

Shengyi Tech (600183 CH)

Solid 1H24 earnings; high copper price to have modest impact in near term

Shengyi Tech released its 1H24 earnings. Revenue improved by 22.2% YoY/10.6% HoH to RMB9.6bn, driven by solid demand of AI servers, growing auto orders and inventory restocking. During the same period, GPM improved to 21.6% (vs. 19.3%/19.2% in 1H/2H23), benefiting from improving utilization and a favorable product mix towards high-margin products. Consequently, NP increased by 68.0% YoY/53.1% HoH to RMB932mn. 1H24 revenue/NP accounted for 47%/43% of our FY24E forecast. From a sequential perspective, Q2 revenue/NP were up 26%/76% YoY and 18%/38% QoQ, while GPM increased to 21.8% (vs. 21.3%/18.9% in 1Q24/2Q23). The stock is currently trading at 1SD below 5-year historical avg. Given copper price is likely to maintain at its highs, we think Shengyi's CCL business will gradually recover. **Maintain BUY with TP unchanged at RMB26.41.**

■ **By segment, both CCL and PCB segments delivered double-digit growth and margin expansion.** Shengyi's CCL/Prepreg sales increased by 20.7% YoY with GPM improving by 2.0ppts. PCB revenue increased by 23.5% YoY with GPM improving by 1.6ppts. Sales from server and auto markets grew; while telecom segment faced ongoing challenges due to soft investments. According to the mgmt., PCB revenue from server market accounted for 38% of the segment sales in 1H24, up ~20% from 1H23.

■ **CCL business is likely to recover on elevated copper price.** 3M LME copper prices peaked above US\$10k/t in May before retreating to US\$9k/t by late-July. Current price is US\$9.3k/t. We believe the impact from copper price volatility was mild in 1H (Shengyi's CCL GPM was up 1.2ppt from 2H23). Based on recent channel check, the downstream saw some material price adjustment starting from 2Q. If copper price maintains at current level, we expect Shengyi's CCL ASP is likely to increase. We project the company's overall GPM to be 21.8%/23.3% in 2024/25E (up 2.5ppts and 1.2ppts each year), on higher sales contribution from AI (Shengyi achieved mass shipment in 1H), rising CCL ASP and better consumer sentiment.

■ **Maintain BUY with unchanged TP at RMB26.41**, implying a ~10% premium to its 5-year historical avg. forward P/E, considering its AI upside. 2024/25E NP forecasts are slight adjusted by 1%/-2%. The stock is currently trading at 1SD below 5-year historical avg. of 26x. Maintain BUY. Potential risks include copper price volatility and weaker-than-expected demand recovery.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	18,014	16,586	20,850	23,946	26,886
YoY growth (%)	(11.1)	(7.9)	25.7	14.9	12.3
Gross margin (%)	22.0	19.2	21.8	22.9	23.9
Net profit (RMB mn)	1,530.8	1,164.0	2,173.6	2,881.7	3,627.4
YoY growth (%)	(45.9)	(24.0)	86.7	32.6	25.9
EPS (Reported) (RMB)	0.66	0.50	0.92	1.22	1.53
YoY growth (%)	(46.3)	(24.2)	83.3	32.6	25.9
P/E (x)	26.8	35.4	19.3	14.6	11.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB26.41
Up/Downside 49.2%
Current Price RMB17.70

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Stock Data

Mkt Cap (RMB mn)	41,591.5
Avg 3 mths t/o (RMB mn)	475.0
52w High/Low (RMB)	23.63/13.75
Total Issued Shares (mn)	2349.8

Source: FactSet

Shareholding Structure

Guangdong Guangxin Holdings Group	24.4%
Dongguan Guohong Investment	13.3%

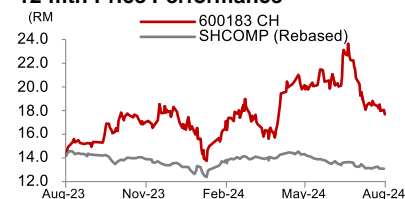
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-14.0%	-12.4%
3-mth	-10.7%	-2.1%
6-mth	8.1%	12.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	20,850	23,946	26,886	20,585	24,658	27,131	1%	-3%	-1%
Gross Profit	4,537	5,494	6,427	4,561	5,676	6,476	-1%	-3%	-1%
Net profit	2,174	2,882	3,627	2,162	2,928	3,548	1%	-2%	2%
EPS (RMB)	0.92	1.22	1.53	0.92	1.24	1.50	0%	-2%	2%
Gross Margin	21.8%	22.9%	23.9%	22.2%	23.0%	23.9%	-0.4 ppt	-0.1 ppt	0 ppt
Net Margin	10.4%	12.0%	13.5%	10.5%	11.9%	13.1%	-0.1 ppt	0.2 ppt	0.4 ppt

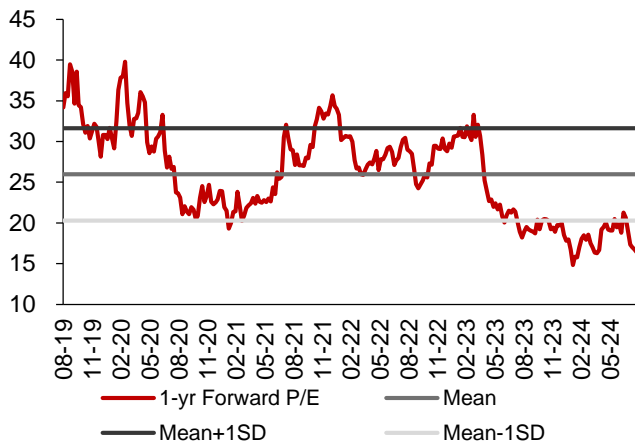
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. consensus

RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	20,850	23,946	26,886	19,324	22,063	24,804	8%	9%	8%
Gross Profit	4,537	5,494	6,427	4,300	5,124	6,152	6%	7%	4%
Net profit	2,174	2,882	3,627	1,865	2,389	2,868	17%	21%	26%
EPS (RMB)	0.92	1.22	1.53	0.79	1.02	1.22	16%	20%	25%
Gross Margin	21.8%	22.9%	23.9%	22.3%	23.2%	24.8%	-0.5 ppt	-0.3 ppt	-0.9 ppt
Net Margin	10.4%	12.0%	13.5%	9.7%	10.8%	11.6%	0.8 ppt	1.2 ppt	1.9 ppt

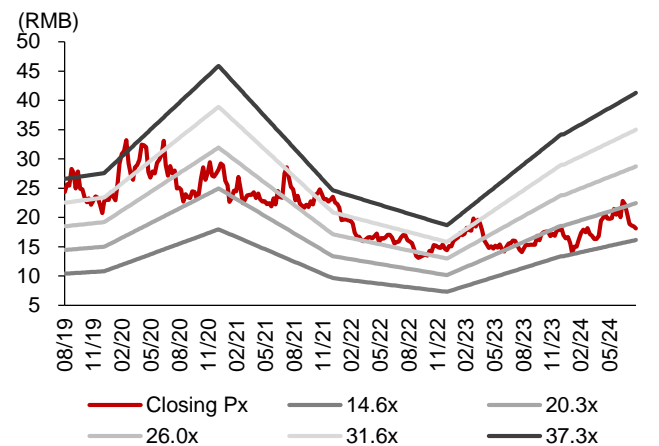
Source: Company data, CMBIGM estimates, Bloomberg consensus

Figure 3: 1-yr forward P/E



Source: Company data, CMBIGM estimates

Figure 4: P/E band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	20,274	18,014	16,586	20,850	23,946	26,886
Cost of goods sold	(14,837)	(14,045)	(13,395)	(16,313)	(18,453)	(20,458)
Gross profit	5,437	3,969	3,191	4,537	5,494	6,427
Operating expenses	(2,254)	(2,105)	(1,821)	(2,123)	(2,269)	(2,402)
Selling expense	(351)	(341)	(358)	(454)	(461)	(491)
Admin expense	(910)	(797)	(701)	(778)	(833)	(855)
R&D expense	(964)	(943)	(841)	(1,015)	(1,142)	(1,255)
Others	(28)	(24)	79	123	167	199
Operating profit	3,316	1,785	1,273	2,417	3,204	4,033
Other income	6	2	2	2	3	3
Other expense	(11)	(14)	(3)	(4)	(5)	(5)
Gain/loss on financial assets at FVTPL	50	(23)	(3)	(0)	(0)	(0)
Other gains/(losses)	47	(82)	(131)	(36)	(59)	(31)
EBIT	3,310	1,773	1,271	2,415	3,202	4,030
Interest income	46	56	49	39	44	49
Interest expense	(139)	(171)	(162)	(124)	(117)	(118)
Pre-tax profit	3,310	1,773	1,271	2,415	3,202	4,030
Income tax	(385)	(141)	(123)	(242)	(320)	(403)
After tax profit	2,925	1,632	1,149	2,174	2,882	3,627
Minority interest	95	101	(15)	0	0	0
Net profit	2,830	1,531	1,164	2,174	2,882	3,627
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	14,720	14,232	13,999	16,395	17,177	18,780
Cash & equivalents	2,105	3,095	2,756	2,668	3,920	4,515
Restricted cash	181	11	19	14	14	14
Account receivables	7,628	6,809	6,669	8,607	8,077	8,945
Inventories	4,520	4,084	4,271	4,846	4,861	5,004
Prepayment	24	24	33	42	45	53
Other current assets	260	210	251	218	260	249
Non-current assets	9,711	10,963	10,958	10,776	10,676	10,605
PP&E	7,071	7,866	9,064	8,518	7,947	7,445
Right-of-use assets	73	44	22	38	58	79
Deferred income tax	158	220	269	275	291	302
Investment in JVs & assos	622	671	783	793	801	808
Intangibles	1,431	2,128	666	1,071	1,463	1,862
Goodwill	19	0	0	0	0	0
Financial assets at FVTPL	0	25	30	6	9	12
Other non-current assets	337	10	124	76	108	98
Total assets	24,431	25,196	24,957	27,171	27,854	29,386
Current liabilities	7,253	7,377	7,297	8,743	8,586	9,026
Short-term borrowings	1,693	1,558	1,465	1,567	1,561	1,684
Account payables	4,292	3,984	4,152	5,305	5,150	5,402
Tax payable	173	50	82	119	107	121
Other current liabilities	334	1,237	1,072	1,191	1,189	1,190
Contract liabilities	28	20	92	152	127	169
Accrued expenses	733	529	435	410	453	460
Non-current liabilities	2,312	2,522	1,959	1,473	1,409	1,497
Long-term borrowings	1,590	1,175	806	670	633	653
Bond payables	300	800	500	0	0	0
Obligations under finance leases	66	39	21	37	31	36
Deferred income	321	108	118	124	129	135
Other non-current liabilities	35	400	515	642	616	672
Total liabilities	9,565	9,899	9,256	10,216	9,995	10,523
Share capital	2,312	2,327	2,355	2,371	2,371	2,371
Retained earnings	5,370	5,366	5,357	6,458	7,361	8,365
Other reserves	5,415	5,805	6,272	6,410	6,410	6,410
Total shareholders equity	13,096	13,498	13,983	15,239	16,142	17,146
Minority interest	1,770	1,798	1,717	1,717	1,717	1,717
Total equity and liabilities	24,431	25,196	24,957	27,171	27,854	29,386

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,925	1,632	1,149	2,174	2,882	3,627
Depreciation & amortization	673	726	835	853	922	932
Tax paid	(37)	4	(34)	120	(41)	44
Change in working capital	(1,898)	104	494	(691)	(141)	(31)
Others	113	354	300	(386)	505	(558)
Net cash from operations	1,776	2,820	2,743	2,070	4,127	4,014
Investing						
Capital expenditure	(1,787)	(1,534)	(1,109)	(802)	(862)	(934)
Acquisition of subsidiaries/ investments	45	377	64	97	138	123
Net proceeds from disposal of short-term investments	(134)	(36)	(116)	(7)	(3)	(3)
Others	(4)	(0)	(2)	(6)	(8)	(7)
Net cash from investing	(1,880)	(1,193)	(1,162)	(718)	(736)	(821)
Financing						
Dividend paid	(1,161)	(1,619)	(1,287)	(1,184)	(2,095)	(2,741)
Net borrowings	404	800	(935)	(419)	(44)	144
Proceeds from share issues	2,254	192	318	141	0	0
Others	(99)	(21)	(15)	22	0	0
Net cash from financing	1,398	(648)	(1,919)	(1,439)	(2,139)	(2,598)
Net change in cash						
Cash at the beginning of the year	818	2,105	3,095	2,756	2,668	3,920
Exchange difference	(6)	11	(1)	0	0	0
Others	1,293	979	(338)	(88)	1,252	595
Cash at the end of the year	2,105	3,095	2,756	2,668	3,920	4,515
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.0%	(11.1%)	(7.9%)	25.7%	14.9%	12.3%
Gross profit	38.2%	(27.0%)	(19.6%)	42.2%	21.1%	17.0%
Operating profit	58.6%	(46.2%)	(28.7%)	89.9%	32.6%	25.9%
EBIT	58.9%	(46.4%)	(28.3%)	90.0%	32.6%	25.9%
Net profit	68.4%	(45.9%)	(24.0%)	86.7%	32.6%	25.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	26.8%	22.0%	19.2%	21.8%	22.9%	23.9%
Operating margin	16.4%	9.9%	7.7%	11.6%	13.4%	15.0%
Return on equity (ROE)	24.6%	11.5%	8.5%	14.9%	18.4%	21.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)
Current ratio (x)	2.0	1.9	1.9	1.9	2.0	2.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	14.4	26.8	35.4	19.3	14.6	11.6
P/E (diluted)	14.6	27.2	36.1	19.3	14.6	11.6

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

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