

Hua Hong Semi (1347 HK)

1Q25 revenue in-line; GPM under pressure

Hua Hong Semi announced 1Q25 results. Revenue was up 17.6% YoY/flattish QoQ at US\$541mn, a mixed impact of higher wafer shipment (up 42% YoY and up 7% QoQ) and continuous ASP pressure (down 2% YoY and down 1% sequentially). Revenue was largely in-line with guidance and consensus. GPM was 9.2% vs. 6.4%/11.4% in 1Q24/4Q24, within the guided range towards the lower bound, missing consensus estimates by 1.3ppts. 1Q25 GPM improved 2.8ppts from a year ago, on increasing utilization (92% in 1Q24 to 103% in 1Q25) but partially offset by rising depreciation costs. The margin pressure weighed on NP, which was US\$4mn. Mgmt. guided 2Q revenue to be US\$550mn-US\$570mn. Mid-point of guidance (US\$560mn) implies 17% YoY and 3% QoQ. GPM is guided to be 7%-9%, showing persistent ASP headwinds of 8-inch products and increasing depreciation costs as Fab9 ramps up. **Maintain BUY with TP revised up to HK\$37.50.** We expect sector revaluation driven by accelerated semiconductor localization amid rising geopolitical uncertainties.

■ **We expect FY25 revenue to grow 15.6% YoY, driven by recovering demand and localization needs, partially offset by ongoing ASP challenges.** Hua Hong maintained high utilization rates of its 8-inch fabs (100%) and 12-inch fabs (105%). The company's second 12-inch fab is ramping up with revenue contribution starting from 1Q25. The mgmt. projects the capacity of the new fab to hit 40kwpm by the end of 2025. We expect the overall utilization to remain at a high level (100%). However, this will slow down the ASP recovery trend. We estimate the ASP to improve modestly in the following quarters. We expect GPM to have a slower-than-expected recovery due to ASP pressure and increased depreciation costs on ramp-up of new fabs. We forecast FY25/26E GPM to be 10.6% and 16.8%.

■ **Looking forward, we believe Hua Hong will be a key beneficiary amid ongoing geopolitical risks and policies uncertainties** (i.e., tariffs). As US-China tariff tensions continue to escalate, semi supply chain localization in China is set to accelerate, which may benefit Hua Hong. In FY24, the company generated approximately 82% of its revenue from the domestic market and 9.4% from North America. With the increasing risk of tariffs and export restrictions on critical semiconductor components, we expect the company's orders to pick up. We expect FY26 revenue to show stronger growth (27.1% YoY) on better ASP and higher wafer shipments benefitted from recovering demand and incremental capacities.

■ **Maintain BUY with TP revised up to HK\$37.5**, based on 1.35x FY25E P/B, close to its 5-year historical avg. (1.38x). Such revision on TP is mainly due to higher valuation. With ongoing geopolitical tensions, we believe semiconductor localization will accelerate. We expect Hua Hong to benefit from increased domestic demand for chip fabrication, which will help the company to maintain its high utilization rate when new capacity is installed. Potential risks: 1) Intensified competition in mature nodes from both global peers and domestic peers, 2) weak end-market demand, etc.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	2,286	2,004	2,317	2,945	3,297
YoY growth (%)	(7.7)	(12.3)	15.6	27.1	12.0
Gross margin (%)	21.3	10.2	10.6	16.8	21.2
Net profit (US\$ mn)	280.0	58.1	23.8	252.8	425.6
YoY growth (%)	(37.8)	(79.2)	(59.1)	963.2	68.3
EPS (Reported) (US\$ cents)	16.31	3.38	1.38	14.71	24.77
P/E (x)	25.6	123.4	301.4	28.4	16.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$37.50**
(Previous TP **HK\$24.00**)
Up/Downside **15.6%**
Current Price **HK\$32.45**

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Stock Data

Mkt Cap (HK\$ mn)	42,477.1
Avg 3 mths t/o (HK\$ mn)	1,748.7
52w High/Low (HK\$)	41.45/15.22
Total Issued Shares (mn)	1309.0

Source: FactSet

Shareholding Structure

Shanghai Hua Hong International	26.4%
XINXIN HK Capital	13.0%

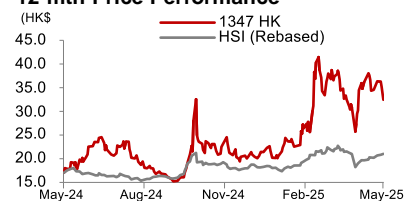
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.0%	-2.5%
3-mth	22.7%	13.4%
6-mth	41.7%	28.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

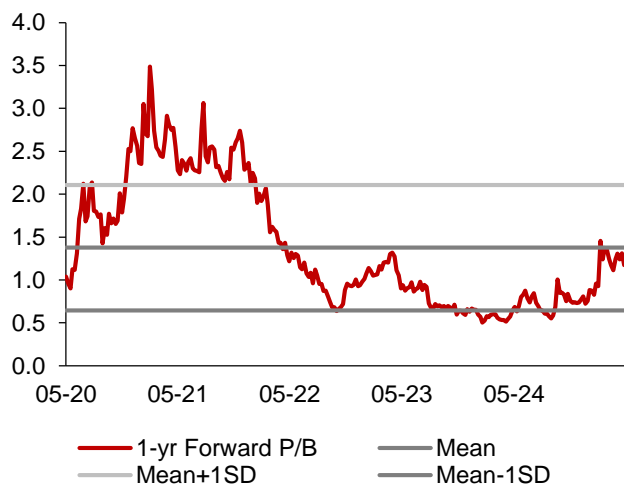
US\$mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	2,317	2,945	3,297	2,486	3,049	NA	-7%	-3%	NA
Gross profit	246	494	699	430	588	NA	-43%	-16%	NA
Net profit	24	253	426	244	344	NA	-90%	-26%	NA
EPS (US\$)	0.01	0.15	0.25	0.14	0.20	NA	-90%	-26%	NA
Gross margin	10.6%	16.8%	21.2%	17.3%	19.3%	NA	-6.7 ppt	-2.5 ppt	NA
Net margin	1.0%	8.6%	12.9%	9.8%	11.3%	NA	-8.8 ppt	-2.7 ppt	NA

Source: Company data, CMBIGM estimates

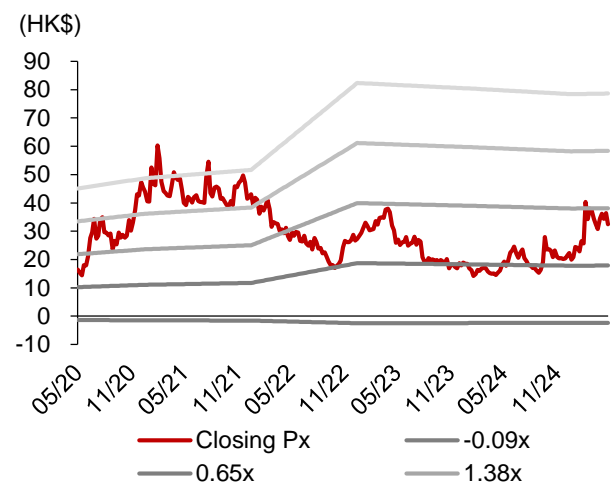
Figure 2: CMBIGM estimates vs. Bloomberg consensus

US\$mn	CMBIGM			BBG Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	2,317	2,945	3,297	2,360	2,850	3,292	-2%	3%	0%
Gross profit	246	494	699	342	525	659	-28%	-6%	6%
Net profit	24	253	426	136	232	295	-82%	9%	44%
EPS (US\$)	0.01	0.15	0.25	0.09	0.15	0.19	-85%	0%	33%
Gross margin	10.6%	16.8%	21.2%	14.5%	18.4%	20.0%	-3.9 ppt	-1.7 ppt	1.2 ppt
Net margin	1.0%	8.6%	12.9%	5.8%	8.1%	9.0%	-4.7 ppt	0.4 ppt	4 ppt

Source: Company data, CMBIGM estimates

Figure 3: P/B band

Source: Bloomberg, CMBIGM estimates

Figure 4: P/B chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	2,475	2,286	2,004	2,317	2,945	3,297
Cost of goods sold	(1,632)	(1,799)	(1,799)	(2,071)	(2,452)	(2,598)
Gross profit	844	487	205	246	494	699
Selling expense	(12)	(10)	(10)	(9)	(12)	(13)
Admin expense	(267)	(323)	(351)	(368)	(393)	(424)
Others	(28)	(91)	(94)	(97)	(104)	(103)
Operating profit	536	63	(249)	(228)	(16)	158
Other income	100	188	178	119	147	165
Other expense	(141)	(77)	(63)	(85)	(75)	(83)
Pre-tax profit	496	174	(134)	(193)	56	240
Income tax	(89)	(47)	(7)	11	(3)	(14)
After tax profit	407	126	(140)	(182)	53	226
Minority interest	(43)	(154)	(198)	(206)	(200)	(200)
Net profit	450	280	58	24	253	426

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	3,076	6,570	5,833	4,752	4,011	4,388
Cash & equivalents	2,009	5,585	4,459	3,334	2,566	2,888
Restricted cash	1	32	32	33	34	35
Account receivables	292	279	270	275	273	269
Inventories	578	450	467	441	446	479
Prepayment	48	34	364	424	439	454
Other current assets	148	190	240	245	253	263
Non-current assets	3,980	4,374	6,583	7,925	9,092	9,192
PP&E	3,368	3,519	5,859	7,096	8,234	8,301
Right-of-use assets	78	79	78	78	80	84
Intangibles	33	50	31	31	33	36
Other non-current assets	501	726	614	720	744	771
Total assets	7,055	10,943	12,415	12,677	13,102	13,580
Current liabilities	1,382	972	1,562	1,442	1,444	1,468
Short-term borrowings	427	193	281	316	310	304
Account payables	237	235	298	246	251	276
Other current liabilities	714	541	978	875	878	883
Lease liabilities	5	3	5	5	5	5
Non-current liabilities	1,537	1,956	1,946	2,198	2,268	2,197
Long-term borrowings	1,482	1,907	1,917	2,178	2,249	2,177
Other non-current liabilities	56	50	29	20	20	20
Total liabilities	2,920	2,929	3,508	3,640	3,712	3,664
Share capital	1,994	4,934	4,938	4,957	4,957	4,957
Other reserves	1,036	1,367	1,309	1,126	1,179	1,405
Total shareholders equity	3,030	6,301	6,247	6,084	6,136	6,362
Minority interest	1,105	1,714	2,660	2,954	3,254	3,554
Total equity and liabilities	7,055	10,943	12,415	12,677	13,102	13,580

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	496	174	(134)	(193)	56	240
Depreciation & amortization	457	500	556	677	777	849
Tax paid	(51)	(72)	(57)	11	(3)	(14)
Change in working capital	(116)	(69)	142	(228)	(16)	(22)
Others	(35)	108	(47)	25	93	91
Net cash from operations	751	642	459	292	907	1,143
Investing						
Capital expenditure	(996)	(907)	(2,780)	(2,019)	(2,025)	(1,027)
Others	66	73	108	(10)	(10)	(11)
Net cash from investing	(930)	(833)	(2,672)	(2,029)	(2,034)	(1,039)
Financing						
Net borrowings	315	193	106	296	65	(78)
Proceeds from share issues	6	2,942	4	19	0	0
Others	351	647	1,041	193	191	191
Net cash from financing	672	3,782	1,150	508	256	113
Net change in cash						
Cash at the beginning of the year	1,610	2,009	5,585	4,459	3,334	2,566
Exchange difference	(94)	(14)	(64)	104	104	104
Others	493	3,590	(1,062)	(1,229)	(871)	218
Cash at the end of the year	2,009	5,585	4,459	3,334	2,566	2,888
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	51.8%	(7.7%)	(12.3%)	15.6%	27.1%	12.0%
Gross profit	94.1%	(42.3%)	(57.9%)	20.1%	100.4%	41.7%
Operating profit	211.4%	(88.3%)	na	na	na	na
Net profit	112.1%	(37.8%)	(79.2%)	(59.1%)	963.2%	68.3%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	34.1%	21.3%	10.2%	10.6%	16.8%	21.2%
Operating margin	21.7%	2.8%	(12.4%)	(9.8%)	(0.5%)	4.8%
Return on equity (ROE)	15.2%	6.0%	0.9%	0.4%	4.1%	6.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.2	6.8	3.7	3.3	2.8	3.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	12.1	25.6	123.4	301.4	28.4	16.8

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