

Wingtech (600745 CH)

3Q results confirmed ODM back on track; poised for further growth

Wingtech released its 3Q23 results with revenue/NP growth of 11.9%/11.4% YoY and 2.9%/5.5% QoQ, respectively. The Company's gross margin remained consistent while improving slightly from 17.3% in 2Q23 to 17.4% in 3Q23. We continue to see strength in Company's legacy business, which alleviated market concerns on its legacy business' competitiveness and new business' integration and growth as we previously expected ([link](#)). **Maintain BUY with unchanged TP of RMB68.**

- **ODM:** The Company's ODM business segment saw revenue growth of 24.3% YoY and 4.6% QoQ, respectively. This was also the second consecutive quarter that the Company saw its ODM business turning profitable even under the current macro environment. Additionally, ODM segment's GPM/NPM rose from 8.8%/1.1% in 2Q23 to 10.0%/2.3% in 3Q23, respectively, confirming these businesses are back on track for growth. The decent recovery in ODM segment should ease some investors' concern regarding the sustainability of its ODM recovery. The management team is also confident to see growth in ODM in 2024.
- **Semi:** The Company's semi business segment saw its revenue decline by 6.8% YoY but increased by 4.1% QoQ, respectively. GPM/NPM of semi business segment saw decline from 41.3%/18.9% in 2Q23 to 37.7%/17.1% in 3Q23, respectively, mainly due to longer-than-expected weakness of semi down cycle. Looking forward, we believe the Company's semi business will continue to show strength. The Company has strategically positioned its semiconductor business segment, Nexperia, to more effectively address the specific requirements of its diverse downstream customers. We anticipate that there will be sustained demand for the company's auto products, thanks to its ongoing efforts to enhance the performance of its MOSFET products.
- **Maintain BUY with unchanged TP at RMB68, based on the same 25x FY24E P/E, slightly below avg. 1-year forward P/E multiple. Upside catalysts:** 1) new 12-inch factory to progress as planned; and 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; 2) delay/disruption in operations; and 3) further share selling from major shareholders.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	52,729	58,079	60,316	67,658	76,853
YoY growth (%)	2.0%	10.1%	3.9%	12.2%	13.6%
Gross margin (%)	16.2%	18.2%	17.2%	17.9%	18.5%
Net profit (RMB mn)	2,612	1,460	2,687	3,411	4,399
YoY growth (%)	8.1%	-44.1%	84.1%	26.9%	29.0%
EPS (Reported) (RMB)	2.11	1.17	2.16	2.74	3.53
P/E (x)	22.8	41.0	22.3	17.6	13.6
ROE (%)	7.7%	4.1%	6.8%	7.9%	9.2%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB68.0
(Previous TP RMB68.0)
Up/Downside 41.5%
Current Price RMB48.06

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Stock Data

Mkt Cap (RMB mn) 59,729.0
Avg 3 mths t/o (RMB mn) 601.9
52w High/Low (RMB) 66.20/41.10
Total Issued Shares (mn) 1242.8
Source: FactSet

Shareholding Structure

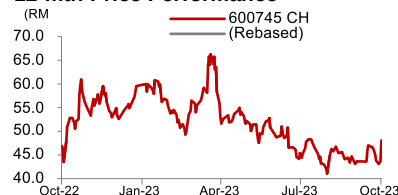
WENTIANXIA TECH GRP 12.4%
WUXI GUOLIAN INTE CIR INV 9.8%
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	11.5%	NM
3-mth	7.2%	NM
6-mth	-7.0%	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

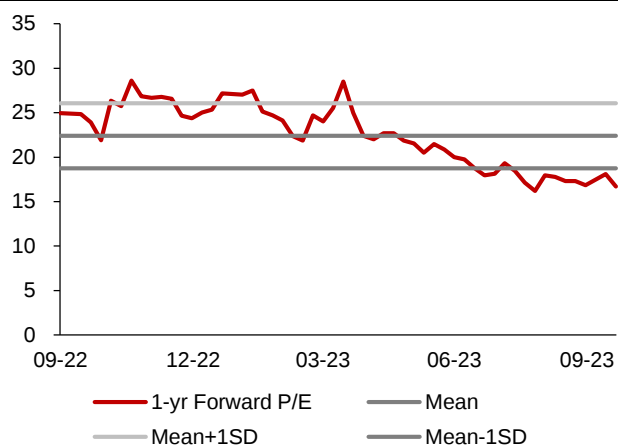
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	60,316	67,658	76,853	61,488	69,601	79,784	-2%	-3%	-4%
Gross Profit	10,367	12,113	14,221	11,028	13,149	15,723	-6%	-8%	-10%
Operating Profit	3,587	4,553	5,870	3,620	5,017	6,665	-1%	-9%	-12%
Net profit	2,687	3,411	4,399	2,458	3,407	4,527	9%	0%	-3%
EPS (RMB)	2.16	2.74	3.53	1.97	2.73	3.63	9%	0%	-3%
Gross Margin	17.2%	17.9%	18.5%	17.9%	18.9%	19.7%	-0.7 ppt	-1 ppt	-1.2 ppt
Operating Margin	5.9%	6.7%	7.6%	5.9%	7.2%	8.4%	0.1 ppt	-0.5 ppt	-0.7 ppt
Net Margin	4.5%	5.0%	5.7%	4.0%	4.9%	5.7%	0.5 ppt	0.1 ppt	0 ppt

Source: Company data, CMBIGM estimates

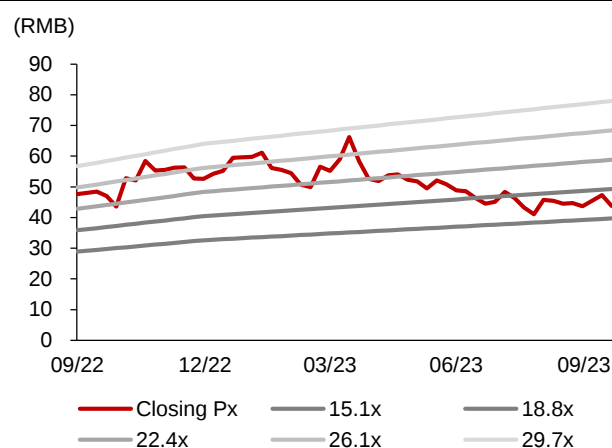
Figure 2: CMBIGM estimates vs. consensus

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	60,316	67,658	76,853	66,155	78,282	89,083	-9%	-14%	-14%
Gross Profit	10,367	12,113	14,221	11,677	13,859	15,805	-11%	-13%	-10%
Operating Profit	3,587	4,553	5,870	3,968	5,297	6,686	-10%	-14%	-12%
Net profit	2,687	3,411	4,399	2,757	4,126	4,845	-3%	-17%	-9%
EPS (RMB)	2.16	2.74	3.53	2.34	3.38	4.10	-8%	-19%	-14%
Gross Margin	17.2%	17.9%	18.5%	17.7%	17.7%	17.7%	-0.5 ppt	0.2 ppt	0.8 ppt
Operating Margin	5.9%	6.7%	7.6%	6.0%	6.8%	7.5%	-0.1 ppt	0 ppt	0.1 ppt
Net Margin	4.5%	5.0%	5.7%	4.2%	5.3%	5.4%	0.3 ppt	-0.2 ppt	0.3 ppt

Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band

Source: Bloomberg, CMBIGM estimates

Figure 4: 12M forward P/E chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	52,729	58,079	60,316	67,658	76,853
Cost of sales	(44,200)	(47,534)	(49,950)	(55,545)	(62,633)
Gross profit	8,528	10,545	10,367	12,113	14,221
Selling exp	(760)	(919)	(902)	(973)	(1,051)
Admin exp	(2,026)	(2,320)	(2,177)	(2,375)	(2,620)
R&D exp	(2,689)	(3,394)	(3,121)	(3,501)	(3,977)
Finance costs	(382)	(560)	(629)	(613)	(611)
Other operating exp.	277	(1,239)	50	(98)	(91)
Operating profit	2,948	2,112	3,587	4,553	5,870
Other non-oper exp.	24	(5)	(4)	(5)	(6)
Pre-tax profit	2,972	2,107	3,583	4,548	5,865
Income tax expense	(460)	(747)	(896)	(1,137)	(1,466)
Net profit	2,513	1,360	2,687	3,411	4,399
Minority interests	(99)	(100)	-	-	-
Net profit to shareholders	2,612	1,460	2,687	3,411	4,399

Cash flow summary

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net profit	2,513	1,360	2,687	3,411	4,399
Depreciation	934	1,378	1,567	1,941	2,319
Amortization of Intangibles	634	899	1,133	1,381	1,665
Amortization of ROU	231	212	195	157	136
Change in working capital	(3,720)	(4,550)	(27)	(279)	184
Others	1,157	2,365	759	818	877
Net cash from operating	1,749	1,664	6,315	7,428	9,579
Capex	(5,092)	(6,927)	(5,601)	(7,483)	(8,202)
Other	(853)	(221)	472	524	562
Net cash from investing	(5,945)	(7,149)	(5,129)	(6,959)	(7,640)
Change in debt	7,992	2,671	(1,058)	785	1,039
Other	(82)	(662)	(460)	(66)	(244)
Net cash from financing	7,910	2,008	(1,518)	719	795
Net change in cash	3,715	(3,476)	(332)	1,187	2,734
Cash at beginning of the year	7,659	11,250	7,873	7,613	8,871
Exchange difference	(123)	100	72	72	72
Cash at the end of the year	11,250	7,873	7,613	8,871	11,676

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets	30,446	29,829	28,422	30,367	34,316
Cash & equivalents	10,505	8,828	7,613	8,871	11,676
Account receivables	9,298	8,270	7,594	7,977	8,868
Inventory	6,299	10,132	9,848	10,240	10,352
Other current assets	4,344	2,599	3,368	3,279	3,419
Non-current assets	42,130	46,861	49,535	53,086	56,505
PPE	8,138	10,524	12,193	13,659	15,271
Intangibles	4,527	4,991	5,579	6,168	6,726
Goodwill	22,697	22,188	22,193	22,197	22,201
Other non-current assets	6,768	9,158	9,570	11,063	12,306
Total assets	72,576	76,690	77,957	83,454	90,820
Current liabilities	23,727	26,674	25,437	26,575	28,589
ST borrowings	3,537	7,951	5,181	5,724	6,467
Account payables	11,389	11,987	11,277	11,549	12,474
Other payables	6,364	4,176	3,375	3,540	3,721
Other current liabilities	2,438	2,559	5,604	5,761	5,927
Non-current liabilities	14,332	13,402	12,517	13,018	13,665
LT borrowings	4,218	2,617	968	1,209	1,506
Bond payables	7,190	7,556	7,845	7,845	7,845
Other non-current liabilities	2,924	3,229	3,703	3,964	4,314
Total liabilities	38,060	40,076	37,953	39,593	42,254
Share capital	1,246	1,246	1,246	1,246	1,246
Reserve	24,924	25,304	25,572	25,776	25,804
Retained earnings	6,082	7,283	10,248	13,659	18,057
Other	1,446	2,066	2,223	2,464	2,743
Minority interest	817	715	715	715	715
Total equity	34,516	36,614	40,003	43,860	48,566
Total liabilities and equity	72,576	76,690	77,957	83,454	90,820

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