

# BaTeLab (2149 HK)

## NDR takeaways

We hosted an NDR with BaTeLab's management on 15 Oct. Co-founders Mr. Li (Chairman) and Mr. Zhang, and Investment Director Mr. Zhao attended our meeting. Key takeaways are summarized below.

**Business strategy: 1) Why industrial market?** Mgmt. explained that the market has lower R&D costs, given its long-tail characteristics (~80% of the total sales in the market is attributed to a large number of individual products with sales of each accounting for no more than 0.02% of TAM, per Frost & Sullivan). Leveraging its proprietary EDA software tools and reusable IP library, the company is able to achieve cost efficiency than peers. **2) Why patterned wafers?** Mgmt. believes that this business model has higher efficiency in marketing while maintaining low cost in operation.

**Operation risk:** Some investors have expressed concerns over the high revenue reliance on distributor channels (90% of total revenue in 1H24). Mgmt. highlighted that the concentration of customers is just sales channel-wise. Taking into account the diverse end-market demands (indirect customers), the customer base is actually not concentrated.

**Revenue growth drivers:** Mgmt. pointed out future sales will grow on semiconductor localization. BaTeLab had a portfolio of 500+ SKUs as of 1H24 (vs. ~10k for industry leaders) and plans to expand ~100 SKUs annually. The upside is expected to be significant.

**CapEx:** Mgmt. said they will invest in R&D infrastructure and upgrade its R&D center, improve product line and make strategic investments.

**Demand:** Mgmt. thinks the current market demand is in the process of gradual recovery. In the long-term, mgmt. expects the growth of analog IC market to accelerate in the next 5-10 years and they hope to get prepared for that.

**Margin:** The company's gross profit margin is within the range of 50%-55%. No single product contributes over 3% of revenue, as BaTeLab targets less mainstream product categories and niche markets. Mgmt. believes such approach allows the company to gain significant traction in specialized segments and is less exposed to price war, thereby sustaining a high GPM. In 1H24, the company reported a lower-than-expected GPM at 51.3% (vs. 55.2% in 1H23). Mgmt attributed that to increased inventory provisions (RMB18mn) under HKFRS. Excluding this impact, the company's GPM remained stable.

**Reiterate BUY, with unchanged TP at HK\$49.8, corresponding to 20.4x 2024E P/E.** We maintain our revenue forecast at 40%/38% in 24/25E and GPM at 53-55%. The stock is currently trading at 10.8x/7.5x 2024/25E P/E, which is very attractive in our view. **Risks:** 1) volatile economic conditions; 2) change in partnership with its core customers or suppliers; and 3) slower-than-expected introduction of new product categories.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMBmn)	353	464	650	896	1,220
YoY growth (%)	65.7	31.6	40.2	37.8	36.1
Gross margin (%)	56.5	55.4	53.8	54.3	54.3
Operating profit (RMBmn)	98.5	113.4	154.4	220.0	314.2
YoY growth (%)	61.8	15.2	36.1	42.5	42.8
Net profit (RMBmn)	95.3	109.2	146.3	210.5	305.2
YoY growth (%)	67.2	14.6	34.0	43.9	45.0
EPS (Reported) (RMB)	2.12	2.42	2.44	3.51	5.09
P/E (x)	12.5	10.9	10.8	7.5	5.2
ROE (%)	27.4	17.7	16.1	19.3	22.6

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** HK\$49.80  
**Up/Downside** 88.3%  
**Current Price** HK\$26.45

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### Stock Data

Mkt Cap (HK\$ mn)	396.8
Avg 3 mths t/o (HK\$ mn)	1.0
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	15.0

Source: FactSet

### Shareholding Structure

Li Zhen	53.5%
Zhang Guangping	39.5%

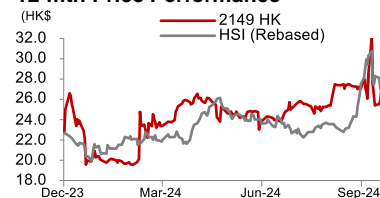
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-3.5%	-18.1%
3-mth	7.7%	-7.9%
6-mth	1.9%	-19.7%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	213	353	464	650	896	1,220
Cost of goods sold	(93)	(153)	(207)	(300)	(409)	(558)
<b>Gross profit</b>	<b>120</b>	<b>199</b>	<b>257</b>	<b>350</b>	<b>487</b>	<b>662</b>
<b>Operating expenses</b>	<b>(59)</b>	<b>(101)</b>	<b>(144)</b>	<b>(196)</b>	<b>(267)</b>	<b>(348)</b>
Admin expense	(14)	(22)	(26)	(34)	(46)	(60)
R&D expense	(48)	(85)	(119)	(163)	(220)	(285)
Others	2	6	2	1	(1)	(4)
<b>Operating profit</b>	<b>61</b>	<b>98</b>	<b>113</b>	<b>154</b>	<b>220</b>	<b>314</b>
Interest expense	(4)	(2)	(4)	(6)	(6)	(4)
Other income/expense	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>57</b>	<b>97</b>	<b>109</b>	<b>149</b>	<b>214</b>	<b>310</b>
Income tax	0	(2)	0	(2)	(3)	(5)
<b>After tax profit</b>	<b>57</b>	<b>95</b>	<b>109</b>	<b>146</b>	<b>210</b>	<b>305</b>
Minority interest	0	0	0	0	0	0
<b>Net profit</b>	<b>57</b>	<b>95</b>	<b>109</b>	<b>146</b>	<b>210</b>	<b>305</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
<b>Current assets</b>	<b>311</b>	<b>530</b>	<b>1,166</b>	<b>1,349</b>	<b>1,616</b>	<b>2,027</b>
Cash & equivalents	147	163	551	563	622	746
Account receivables	32	67	69	91	130	191
Inventories	56	76	218	300	362	463
Prepayment	76	203	261	341	439	549
Other current assets	0	21	67	53	63	78
<b>Non-current assets</b>	<b>45</b>	<b>66</b>	<b>105</b>	<b>130</b>	<b>160</b>	<b>172</b>
PP&E	7	59	62	115	143	151
Right-of-use assets	5	3	7	7	8	10
Intangibles	0	0	0	1	1	1
Other non-current assets	33	3	35	7	8	10
<b>Total assets</b>	<b>356</b>	<b>596</b>	<b>1,271</b>	<b>1,478</b>	<b>1,776</b>	<b>2,199</b>
<b>Current liabilities</b>	<b>51</b>	<b>195</b>	<b>427</b>	<b>483</b>	<b>567</b>	<b>682</b>
Short-term borrowings	31	96	172	179	189	196
Account payables	19	96	249	295	367	473
Lease liabilities	2	4	7	9	11	13
Other non-current liabilities	4	5	6	11	13	17
<b>Total liabilities</b>	<b>55</b>	<b>200</b>	<b>433</b>	<b>494</b>	<b>581</b>	<b>699</b>
Share capital	45	45	60	60	60	60
Other reserves	256	351	778	925	1,135	1,440
<b>Total shareholders equity</b>	<b>301</b>	<b>396</b>	<b>838</b>	<b>985</b>	<b>1,195</b>	<b>1,500</b>
Minority interest	0	0	0	0	0	0
<b>Total equity and liabilities</b>	<b>356</b>	<b>596</b>	<b>1,271</b>	<b>1,478</b>	<b>1,776</b>	<b>2,199</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 (HK\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	57	97	109	149	214	310
Depreciation & amortization	3	3	6	8	12	15
Change in working capital	(53)	(110)	(52)	(138)	(125)	(167)
Others	3	(22)	(33)	46	(10)	(18)
<b>Net cash from operations</b>	<b>9</b>	<b>(31)</b>	<b>30</b>	<b>65</b>	<b>91</b>	<b>139</b>
<b>Investing</b>						
Capital expenditure	(36)	(19)	(44)	(62)	(40)	(24)
Net proceeds from disposal of short-term investments	106	464	30	0	0	0
Others	(50)	(461)	(28)	2	1	1
<b>Net cash from investing</b>	<b>20</b>	<b>(15)</b>	<b>(42)</b>	<b>(60)</b>	<b>(40)</b>	<b>(23)</b>
<b>Financing</b>						
<b>Net cash from financing</b>	<b>105</b>	<b>63</b>	<b>401</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	13	147	163	551	563	622
Exchange difference	0	0	(1)	0	0	0
Others	133	16	389	12	59	123
<b>Cash at the end of the year</b>	<b>147</b>	<b>163</b>	<b>551</b>	<b>563</b>	<b>622</b>	<b>746</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	139.8%	65.7%	31.6%	40.2%	37.8%	36.1%
Gross profit	146.2%	66.1%	29.0%	36.1%	39.1%	36.1%
Operating profit	237.8%	61.8%	15.2%	36.1%	42.5%	42.8%
Net profit	307.1%	67.2%	14.6%	34.0%	43.9%	45.0%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	56.4%	56.5%	55.4%	53.8%	54.3%	54.3%
Operating margin	28.6%	27.9%	24.5%	23.7%	24.5%	25.8%
Return on equity (ROE)	34.1%	27.4%	17.7%	16.1%	19.3%	22.6%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	6.1	2.7	2.7	2.8	2.8	3.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	20.9	12.5	10.9	10.8	7.5	5.2

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

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