

Willsemi (603501 CH)

Expect strong 3Q momentum to continue; Upgrade to BUY

Will Semi announced better-than-expected 3Q results. Revenue came in at RMB6.2bn, representing 44.4% YoY growth and 37.6% QoQ growth, respectively. 3Q revenue marked the second-highest quarterly revenue in the company's history. Net profit was RMB215mn, turning positive from 2Q. We think the sound results were driven by: 1) better-than-expected recovery in consumer electronics, noticeably in domestic Android phone markets; and 2) strong growth in auto CIS as the company booked more orders across both existing and new manufacturers. We think the worst has passed. As its inventory went down to a relatively healthier level, we expect Will Semi's pricing power to improve in the future and revenue to resume growth. Meanwhile, we believe the company's net income will follow its revenue's recovery and increase meaningfully in the next few quarters (GPM is currently at 21.8%, vs previously 30%+). **Hence, we upgrade to BUY with an adjusted TP of RMB117.5.**

■ **The company has reported a significant rebound in 3Q revenue, above our previous expectations.** This strong growth can be attributed to the top two largest segments (smartphone and auto) by revenue contribution (over half of total 1H23 revenue). In the mobile CIS sector, there has been a notable influx of new Android smartphones (e.g., Xiaomi 14) to the market in 2H23. The latest products, such as OV50H, have been quickly adopted by domestic Android brands. The company also experienced growing demand for its products in the auto market.

■ **Inventory returned to a healthy level:** The company's inventory fell by 46.5% YoY and 23.2% QoQ to RMB7.5bn in 3Q23 from its peak of RMB14.1bn in 3Q22. We think this indicates the end-market demand is recovering. The current inventory is around 4 months of sales (based on 3Q revenue). As its inventory level returns to a healthier level, we expect Will Semi's revenue and net profit to resume sound growth.

■ **Upgrade to BUY and adjust TP to RMB117.5.** We revise up 2023/24/25E revenue by 11%/12%/14% and NP by 4%/44%/15%, considering 1) resumed good growth in both top and bottom lines, 2) competitive advantage of its latest products, and 3) the continued, strong localization trend. Our new TP is based on a higher 35x 2025E P/E (vs. previous 29.3x 2025E P/E). We believe the valuation is fair considering the NP CAGR of 36.5% over 2024-25E. Potential downside risks: 1) lower-than-expected Android smartphone shipments, and 2) weakening global macro.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	24,104	20,078	21,326	25,624	30,101
YoY growth (%)	21.6	(16.7)	6.2	20.2	17.5
Gross margin (%)	34.5	30.8	22.5	29.0	30.6
Net profit (RMB mn)	4,476	990	849	2,927	3,997
YoY growth (%)	65.4	(77.9)	(14.2)	244.7	36.5
ROE (%)	32.6	5.8	4.5	13.9	16.4
PE (x)	26.8	122.0	143.6	41.7	30.5
EPS (RMB)	3.83	0.84	0.71	2.46	3.36
Consensus EPS (RMB)	-	0.84	1.13	2.64	3.62

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Upgrade)

Target Price RMB117.50

(Previous TP RMB85.0)

Up/Downside 14.6%

Current Price RMB102.50

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Stock Data

Mkt Cap (RMB mn)	120,811.3
Avg 3 mths t/o (RMB mn)	664.4
52w High/Low (RMB)	111.13/71.70
Total Issued Shares (mn)	1178.6

Source: FactSet

Shareholding Structure

Yu Renrong	30.3%
HKSCC	10.6%

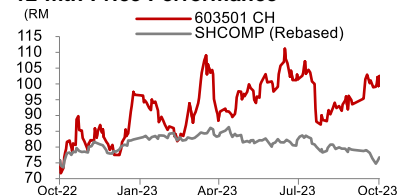
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	10.2%	13.5%
3-mth	1.5%	8.2%
6-mth	13.6%	23.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM estimates vs. consensus

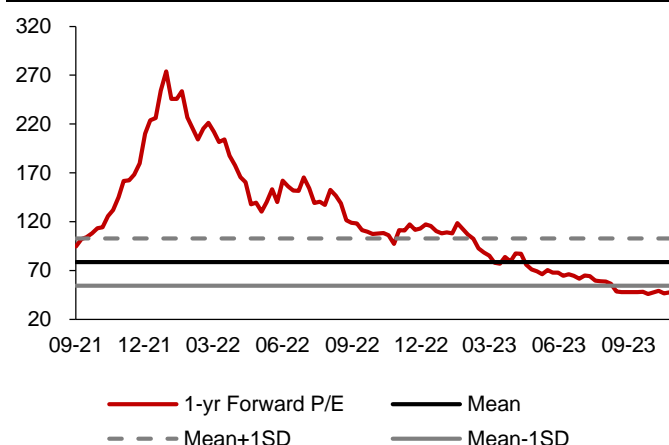
RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	21,326	25,624	30,101	21,326	26,386	31,312	0%	-3%	-4%
Gross profit	4,798	7,430	9,219	5,480	7,958	10,010	-12%	-7%	-8%
Net profit	849	2,927	3,997	1,560	3,391	4,551	-46%	-14%	-12%
EPS (RMB)	0.71	2.46	3.36	1.13	2.64	3.62	-37%	-7%	-7%
Gross margin	22.5%	29.0%	30.6%	25.7%	30.2%	32.0%	-3.2 ppt	-1.2 ppt	-1.3 ppt
Net margin	7.3%	14.8%	16.8%	8.9%	14.9%	17.5%	-1.6 ppt	-0.1 ppt	-0.8 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	21,326	25,624	30,101	19,184	22,944	26,423	11%	12%	14%
Gross profit	4,798	7,430	9,219	4,381	6,141	8,109	10%	21%	14%
Net profit	849	2,927	3,997	816	2,034	3,467	4%	44%	15%
EPS (RMB)	0.71	2.46	3.36	0.69	1.71	2.91	4%	44%	15%
Gross margin	22.5%	29.0%	30.6%	22.8%	26.8%	30.7%	-0.3 ppt	2.2 ppt	-0.1 ppt
Net margin	7.3%	14.8%	16.8%	4.6%	9.6%	14.3%	2.7 ppt	5.2 ppt	2.5 ppt

Source: Company data, CMBIGM estimates

Figure 1: 12M forward PE band

Source: Company data, CMBIGM estimates

Figure 2: 12M forward PE chart

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	19,824	24,104	20,078	21,326	25,624	30,101
Cost of goods sold	(13,894)	(15,790)	(13,903)	(16,528)	(18,194)	(20,882)
Gross profit	5,930	8,314	6,175	4,798	7,430	9,219
Operating expenses	(2,865)	(3,292)	(3,719)	(3,237)	(3,645)	(4,177)
SG&A expense	(1,147)	(1,201)	(1,281)	(1,089)	(1,258)	(1,478)
R&D expense	(1,727)	(2,110)	(2,496)	(2,176)	(2,422)	(2,740)
Others	9	19	58	29	34	40
Operating profit	3,064	5,022	2,456	1,562	3,785	5,042
Other income	44	5	5	11	10	13
Other expense	(9)	(3)	(2)	(4)	(4)	(5)
Other gains/(losses)	167	333	(564)	(75)	(11)	(51)
Interest income	25	25	27	97	159	188
Interest expense	(297)	(410)	(494)	(567)	(599)	(671)
Other income/expense	(4)	29	(127)	39	0	0
Pre-tax profit	2,991	5,002	1,301	1,061	3,340	4,516
Income tax	(308)	(456)	(343)	(212)	(413)	(559)
After tax profit	2,683	4,546	958	849	2,927	3,957
Minority interest	(23)	70	(32)	(0)	(1)	(40)
Net profit	2,706	4,476	990	849	2,927	3,997
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	13,913	20,296	19,613	18,071	22,692	24,544
Cash & equivalents	5,456	7,671	4,026	7,099	11,183	10,403
Account receivables	2,526	2,878	2,502	3,997	3,168	3,650
Inventories	5,274	8,781	12,356	6,223	7,403	9,520
Prepayment	151	220	236	319	383	450
Other current assets	506	745	493	434	555	521
Non-current assets	8,735	11,784	15,577	18,240	20,519	22,670
PP&E	1,871	1,863	2,047	2,267	2,702	3,273
Right-of-use assets	0	236	209	143	79	16
Intangibles	1,509	1,604	2,018	2,392	2,781	3,156
Goodwill	2,800	2,998	3,169	3,870	3,870	3,870
Other non-current assets	2,556	5,084	8,134	9,567	11,086	12,355
Total assets	22,648	32,080	35,190	36,311	43,211	47,214
Current liabilities	6,845	8,700	10,373	9,097	10,943	10,740
Short-term borrowings	2,511	2,387	3,632	1,660	3,727	2,848
Account payables	1,559	2,574	1,128	1,589	1,302	1,559
Tax payable	705	589	145	171	191	216
Other current liabilities	1,738	2,746	5,079	5,300	5,230	5,585
Contract liabilities	110	149	125	177	213	250
Accrued expenses	221	255	263	199	280	283
Non-current liabilities	4,278	7,076	6,717	7,677	9,624	10,143
Long-term borrowings	3,182	3,448	2,750	3,277	5,031	5,247
Other non-current liabilities	1,096	3,628	3,967	4,401	4,593	4,895
Total liabilities	11,123	15,776	17,090	16,774	20,567	20,882
Share capital	868	876	1,185	1,189	1,191	1,191
Retained earnings	3,895	8,049	8,572	9,322	12,165	15,868
Other reserves	6,476	7,274	8,261	8,943	9,207	9,232
Total shareholders equity	11,239	16,198	18,018	19,455	22,563	26,291
Minority interest	286	106	82	82	81	41
Total equity and liabilities	22,648	32,080	35,190	36,311	43,211	47,214

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,683	4,546	958	849	2,927	3,957
Depreciation & amortization	765	927	1,045	1,060	1,246	1,517
Change in working capital	(532)	(3,564)	(5,300)	5,417	(1,037)	(2,236)
Others	429	284	1,303	577	598	870
Net cash from operations	3,345	2,192	(1,993)	7,903	3,734	4,109
Investing						
Capital expenditure	(1,133)	(1,122)	(2,259)	(2,280)	(2,604)	(2,870)
Net proceeds from disposal of short-term investments	6	3	7	38	41	46
Others	(1,504)	(1,780)	(1,765)	(1,085)	(343)	(315)
Net cash from investing	(2,631)	(2,899)	(4,017)	(3,327)	(2,906)	(3,139)
Financing						
Dividend paid	(413)	(569)	(822)	(667)	(684)	(965)
Net borrowings	1,567	3,066	3,242	(1,377)	3,822	(663)
Proceeds from share issues	683	1,203	273	683	217	(0)
Others	(3)	(767)	(438)	(143)	(99)	(121)
Net cash from financing	1,835	2,932	2,255	(1,504)	3,256	(1,749)
Net change in cash						
Cash at the beginning of the year	3,116	5,423	7,630	3,995	7,067	11,151
Exchange difference	(241)	(18)	120	0	0	0
Others	2,548	2,226	(3,755)	3,072	4,084	(779)
Cash at the end of the year	5,423	7,630	3,995	7,067	11,151	10,372

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