Wingtech (600745 CH)

NWF divesture order will have trivial impact on operation; Will reinforce self-sufficiency trend

Wingtech received an official notice from the UK government on 17 Nov that the Company was required to sell at least 86% stake of its Newport Wafer Fab ("NWF") (acquired in 2021 with 100% ownership). Wingtech believes the order has no significant impact on operations. Potential loss may incur if future transaction price is lower than the acquisition price but the impact should be limited. NWF's revenue accounted for less than 1% of total 2022-24E revenue. We expect the overall impact is trivial. We removed NWF from our estimates and revised down 2022-24E EPS by 1%-2%. Maintain BUY and slightly adjusted TP to RMB88.6, based on same 25x 2023E P/E.

- **The divesture of NWF's stake will have trivial impact on Wingtech.** According to Wingtech, NWF recorded RMB318mn sales (0.76% of total revenue) and generated a loss of RMB35mn during 9M22. Based on our model, **the business is est. to contribute no more than 1% of our forecasted 2022-24E revenue**. Therefore, we think it is reasonable to believe that such order has no significant impact on Wingtech's operations.
- **The order would reinforce China's semiconductor self-sufficiency trend, which makes Wingtech's semi IDM business more valuable as future acquisitions of global semi assets by Chinese companies seem impossible.** Wingtech acquired Nexperia, a semi IDM business producing discrete and MOSFET components and analog & logic ICs that meet the stringent standards set by the Automotive industry in 2019. Nexperia's products lead in several markets: 1) No.1 in small-signal diodes; 2) No.1 in ESD protection devices; 3) No.2 in PowerMOS automotive; 4) No.2 in Logic devices and 5) No.3 in small-signal MOSFETs. Similar opportunities would be unlikely to occur in near term considering rising protectionism and extensively usage of "national security". Following the localization trend, we think **Wingtech's semi IDM business is more valuable due to supply chain security and resource scarcity.**
- **Maintain BUY with adjusted TP of RMB88.6.** We think Wingtech is better positioned during recent semi rally as its demand from downstream market is still resilient. **Upside catalysts:** 1) new 12-inch factory to begin production; 2) ODM and optical modules' new projects to begin mass production. **Downside risks:** 1) macro challenges such as overseas inflation and slowdown in economic growth and 2) delay/disruption in operations.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	51,707	52,729	56,400	70,609	88,943
YoY growth (%)	24.4%	2.0%	7.0%	25.2%	26.0%
Gross margin (%)	14.7%	16.2%	18.9%	19.0%	19.2%
Net income (RMB mn)	2,415	2,612	2,926	4,416	5,892
EPS (RMB)	2.06	2.11	2.35	3.54	4.73
YoY growth (%)	17.0%	2.4%	11.3%	50.9%	33.4%
Consensus EPS (RMB)	NA	NA	2.83	4.01	4.92
P/E (x)	29.6	28.9	25.9	17.2	12.9
Yield (%)	0.3%	0.3%	0.4%	0.6%	0.8%
ROE (%)	8.3%	7.7%	7.9%	10.6%	12.3%
Net gearing (%)	8.6%	Net cash	5.6%	9.2%	9.4%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB88.6**
(Previous TP	RMB90.13)
Up/Downside	**+45.5%**
Current Price	**RMB60.89**

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Figure 1: Earnings revision

RMBmn	New FY22E	New FY23E	New FY24E	Old FY22E	Old FY23E	Old FY24E	Diff (%) FY22E	Diff (%) FY23E	Diff (%) FY24E
Revenue	56,400	70,609	88,943	56,659	71,141	89,837	0%	-1%	-1%
EBITDA	10,664	13,432	17,117	10,749	13,614	17,429	-1%	-1%	-2%
Operating Profit	3,754	5,420	7,242	3,796	5,513	7,400	-1%	-2%	-2%
Net profit	2,926	4,416	5,892	2,959	4,493	6,020	-1%	-2%	-2%
EPS (RMB)	2.35	3.54	4.73	2.37	3.61	4.83	-1%	-2%	-2%
Gross Margin	18.9%	19.0%	19.2%	19.0%	19.1%	19.4%	-0.1 ppt	-0.1 ppt	-0.2 ppt
Operating Margin	6.7%	7.7%	8.1%	6.7%	7.7%	8.2%	0 ppt	-0.1 ppt	-0.1 ppt
Net Margin	5.2%	6.3%	6.6%	5.2%	6.3%	6.7%	0 ppt	-0.1 ppt	-0.1 ppt

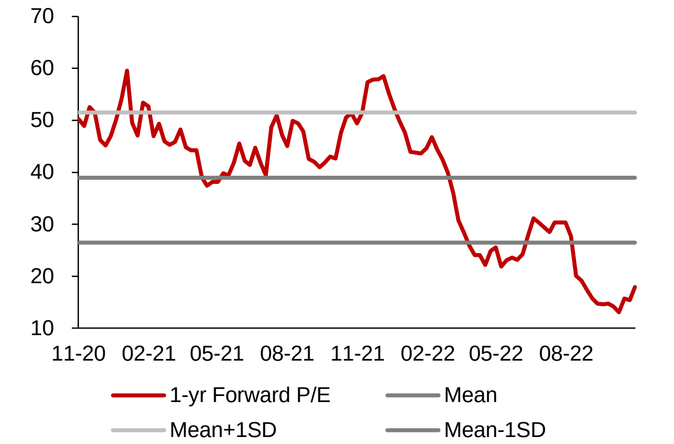
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMBmn	CMBIGM FY22E	CMBIGM FY23E	CMBIGM FY24E	Consensus FY22E	Consensus FY23E	Consensus FY24E	Diff (%) FY22E	Diff (%) FY23E	Diff (%) FY24E
Revenue	56,400	70,609	88,943	65,418	83,699	103,000	-14%	-16%	-14%
EBITDA	10,664	13,432	17,117	11,074	14,044	17,367	-4%	-4%	-1%
Operating Profit	3,754	5,420	7,242	4,117	5,653	7,157	-9%	-4%	1%
Net profit	2,926	4,416	5,892	3,504	4,881	6,202	-16%	-10%	-5%
EPS (RMB)	2.35	3.54	4.73	2.83	4.01	4.92	-17%	-12%	-4%
Gross Margin	18.9%	19.0%	19.2%	16.9%	16.8%	16.9%	2 ppt	2.2 ppt	2.4 ppt
Operating Margin	6.7%	7.7%	8.1%	6.3%	6.8%	6.9%	0.4 ppt	0.9 ppt	1.2 ppt
Net Margin	5.2%	6.3%	6.6%	5.4%	5.8%	6.0%	-0.2 ppt	0.4 ppt	0.6 ppt

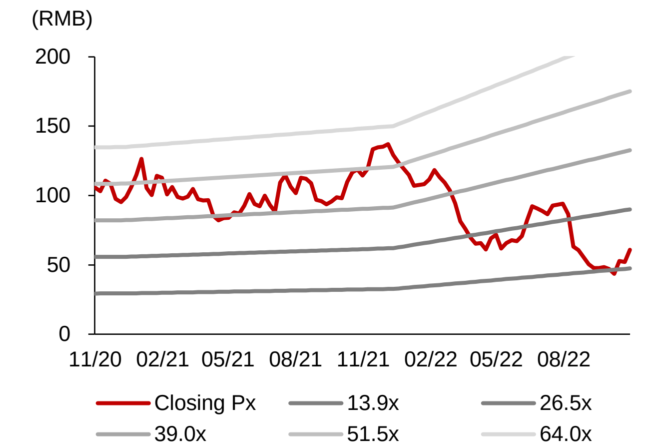
Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E chart



Source: Company data, CMBIGM estimates

Figure 4: 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	**51,707**	**52,729**	**56,400**	**70,609**	**88,943**
Cost of sales	(44,105)	(44,200)	(45,736)	(57,177)	(71,826)
Gross profit	**7,602**	**8,528**	**10,664**	**13,432**	**17,117**
Selling exp	(816)	(760)	(876)	(1,057)	(1,357)
Admin exp	(1,288)	(2,026)	(2,030)	(2,400)	(2,845)
R&D exp	(2,221)	(2,689)	(3,286)	(4,114)	(5,182)
Finance costs	(852)	(382)	(268)	(731)	(893)
Other operating exp.	10,101	11,437	13,370	16,315	20,152
Operating profit	**2,678**	**2,948**	**3,754**	**5,420**	**7,242**
Other non-oper exp.	(27)	24	(3)	15	7
Pre-tax profit	**2,652**	**2,972**	**3,752**	**5,434**	**7,249**
Income tax expense	(192)	(460)	(825)	(1,018)	(1,358)
Minority interests	44	(99)			
Net profit to shareholders	**2,415**	**2,612**	**2,926**	**4,416**	**5,892**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	2,460	2,513	2,926	4,416	5,892
Depreciation/amortization	944	934	1,318	1,713	2,151
Change in working capital	1,036	(3,720)	(5,040)	(1,696)	(584)
Others	2,175	2,022	2,555	2,372	2,905
Net cash from operating	**6,614**	**1,749**	**1,759**	**6,806**	**10,364**
Capex	(2,222)	(5,092)	(7,038)	(8,053)	(10,032)
Other	(992)	(853)	135	345	265
Net cash from investing	**(3,214)**	**(5,945)**	**(6,903)**	**(7,708)**	**(9,767)**
Share issuance	6,200	1,036	446	343	261
Dividend paid	(695)	(480)	(1,034)	(1,307)	(1,723)
Other	(7,505)	7,355	7,630	4,630	8,986
Net cash from financing	**(2,001)**	**7,910**	**7,042**	**3,666**	**7,524**
Net change in cash	**1,399**	**3,715**	**1,898**	**2,764**	**8,121**
Cash at beginning of the year	6,437	7,659	11,250	13,231	16,077
Exchange difference	(178)	(123)	83	83	83
Cash at the end of the year	**7,659**	**11,250**	**13,231**	**16,077**	**24,281**

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	**24,929**	**30,446**	**35,640**	**42,794**	**55,379**
Cash & equivalents	5,751	10,505	13,231	16,077	24,281
Account receivables	6,417	9,298	9,245	11,261	14,082
Inventory	6,134	6,299	9,239	11,126	12,489
Prepayment	454	284	359	472	580
Other current assets	6,172	4,060	3,567	3,859	3,947
Non-current assets	**34,962**	**42,130**	**47,086**	**52,730**	**60,071**
PPE	5,460	8,138	10,247	12,727	15,905
Deferred tax assets	664	1,027	1,297	1,497	1,810
Other non-current assets	28,837	32,966	35,542	38,506	42,356
Total assets	**59,891**	**72,576**	**82,726**	**95,525**	**115,450**
Current liabilities	**21,478**	**23,727**	**28,461**	**34,432**	**45,333**
ST borrowings	450	3,537	9,745	12,910	19,794
Account payables	11,900	11,389	11,166	12,958	15,379
Tax payable	569	411	674	778	941
Other current liabilities	8,558	8,391	6,876	7,786	9,219
Non-current liabilities	**9,338**	**14,332**	**16,476**	**18,542**	**21,412**
LT borrowings	7,805	4,218	5,584	7,091	9,089
Deferred tax liability	485	1,119	1,466	1,692	2,045
Other non-current liabilities	1,049	8,995	9,426	9,759	10,277
Total liabilities	**30,816**	**38,060**	**44,937**	**52,974**	**66,744**
Share capital	1,245	1,246	1,246	1,246	1,246
Reserve	24,325	24,924	25,271	25,538	25,741
Retained earnings	3,931	6,082	8,539	12,345	17,373
Other	(441)	1,446	1,915	2,605	3,528
Minority interest	15	817	817	817	817
Total equity	**29,075**	**34,516**	**37,788**	**42,551**	**48,706**
Total liabilities and equity	**59,891**	**72,576**	**82,726**	**95,525**	**115,450**

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
ODM	41,667	38,685	36,976	41,953	47,963
Camera	0	0	2,504	5,420	8,685
Semi	9,892	13,803	16,720	23,236	32,296
Other	148	241	200	0	0
Growth (%)					
Revenue	24.4%	2.0%	7.0%	25.2%	26.0%
Gross profit	77.1%	12.2%	25.0%	26.0%	27.4%
Operating profit	74.3%	10.1%	27.4%	44.4%	33.6%
Net profit	92.7%	8.1%	12.1%	50.9%	33.4%
Profit & loss ratio (%)					
Gross margin	14.7%	16.2%	18.9%	19.0%	19.2%
Operating margin	5.2%	5.6%	6.7%	7.7%	8.1%
Net profit margin	4.7%	5.0%	5.2%	6.3%	6.6%
Balance sheet ratio					
Net debt/total equity (%)	8.6%	Net cash	5.6%	9.2%	9.4%
Current ratio (x)	1.2	1.3	1.3	1.2	1.2
Receivable turnover days	72	54	60	53	52
Inventory turnover days	(49)	(51)	(62)	(65)	(60)
Payable turnover days	(115)	(96)	(90)	(77)	(72)
Profitability (%)					
ROE	8.3%	7.7%	7.9%	10.6%	12.3%
ROA	4.0%	3.6%	3.5%	4.6%	5.1%
Per share data (RMB)					
EPS	2.06	2.11	2.35	3.54	4.73
DPS	0.17	0.20	0.23	0.34	0.46
BPS	24.78	27.23	29.67	33.49	38.43

Source: Company data, CMBIGM estimates

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