

Shennan Circuit (002916 CH)

Solid FY24 results; Upgrade to BUY being key beneficiary in domestic localization

Shennan released its FY24 results. Revenue went up by 32.4% YoY to RMB17.9bn, 2%/7% above our estimate/BBG consensus. Net profit rose by 34.3% YoY to RMB1.9bn, in-line with our estimate but 2% below BBG consensus. During the period, GPM was 24.8% (vs. 23.4% in FY23), showing gradual improvement as demand recovered but offset by new factory ramp-up. We revise up our revenue forecasts by 15%/21% for FY25/26E, reflecting 1) higher utilization (~90% for 1Q), 2) higher-than-expected DC/AI-related revenue as domestic Cloud companies increase capex budget and 3) better auto PCB revenue growth as high-end autonomous driving systems may have faster-than-anticipated penetration. Meanwhile, we revise up our NP estimates by 12%/16% in FY25-26E, partially offset by lower GPM estimates considering the continuous capacity ramp-up of Guangzhou factory with costs from equipment, labor and raw materials now recognized in COGS as production ramps up. **Upgrade to BUY, with new TP of RMB146.81 (previous: RMB115),** implying a NP CAGR of 28.5% and PEG of 1.1x during 2024-26E.

■ **PCB sales grew by 30% YoY to RMB10.5bn**, driven by robust demand in data centers (20% YoY) and auto (~14% of total sales), despite a telecom decline (contributing to less than 40% of total PCB sales in FY24). PCB GPM improved to 31.6% in FY24, compared to 26.6% in FY23, reflecting higher capacity utilization and an enhanced product mix consisting of more AI-related products. PCBA segment increased by 33.2% YoY, also driven by robust data center and auto sales, with a stable GPM of 14.4%. We expect the segment revenue to grow 25% YoY in 2025, driven by strong growth in DC/auto markets (domestic AI capex and higher penetration of autonomous driving vehicles). We project GPM will be stable at current ~31% level.

■ **Substrate sales grew by 37.5% YoY to RMB3.2bn.** The growth weighted more towards 1H24 as demand was strong due to inventory restocking behaviors. The segment experienced margin pressure (18.2% in FY24 vs. 23.9% in FY23) due to capacity ramp-up, rising material costs (specifically gold price, which surged by more than 20% in 2H24, per mgmt.), and weaker BT substrate demand in 2H24. Excluding the impact of the initial capacity ramp-up of Guangzhou factory, BT substrate's GPM in 2H would have been 2ppts lower compared to 1H (instead of 10ppts drop). We expect substrate revenue to grow by 18% YoY in 2025E, led by higher growth in memory products as demand recovers. GPM may rise modestly to 19.5%, considering the ongoing ramp-up dilution, in our view.

■ **Upgrade to BUY, with new TP of RMB146.81.** The new TP is based on 5-year avg. historical forward PE of 31.0x. We believe SCC performed better than expected during the sectoral downcycle. Looking forward, the company is set to ride the tailwind of domestic localization with its leading position in PCB market and capacity addition from its FC-BGA substrate line.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	13,526	17,907	21,551	24,838	28,208
YoY growth (%)	(3.3)	32.4	20.3	15.3	13.6
Gross margin (%)	23.4	24.8	25.1	25.9	26.2
Net profit (RMB mn)	1,398.1	1,877.6	2,429.5	3,102.2	3,713.6
YoY growth (%)	(14.8)	34.3	29.4	27.7	19.7
EPS (Reported) (RMB)	2.72	3.66	4.74	6.05	7.24
P/E (x)	47.1	35.0	27.0	21.2	17.7
ROE (%)	11.0	13.5	15.6	17.4	18.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Up)

Target Price RMB146.81
 (Previous TP RMB115.00)
Up/Downside 14.7%
Current Price RMB128.00

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Stock Data

Mkt Cap (RMB mn)	65,651.2
Avg 3 mths t/o (RMB mn)	1,241.5
52w High/Low (RMB)	160.55/83.01
Total Issued Shares (mn)	512.9

Source: FactSet

Shareholding Structure

AVIC International Holdings Ltd	64.0%
E Fund Management	7.1%

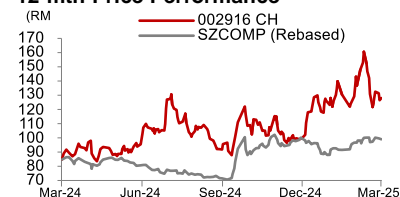
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-6.5%	-8.7%
3-mth	28.4%	28.6%
6-mth	33.9%	-4.4%

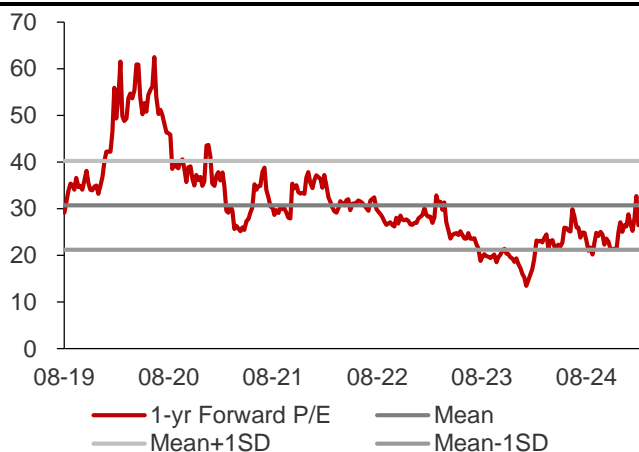
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12-mth Price Performance



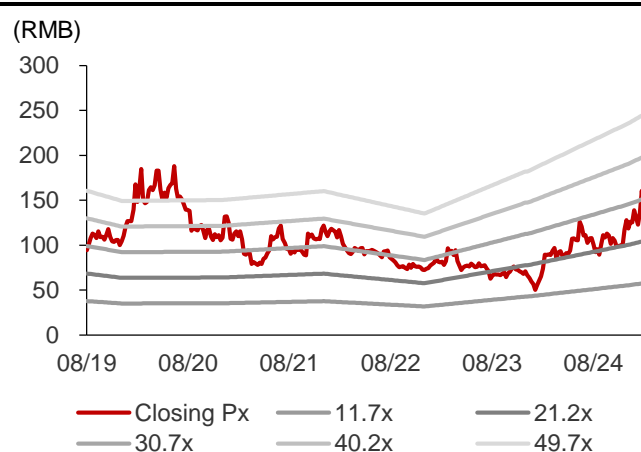
Source: FactSet

Figure 1: PE band



Source: Company data, CMBIGM estimates

Figure 2: PE chart



Source: Company data, CMBIGM estimates times

Figure 3: Earnings revisions

RMB(mn)	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	21,551	24,838	28,208	18,765	20,516	N/A	15%	21%	N/A
Gross profit	5,413	6,426	7,393	4,785	5,457	N/A	13%	18%	N/A
Net profit	2,429	3,102	3,714	2,178	2,671	N/A	12%	16%	N/A
EPS (RMB)	4.74	6.05	7.24	4.26	5.46	N/A	11%	11%	N/A
Gross margin	25.1%	25.9%	26.2%	25.4%	26.0%	N/A	-0.3 ppt	-0.1 ppt	N/A
Net margin	11.3%	12.5%	13.2%	11.9%	13.4%	N/A	-0.7 ppt	-0.9 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

RMB(mn)	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	21,551	24,838	28,208	19,540	22,469	26,823	10%	11%	5%
Gross profit	5,413	6,426	7,393	5,035	5,875	6,652	7%	9%	11%
Net profit	2,429	3,102	3,714	2,304	2,764	4,001	5%	12%	-7%
EPS (RMB)	4.74	6.05	7.24	4.32	5.33	N/A	10%	13%	N/A
Gross margin	25.1%	25.9%	26.2%	25.8%	26.1%	24.8%	-0.7 ppt	-0.3 ppt	1.4 ppt
Net margin	11.3%	12.5%	13.2%	11.8%	12.3%	14.9%	-0.5 ppt	0.2 ppt	-1.8 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	13,992	13,526	17,907	21,551	24,838	28,208
Cost of goods sold	(10,422)	(10,357)	(13,460)	(16,138)	(18,413)	(20,815)
Gross profit	3,571	3,170	4,447	5,413	6,426	7,393
Operating expenses	(1,691)	(1,558)	(2,141)	(2,416)	(2,654)	(2,915)
SG&A expense	(926)	(870)	(1,030)	(1,132)	(1,230)	(1,341)
R&D expense	(820)	(1,073)	(1,272)	(1,488)	(1,640)	(1,807)
Others	55	385	161	204	217	232
Operating profit	1,880	1,611	2,306	2,997	3,772	4,478
Other income	4	5	6	8	9	10
Other expense	(7)	(4)	(11)	(10)	(14)	(14)
Other gains/(losses)	(163)	(182)	(231)	(254)	(288)	(336)
Interest income	22	12	10	19	32	45
Interest expense	(92)	(66)	(80)	(88)	(94)	(92)
Others	77	23	23	28	32	36
Pre-tax profit	1,720	1,398	2,023	2,700	3,448	4,127
Income tax	(79)	(1)	(145)	(270)	(345)	(413)
After tax profit	1,641	1,398	1,879	2,430	3,103	3,715
Minority interest	0	(0)	1	0	1	1
Net profit	1,641	1,398	1,878	2,429	3,102	3,714
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	8,578	8,597	10,854	14,230	17,358	21,416
Cash & equivalents	1,913	853	1,553	2,942	4,482	6,049
Account receivables	2,770	3,091	3,806	4,697	5,375	6,372
Inventories	2,341	2,686	3,395	4,121	4,757	5,850
Prepayment	49	8	9	28	22	31
Other current assets	1,505	1,959	2,091	2,442	2,723	3,114
Non-current assets	12,149	14,010	14,448	14,286	13,902	13,423
PP&E	9,138	10,083	12,396	12,767	12,246	11,537
Right-of-use assets	37	26	9	17	25	33
Deferred income tax	208	272	187	210	230	257
Intangibles	557	544	585	638	699	770
Goodwill	0	0	0	0	0	0
Other non-current assets	2,209	3,085	1,271	654	701	827
Total assets	20,727	22,607	25,302	28,516	31,260	34,839
Current liabilities	6,708	6,425	7,489	8,313	8,407	9,136
Short-term borrowings	0	400	10	190	107	99
Account payables	1,638	2,037	2,687	2,796	2,653	2,822
Tax payable	31	42	59	67	73	82
Other current liabilities	4,484	3,291	3,933	4,378	4,594	5,036
Contract liabilities	93	212	208	216	248	282
Accrued expenses	462	443	592	667	732	815
Non-current liabilities	1,765	2,995	3,167	3,578	3,712	3,598
Long-term borrowings	1,175	2,407	2,577	2,913	2,982	2,785
Bond payables	0	0	0	0	0	0
Deferred income	356	372	471	531	582	648
Other non-current liabilities	235	217	119	134	147	164
Total liabilities	8,474	9,420	10,656	11,891	12,119	12,734
Share capital	513	513	513	513	513	513
Retained earnings	5,291	6,179	7,594	9,562	12,067	15,018
Other reserves	6,446	6,492	6,510	6,521	6,531	6,542
Total shareholders equity	12,249	13,184	14,617	16,596	19,112	22,073
Minority interest	3	3	29	29	30	31
Total equity and liabilities	20,727	22,607	25,302	28,516	31,260	34,839

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,640	1,398	1,879	2,430	3,103	3,715
Depreciation & amortization	1,062	1,272	1,437	1,740	1,944	2,052
Change in working capital	180	(364)	(1,096)	(1,105)	(1,277)	(1,519)
Others	281	268	(5)	(120)	(11)	(100)
Net cash from operations	3,163	2,574	2,214	2,945	3,759	4,147
Investing						
Capital expenditure	(3,378)	(3,250)	(2,526)	(1,567)	(1,567)	(1,574)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(237)	(311)	601	28	34	34
Net cash from investing	(3,614)	(3,561)	(1,925)	(1,539)	(1,533)	(1,541)
Financing						
Dividend paid	(565)	(589)	(543)	(550)	(691)	(854)
Net borrowings	(242)	1,117	133	516	(13)	(206)
Proceeds from share issues	2,530	0	31	0	0	0
Others	(26)	(617)	(10)	(21)	(21)	(21)
Net cash from financing	1,697	(89)	(389)	(55)	(726)	(1,081)
Net change in cash						
Cash at the beginning of the year	620	1,912	851	1,551	2,941	4,480
Exchange difference	30	(0)	32	32	32	32
Others	1,263	(1,061)	668	1,357	1,508	1,534
Cash at the end of the year	1,912	851	1,551	2,941	4,480	6,047
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	0.4%	(3.3%)	32.4%	20.3%	15.3%	13.6%
Gross profit	8.0%	(11.2%)	40.3%	21.7%	18.7%	15.1%
Operating profit	(1.0%)	(14.3%)	43.1%	30.0%	25.8%	18.7%
Net profit	10.8%	(14.8%)	34.3%	29.4%	27.7%	19.7%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	25.5%	23.4%	24.8%	25.1%	25.9%	26.2%
Operating margin	13.4%	11.9%	12.9%	13.9%	15.2%	15.9%
Return on equity (ROE)	15.8%	11.0%	13.5%	15.6%	17.4%	18.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.3	1.3	1.4	1.7	2.1	2.3
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	39.8	47.1	35.0	27.0	21.2	17.7

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

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