

Wingtech (600745 CH)

2Q results in line; Maintain BUY

Wingtech announced its 2Q22 results. 2Q revenue/NP to shareholders grew 7.2%/16.9% YoY and -7.5%/35.1% QoQ to RMB13.7bn/679mn. By segment, semi IDM/ODM sales grew 13.7% YoY and 7.8% YoY in 1H22, which were largely in line. Optical modules business' profitability was improving and we suggest to eye on the new projects with key overseas clients. Maintain BUY, with unchanged TP of RMB93.12.

- **Semi IDM business delivered stellar growth, benefiting from strong demand for auto/industrial products.** 1H22 semi revenue grew 13.7% YoY to RMB7.7bn, of which 72% were from auto and industrial (up 5% compared with FY21). Profitability continues to improve as NPM jumped to 22.7% in 1H22 vs. 19.1% in FY21. Looking forward, we expect the strong demand from auto/industrial markets will continue to drive segment growth. In the near term, auto semi is still in short supply. We see the price of power semi components is largely stable or still shows an upward trend. In the long-term perspective, Wingtech plans to mass-produce IGBT products in 2022/23, expanding its product offering and catching the tailwind of surging demand for auto power semi.
- **ODM business is satisfactory considering mobile weakness.** 1H22 ODM sales grew 7.8% YoY, which seems satisfactory given Android smartphone shipment declined by 10.6% YOY in 1H22. However, net profit was -RMB216mn due to early stage of non-mobile projects.
- **Optical module business' profitability turned positive in 2Q.** The segment's net profits were RMB-39mn and RMB2mn in 1Q and 2Q. 2Q's positive NPM reflected improving profitability, but there was also FX impact. We believe the breakeven may come in 2H22. Looking forward, we would watch closely for new projects with key overseas clients, which will help the segment business to grow.
- **Maintain BUY with unchanged TP of RMB93.12.** We think share price looks attractive given most bad news are priced in. **Upside catalysts:** 1) new 12-inch factory to begin production in 2H; 2) ODM's new projects to contribute in 2H. **Downside risks:** 1) macro challenges such as overseas inflation and slowdown in economic growth; and 2) easing auto semi shortage.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	51,707	52,729	65,658	90,941	116,979
YoY growth (%)	24.4%	2.0%	24.5%	38.5%	28.6%
Gross margin (%)	14.7%	16.2%	17.2%	17.2%	17.5%
Net income (RMB mn)	2,415	2,612	3,024	4,642	6,512
EPS (RMB)	2.06	2.11	2.43	3.72	5.23
YoY growth (%)	17.0%	2.4%	15.0%	53.5%	40.3%
Consensus EPS (RMB)	NA	NA	3.03	4.14	5.25
P/E (x)	30.3	29.6	25.7	16.8	12.0
Yield (%)	0.3%	0.3%	0.4%	0.6%	0.8%
ROE (%)	8.3%	7.7%	8.1%	11.5%	13.9%
Net gearing (%)	8.6%	Net cash	Net cash	13.5%	16.2%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB93.12
(Previous TP	RMB93.12)
Up/Downside	+48.9%
Current Price	RMB62.51

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	77,909
Avg 3 mths t/o (HK\$ mn)	1,927
52w High/Low (HK\$)	143.88/58.35
Total Issued Shares (mn)	1,246.3

Source: Bloomberg

Shareholding Structure

Wentianxia Tech	12.35%
WX Guolian Integ Ci Inv	9.75%
ZH Ronglin Equ Inv	7.42%

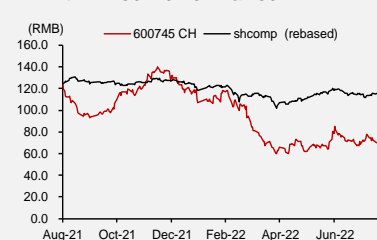
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.5%	-6.4%
3-mth	1.2%	-2.1%
6-mth	-47.2%	-43.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Zhonghua

Related Reports

1. Diversified hardware play with bright outlook – 8 Jul 2022 [Link](#)

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	51,707	52,729	65,658	90,941	116,979
Cost of sales	(44,105)	(44,200)	(54,366)	(75,317)	(96,546)
Gross profit	7,602	8,528	11,291	15,625	20,433
Selling exp	(816)	(760)	(876)	(1,262)	(1,592)
Admin exp	(1,288)	(2,026)	(2,392)	(3,131)	(3,793)
R&D exp	(2,221)	(2,689)	(3,447)	(4,774)	(6,141)
Finance costs	(852)	(382)	(801)	(1,210)	(1,561)
Other operating exp.	10,101	11,437	14,877	20,366	25,601
Operating profit	2,678	2,948	3,931	5,635	7,919
Other non-oper exp.	(27)	24	5	24	20
Pre-tax profit	2,652	2,972	3,936	5,659	7,939
Income tax expense	(192)	(460)	(1,004)	(1,159)	(1,626)
Minority interests	44	(99)	(92)	(142)	(199)
Net profit to shareholders	2,415	2,612	3,024	4,642	6,512

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	2,460	2,513	2,932	4,500	6,313
Depreciation/amortization	944	934	1,390	1,371	1,135
Change in working capital	1,036	(3,720)	(1,756)	(3,732)	(1,076)
Others	2,175	2,022	2,108	2,556	4,310
Net cash from operating	6,614	1,749	4,674	4,695	10,682
Capex	(2,222)	(5,092)	(8,537)	(10,897)	(13,033)
Other	(992)	(853)	2,568	2,862	2,467
Net cash from investing	(3,214)	(5,945)	(5,970)	(8,035)	(10,566)
Share issuance	6,200	1,036	446	343	261
Dividend paid	(695)	(480)	(1,312)	(1,723)	(2,268)
Other	(7,505)	7,355	6,396	4,922	6,827
Net cash from financing	(2,001)	7,910	5,531	3,543	4,821
Net change in cash	1,399	3,715	4,235	203	4,937
Cash at beginning of the year	6,437	7,659	11,250	15,484	15,687
Exchange difference	(178)	(123)	0	0	0
Cash at the end of the year	7,659	11,250	15,484	15,687	20,623

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	24,929	30,446	37,172	42,726	48,758
Cash & equivalents	5,751	10,505	15,484	15,687	20,623
Account receivables	6,417	9,298	10,490	14,426	15,060
Inventory	6,134	6,299	7,107	9,401	9,643
Prepayment	454	284	428	615	777
Other current assets	6,172	4,060	3,664	2,597	2,655
Non-current assets	34,962	42,130	46,167	49,176	56,405
PPE	5,460	8,138	3,834	-2,047	-9,981
Deferred tax assets	664	1,027	1,252	0	0
Other non-current assets	28,837	32,966	41,080	51,223	66,387
Total assets	59,891	72,576	83,339	91,902	105,163
Current liabilities	21,478	23,727	29,515	36,336	41,810
ST borrowings	450	3,537	8,986	13,808	19,327
Account payables	11,900	11,389	10,953	17,935	17,509
Tax payable	569	411	666	0	0
Other current liabilities	8,558	8,391	8,909	4,593	4,973
Non-current liabilities	9,338	14,332	15,882	14,671	16,210
LT borrowings	7,805	4,218	5,344	7,397	8,936
Deferred tax liability	485	1,119	1,271	0	0
Other non-current liabilities	1,049	8,995	9,267	7,274	7,274
Total liabilities	30,816	38,060	45,397	51,007	58,020
Share capital	1,245	1,246	1,246	1,246	1,246
Reserve	24,325	24,924	25,271	25,538	25,741
Retained earnings	3,931	6,082	8,630	12,635	18,216
Other	(441)	1,446	2,071	893	1,556
Minority interest	15	817	725	583	384
Total equity	29,075	34,516	37,942	40,896	47,144
Total liabilities and equity	59,891	72,576	83,339	91,902	105,163

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
ODM	41,667	38,685	46,576	61,704	74,160
Camera	0	0	2,260	5,200	9,087
Semi	9,892	13,803	16,822	24,038	33,732
Other	148	241	0	0	0
Growth (%)					
Revenue	24.4%	2.0%	24.5%	38.5%	28.6%
Gross profit	77.1%	12.2%	32.4%	38.4%	30.8%
Operating profit	74.3%	10.1%	33.3%	43.4%	40.5%
Net profit	92.7%	8.1%	15.8%	53.5%	40.3%
Profit & loss ratio (%)					
Gross margin	14.7%	16.2%	17.2%	17.2%	17.5%
Operating margin	5.2%	5.6%	6.0%	6.2%	6.8%
Net profit margin	4.7%	5.0%	4.6%	5.1%	5.6%
Balance sheet ratio					
Net debt/total equity (%)	8.6%	Net cash	Net cash	13.5%	16.2%
Current ratio (x)	1.2	1.3	1.3	1.2	1.2
Receivable turnover days	72	54	55	50	46
Inventory turnover days	(49)	(51)	(45)	(40)	(36)
Payable turnover days	(115)	(96)	(75)	(70)	(67)
Profitability (%)					
ROE	8.3%	7.7%	8.1%	11.5%	13.9%
ROA	4.0%	3.6%	3.6%	5.1%	6.2%
Per share data (RMB)					
EPS	2.06	2.11	2.43	3.72	5.23
DPS	0.17	0.20	0.24	0.36	0.51
BPS	24.78	27.23	29.86	32.35	37.52

Source: Company data, CMBIGM estimates

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