

Shennan Circuit (002916 CH)

FY23 results beat helped by better 4Q

Shennan Circuit released its FY23 earnings, with revenue down 3.3% YoY to RMB13.5bn (5%/2% higher than our forecast/consensus) and net profit down 14.8% YoY to RMB1.4bn (11%/5% higher than our forecast/consensus). **The Company beat estimates thanks to a stronger-than-expected 4Q.** The quarterly revenue/NP accounted for 30%/35% of full year results. 4Q revenue increased by 15.9% YoY/18.6% QoQ to RMB4.1bn, and net profit increased by 6.6% YoY/12.8% QoQ to RMB490mn. GPM rose in three consecutive quarters to 24.2% in 4Q (vs. 22.8%/23.4% in 2Q/3Q).

We expect Shennan to have a modest recovery this year, as we believe the PCB sector has reached the end of the trough in 2H23. 2024 revenue growth is projected to be 12.5% from a low base in 2023, given utilization rates of both PCB and substrate businesses are up. **However, we do not expect a full recovery for Shennan, at least not in 1H24, considering ongoing price erosion in PCB products and weak demand in telecom market.** Meanwhile, we are conservative in NP growth (10% in 2024), due to a **potential increase in copper price. Maintain HOLD with TP adjusted to RMB79,** based on 27x 2024E P/E, higher than previous 25x given the current position of the cycle, but lower than 5-year historical of 32x as challenges remain. The stock is currently trading at 28.5x 24E P/E, which is fair.

- By segments, in FY23, PCB/substrate revenue both declined by 8.5% YoY to RMB8.1bn/RMB2.3bn, while PCBA sales rose 21.5% to RMB2.1bn. 2H23 results were much stronger, with 8.0%/49.2%/80.8% increase from 1H. Substrate sales grew as downstream inventory digestion has almost ended and utilization rate was back to 80% in 2H. PCB growth was mainly driven by auto/energy market, partially offset by ongoing weakness in telecom/datacenter. AI demand brought incremental revenue, however, the contribution was not large. GPM for PCB and substrate businesses were 26.6% and 23.9%, declined by 1.57ppts and 3.11ppts, respectively. 2H23 GPM was improved from 1H for both segments (1.36ppts and 7.87ppts).
- Despite industry headwinds, we think Shennan is poised for future growth as the Company achieved a significant milestone in its FC-BGA production lines. Wuxi phase II and Guangzhou factories are ramping up capacity, which will benefit Shennan in the long run. However, in the short term, these two projects are likely to weigh on margins (R&D exp. up 31% in FY23).
- A potential increase in copper price. We saw copper concentrates TC index reached historical low at US\$11/tonne in March. In addition, Fed may cut rates in June 2024. These catalysts may favor a jump in copper price in the near term, which will hurt PCB suppliers' GPM.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	13,992	13,526	15,212	17,461	19,850
YoY growth (%)	0.4	(3.3)	12.5	14.8	13.7
Net profit (RMB mn)	1,641.2	1,398.1	1,537.8	1,970.5	2,467.5
YoY growth (%)	10.8	(14.8)	10.0	28.1	25.2
EPS (Reported) (RMB)	3.2	2.7	3.0	3.8	4.8
P/E (x)	27.6	32.7	29.7	23.2	18.5
ROE (%)	13.4%	10.6%	10.8%	12.5%	14.0%

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	RMB79.00
(Previous TP)	RMB72.00)
Up/Downside	-11.2%
Current Price	RMB88.92

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Stock Data

Mkt Cap (RMB mn)	45,607.1
Avg 3 mths t/o (RMB mn)	393.1
52w High/Low (RMB)	98.86/49.27
Total Issued Shares (mn)	512.9

Source: FactSet

Shareholding Structure

AVIC International Holdings Ltd	64.0%
HKSCC	3.1%

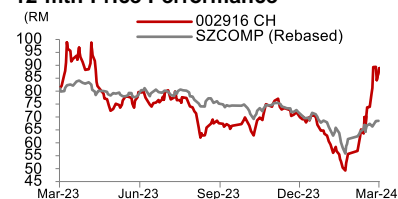
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	59.7%	41.9%
3-mth	27.2%	31.0%
6-mth	32.2%	42.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM estimates vs. consensus

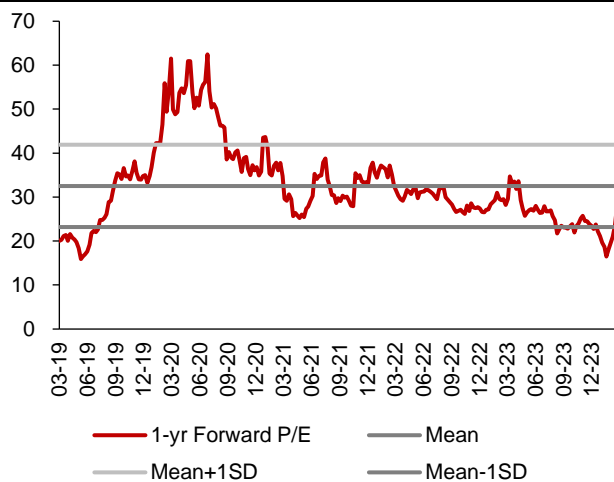
RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	15,212	17,461	19,850	15,253	17,737	N/A	0%	-2%	N/A
Gross profit	3,659	4,376	5,105	3,687	4,460	N/A	-1%	-2%	N/A
Net profit	1,538	1,971	2,468	1,563	1,920	N/A	-2%	3%	N/A
EPS (RMB)	2.99	3.83	4.80	3.33	3.99	N/A	-10%	-4%	N/A
Gross margin	24.1%	25.1%	25.7%	24.2%	25.1%	N/A	-0.1 ppt	-0.1 ppt	N/A
Net margin	10.1%	11.3%	12.4%	10.2%	10.8%	N/A	-0.1 ppt	0.5 ppt	N/A

Source: Company data, CMBIGM estimates

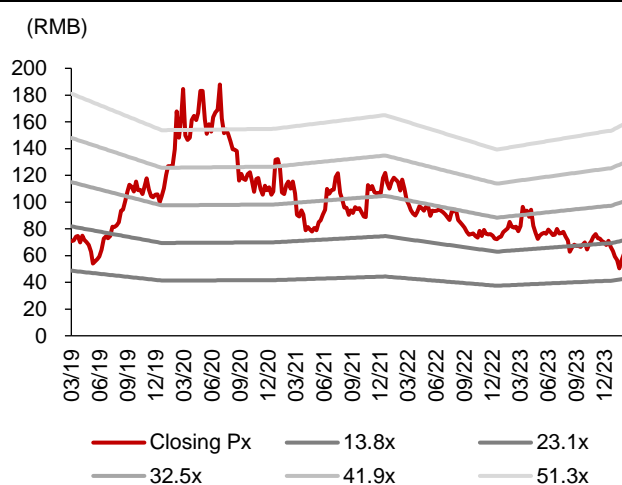
Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	15,212	17,461	19,850	14,692	17,371	N/A	4%	1%	N/A
Gross profit	3,659	4,376	5,105	3,569	4,409	N/A	3%	-1%	N/A
Net profit	1,538	1,971	2,468	1,506	2,030	N/A	2%	-3%	N/A
EPS (RMB)	2.99	3.83	4.80	2.93	3.95	N/A	2%	-3%	N/A
Gross margin	24.1%	25.1%	25.7%	24.3%	25.4%	N/A	-0.2 ppt	-0.3 ppt	N/A
Net margin	10.1%	11.3%	12.4%	10.3%	11.7%	N/A	-0.1 ppt	-0.4 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 1: 12M forward PE band

Source: Company data, CMBIGM estimates

Figure 2: 12M forward PE chart

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	13,943	13,992	13,526	15,212	17,461	19,850
Cost of goods sold	(10,637)	(10,422)	(10,357)	(11,553)	(13,086)	(14,745)
Gross profit	3,306	3,571	3,170	3,659	4,376	5,105
Operating expenses	(1,406)	(1,691)	(1,558)	(1,888)	(2,115)	(2,344)
SG&A expense	(776)	(926)	(870)	(937)	(1,041)	(1,143)
R&D expense	(782)	(820)	(1,073)	(1,217)	(1,379)	(1,548)
Others	152	55	385	266	306	347
Operating profit	1,899	1,880	1,611	1,771	2,261	2,761
Other income	4	4	5	5	6	6
Other expense	(11)	(7)	(4)	(6)	(6)	(7)
Other gains/(losses)	(175)	(163)	(182)	(146)	(190)	(177)
Interest income	5	22	12	9	13	19
Interest expense	(91)	(92)	(66)	(76)	(82)	(87)
Others	(21)	77	23	54	62	71
Pre-tax profit	1,609	1,720	1,398	1,612	2,065	2,586
Income tax	(128)	(79)	(1)	(74)	(95)	(119)
After tax profit	1,481	1,641	1,398	1,538	1,970	2,467
Minority interest	0	0	(0)	(0)	(0)	(0)
Net profit	1,481	1,641	1,398	1,538	1,971	2,468
BALANCE SHEET						
	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,270	8,578	8,597	9,515	10,840	12,702
Cash & equivalents	620	1,913	853	1,193	1,792	2,706
Account receivables	2,732	2,770	3,091	3,328	3,657	4,066
Inventories	2,527	2,341	2,686	2,884	3,138	3,487
Prepayment	16	49	8	33	37	43
Other current assets	1,377	1,505	1,959	2,077	2,215	2,400
Non-current assets	9,522	12,149	14,010	14,932	15,879	16,905
PP&E	7,789	9,138	10,083	10,966	11,746	12,768
Right-of-use assets	44	37	26	17	8	(3)
Deferred income tax	91	208	272	295	322	357
Intangibles	407	557	544	546	551	560
Goodwill	0	0	0	0	0	0
Other non-current assets	1,191	2,209	3,085	3,109	3,252	3,223
Total assets	16,792	20,727	22,607	24,448	26,719	29,607
Current liabilities	5,948	6,708	6,425	7,124	7,717	8,639
Short-term borrowings	350	0	400	699	740	954
Account payables	1,881	1,638	2,037	2,205	2,384	2,625
Tax payable	78	31	42	45	49	55
Other current liabilities	3,141	4,484	3,291	3,532	3,844	4,226
Contract liabilities	70	93	212	164	175	199
Accrued expenses	428	462	443	479	524	581
Non-current liabilities	2,325	1,765	2,995	3,050	3,256	3,394
Long-term borrowings	1,368	1,175	2,407	2,413	2,560	2,623
Bond payables	0	0	0	0	0	0
Deferred income	317	356	372	402	439	487
Other non-current liabilities	640	235	217	234	256	284
Total liabilities	8,272	8,474	9,420	10,174	10,972	12,033
Share capital	489	513	513	513	513	513
Retained earnings	4,150	5,291	6,179	7,255	8,718	10,535
Other reserves	3,877	6,446	6,492	6,503	6,514	6,524
Total shareholders equity	8,517	12,249	13,184	14,271	15,744	17,572
Minority interest	3	3	3	3	3	2
Total equity and liabilities	16,792	20,727	22,607	24,448	26,719	29,607

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,481	1,640	1,398	1,538	1,970	2,467
Depreciation & amortization	863	1,062	1,272	1,391	1,586	1,789
Change in working capital	(363)	180	(364)	18	(69)	(105)
Others	361	281	268	(122)	(21)	(39)
Net cash from operations	2,342	3,163	2,574	2,825	3,466	4,111
Investing						
Capital expenditure	(2,658)	(3,378)	(3,250)	(2,311)	(2,528)	(2,802)
Acquisition of subsidiaries/ investments	(3)	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	181	(237)	(311)	33	34	36
Net cash from investing	(2,481)	(3,614)	(3,561)	(2,278)	(2,493)	(2,766)
Financing						
Dividend paid	(541)	(565)	(589)	(538)	(590)	(738)
Net borrowings	536	(242)	1,117	305	189	277
Proceeds from share issues	0	2,530	0	0	0	0
Others	266	(26)	(617)	11	11	11
Net cash from financing	261	1,697	(89)	(222)	(390)	(450)
Net change in cash						
Cash at the beginning of the year	504	620	1,912	851	1,191	1,790
Exchange difference	(7)	30	(0)	(0)	(0)	(0)
Others	122	1,263	(1,061)	340	600	914
Cash at the end of the year	620	1,912	851	1,191	1,790	2,704

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

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