

Naura Technology (002371 CH)

Key beneficiary of semiconductor localization

BUY (Maintain)

We recently held an NDR with Naura Technology's management and we maintain our positive outlook for the Company. We expect Naura to deliver robust revenue growth on capex expansion from downstream clients and accelerated semi localization trend. In addition, we believe the Company could be one of the beneficiaries of the recently launched "Big Fund III" (US\$47.5bn) in China. **Naura is currently our favourite under the semi localization theme. Reiterate BUY rating for Naura (002371 CH), with an unchanged TP at RMB405.**

- Geopolitical tensions have driven major economies worldwide to pursue resilience over efficiency, leading to significant investments to strengthen domestic chip fabrication capabilities. The recently established "Big Fund III" (US\$47.5bn) in China is so far the largest phase of the series, with registered capital of RMB344bn (vs. Phase I/II: RMB139bn/RMB200bn). The phase III underscores yet another Chinese government's effort to achieve self-sufficiency in semi amid the escalating geopolitical tensions. Previous phases focused on chip fabrication, equipment, materials, etc., and we expect similar investment interests for Phase III, as well as a potential focus on AI-related areas. **We expect Naura to be one of the beneficiaries.**
- **Looking forward, Naura will likely maintain robust growth on capex expansion from clients and accelerated semi localization trend.** Key drivers of revenue could be from order wins in CCP, CVD and cleanser products. The Company disclosed that new orders signed in 2023 were RMB30bn, of which 70%+ were for semiconductor equipment and 15% were for new energy/PV. We think these orders will support 40% revenue growth in 2024.
- **We reiterate our BUY rating for Naura (002371 CH), with an unchanged TP at RMB405, based on the same 39x 2024E P/E.** We raise our GPM forecasts by 1.9ppt and 3.9ppt for 2024/25E, considering larger revenue contribution from more advanced equipment. This accretive impact on net profit was offset by a higher projection for R&D spending (~11% of total revenue), as the Company is expanding its product coverage. **Risks:** 1) intensified competition from overseas and domestic peers, and 2) escalating geopolitical tensions.

Target Price RMB405.00
Up/Downside 32.8%

Current Price RMB304.98

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Stock Data

| | |
|--------------------------|---------------|
| Mkt Cap (RMB mn) | 161,926 |
| Avg 3 mths t/o (RMB mn) | 1,644.98 |
| 52w High/Low (RMB) | 349.48/213.42 |
| Total Issued Shares (mn) | 531 |

Source: FactSet

Shareholding Structure

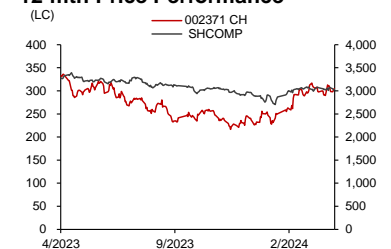
| | |
|--|-------|
| Beijing Sevenstar Huadian Technology Gro | 33.6% |
| Beijing Electronics Holding | 9.4% |

Source: Bloomberg

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -3.1% | -9.1% |
| 3-mth | 13.3% | 1.1% |
| 6-mth | 26.4% | 17.7% |

Source: FactSet

12-mth Price Performance


Source: FactSet

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|---------------------------|---------|---------|---------|---------|----------|
| Revenue (RMB mn) | 14,688 | 22,079 | 30,856 | 39,030 | 48,443 |
| YoY growth (%) | 51.7 | 50.3 | 39.7 | 26.5 | 24.1 |
| Gross margin (%) | 43.8 | 41.1 | 39.8 | 41.5 | 42.3 |
| Operating profit (RMB mn) | 2,867.5 | 4,447.9 | 6,306.2 | 8,944.4 | 12,026.3 |
| YoY growth (%) | 131.9 | 55.1 | 41.8 | 41.8 | 34.5 |
| Net profit (RMB mn) | 2,352.7 | 3,899.1 | 5,527.3 | 7,833.0 | 10,526.2 |
| YoY growth (%) | 118.4 | 65.7 | 41.8 | 41.7 | 34.4 |
| P/E (x) | 90.8 | 55.0 | 38.9 | 27.5 | 20.4 |

Source: Company data, Bloomberg, CMBIGM estimates

National Integrated Circuit Industry Investment Fund (The Big Fund)

The National Integrated Circuit Industry Investment Fund, known as the Big Fund, was created in 2014 with registered capital of RMB139bn. The initial phase focused on developing China's semi manufacturing capabilities with major investments directing towards leading Chinese semi foundries, such as SMIC (688951 CH) and Hua Hong Semi (1347 HK). Additionally, the fund supported other parts of the semi ecosystem, such as materials and equipment, laying the groundwork for a more self-sufficient semi industry. According to ijiwei's analysis, 67% of the fund was invested in IC manufacturing, 17% in chip design, 10% in packaging, and 6% in equipment and materials.

Big Fund II was launched in 2019, significantly expanding its scope and financial flexibility with registered capital of RMB200bn. This phase shifted its focus to strengthening the upstream semi supply chain, particularly in equipment and materials. Investments were aimed at companies producing essential semi equipment, such as etching machines and testing equipment. Phase II also aimed to further reduce China's reliance on foreign tech and support domestic semi solutions.

Big Fund III is so far the largest phase of the series with registered capital of RMB344bn. This phase underscores yet another Chinese government's effort to achieve self-sufficiency in semi amid the escalating geopolitical tensions. The investments are likely to further the previous objectives (advanced materials, manufacturing capacity and equipment, etc.), while potentially adding other critical areas in AI developments.

Figure 1: History of China's Big Fund

| Fund | Date | Amount | Investments |
|---------------------|------|----------|---|
| Big Fund I | 2014 | RMB139bn | Major investments in SMIC (688981 CH, NR) and Yangtze Memory Technologies Corp (YMTC), Hua Hong Semi (1347 HK, NR), etc. |
| Big Fund II | 2019 | RMB200bn | Continued support for SMIC, YMTC, Hua Hong Semi, and other local semi manufacturers, such as Naura Technology (002371 CH, BUY) and AMEC 688012 CH, NR). |
| Big Fund III | 2024 | RMB344bn | |

Source: Bloomberg, Reuters, CMBIGM

Figure 2: CMBIGM estimates vs. consensus

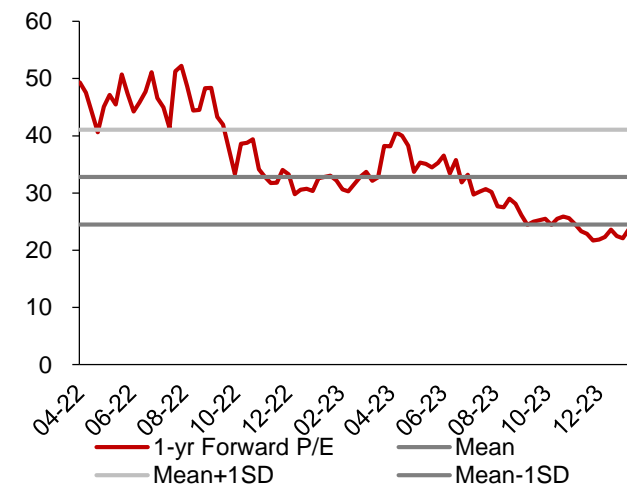
| RMB mn | CMBI estimates | | | Consensus | | | Diff (%) | | |
|---------------------|----------------|--------|--------|-----------|--------|--------|----------|----------|----------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 30,856 | 39,030 | 48,443 | 30,322 | 39,607 | 48,527 | 2% | -1% | 0% |
| Gross Profit | 12,281 | 16,203 | 20,503 | 12,829 | 16,781 | 20,695 | -4% | -3% | -1% |
| Net profit | 5,525 | 7,813 | 10,481 | 5,556 | 7,581 | 9,423 | -1% | 3% | 11% |
| EPS (RMB) | 10.41 | 14.72 | 19.74 | 10.61 | 14.46 | 18.17 | -2% | 2% | 9% |
| Gross Margin | 39.8% | 41.5% | 42.3% | 42.3% | 42.4% | 42.6% | -2.5 ppt | -0.9 ppt | -0.3 ppt |
| Net Margin | 17.9% | 20.0% | 21.6% | 18.3% | 19.1% | 19.4% | -0.4 ppt | 0.9 ppt | 2.2 ppt |

Source: Bloomberg, CMBIGM estimates

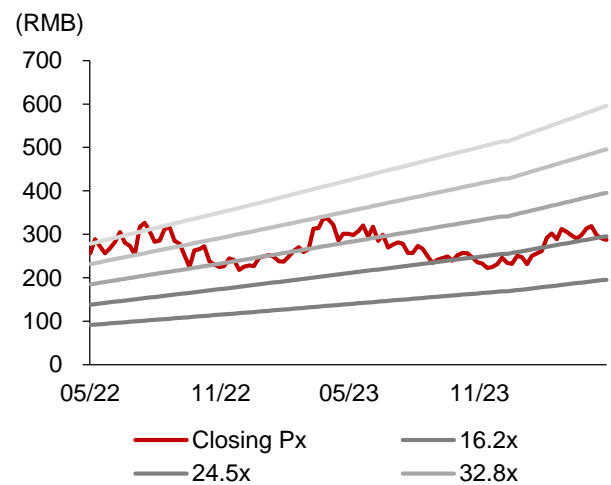
Figure 3: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|---------------------|--------|--------|--------|--------|--------|--------|----------|---------|---------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 30,856 | 39,030 | 48,443 | 30,477 | 40,625 | 49,229 | 1% | -4% | -2% |
| Gross profit | 12,281 | 16,203 | 20,503 | 11,564 | 15,274 | 18,413 | 6% | 6% | 11% |
| Net profit | 5,525 | 7,813 | 10,481 | 5,499 | 7,618 | 9,461 | 0% | 3% | 11% |
| EPS (RMB) | 10.41 | 14.72 | 19.74 | 10.37 | 14.37 | 17.85 | 0% | 2% | 11% |
| Gross margin | 39.8% | 41.5% | 42.3% | 37.9% | 37.6% | 37.4% | 1.9 ppt | 3.9 ppt | 4.9 ppt |
| Net margin | 17.9% | 20.0% | 21.6% | 18.0% | 18.8% | 19.2% | -0.1 ppt | 1.3 ppt | 2.4 ppt |

Source: Company data, CMBIGM estimates

Figure 4: 12M forward PE band

Source: Company data, CMBIGM estimates

Figure 5: 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 | 9,683 | 14,688 | 22,079 | 30,856 | 39,030 | 48,443 |
| Cost of goods sold | (5,867) | (8,250) | (13,005) | (18,575) | (22,827) | (27,940) |
| Gross profit | 3,817 | 6,438 | 9,075 | 12,281 | 16,203 | 20,503 |
| Operating expenses | (2,580) | (3,571) | (4,627) | (5,974) | (7,259) | (8,477) |
| Selling expense | (84) | (135) | (167) | (203) | (217) | (221) |
| SG&A expense | (1,705) | (2,224) | (2,836) | (3,393) | (3,921) | (4,455) |
| R&D expense | (1,297) | (1,845) | (2,475) | (3,305) | (4,180) | (5,189) |
| Others | 507 | 633 | 852 | 926 | 1,060 | 1,389 |
| Operating profit | 1,236 | 2,867 | 4,448 | 6,306 | 8,944 | 12,026 |
| Other income | 18 | 14 | 22 | 24 | 27 | 29 |
| Other expense | (2) | (27) | (4) | 0 | 0 | 0 |
| Pre-tax profit | 1,253 | 2,854 | 4,466 | 6,330 | 8,971 | 12,056 |
| Income tax | (59) | (313) | (433) | (614) | (870) | (1,169) |
| After tax profit | 1,193 | 2,541 | 4,033 | 5,717 | 8,102 | 10,887 |
| Minority interest | 116 | 188 | 134 | 189 | 269 | 361 |
| Net profit | 1,077 | 2,353 | 3,899 | 5,527 | 7,833 | 10,526 |

| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 22,323 | 31,117 | 38,226 | 50,792 | 55,409 | 77,046 |
| Cash & equivalents | 9,068 | 10,435 | 12,451 | 16,481 | 19,703 | 27,076 |
| Account receivables | 1,899 | 2,995 | 3,767 | 6,039 | 6,365 | 9,030 |
| Inventories | 8,035 | 13,041 | 16,992 | 22,703 | 22,950 | 32,930 |
| Prepayment | 658 | 1,551 | 1,480 | 1,733 | 1,997 | 2,237 |
| Other current assets | 2,663 | 3,096 | 3,535 | 3,836 | 4,394 | 5,772 |
| Non-current assets | 8,732 | 11,434 | 15,399 | 19,439 | 23,278 | 26,709 |
| PP&E | 2,423 | 2,484 | 3,352 | 3,758 | 4,327 | 4,977 |
| Right-of-use assets | 68 | 147 | 215 | 282 | 328 | 353 |
| Deferred income tax | 473 | 363 | 450 | 572 | 641 | 845 |
| Intangibles | 2,063 | 2,003 | 2,547 | 3,028 | 3,363 | 3,477 |
| Goodwill | 17 | 18 | 27 | 27 | 27 | 27 |
| Other non-current assets | 3,689 | 6,419 | 8,808 | 11,772 | 14,592 | 17,030 |
| Total assets | 31,054 | 42,551 | 53,625 | 70,231 | 78,687 | 103,754 |
| Current liabilities | 11,268 | 15,770 | 19,083 | 28,404 | 29,192 | 41,869 |
| Short-term borrowings | 0 | 227 | 23 | 308 | 447 | 605 |
| Account payables | 3,499 | 5,592 | 6,117 | 9,150 | 8,986 | 13,213 |
| Tax payable | 110 | 130 | 209 | 238 | 267 | 352 |
| Other current liabilities | 2,096 | 1,841 | 3,418 | 4,212 | 4,343 | 6,086 |
| Contract liabilities | 5,046 | 7,198 | 8,317 | 13,572 | 14,116 | 20,250 |
| Accrued expenses | 517 | 782 | 999 | 923 | 1,035 | 1,364 |
| Non-current liabilities | 2,588 | 6,797 | 9,717 | 11,651 | 11,852 | 14,233 |
| Long-term borrowings | 0 | 3,740 | 5,835 | 6,820 | 6,467 | 7,208 |
| Bond payables | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred income | 0 | 2 | 4 | 4 | 4 | 4 |
| Other non-current liabilities | 2,587 | 3,055 | 3,877 | 4,827 | 5,380 | 7,021 |
| Total liabilities | 13,856 | 22,567 | 28,800 | 40,055 | 41,044 | 56,102 |
| Share capital | 526 | 529 | 530 | 531 | 531 | 531 |
| Retained earnings | 2,924 | 5,159 | 8,776 | 13,842 | 21,041 | 30,689 |
| Other reserves | 13,448 | 14,058 | 15,061 | 15,155 | 15,155 | 15,155 |
| Total shareholders equity | 16,898 | 19,746 | 24,367 | 29,529 | 36,728 | 46,375 |
| Minority interest | 301 | 238 | 458 | 647 | 916 | 1,277 |
| Total equity and liabilities | 31,054 | 42,551 | 53,625 | 70,231 | 78,687 | 103,754 |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|--------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 1,253 | 2,854 | 4,466 | 6,330 | 8,971 | 12,056 |
| Depreciation & amortization | 460 | 552 | 730 | 894 | 1,107 | 1,296 |
| Tax paid | (59) | (313) | (433) | (614) | (870) | (1,169) |
| Change in working capital | (3,133) | (4,424) | (3,409) | (4,883) | (1,154) | (8,067) |
| Others | 703 | 603 | 1,012 | 6,407 | 1,096 | 7,935 |
| Net cash from operations | (777) | (728) | 2,365 | 8,135 | 9,151 | 12,051 |
| Investing | | | | | | |
| Capital expenditure | (447) | (1,409) | (1,980) | (4,955) | (5,061) | (4,724) |
| Acquisition of subsidiaries/ investments | 0 | (15) | (81) | na | na | na |
| Net proceeds from disposal of short-term investments | 0 | 0 | 3 | na | na | na |
| Others | 0 | 1 | 0 | (157) | 143 | 197 |
| Net cash from investing | (447) | (1,423) | (2,058) | (5,112) | (4,917) | (4,527) |
| Financing | | | | | | |
| Dividend paid | (114) | (241) | (388) | (620) | (810) | (1,066) |
| Net borrowings | (602) | 3,453 | 1,888 | 1,281 | (214) | 898 |
| Proceeds from share issues | 8,497 | 157 | 212 | 95 | 0 | 0 |
| Others | (101) | (24) | (66) | (46) | (47) | (47) |
| Net cash from financing | 7,680 | 3,345 | 1,647 | 709 | (1,071) | (214) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 2,578 | 9,031 | 10,261 | 12,229 | 16,017 | 19,239 |
| Exchange difference | (4) | 37 | 14 | 56 | 60 | 63 |
| Others | 6,457 | 1,194 | 1,954 | 3,732 | 3,163 | 7,311 |
| Cash at the end of the year | 9,031 | 10,261 | 12,229 | 16,017 | 19,239 | 26,613 |

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

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