✓	✓	-	✓	✓	-
Lansus	✓	✓	✓	✓	-	✓	✓	✓

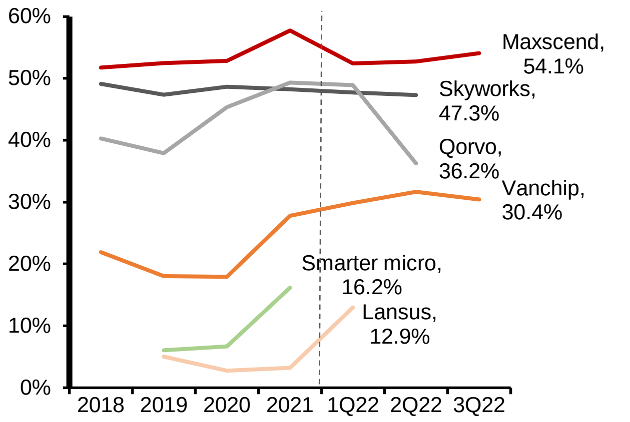
Source: Lansus prospectus, CMBIGM estimates

Figure 2: Top 5 took 84% market share: significant opportunity for semi localization



Source: Yole, CMBIGM estimates

Figure 3: Maxscend's high GPM to ensure future R&D and technology breakthrough



Source: Yole, CMBIGM estimates

Review of 3Q22 results

Figure 4: P&L forecast

RMB mn	FY19	FY20	FY21	1Q22	2Q22	3Q22	4Q22E	FY22E	FY23E	FY24E
Revenue	**1,512**	**2,792**	**4,634**	**1,330**	**905**	**782**	**833**	**3,849**	**4,698**	**5,957**
…YoY	*170.0%*	*84.6%*	*66.0%*	*12%*	*-23%*	*-30%*	*-28%*	*-16.9%*	*22.1%*	*26.8%*
Cost of sales	719	1,323	1,959	633	428	359	390	1,809	2,298	2,966
Gross profit	**793**	**1,469**	**2,675**	**697**	**477**	**422**	**443**	**2,040**	**2,400**	**2,991**
…YoY	173.8%	85.1%	82.1%	*2%*	*-29%*	*-36%*	*-32%*	(23.7%)	17.6%	24.6%
GPM (%)	52.5%	52.6%	57.7%	52.4%	52.7%	54.1%	53.2%	53.0%	51.1%	50.2%
SG&A	76	60	97	29	35	48	38	151	156	162
…% of rev	*5.0%*	*2.1%*	*2.1%*	*2.2%*	*3.9%*	*6.2%*	*4.6%*	*3.9%*	*3.3%*	*2.7%*
R&D	138	182	304	79	89	111	86	366	423	518
…% of rev	*9.1%*	*6.5%*	*6.6%*	*6.0%*	*9.8%*	*14.2%*	*10.3%*	*9.5%*	*9.0%*	*8.7%*
Operating profit	**563**	**1,218**	**2,221**	**533**	**287**	**216**	**253**	**1,290**	**1,666**	**2,175**
…YoY	*219.3%*	*116.5%*	*82.3%*	*-6.8%*	*-52.8%*	*-61.8%*	*-46.7%*	*-41.9%*	*29.2%*	*30.6%*
OPM (%)	*37.2%*	*43.6%*	*47.9%*	*40.1%*	*31.7%*	*27.7%*	*30.4%*	*33.5%*	*35.5%*	*36.5%*
Net profit	**497**	**1,073**	**2,135**	**459**	**293**	**233**	**252**	**1,237**	**1,598**	**2,087**
…YoY	*206.3%*	*115.8%*	*99.0%*	*-6.7%*	*-43.9%*	*-54.6%*	*-58.5%*	*-42.1%*	*29.2%*	*30.6%*
NPM (%)	*32.9%*	*38.4%*	*46.1%*	*34.5%*	*32.4%*	*29.8%*	*30.3%*	*32.1%*	*34.0%*	*35.0%*

Source: Company data, CMBIGM estimates

Figure 5: 3Q22 results review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY
Revenue	1,183	1,176	1,124	1,150	1,330	905	782	-13.6%	-30.5%
Gross Profit	684	676	660	655	697	477	422	-11.4%	-36.0%
Operating Profit	572	607	566	475	533	287	216	-24.6%	-61.8%
Net profit	492	522	513	608	459	293	233	-20.5%	-54.6%
EPS (RMB)	0.93	2.12	1.54	1.82	0.86	0.55	0.44	-20.7%	-71.7%
Gross Margin	57.8%	57.4%	58.7%	57.0%	52.4%	52.7%	54.1%	1.3 ppt	-4.6 ppt
Operating Margin	48.4%	51.6%	50.4%	41.3%	40.1%	31.7%	27.7%	-4 ppt	-22.7 ppt
Net Margin	41.6%	44.4%	45.6%	52.8%	34.5%	32.4%	29.8%	-2.6 ppt	-15.8 ppt

Source: Company data, CMBIGM estimates

Figure 6: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,849	4,698	5,957	5,160	6,751	8,719	-25%	-30%	-32%
Gross Profit	2,040	2,400	2,991	2,652	3,371	4,219	-23%	-29%	-29%
Operating Profit	1,290	1,666	2,175	2,109	2,718	3,354	-39%	-39%	-35%
Net profit	1,237	1,598	2,087	1,816	2,340	2,887	-32%	-32%	-28%
EPS (RMB)	2.32	2.99	3.91	3.83	4.94	6.10	-40%	-39%	-36%
Gross Margin	53.0%	51.1%	50.2%	51.4%	49.9%	48.4%	1.6 ppt	1.2 ppt	1.8 ppt
Operating Margin	33.5%	35.5%	36.5%	40.9%	40.3%	38.5%	-7.4 ppt	-4.8 ppt	-1.9 ppt
Net Margin	32.1%	34.0%	35.0%	35.2%	34.7%	33.1%	-3.1 ppt	-0.6 ppt	1.9 ppt

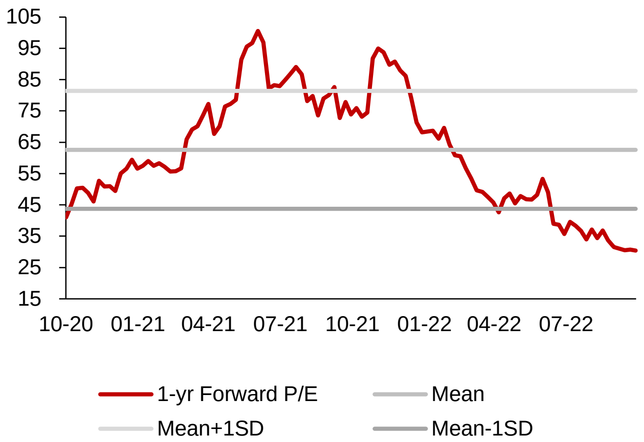
Source: Company data, CMBIGM estimates

Figure 7: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,849	4,698	5,957	4,814	6,100	7,717	-20%	-23%	-23%
Gross Profit	2,040	2,400	2,991	2,481	3,040	3,799	-18%	-21%	-21%
Operating Profit	1,290	1,666	2,175	1,899	2,387	3,032	-32%	-30%	-28%
Net profit	1,237	1,598	2,087	1,678	2,150	2,729	-26%	-26%	-24%
EPS (RMB)	2.32	2.99	3.91	3.21	4.05	5.31	-28%	-26%	-26%
Gross Margin	53.0%	51.1%	50.2%	51.5%	49.8%	49.2%	1.5 ppt	1.3 ppt	1 ppt
Operating Margin	33.5%	35.5%	36.5%	39.4%	39.1%	39.3%	-5.9 ppt	-3.7 ppt	-2.8 ppt
Net Margin	32.1%	34.0%	35.0%	34.9%	35.2%	35.4%	-2.7 ppt	-1.2 ppt	-0.3 ppt

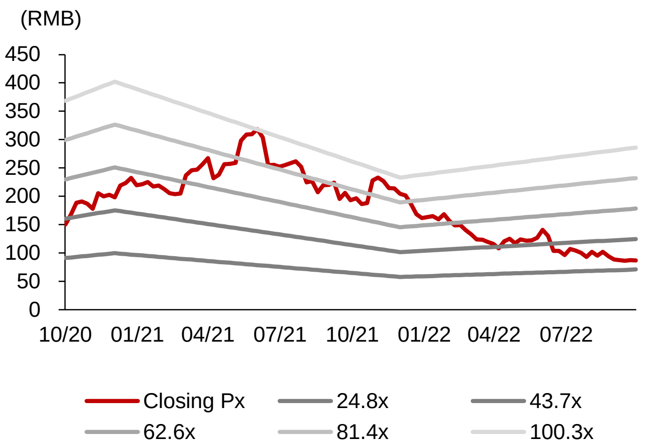
Source: Company data, CMBIGM estimates

Figure 8: 12M forward P/E chart



Source: Company data, CMBIGM estimates

Figure 9: 12M forward P/E band



Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**2,792**	**4,634**	**3,849**	**4,698**	**5,957**
Cost of sales	(1,323)	(1,959)	(1,809)	(2,298)	(2,966)
Gross profit	**1,469**	**2,675**	**2,040**	**2,400**	**2,991**
Selling exp	(28)	(45)	(28)	(29)	(31)
Admin exp	(32)	(53)	(123)	(127)	(131)
R&D exp	(182)	(304)	(366)	(423)	(518)
Finance costs	(19)	(12)	26	11	14
Other operating inc./exp.	10	(39)	(260)	(167)	(148)
Operating profit	**1,218**	**2,221**	**1,290**	**1,666**	**2,175**
Other non-oper exp.	(1)	194	(1)	(1)	(2)
Pre-tax profit	**1,217**	**2,415**	**1,288**	**1,665**	**2,174**
Income tax expense	(147)	(280)	(52)	(67)	(87)
Minority interests	(2)	(0)		(0)	(0)
Net profit to shareholders	**1,073**	**2,135**	**1,237**	**1,598**	**2,087**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	1,071	2,135	1,237	1,598	2,087
Depreciation/amortization	28	47	101	332	503
Change in working capital	(103)	(1,086)	(325)	391	(564)
Others	9	54	(613)	(42)	(650)
Net cash from operating	**1,005**	**1,150**	**400**	**2,279**	**1,375**
Capex	(153)	(2,858)	(1,090)	(1,121)	(1,326)
Other	284	(497)	448	14	14
Net cash from investing	**130**	**(3,356)**	**(643)**	**(1,106)**	**(1,312)**
Share issuance	0	2,972	0	0	0
Dividend paid	(100)	(185)	(234)	(136)	(176)
Other	(1)	(7)	(5)	(5)	(4)
Net cash from financing	**(101)**	**2,780**	**(239)**	**(141)**	**(180)**
Net change in cash	**1,035**	**574**	**(481)**	**1,032**	**(116)**
Cash, beg	477	1,475	2,020	1,509	2,511
Exchange adj.	(37)	(29)	(29)	(29)	(29)
Cash, end	**1,475**	**2,020**	**1,509**	**2,511**	**2,366**

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	**2,652**	**4,980**	**3,893**	**4,626**	**5,012**
Cash & equivalents	1,475	2,661	1,594	2,597	2,451
Account receivables	338	572	440	538	702
Inventory	632	1,476	1,696	1,200	1,563
Prepayment	32	12	46	57	72
Other current assets	175	259	116	235	224
Non-current assets	**439**	**3,468**	**5,427**	**6,353**	**7,957**
PPE	103	246	1,436	2,037	2,659
Deferred tax assets	10	23	53	46	64
Other non-current assets	326	3,199	3,939	4,270	5,234
Total assets	**3,090**	**8,448**	**9,320**	**10,979**	**12,969**
Current liabilities	**403**	**752**	**605**	**843**	**922**
ST borrowings	0	0	1	3	5
Account payables	224	376	368	451	524
Tax payable	116	298	165	290	286
Other current liabilities	64	78	71	99	107
Non-current liabilities	**35**	**62**	**113**	**107**	**142**
LT borrowings	0	0	0	0	0
Deferred tax liability	33	60	90	92	117
Other non-current	2	1	24	15	25
Total liabilities	**438**	**813**	**718**	**950**	**1,064**
Share capital	180	334	534	534	534
Reserve	860	3,689	3,489	3,489	3,489
Retained earnings	1,556	3,428	4,302	5,622	7,373
Other	65	191	286	393	517
Minority interest	-8	-8	-8	-8	-8
Total equity	**2,652**	**7,634**	**8,602**	**10,029**	**11,906**
Total liabilities and	**3,090**	**8,448**	**9,320**	**10,979**	**12,969**

Key ratios

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue by segment					
RFFE discrete	2462	3352	3964	4324	4806
RFFE module	278	1201	9845	10889	12088
Other	52	81	775	827	927
Growth (%)					
Revenue	84.6%	66.0%	-16.9%	22.1%	26.8%
Gross profit	85.1%	82.1%	-23.7%	17.6%	24.6%
Operating profit	116.5%	82.3%	-41.9%	29.2%	30.6%
Net profit	115.8%	99.0%	-42.1%	29.2%	30.6%
Profit & loss ratio (%)					
Gross margin	52.6%	57.7%	53.0%	51.1%	50.2%
Operating margin	43.6%	47.9%	33.5%	35.5%	36.5%
Net profit margin	38.4%	46.1%	32.1%	34.0%	35.0%
Balance sheet ratio					
Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	6.6	6.6	6.4	5.5	5.4
Receivable turnover days	47	36	48	38	38
Inventory turnover days	(138)	(196)	(320)	(230)	(170)
Payable turnover days	(49)	(56)	(75)	(65)	(60)
Profitability (%)					
ROE	40.3%	27.9%	14.4%	15.9%	17.5%
ROA	34.7%	25.3%	13.3%	14.6%	16.1%
Per share data (RMB)					
EPS	2.07	4.01	2.32	2.99	3.91
DPS	1.00	0.70	0.70	0.70	0.70
BPS	14.78	22.97	16.13	18.81	22.32

Source: Company data, CMBIGM estimates

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