

Shengyi Tech (600183 CH)

Expect Shengyi to enter Nvidia supply chain in 2024

We have noticed several news outlets reporting that Shengyi Tech's latest ultra-low (UL) loss CCL product (Synamic9GN) has been certified by Nvidia and is expected to begin the next testing phase soon. Entering Nvidia's supply chain not only is a validation of the company's R&D capabilities, but also suggests the company is likely to see continued margin expansion as high-end products typically yield a higher margin. Our positive outlook for the company is further bolstered by its extensive market reach and the potential for the CCL sector to recover more quickly than the PCB sector in 2024. **Maintain BUY with an unchanged TP at RMB20.39.**

- **Based on our checks, Shengyi Tech's UL loss CCL product (Synamic9GN) has indeed been certified by Nvidia.** This is a major breakthrough for the company as high-end products imply higher margins, benefitting Shengyi Tech's future financial performance. Also, we speculate Nvidia may incorporate this UL loss CCL in its upcoming AI chips (see Figure.1 for Nvidia's tech roadmap). Additionally, sufficing Nvidia's certifications may also imply the company's product can meet the requirements from other chip designers, such as AMD and Intel.
- **Shengyi Tech is expanding its operations beyond China.** The company made plans to invest as much as RMB1.4bn (~US\$196mn) in Thailand to establish a new plant to respond more flexibly to rising global demand in July 2023. Coincidentally, Nvidia has also recently stressed the strategic significance of the Southeast Asia region as the US tech ban on China seems to be escalating further ([link](#)). We believe Southeast Asia has become not only an alternative manufacturing and logistics hub for many global tech giants but also a market with considerable untapped potential.
- We see this update as a positive catalyst for the company. Demand for the new generation of CCL products could boost the company's top and bottom lines in the coming years. **Maintain BUY with an unchanged TP at RMB20.39.**

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	20,274	18,014	17,138	20,422	24,036
YoY growth (%)	38.0	(11.1)	(4.9)	19.2	17.7
Gross margin (%)	26.8	22.0	20.2	22.8	24.4
Operating profit (RMB mn)	3,285	1,984	1,606	2,427	3,261
YoY growth (%)	44.4	(39.6)	(19.0)	51.1	34.4
Net profit (RMB mn)	2,829.7	1,530.8	1,341.6	2,106.5	2,843.2
YoY growth (%)	68.4	(45.9)	(12.4)	57.0	35.0
P/E (x)	13.9	26.0	29.7	18.9	14.0
ROE (%)	21.6	11.3	9.7	14.1	17.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB20.39**

(Previous TP) **RMB20.39**

Up/Downside **10.0%**

Current Price **RMB18.53**

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Stock Data

Mkt Cap (RMB mn)	43,541.8
Avg 3 mths t/o (RMB mn)	284.9
52w High/Low (RMB)	19.85/13.70
Total Issued Shares (mn)	2349.8

Source: FactSet

Shareholding Structure

Guangdong Guangxin Holdings Group	24.8%
Dongguan Guohong Investment	13.7%

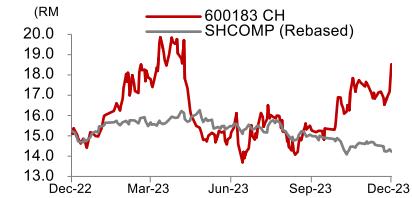
Source: HKEx

Share Performance

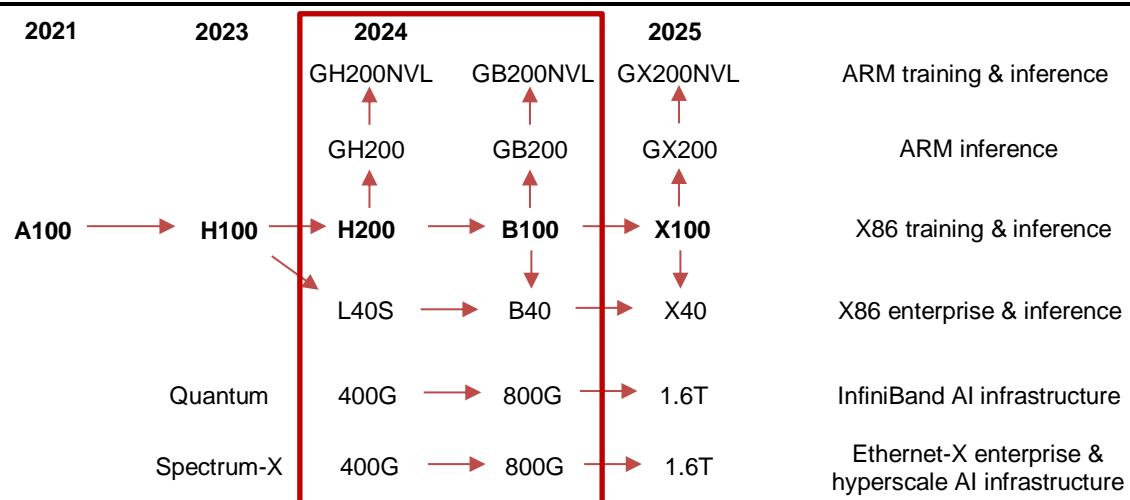
	Absolute	Relative
1-mth	6.3%	9.1%
3-mth	21.4%	27.7%
6-mth	22.1%	32.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: NVDA's roadmap of AI infrastructure upgrade (2023-2025)


Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	14,687	20,274	18,014	17,138	20,422	24,036
Cost of goods sold	(10,754)	(14,837)	(14,045)	(13,677)	(15,775)	(18,161)
Gross profit	3,933	5,437	3,969	3,461	4,647	5,875
Operating expenses	(1,659)	(2,152)	(1,985)	(1,855)	(2,220)	(2,613)
SG&A expense	(899)	(1,142)	(1,031)	(977)	(1,164)	(1,370)
R&D expense	(711)	(964)	(943)	(859)	(1,024)	(1,205)
Others	(49)	(46)	(11)	(19)	(32)	(38)
Operating profit	2,274	3,285	1,984	1,606	2,427	3,261
Other income	5	6	2	2	2	3
Other expense	(12)	(11)	(14)	(13)	(16)	(19)
Other gains/(losses)	(70)	132	(80)	(56)	(50)	(99)
Interest income	11	46	56	63	65	70
Interest expense	(121)	(139)	(171)	(161)	(162)	(157)
Other income/expense	(4)	(9)	(4)	3	0	0
Pre-tax profit	2,083	3,310	1,773	1,443	2,266	3,058
Income tax	(283)	(385)	(141)	(115)	(180)	(243)
After tax profit	1,800	2,925	1,632	1,328	2,086	2,815
Minority interest	120	95	101	(13)	(21)	(28)
Net profit	1,681	2,830	1,531	1,342	2,106	2,843
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,716	14,720	14,232	12,867	14,615	15,478
Cash & equivalents	850	2,287	3,106	3,457	3,342	3,958
Account receivables	4,888	6,120	5,582	4,747	5,883	5,970
Inventories	2,519	4,520	4,084	3,410	3,937	4,024
Prepayment	20	24	24	21	26	30
Other current assets	1,439	1,769	1,436	1,231	1,427	1,495
Non-current assets	8,642	9,711	10,963	11,350	11,382	11,352
PP&E	6,374	7,071	7,866	8,356	8,588	8,646
Right-of-use assets	0	73	44	38	34	31
Deferred income tax	120	158	220	225	234	245
Intangibles	435	399	399	373	347	322
Goodwill	97	19	0	0	0	0
Financial assets at FVTPL	0	0	25	(4)	(24)	(40)
Other non-current assets	1,616	1,991	2,410	2,361	2,203	2,149
Total assets	18,357	24,431	25,196	24,217	25,998	26,829
Current liabilities	6,804	7,253	7,377	6,486	6,843	5,910
Short-term borrowings	2,157	1,693	1,558	1,187	1,279	337
Account payables	2,903	3,296	3,386	2,235	2,519	2,456
Tax payable	125	173	50	65	61	67
Other current liabilities	1,088	1,330	1,835	2,664	2,517	2,617
Contract liabilities	32	28	20	24	28	33
Accrued expenses	498	733	529	311	440	399
Non-current liabilities	910	2,312	2,522	2,150	2,406	2,797
Long-term borrowings	605	1,590	1,175	1,083	1,319	1,680
Bond payables	0	300	800	500	500	500
Obligations under finance leases	0	66	39	35	39	39
Deferred income	267	321	108	122	121	130
Other non-current liabilities	38	35	400	410	427	447
Total liabilities	7,714	9,565	9,899	8,636	9,249	8,707
Share capital	2,291	2,312	2,327	2,324	2,324	2,324
Retained earnings	3,690	5,386	5,355	5,498	6,449	7,530
Other reserves	3,908	5,399	5,816	5,974	6,212	6,532
Total shareholders equity	9,889	13,096	13,498	13,796	14,985	16,387
Minority interest	754	1,770	1,798	1,785	1,764	1,736
Total equity and liabilities	18,357	24,431	25,196	24,217	25,998	26,829

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,800	2,925	1,632	1,328	2,086	2,815
Depreciation & amortization	531	673	726	798	871	939
Change in working capital	(832)	(1,935)	108	836	(1,534)	(62)
Others	258	113	354	64	93	(21)
Net cash from operations	1,758	1,776	2,820	3,027	1,516	3,671
Investing						
Capital expenditure	(1,761)	(1,787)	(1,534)	(1,614)	(1,343)	(1,387)
Others	(72)	(93)	341	458	465	511
Net cash from investing	(1,833)	(1,880)	(1,193)	(1,156)	(879)	(876)
Financing						
Dividend paid	(1,101)	(1,161)	(1,619)	(1,209)	(1,080)	(1,598)
Net borrowings	697	404	800	(315)	327	(581)
Others	189	2,155	171	(0)	(0)	(0)
Net cash from financing	(215)	1,398	(648)	(1,524)	(752)	(2,179)
Net change in cash						
Cash at the beginning of the year	1,051	818	2,105	3,095	3,446	3,331
Exchange difference	58	(6)	11	4	0	0
Others	(290)	1,293	979	347	(115)	616
Cash at the end of the year	818	2,105	3,095	3,446	3,331	3,947

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