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Hua Hong Semi (1347 HK)

2Q margin beat, D/G to HOLD due to substantial recent share price gains

Hua Hong Semi released its 2Q25 earnings. Revenue was RMB566mn, up 18.3%/4.6% YoY/QoQ, driven by increased wafer shipments (18.0%/6.0% YoY/QoQ). The results were in line with guidance and Bloomberg consensus. GPM improved 1.6ppts sequentially to 10.9%, beating guidance (7%-9%) and consensus (8.3%). NPM rose to 1.6% from 0.7% in 1Q25 on better GPM and increased other gains (subsidies etc.). Utilization rate climbed to 108.3% (up 5.6ppts/10.4ppts from 1Q25/2Q24), a record high during the past 11 quarters, driven by demand recovery and operational improvements. Blended ASP was US$434, +0.2%/-1.3% YoY/QoQ. Mgmt. believes ASP will stabilize, particularly on the 12-inch products. Meanwhile, mgmt. guides 3Q25 revenue to be US$620mn-640mn. The mid-point of guidance represents 19.7%/11.3% YoY/QoQ, showing accelerated growth from 2Q, a normal seasonal trend. The outlook of GPM in 3Q/4Q is flattish at a range of 10%-12%, similar to 2Q level, due to depreciation headwinds. Overall, 2Q is a decent quarter, and we think the stock is fairly valued at this level. **Downgrade to HOLD, with TP adjusted to HK$48.**

- **We forecast 20% YoY revenue growth in 2025E, driven by capacity expansion, high utilization and ASP stabilization.** We expect total sales to increase to RMB2.4bn this year, with sequential growth of 11.4%/7.2% in 3Q/4Q25. Wafer shipment is expected to grow by 16.2% in 2025E, driven by capacity expansion. 50% of Fab 9's capacity is up and running, while mgmt. expects full expansion to be completed by mid-2026. Blended ASP almost stabilized at the current level for four quarters (within +/-1.5% movements sequentially), with price adjustments implemented in 2Q. We expect a single-digit ASP increase in 2H25.
- **Despite a GPM beat in 2Q, depreciation headwinds persist.** Hua Hong's capacity expansion schedule remains on track, while ongoing depreciation expense continues to weigh on margins this year. D&A expenses rose to RMB352mn in 1H25 (vs. RMB270mn in 1H24), a 30% YoY increase. We expect D&A to be ~RMB750mn this year, as Fab 9 ramps up. GPM is guided to be 10%-12% by mgmt., in line with 2Q's 10.9%, a mixed impact of ongoing high utilization rate, improving operational efficiency and depreciation pressure. We project GPM of 10.9%/14.7% in 2025/26E.
- **Downgrade to HOLD, with new TP of HK$48.** The new TP is based on 1.7x 2025E P/B, 0.5SD above 5-year avg. historical forward (vs. previous 1.4x), reflecting ASP stabilization and the business bottoming out from the cyclical downturn. While we remain positive on Hua Hong's role in China's semiconductor localization theme, the stock has risen over 50% in the past two months and we see valuations as fair at current levels. **Potential upside catalysts:** stronger-than-expected demand recovery, greater-than-anticipated ASP increase, etc. **Downside risks:** weaker demand, ASP pressure, geopolitical tension, etc.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US$ mn)	2,286	2,004	2,423	3,006	3,499
YoY growth (%)	(7.7)	(12.3)	20.9	24.1	16.4
Gross margin (%)	21.3	10.2	10.9	14.7	16.8
Net profit (US$ mn)	280.0	58.1	62.2	257.5	395.2
YoY growth (%)	(37.8)	(79.2)	7.0	314.2	53.4
EPS (Reported) (US$ cents)	16.31	3.38	3.60	14.92	22.89
ROE (%)	6.0	0.9	1.0	4.2	6.2

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price	**HK$48.00**
(Previous TP	HK$37.50)
Up/Downside	**9.1%**
Current Price	**HK$44.00**

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Stock Data

Mkt Cap (HK$ mn)	57,596.0
Avg 3 mths t/o (HK$ mn)	1,188.1
52w High/Low (HK$)	44.78/15.22
Total Issued Shares (mn)	1309.0

Source: FactSet

Shareholding Structure

Shanghai Hua Hong International	26.3%
Sino-Alliance International Ltd	12.2%

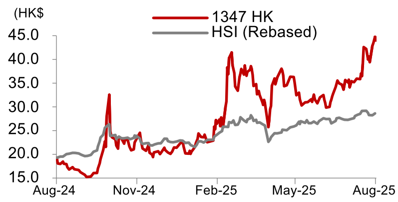
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	23.2%	19.7%
3-mth	24.8%	14.4%
6-mth	66.4%	41.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
US$mn	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**
Revenue	2,423	3,006	3,499	2,317	2,945	3,297	5%	2%	6%
Gross profit	264	442	586	246	495	699	8%	-11%	-16%
Net profit	62	258	395	24	253	426	161%	2%	-7%
EPS (US$)	0.04	0.15	0.23	0.01	0.15	0.25	161%	1%	-8%
Gross margin	10.9%	14.7%	16.8%	10.6%	16.8%	21.2%	0.3 ppt	-2.1 ppt	-4.4 ppt
Net margin	2.6%	8.6%	11.3%	1.0%	8.6%	12.9%	1.5 ppt	0 ppt	-1.6 ppt

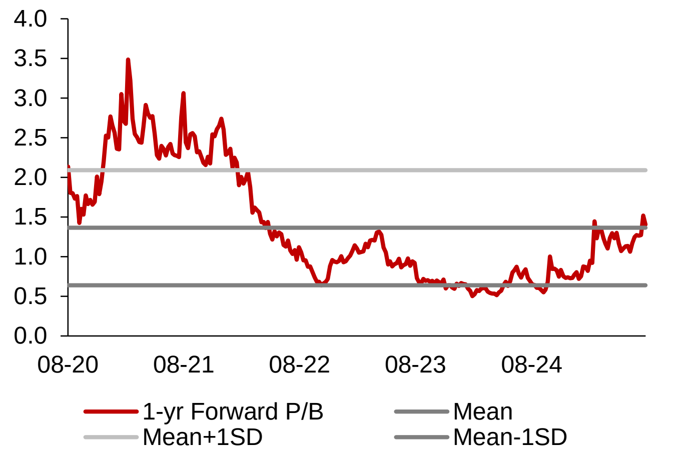
Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs. Bloomberg consensus

	CMBIGM			BBG Consensus			Diff (%)		
US$mn	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**
Revenue	2,423	3,006	3,499	2,344	2,849	3,215	3%	6%	9%
Gross profit	264	442	586	244	398	544	8%	11%	8%
Net profit	62	258	395	88	193	255	-29%	34%	55%
EPS (US$)	0.04	0.15	0.23	0.04	0.10	0.15	-16%	48%	57%
Gross margin	10.9%	14.7%	16.8%	10.4%	14.0%	16.9%	0.5 ppt	0.7 ppt	-0.2 ppt
Net margin	2.6%	8.6%	11.3%	3.7%	6.8%	7.9%	-1.2 ppt	1.8 ppt	3.4 ppt

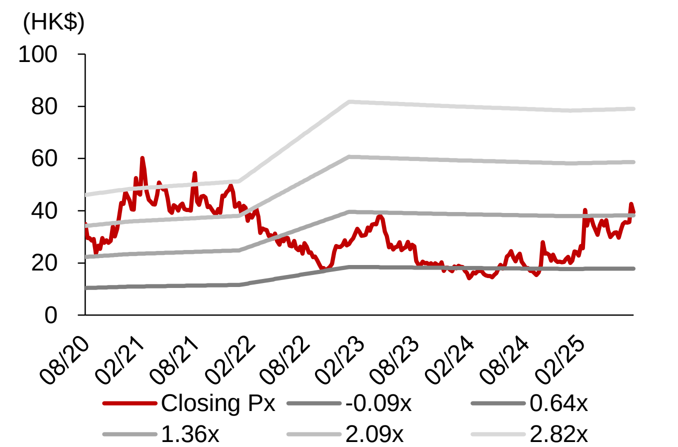
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: P/B chart



Source: Company data, CMBIGM estimates

Figure 4: P/B band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US$ mn)						
Revenue	**2,475**	**2,286**	**2,004**	**2,423**	**3,006**	**3,499**
Cost of goods sold	(1,632)	(1,799)	(1,799)	(2,159)	(2,565)	(2,912)
Gross profit	**844**	**487**	**205**	**264**	**442**	**586**
Selling expense	(12)	(10)	(10)	(11)	(14)	(16)
Admin expense	(267)	(323)	(351)	(399)	(413)	(423)
Others	(28)	(91)	(94)	(83)	(82)	(77)
Operating profit	**536**	**63**	**(249)**	**(228)**	**(66)**	**70**
Other income	100	188	178	139	180	210
Other expense	(141)	(77)	(63)	(20)	(6)	(7)
Pre-tax profit	**496**	**174**	**(134)**	**(109)**	**108**	**273**
Income tax	(89)	(47)	(7)	(7)	(14)	(41)
After tax profit	**407**	**126**	**(140)**	**(116)**	**95**	**232**
Minority interest	(43)	(154)	(198)	(178)	(163)	(163)
Net profit	**450**	**280**	**58**	**62**	**258**	**395**

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US$ mn)						
Current assets	**3,076**	**6,570**	**5,833**	**4,759**	**4,183**	**4,758**
Cash & equivalents	2,009	5,585	4,459	3,240	2,616	3,133
Restricted cash	1	32	32	33	34	36
Account receivables	292	279	270	274	286	289
Inventories	578	450	467	503	509	528
Prepayment	48	34	364	466	485	507
Other current assets	148	190	240	243	253	264
Non-current assets	**3,980**	**4,374**	**6,583**	**7,850**	**8,937**	**8,952**
PP&E	3,368	3,519	5,859	7,022	8,075	8,048
Right-of-use assets	78	79	78	78	81	85
Intangibles	33	50	31	31	34	38
Other non-current assets	501	726	614	718	747	781
Total assets	**7,055**	**10,943**	**12,415**	**12,609**	**13,120**	**13,709**
Current liabilities	**1,382**	**972**	**1,562**	**1,461**	**1,494**	**1,486**
Short-term borrowings	427	193	281	362	365	342
Account payables	237	235	298	269	293	298
Other current liabilities	714	541	978	825	832	842
Lease liabilities	5	3	5	5	5	5
Non-current liabilities	**1,537**	**1,956**	**1,946**	**2,013**	**2,059**	**2,088**
Long-term borrowings	1,482	1,907	1,917	1,991	2,037	2,066
Other non-current liabilities	56	50	29	22	22	22
Total liabilities	**2,920**	**2,929**	**3,508**	**3,474**	**3,553**	**3,574**
Share capital	1,994	4,934	4,938	4,961	4,961	4,961
Other reserves	1,036	1,367	1,309	1,193	1,287	1,519
Total shareholders equity	**3,030**	**6,301**	**6,247**	**6,153**	**6,248**	**6,480**
Minority interest	1,105	1,714	2,660	2,981	3,318	3,655
Total equity and liabilities	**7,055**	**10,943**	**12,415**	**12,609**	**13,120**	**13,709**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**496**	**174**	**(134)**	**(109)**	**108**	**273**
Depreciation & amortization	457	500	556	752	862	942
Tax paid	(51)	(72)	(57)	(7)	(14)	(41)
Change in working capital	(116)	(69)	142	(337)	(13)	(37)
Others	(35)	108	(47)	(4)	67	60
Net cash from operations	**751**	**642**	**459**	**295**	**1,010**	**1,197**
Investing						
Capital expenditure	(996)	(907)	(2,780)	(2,020)	(2,025)	(1,029)
Others	66	73	108	(10)	(12)	(14)
Net cash from investing	**(930)**	**(833)**	**(2,672)**	**(2,030)**	**(2,037)**	**(1,043)**
Financing						
Net borrowings	315	193	106	155	49	5
Proceeds from share issues	6	2,942	4	22	0	0
Others	351	647	1,041	235	251	254
Net cash from financing	**672**	**3,782**	**1,150**	**413**	**300**	**260**
Net change in cash						
Cash at the beginning of the year	1,610	2,009	5,585	4,459	3,240	2,616
Exchange difference	(94)	(14)	(64)	103	103	103
Others	493	3,590	(1,062)	(1,322)	(728)	414
Cash at the end of the year	**2,009**	**5,585**	**4,459**	**3,240**	**2,616**	**3,133**
GROWTH	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Dec						
Revenue	51.8%	(7.7%)	(12.3%)	20.9%	24.1%	16.4%
Gross profit	94.1%	(42.3%)	(57.9%)	28.9%	67.1%	32.7%
Operating profit	211.4%	(88.3%)	na	na	na	na
Net profit	112.1%	(37.8%)	(79.2%)	7.0%	314.2%	53.4%
PROFITABILITY	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Dec						
Gross profit margin	34.1%	21.3%	10.2%	10.9%	14.7%	16.8%
Operating margin	21.7%	2.8%	(12.4%)	(9.4%)	(2.2%)	2.0%
Return on equity (ROE)	15.2%	6.0%	0.9%	1.0%	4.2%	6.2%
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	3.2
VALUATION	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**
YE 31 Dec						
P/E	16.3	34.4	165.8	155.6	37.6	24.5

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

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