

Shengyi Tech (600183 CH)

FY23 preliminary results review; expect gradual recovery in 2024

Shengyi Tech unveiled its FY23 earnings preview after Tuesday's market close. Full-year revenue was RMB16.6bn (-7.9% YoY) and net profit was RMB1.16bn (-24.0% YoY), which were 3%/13% and 3%/9% lower than our/consensus estimates, respectively. For 4Q23, revenue decreased 2.3% YoY and 5.1% QoQ to RMB4.2bn. Quarterly net profit dropped more sharply by 20.8% YoY and 23.1% QoQ to RMB264.6mn. The miss was mainly due to larger-than-expected declines in ASP in both CCL and PCB segments on weaker demand and intensified competition, which eroded GPM, although partially offset by growing shipments of CCL products. Looking forward, we think the business will gradually recover in 2H24 after bottoming in 1H. New CCL product, which has been certified by Nvidia and is expected to begin the next testing phase soon, should also contribute additional revenue in 2024. **Maintain BUY with TP adjusted to RMB19.69.**

- By segment, the company's PCB subsidiary Shengyi Electronics (688183 CH) posted 2023 revenue of RMB3.3bn, down 7.4% YoY, due to heightened market competition and falling telecom demand. Its revenue managed to grow 2.7% YoY and 9.1% QoQ in 4Q23, as the company reduced its prices to maintain its market share. However, GPM was significantly eroded. Meanwhile, Shengyi Electronics is ramping up its production at one of its facilities (Dong Cheng IV), which also put pressure on margin. For 2024, we expect PCB segment revenue to grow ~10% YoY considering 2023 had a low base, and expect a moderate recovery in 2H24.
- For the CCL segment, excluding Shengyi Electronics's PCB sales, revenue from CCL and other business was ~RMB13.3bn, down 8.0% YoY. Revenue decreased moderately in 4Q23 on weaker demand, which was partially offset by reduction in raw materials costs. We forecast CCL segment revenue to grow ~21% YoY, with additional contribution from AI demand. Shengyi Tech's latest ultralow (UL) loss CCL product has been certified by Nvidia and is expected to begin the next testing phase soon.
- We cut our 2024E revenue forecast by 4% and lower GPM by 0.7ppt to 22.1%, considering weaker-than-expected market demand and intensified competition. We expect the business will gradually recover in 2H24 with additional revenue contribution from new customers. **Maintain BUY with adjusted TP of RMB19.69, based on the same 22.5x 2024E P/E multiple, less than 10% lower than the stock's 5-year historical forward P/E of 24.1x.** Potential downside risks include: 1) worse-than-expected macro environment recovery, 2) continuous ASP pressure, and 3) increasing upstream material costs.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	20,274	18,014	16,587	19,570	23,952
YoY growth (%)	38.0	(11.1)	(7.9)	18.0	22.4
Gross margin (%)	26.8	22.0	19.3	22.1	23.0
Net profit (RMB mn)	2,830	1,531	1,162	2,034	2,706
YoY growth (%)	68.4	(45.9)	(24.1)	75.0	33.0
EPS (RMB)	1.23	0.66	0.50	0.88	1.16
Consensus EPS (RMB)	NA	NA	0.55	0.78	0.98
P/E (x)	13.9	26.0	34.3	19.6	14.7
ROE (%)	21.6%	11.3%	8.5%	13.7%	16.7%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB19.69**

(Previous TP) RMB20.39

Up/Downside **15.1%**

Current Price **RMB17.10**

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Stock Data

Mkt Cap (RMB mn)	40,181.6
Avg 3 mths t/o (RMB mn)	278.2
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%

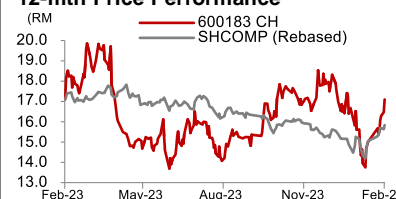
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.5%	5.7%
3-mth	0.4%	1.0%
6-mth	21.5%	23.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM estimates vs. consensus

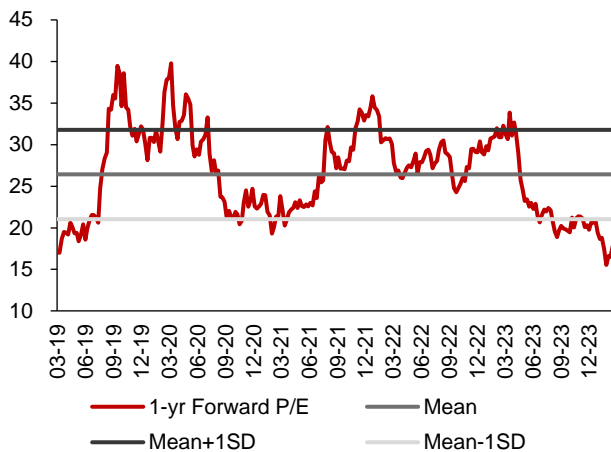
RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	16,587	19,570	23,952	17,062	19,395	21,937	-3%	1%	9%
Gross Profit	3,195	4,322	5,514	3,448	4,269	5,067	-7%	1%	9%
Net profit	1,162	2,034	2,706	1,275	1,826	2,323	-9%	11%	16%
EPS (RMB)	0.50	0.88	1.16	0.55	0.78	0.98	-9%	12%	19%
Gross margin	19.3%	22.1%	23.0%	20.2%	22.0%	23.1%	-1 ppt	0.1 ppt	-0.1 ppt
Net margin	7.0%	10.4%	11.3%	7.5%	9.4%	10.6%	-0.5 ppt	1 ppt	0.7 ppt

Source: Bloomberg consensus, CMBIGM estimates

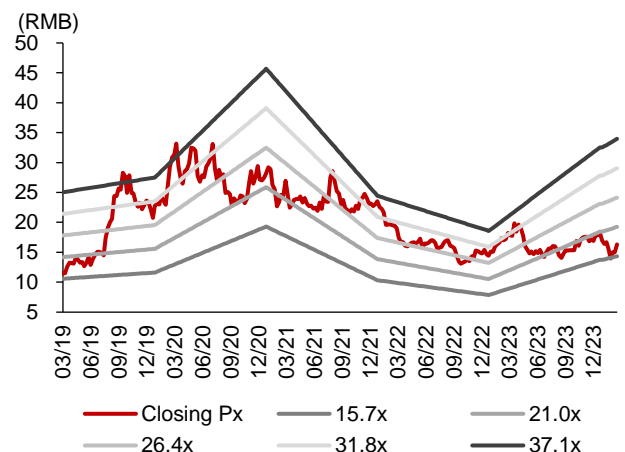
Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	16,587	19,570	23,952	17,138	20,422	24,036	-3%	-4%	0%
Gross Profit	3,195	4,322	5,514	3,461	4,647	5,875	-8%	-7%	-6%
Net profit	1,162	2,034	2,706	1,342	2,106	2,843	-13%	-3%	-5%
EPS (RMB)	0.50	0.88	1.16	0.58	0.91	1.22	-13%	-3%	-5%
Gross margin	19.3%	22.1%	23.0%	20.2%	22.8%	24.4%	-0.9 ppt	-0.7 ppt	-1.4 ppt
Net margin	7.0%	10.4%	11.3%	7.8%	10.3%	11.8%	-0.8 ppt	0.1 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

Figure 3: 12M forward PE band

Source: Company data, CMBIGM estimates

Figure 4: 12M forward PE chart

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	14,687	20,274	18,014	16,587	19,570	23,952
Cost of goods sold	(10,754)	(14,837)	(14,045)	(13,393)	(15,248)	(18,437)
Gross profit	3,933	5,437	3,969	3,195	4,322	5,514
Operating expenses	(1,773)	(2,254)	(2,105)	(1,885)	(2,068)	(2,486)
Selling expense	(284)	(351)	(341)	(359)	(384)	(446)
Admin expense	(720)	(910)	(797)	(696)	(783)	(958)
R&D expense	(711)	(964)	(943)	(832)	(910)	(1,114)
Others	(59)	(28)	(24)	1	9	32
Operating profit	2,090	3,316	1,785	1,261	2,201	2,927
Other income	5	6	2	2	2	3
Other expense	(12)	(11)	(14)	(13)	(15)	(19)
Gain/loss on financial assets at FVTPL	3	50	(23)	(9)	(7)	(5)
Other gains/(losses)	(150)	47	(82)	(65)	(71)	(121)
EBIT	2,083	3,310	1,773	1,250	2,188	2,911
Interest income	11	46	56	62	64	65
Interest expense	(121)	(139)	(171)	(155)	(153)	(152)
Pre-tax profit	2,083	3,310	1,773	1,250	2,188	2,911
Income tax	(283)	(385)	(141)	(99)	(174)	(232)
After tax profit	1,800	2,925	1,632	1,150	2,014	2,679
Minority interest	120	95	101	(12)	(20)	(27)
Net profit	1,681	2,830	1,531	1,162	2,034	2,706
Gross dividends	917	1,389	1,047	795	1,392	1,851
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	9,716	14,720	14,232	12,188	14,363	15,311
Cash & equivalents	818	2,105	3,095	3,331	3,305	3,487
Restricted cash	32	181	11	11	11	11
Account receivables	6,050	7,628	6,809	5,415	6,987	7,369
Inventories	2,519	4,520	4,084	3,255	3,847	4,235
Prepayment	20	24	24	20	25	30
Other current assets	278	260	210	156	188	179
Non-current assets	8,642	9,878	11,148	11,436	11,453	11,407
PP&E	6,374	7,071	7,866	8,332	8,546	8,591
Right-of-use assets	0	73	44	38	34	30
Deferred income tax	120	158	220	218	231	243
Investment in JVs & assos	358	622	671	663	676	682
Intangibles	1,678	1,431	2,128	2,026	1,838	1,753
Goodwill	97	19	0	0	0	0
Financial assets at FVTPL	0	0	25	(4)	(24)	(40)
Other non-current assets	14	503	195	164	154	148
Total assets	18,357	24,597	25,380	23,624	25,816	26,718
Current liabilities	6,804	7,253	7,377	6,033	6,690	5,945
Short-term borrowings	2,157	1,693	1,558	897	1,189	248
Account payables	3,267	4,292	3,984	3,064	3,295	3,517
Tax payable	125	173	50	63	60	66
Other current liabilities	725	334	1,237	1,684	1,684	1,684
Contract liabilities	32	28	20	23	27	33
Accrued expenses	498	733	529	302	435	396
Non-current liabilities	872	2,277	2,122	1,642	1,943	2,289
Long-term borrowings	605	1,590	1,175	990	1,285	1,621
Bond payables	0	300	800	500	500	500
Obligations under finance leases	0	66	39	34	38	39
Deferred income	267	321	108	118	120	129
Other non-current liabilities	0	0	0	0	0	0
Total liabilities	7,676	9,530	9,499	7,676	8,633	8,234
Share capital	2,291	2,312	2,327	2,324	2,324	2,324
Retained earnings	3,681	5,370	5,366	5,359	6,369	7,378
Other reserves	3,918	5,415	5,805	5,933	6,162	6,467
Total shareholders equity	9,889	13,096	13,498	13,616	14,855	16,170
Minority interest	754	1,770	1,798	1,787	1,766	1,740
Total equity and liabilities	18,319	24,396	24,795	23,079	25,255	26,143

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,800	2,925	1,632	1,150	2,014	2,679
Depreciation & amortization	531	673	726	798	870	937
Tax paid	(19)	(37)	4	(1)	11	10
Change in working capital	(812)	(1,898)	104	1,184	(1,746)	(376)
Others	258	113	354	103	52	(53)
Net cash from operations	1,758	1,776	2,820	3,234	1,200	3,197
Investing						
Capital expenditure	(1,761)	(1,787)	(1,534)	(1,565)	(1,326)	(1,375)
Acquisition of subsidiaries/ investments	21	45	377	435	460	506
Net proceeds from disposal of short-term investments	(76)	(134)	(36)	20	14	10
Others	(16)	(4)	(0)	8	(13)	(7)
Net cash from investing	(1,833)	(1,880)	(1,193)	(1,102)	(865)	(865)
Financing						
Dividend paid	(1,101)	(1,161)	(1,619)	(1,202)	(948)	(1,544)
Net borrowings	697	404	800	(697)	586	(605)
Proceeds from share issues	189	2,254	192	(6)	0	0
Others	(1)	(99)	(21)	6	(0)	(0)
Net cash from financing	(215)	1,398	(648)	(1,900)	(361)	(2,149)
Net change in cash						
Cash at the beginning of the year	1,051	818	2,105	3,095	3,331	3,305
Exchange difference	58	(6)	11	4	0	0
Others	(290)	1,293	979	233	(26)	182
Cash at the end of the year	818	2,105	3,095	3,331	3,305	3,487

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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