

# Willsemi (603501 CH)

## Solid 1H24 results with continued recovery in CIS business

Willsemi released 1H24 results. Revenue increased by 36.5% YoY to RMB12bn, while net profit grew 790% YoY from a low base in 1H23 (RMB153mn) to RMB1.37bn in 1H24. On a quarterly basis, the company achieved a record revenue at RMB6.4bn in 2Q24 (42.5% YoY/14.2% QoQ, in line with consensus estimate). Q2 net profit was RMB809mn, up 45.1% QoQ (2Q23 was in net loss). GPM improved to 30.2% in Q2 (vs. 27.9%/17.3% in 1Q24/2Q23), suggesting a steady recovery. NPM expanded to 12.6% in 2Q24 (vs. 9.9%/-1% in 1Q24/2Q23) with a better cost structure. Mgmt. attributed the results to 1) steady recovery of consumer sentiment in 1H24, 2) growing adoption of Willsemi's products in the high-end smartphone market (esp. in domestic Android models) and strong growth in auto CIS, and 3) an improving GPM on a favourable product mix. **Maintain BUY with TP adjusted to RMB115.39, based on 40.7x 2024E P/E.**

■ **CIS sales continued strong growth momentum in 1H24 (49.8% YoY/-0.1% HoH).** Mobile/auto/IoT/medical CIS grew 78.5%/53.0%/77.8%/41.6% YoY, while security/notebook CIS declined 26.7%/9.0% YoY, respectively. Without a broad recovery of end-market demand, Willsemi's CIS sales for mobile/auto/IoT/medical delivered resilient growth, driven by 1) share gains in domestic high-end Android market (i.e., new flagship OV50H sensor), 2) demand for ADAS and in-cabin cameras continuing to increase to fulfill autonomous driving and security needs, 3) the industrial automation trend, and 4) inventory restocking behaviours. We expect CIS sales to grow another 15% HoH in 2H24, implying 29% YoY in 2024. We project the segment revenue to grow 21%/18% YoY in 2025/26E.

■ **Touch/display business remains weak, while analog segment shows signs of recovery.** Touch/display revenue decreased 28.6% YoY, due to ongoing inventory digestion and ASP pressure. Analog sales were up 24.7% YoY on improving market conditions and share gains. We expect touch/display segment to recover in 2025, driven by the introduction of low power-consumption and auto-grade products. Analog sales are forecasted to grow double-digits on better market conditions and share increases.

■ **Maintain BUY with slightly adjusted TP at RMB115.39, based on 40.7x 2024E P/E, which is 1-SD above 1-year historical avg. forward P/E, given Willsemi's leading market position and continuous share gains.** We revise NP forecasts for 2024/25E by -1%/3%, on higher R&D costs, as the company plans to ramp up new products and enhance its competitiveness. Key risks are 1) slower-than-expected end-market demand recovery and 2) intensified competition.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	20,078	21,021	26,119	31,213	36,145
YoY growth (%)	(16.7)	4.7	24.3	19.5	15.8
Gross margin (%)	30.8	21.8	29.7	30.6	31.6
Operating profit (RMB mn)	2,455.9	1,276.9	3,898.3	5,534.5	7,026.2
YoY growth (%)	(51.1)	(48.0)	205.3	42.0	27.0
Net profit (RMB mn)	990.1	555.6	3,373.8	4,706.3	6,075.2
YoY growth (%)	(77.9)	(43.9)	507.2	39.5	29.1
P/E (x)	109.9	196.3	32.5	23.3	18.1

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **RMB115.39**  
(Previous TP) RMB117.5)

**Up/Downside** **25.0%**

**Current Price** **RMB92.28**

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### Stock Data

Mkt Cap (RMB mn)	109,816.1
Avg 3 mths t/o (RMB mn)	1,056.0
52w High/Low (RMB)	112.76/79.22
Total Issued Shares (mn)	1190.0

Source: FactSet

### Shareholding Structure

Yu Renrong	29.5%
China Asset Management	3.2%

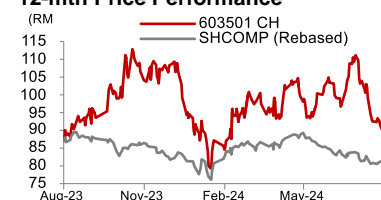
Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	-16.9%	-13.6%
3-mth	-5.9%	4.1%
6-mth	9.1%	11.2%

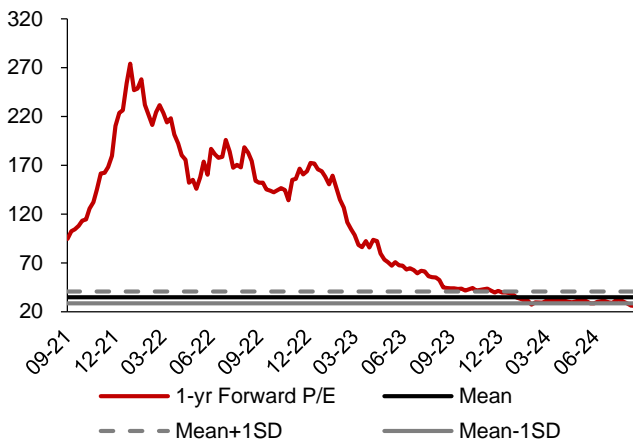
Source: FactSet

### 12-mth Price Performance



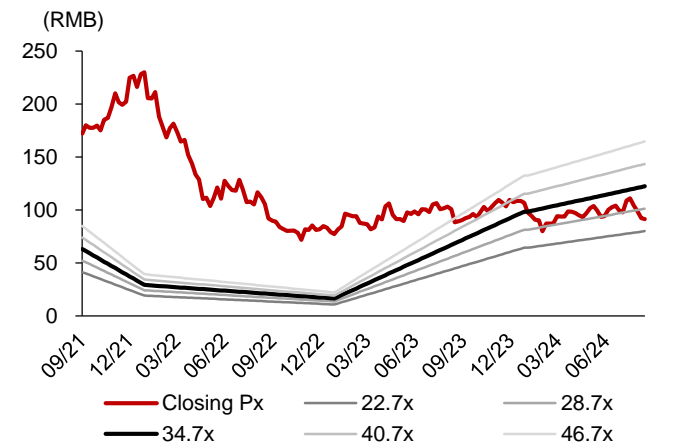
Source: FactSet

Figure 1: 1-yr forward PE band



Source: Company data, Bloomberg

Figure 2: PE chart



Source: Company data, Bloomberg

Figure 3: Earnings revisions

RMBmn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	26,119	31,213	36,145	25,624	30,101	NA	2%	4%	NA
Gross profit	7,762	9,551	11,424	7,430	9,219	NA	4%	4%	NA
Net profit	3,374	4,706	6,075	3,391	4,551	NA	-1%	3%	NA
EPS (RMB)	2.84	3.95	5.11	2.64	3.62	NA	7%	9%	NA
Gross margin	29.7%	30.6%	31.6%	29.0%	30.6%	NA	0.7 ppt	0 ppt	NA
Net margin	12.9%	15.1%	16.8%	13.2%	15.1%	NA	-0.3 ppt	0 ppt	NA

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

RMBmn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	26,119	31,213	36,145	26,662	31,584	36,582	-2%	-1%	-1%
Gross profit	7,762	9,551	11,424	7,821	9,814	11,765	-1%	-3%	-3%
Net profit	3,374	4,706	6,075	3,174	4,657	5,913	6%	1%	3%
EPS (RMB)	2.84	3.95	5.11	2.66	3.83	4.78	7%	3%	7%
Gross margin	29.7%	30.6%	31.6%	29.3%	31.1%	32.2%	0.4 ppt	-0.5 ppt	-0.6 ppt
Net margin	12.9%	15.1%	16.8%	11.9%	14.7%	16.2%	1 ppt	0.3 ppt	0.6 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

**Figure 5: Company financials**

RMB mn	FY22	FY23	FY24E	1Q24A	2Q24A	3Q24E	4Q24E	FY25E	FY26E
<b>Revenue</b>	<b>20,078</b>	<b>21,021</b>	<b>26,119</b>	<b>5,644</b>	<b>6,448</b>	<b>6,931</b>	<b>7,096</b>	<b>31,213</b>	<b>36,145</b>
...YoY	-16.7%	4.7%	24.3%	30.2%	42.5%	11.4%	19.5%	19.5%	15.8%
...QoQ				-5.0%	14.2%	7.5%	2.4%		
COGS	(13,903)	(16,446)	(18,357)	(4,070)	(4,498)	(4,835)	(4,955)	(21,662)	(24,721)
<b>Gross profit</b>	<b>6,175</b>	<b>4,574</b>	<b>7,762</b>	<b>1,574</b>	<b>1,950</b>	<b>2,096</b>	<b>2,142</b>	<b>9,551</b>	<b>11,424</b>
GPM (%)	30.8%	21.8%	29.7%	27.9%	30.2%	30.2%	30.2%	30.6%	31.6%
...YoY									
SG&A	(1,281)	(1,090)	(1,234)	(300)	(305)	(298)	(331)	(1,249)	(1,319)
...% of rev	-6.4%	-5.2%	-4.7%	-5.3%	-4.7%	-4.3%	-4.7%	-4.0%	-3.7%
R&D	(2,496)	(2,234)	(2,612)	(623)	(633)	(645)	(712)	(2,747)	(3,054)
...% of rev	-12.4%	-10.6%	-10.0%	-11.0%	-9.8%	-9.3%	-10.0%	-8.8%	-8.5%
<b>Operating profit</b>	<b>1,298</b>	<b>667</b>	<b>3,797</b>	<b>576</b>	<b>911</b>	<b>1,177</b>	<b>1,134</b>	<b>5,461</b>	<b>7,050</b>
OPM (%)	6.5%	3.2%	14.5%	10.2%	14.1%	17.0%	16.0%	17.5%	19.5%
...YoY	-74.0%	-48.6%	469.4%	121.8%	-1374.0%	313.5%	483.7%	43.9%	29.1%
<b>Net profit</b>	<b>990</b>	<b>556</b>	<b>3,374</b>	<b>558</b>	<b>809</b>	<b>1,009</b>	<b>998</b>	<b>4,706</b>	<b>6,075</b>
NPM (%)	4.9%	2.6%	12.9%	9.9%	12.6%	14.6%	14.1%	15.1%	16.8%
...YoY	-77.9%	-43.9%	507.2%	180.5%	NA	368.6%	433.0%	39.5%	29.1%

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>24,104</b>	<b>20,078</b>	<b>21,021</b>	<b>26,119</b>	<b>31,213</b>	<b>36,145</b>
Cost of goods sold	(15,790)	(13,903)	(16,446)	(18,357)	(21,662)	(24,721)
<b>Gross profit</b>	<b>8,314</b>	<b>6,175</b>	<b>4,574</b>	<b>7,762</b>	<b>9,551</b>	<b>11,424</b>
<b>Operating expenses</b>	<b>(3,292)</b>	<b>(3,719)</b>	<b>(3,297)</b>	<b>(3,863)</b>	<b>(4,017)</b>	<b>(4,398)</b>
Selling expense	(515)	(516)	(467)	(528)	(499)	(506)
Admin expense	(23)	(25)	(33)	(44)	(52)	(61)
SG&A expense	(685)	(765)	(623)	(705)	(749)	(813)
R&D expense	(2,110)	(2,496)	(2,234)	(2,612)	(2,747)	(3,054)
Others	42	82	60	26	31	36
<b>Operating profit</b>	<b>5,022</b>	<b>2,456</b>	<b>1,277</b>	<b>3,898</b>	<b>5,535</b>	<b>7,026</b>
Other income	5	5	26	52	51	66
Other expense	(3)	(2)	(2)	(3)	(3)	(4)
Gain/loss on financial assets at FVTPL	(178)	(1,425)	(367)	(129)	(136)	(146)
Investment gain/loss	614	1,047	73	125	129	133
Other gains/(losses)	(103)	(186)	140	(102)	(108)	(115)
<b>EBIT</b>	<b>5,358</b>	<b>1,895</b>	<b>1,148</b>	<b>3,842</b>	<b>5,467</b>	<b>6,960</b>
Interest income	25	27	96	294	323	435
Interest expense	(410)	(494)	(534)	(330)	(328)	(338)
<b>Net Interest income/(expense)</b>	<b>(385)</b>	<b>(467)</b>	<b>(438)</b>	<b>(35)</b>	<b>(5)</b>	<b>97</b>
Other income/expense	29	(127)	(19)	39	47	54
<b>Pre-tax profit</b>	<b>5,002</b>	<b>1,301</b>	<b>691</b>	<b>3,846</b>	<b>5,509</b>	<b>7,112</b>
Income tax	(456)	(343)	(148)	(489)	(826)	(1,067)
<b>After tax profit</b>	<b>4,546</b>	<b>958</b>	<b>544</b>	<b>3,357</b>	<b>4,683</b>	<b>6,045</b>
Minority interest	70	(32)	(12)	(17)	(23)	(30)
<b>Net profit</b>	<b>4,476</b>	<b>990</b>	<b>556</b>	<b>3,374</b>	<b>4,706</b>	<b>6,075</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>20,296</b>	<b>19,613</b>	<b>20,264</b>	<b>22,563</b>	<b>28,147</b>	<b>34,503</b>
Cash & equivalents	7,671	4,026	9,086	10,582	14,811	19,361
Account receivables	2,878	2,502	4,031	4,195	4,704	5,278
Inventories	8,781	12,356	6,322	6,984	7,721	8,852
Prepayment	220	236	221	274	328	380
Financial assets at FVTPL	15	14	133	10	10	10
Other current assets	730	479	472	517	574	622
<b>Non-current assets</b>	<b>11,784</b>	<b>15,577</b>	<b>17,479</b>	<b>17,733</b>	<b>18,051</b>	<b>18,354</b>
PP&E	1,863	2,047	2,586	2,752	2,756	2,647
Right-of-use assets	236	209	176	177	179	182
Intangibles	1,604	2,018	2,305	2,054	1,803	1,533
Goodwill	2,998	3,169	3,861	3,864	3,864	3,864
Other non-current assets	5,084	8,134	8,551	8,887	9,449	10,127
<b>Total assets</b>	<b>32,080</b>	<b>35,190</b>	<b>37,743</b>	<b>40,296</b>	<b>46,198</b>	<b>52,856</b>
<b>Current liabilities</b>	<b>8,700</b>	<b>10,373</b>	<b>9,069</b>	<b>9,024</b>	<b>9,607</b>	<b>10,139</b>
Short-term borrowings	2,387	3,632	2,671	2,296	2,302	2,320
Account payables	2,574	1,128	1,663	2,360	2,625	2,929
Tax payable	589	145	229	190	249	267
Other current liabilities	2,746	5,079	4,055	3,697	3,850	3,966
Contract liabilities	149	125	187	232	277	321
Accrued expenses	255	263	264	248	304	337
<b>Non-current liabilities</b>	<b>7,076</b>	<b>6,717</b>	<b>7,180</b>	<b>7,535</b>	<b>8,374</b>	<b>8,737</b>
Long-term borrowings	3,448	2,750	2,977	3,165	3,733	3,782
Bond payables	2,250	2,347	2,444	2,483	2,483	2,483
Obligations under finance leases	179	145	122	123	145	164
Deferred income	34	24	25	30	33	38
Other non-current liabilities	1,166	1,451	1,611	1,734	1,980	2,270
<b>Total liabilities</b>	<b>15,776</b>	<b>17,090</b>	<b>16,248</b>	<b>16,559</b>	<b>17,980</b>	<b>18,876</b>
Share capital	876	1,185	1,216	1,216	1,216	1,216
Retained earnings	8,049	8,572	9,008	12,180	16,637	22,369
Other reserves	7,274	8,261	11,227	10,314	10,361	10,422
<b>Total shareholders equity</b>	<b>16,198</b>	<b>18,018</b>	<b>21,451</b>	<b>23,710</b>	<b>28,214</b>	<b>34,007</b>
Minority interest	106	82	44	27	4	(27)
<b>Total equity and liabilities</b>	<b>32,080</b>	<b>35,190</b>	<b>37,743</b>	<b>40,296</b>	<b>46,198</b>	<b>52,856</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>4,546</b>	<b>958</b>	<b>544</b>	<b>3,357</b>	<b>4,683</b>	<b>6,045</b>
Depreciation & amortization	927	1,045	1,166	1,182	1,253	1,379
Change in working capital	(3,564)	(5,300)	5,175	258	(544)	(1,017)
Others	284	1,303	651	(16)	256	193
<b>Net cash from operations</b>	<b>2,192</b>	<b>(1,993)</b>	<b>7,537</b>	<b>4,781</b>	<b>5,648</b>	<b>6,599</b>
<b>Investing</b>						
Capital expenditure	(1,122)	(2,259)	(1,048)	(1,181)	(1,241)	(1,260)
Net proceeds from disposal of short-term investments	3	7	7	32	37	41
Others	(1,780)	(1,765)	(1,422)	55	(205)	(223)
<b>Net cash from investing</b>	<b>(2,899)</b>	<b>(4,017)</b>	<b>(2,464)</b>	<b>(1,094)</b>	<b>(1,409)</b>	<b>(1,442)</b>
<b>Financing</b>						
Dividend paid	(569)	(822)	(574)	(497)	(530)	(620)
Net borrowings	3,066	3,242	(2,009)	(690)	574	67
Proceeds from share issues	1,203	273	3,394	(862)	0	0
Others	(767)	(438)	(875)	(200)	(54)	(54)
<b>Net cash from financing</b>	<b>2,932</b>	<b>2,255</b>	<b>(64)</b>	<b>(2,249)</b>	<b>(11)</b>	<b>(607)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	5,423	7,630	3,995	9,055	10,555	14,783
Exchange difference	(18)	120	51	61	0	0
Others	2,226	(3,755)	5,009	1,438	4,229	4,550
<b>Cash at the end of the year</b>	<b>7,630</b>	<b>3,995</b>	<b>9,055</b>	<b>10,555</b>	<b>14,783</b>	<b>19,333</b>

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

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**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
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