

Shengyi Tech (600183 CH)

PCB outperformed CCL in 3Q; margin improved sequentially

Shengyi Tech announced 3Q24 results. Revenue was RMB5.1bn, up 14.5% YoY but down 1.7% QoQ, in-line with Bloomberg consensus. GPM was 22.9%, up 1.1ppts from 2Q24, benefitting from favourable product mix and lowered material costs. NP was RMB440mn, up 27.8% YoY but down 18.6% QoQ. NPM lowered to 8.6% (vs. 10.4% in 2Q24). Bottom line missed Bloomberg consensus by 26%, mainly due to SBC cost of RMB150mn (~2.9% of revenue). Looking forward, we expect Shengyi's revenue to grow at 20%/16% YoY in 2024/25E, with improved margin at 22.1%/23.6%. **Maintain BUY with adjusted TP at RMB28.75 (vs. prev. RMB26.41), reflecting rollover 25.5x 2025E P/E, which is closed to its 3-yr historical forward P/E.**

■ **PCB sales grew on strong AI demand.** GPM recovered both YoY and QoQ. 3Q24 PCB revenue was RMB1.2bn, up 49.3% YoY and 10.8% QoQ. The growth was mainly driven by a significant rise (20.9% YoY in 9M24) in server revenue (42.5% of PCB sales). Overseas market outperformed with 32.1% YoY sales increase. GPM recovered to 24.9% from 20.4%/14.2% in 3Q23/2Q24, mainly on favourable revenue mix. NPM rose to 7.5% vs. -3.4%/6.4% in 3Q23/2Q24. We raise our projection for PCB sales by 5%/1% for 2024/25E, on quicker-than-expected ramp-up of related products for AI server market. We expect the segment to grow at 35%/20% in 2024/25E.

■ **CCL revenue was up YoY but down QoQ (est. 5-6% lower),** likely on weaker-than-expected demand in non-AI market, which suppresses ASP recovery. Margin slid sequentially, as copper price remained at its highs (avg. price in 3Q24: ~US\$9.9k/t). But Shengyi managed to offset partial impact of material cost headwinds with pre-procurement activities. However, this led to an 8% QoQ increase (RMB365mn) in inventory. We cut our forecasts for CCL sales by 8%/6% for 2024/25E, on slower-than-expected market recovery. We expect the segment to grow at 14%/15% in 2024/25E.

■ **Maintain BUY with adjusted TP at RMB28.75.** We slightly revised down our sales/NP estimates by 4%/6% for 2025E. New TP is based on 25.5x rollover 2025E P/E, which is close to its 3-yr historical forward P/E. 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	19,839	22,928	25,080
YoY growth (%)	(11.1)	(7.9)	19.6	15.6	9.4
Gross margin (%)	22.0	19.2	22.1	23.6	24.9
Net profit (RMB mn)	1,530.8	1,164.0	1,808.6	2,738.8	3,533.9
YoY growth (%)	(45.9)	(24.0)	55.4	51.4	29.0
EPS (Reported) (RMB)	0.66	0.50	0.74	1.13	1.45
YoY growth (%)	(46.3)	(24.2)	48.9	51.4	29.0
P/E (x)	29.9	39.4	26.5	17.5	13.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB28.75**
 (Previous TP) RMB26.41
Up/Downside **45.8%**
Current Price **RMB19.72**

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Stock Data

Mkt Cap (RMB mn)	46,338.1
Avg 3 mths t/o (RMB mn)	464.2
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%

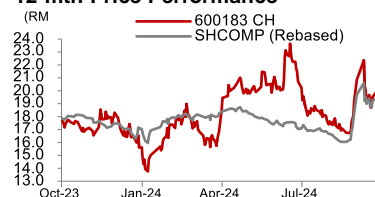
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.8%	-4.5%
3-mth	-4.2%	-16.7%
6-mth	17.2%	8.9%

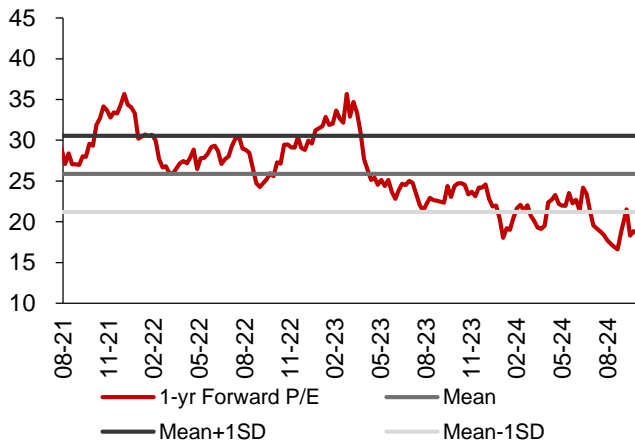
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12-mth Price Performance



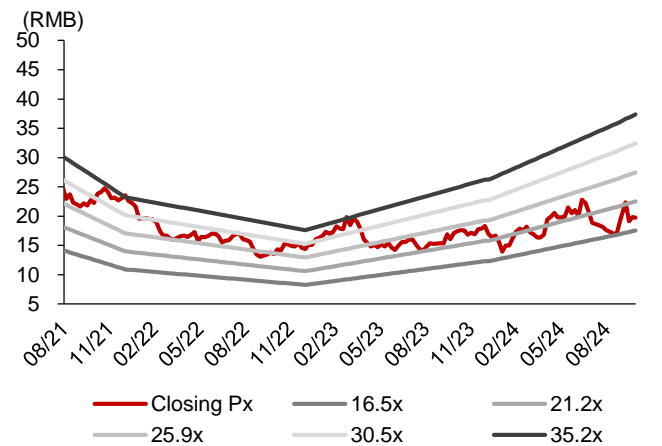
Source: FactSet

Figure 1: 1-yr forward PE band



Source: Company data, Bloomberg

Figure 2: PE chart



Source: Company data, Bloomberg

Figure 3: Earnings revisions

US\$m	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	19,839	22,928	25,080	20,850	23,946	26,886	-5%	-4%	-7%
Gross profit	4,376	5,415	6,251	4,537	5,494	6,427	-4%	-1%	-3%
Net profit	1,809	2,739	3,534	2,162	2,928	3,548	-16%	-6%	0%
EPS (RMB)	0.74	1.13	1.45	0.92	1.22	1.53	-19%	-8%	-5%
Gross margin	22.1%	23.6%	24.9%	21.8%	22.9%	23.9%	0.3 ppt	0.7 ppt	1 ppt
Net margin	9.1%	11.9%	14.1%	10.4%	12.2%	13.2%	-1.3 ppt	-0.3 ppt	0.9 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

US\$m	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	19,839	22,928	25,080	21,180	22,006	24,768	-6%	4%	1%
Gross profit	4,376	5,415	6,251	4,734	5,073	5,838	-8%	7%	7%
Net profit	1,809	2,739	3,534	2,300	2,363	2,824	-21%	16%	25%
EPS (RMB)	0.74	1.13	1.45	0.96	0.99	1.19	-22%	14%	23%
Gross margin	22.1%	23.6%	24.9%	22.3%	23.1%	23.6%	-0.3 ppt	0.6 ppt	1.4 ppt
Net margin	9.1%	11.9%	14.1%	10.9%	10.7%	11.4%	-1.7 ppt	1.2 ppt	2.7 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	20,274	18,014	16,586	19,839	22,928	25,080
Cost of goods sold	(14,837)	(14,045)	(13,395)	(15,463)	(17,513)	(18,829)
Gross profit	5,437	3,969	3,191	4,376	5,415	6,251
Operating expenses	(2,254)	(2,105)	(1,821)	(2,299)	(2,276)	(2,285)
Selling expense	(351)	(341)	(358)	(467)	(469)	(456)
Admin expense	(910)	(797)	(701)	(819)	(809)	(810)
R&D expense	(964)	(943)	(841)	(1,125)	(1,116)	(1,133)
Others	(28)	(24)	79	112	119	114
Operating profit	3,316	1,785	1,273	2,117	3,139	4,009
Other income	6	2	2	2	3	3
Other expense	(11)	(14)	(3)	(4)	(4)	(5)
Gain/loss on financial assets at FVTPL	50	(23)	(3)	20	11	12
Other gains/(losses)	47	(82)	(131)	(29)	(61)	(20)
EBIT	3,310	1,773	1,271	2,115	3,137	4,007
Interest income	46	56	49	29	36	40
Interest expense	(139)	(171)	(162)	(115)	(112)	(114)
Pre-tax profit	3,310	1,773	1,271	2,115	3,137	4,007
Income tax	(385)	(141)	(123)	(212)	(314)	(401)
After tax profit	2,925	1,632	1,149	1,904	2,824	3,606
Minority interest	95	101	(15)	95	85	72
Net profit	2,830	1,531	1,164	1,809	2,739	3,534
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	14,720	14,232	13,999	15,545	17,339	18,159
Cash & equivalents	2,105	3,095	2,756	3,071	4,095	5,870
Restricted cash	181	11	19	6	6	6
Account receivables	7,628	6,809	6,669	7,865	8,107	7,770
Inventories	4,520	4,084	4,271	4,371	4,841	4,238
Prepayment	24	24	33	40	43	49
Other current assets	260	210	251	192	247	226
Non-current assets	9,711	10,963	10,958	10,748	10,668	10,542
PP&E	7,071	7,866	9,064	8,511	7,937	7,430
Right-of-use assets	73	44	22	37	56	75
Deferred income tax	158	220	269	265	292	294
Investment in JVs & assos	622	671	783	798	815	815
Intangibles	1,431	2,128	666	1,048	1,432	1,801
Goodwill	19	0	0	0	0	0
Financial assets at FVTPL	0	25	30	25	32	39
Other non-current assets	337	10	124	64	104	88
Total assets	24,431	25,196	24,957	26,293	28,006	28,701
Current liabilities	7,253	7,377	7,297	8,343	8,843	8,365
Short-term borrowings	1,693	1,558	1,465	1,583	1,828	1,642
Account payables	4,292	3,984	4,152	4,830	5,093	4,738
Tax payable	173	50	82	121	111	123
Other current liabilities	334	1,237	1,072	1,201	1,199	1,200
Contract liabilities	28	20	92	144	122	158
Accrued expenses	733	529	435	464	491	505
Non-current liabilities	2,312	2,522	1,959	1,348	1,383	1,443
Long-term borrowings	1,590	1,175	806	603	620	646
Bond payables	300	800	500	0	0	0
Obligations under finance leases	66	39	21	34	29	33
Deferred income	321	108	118	116	128	129
Other non-current liabilities	35	400	515	595	606	635
Total liabilities	9,565	9,899	9,256	9,691	10,227	9,809
Share capital	2,312	2,327	2,355	2,429	2,429	2,429
Retained earnings	5,370	5,366	5,357	6,113	7,205	8,246
Other reserves	5,415	5,805	6,272	6,248	6,248	6,248
Total shareholders equity	13,096	13,498	13,983	14,790	15,883	16,924
Minority interest	1,770	1,798	1,717	1,812	1,897	1,969
Total equity and liabilities	24,431	25,196	24,957	26,293	28,006	28,701

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,925	1,632	1,149	1,904	2,824	3,606
Depreciation & amortization	673	726	835	853	921	930
Tax paid	(37)	4	(34)	84	(16)	27
Change in working capital	(1,898)	104	494	(72)	(820)	1,103
Others	113	354	300	(231)	323	(369)
Net cash from operations	1,776	2,820	2,743	2,538	3,232	5,297
Investing						
Capital expenditure	(1,787)	(1,534)	(1,109)	(771)	(850)	(894)
Acquisition of subsidiaries/ investments	45	377	64	115	150	135
Net proceeds from disposal of short-term investments	(134)	(36)	(116)	(16)	5	5
Others	(4)	(0)	(2)	5	(17)	(1)
Net cash from investing	(1,880)	(1,193)	(1,162)	(667)	(712)	(755)
Financing						
Dividend paid	(1,161)	(1,619)	(1,287)	(1,175)	(1,758)	(2,607)
Net borrowings	404	800	(935)	(460)	262	(161)
Proceeds from share issues	2,254	192	318	58	0	0
Others	(99)	(21)	(15)	22	0	0
Net cash from financing	1,398	(648)	(1,919)	(1,555)	(1,496)	(2,768)
Net change in cash						
Cash at the beginning of the year	818	2,105	3,095	2,756	3,071	4,095
Exchange difference	(6)	11	(1)	0	0	0
Others	1,293	979	(338)	316	1,024	1,774
Cash at the end of the year	2,105	3,095	2,756	3,071	4,095	5,870
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.0%	(11.1%)	(7.9%)	19.6%	15.6%	9.4%
Gross profit	38.2%	(27.0%)	(19.6%)	37.1%	23.7%	15.4%
Operating profit	58.6%	(46.2%)	(28.7%)	66.4%	48.3%	27.7%
EBIT	58.9%	(46.4%)	(28.3%)	66.4%	48.3%	27.7%
Net profit	68.4%	(45.9%)	(24.0%)	55.4%	51.4%	29.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	26.8%	22.0%	19.2%	22.1%	23.6%	24.9%
Operating margin	16.4%	9.9%	7.7%	10.7%	13.7%	16.0%
Return on equity (ROE)	24.6%	11.5%	8.5%	12.6%	17.9%	21.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.5)	(0.5)	(0.4)	(0.4)	(0.2)
Current ratio (x)	2.0	1.9	1.9	1.9	2.0	2.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	16.0	29.9	39.4	26.5	17.5	13.6
P/E (diluted)	16.3	30.3	40.2	26.5	17.5	13.6

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

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