

Maxscend (300782 CH)

LT growth intact; D/G to HOLD as the company goes through business model transformation

Maxscend released its 3Q24 results. Revenue declined by 23% YoY/1% QoQ to RMB1.1bn, driven by a weaker seasonality as smartphone demand is not showing strong recovery. NP declined by 84% YoY/55% QoQ to RMB71mn, mainly due to GPM erosion (down 4.3ppts sequentially to 37.1%) on 1) fab ramp-up, 2) an unfavorable product mix towards higher module shipments, and 3) USD/RMB FX impacts. NPM dropped to 6.6% from 14.3%/32.1% in 2Q24/3Q23 on lower GPM, higher R&D costs (up 66% YoY) and asset impairment loss. Although Maxscend's LT growth prospects remain intact, we downgrade the stock to **HOLD on ST** pain from business transformation (fabless to fab-lite) that weighs on profitability. TP adjusted to RMB86, corresponding to 45x 2025E P/E (vs. 44.5x before).

- **Unlike a usual peak season in 3Q** (40% QoQ growth pre-pandemic in 3Q18/19 and 48% QoQ in 3Q23), **quarterly sales were flattish sequentially (-1%), showing a weak market demand.** Although we have expected weakness would be a drag to 3Q24 sales, top-line growth was still below our/BBG consensus by 21%/24%. Therefore, we revise down our 2024/25E revenue forecasts by 8%/7%, with FY24/25E revenue growth adjusted to 4.7%/23% YoY.
- **Module business to be the key driver of future growth.** In 9M24, Maxscend saw module revenue contribution increase (43% est. of sales vs. 36% in 2023) to ~RMB1.4bn. We expect module share to increase further to 49%/55% in 2024/25E, as we believe modulization in RFFE industry has become a mainstream trend providing a more integrated solution.
- **GPM is expected to recover to 40%+ in 2H25.** We expect margin to face ongoing challenges in the next 2-3 quarters, due to capacity ramp-up at Xinzhuo and utilization not yet achieving the optimized level (slow recovery in demand). The margin headwind may persist at least into 1H25 as the company continues to transfer products fabrication to its own production line (est. RMB137mn depreciation in 4Q24E and a total of RMB550mn in 2024E per mgmt.). We cut GPM estimates by 1.9ppt/1.1ppt for 2024/25E.
- **Downgrade to HOLD, with adj. TP at RMB86, based on 45x 2025E P/E (close to peers' avg. of ~41x 2025E P/E).** We believe Maxscend must endure the trials of transformative business model shift through challenges before shining bright again on the global stage. Key upside risks: 1) faster-than-expected recovery in demand and share expansions and 2) depreciation's less severe impacts on margins; key downside risks: 1) slower-than-expected capacity ramp-up, 2) weak recovery in demand, and 3) escalating geopolitical tensions.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,677	4,378	4,582	5,639	6,895
YoY growth (%)	(20.6)	19.1	4.7	23.0	22.3
Gross margin (%)	52.9	46.4	40.0	41.2	44.4
Net profit (RMB mn)	1,069.2	1,122.3	558.4	1,018.6	1,727.5
YoY growth (%)	(49.9)	5.0	(50.2)	82.4	69.6
EPS (Reported) (RMB)	2.00	2.10	1.05	1.91	3.24
EPS (Adjusted) (RMB)	2.00	2.10	1.05	1.91	3.24
P/E (x)	45.6	43.4	87.2	47.8	28.2
ROE (%)	13.1	12.1	5.6	9.5	14.3

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price RMB86.00
 (Previous TP RMB100.00)
Up/Downside (5.8%)
Current Price RMB91.26

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Stock Data

Mkt Cap (RMB mn)	48,714.6
Avg 3 mths t/o (RMB mn)	1,069.4
52w High/Low (RMB)	148.32/59.10
Total Issued Shares (mn)	533.8

Source: FactSet

Shareholding Structure

WX HUIZHI UNITED INV	11.5%
Feng Chenhui	7.6%

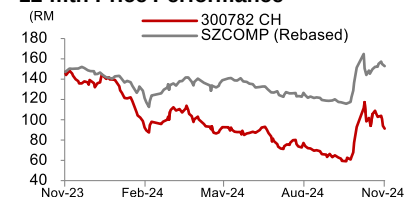
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-1.8%	-2.7%
3-mth	19.3%	-1.8%
6-mth	0.5%	-9.3%

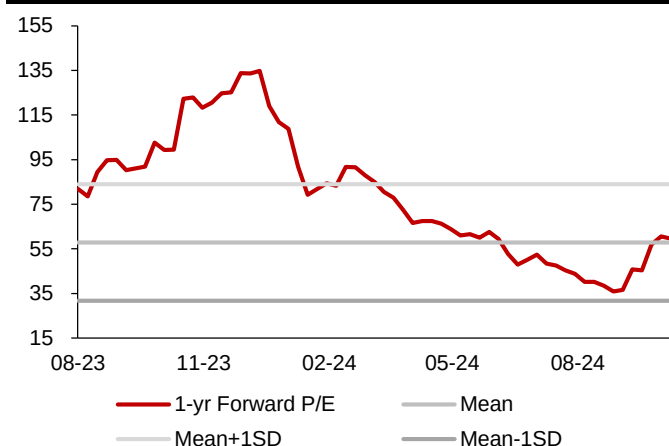
Source: FactSet

12-mth Price Performance



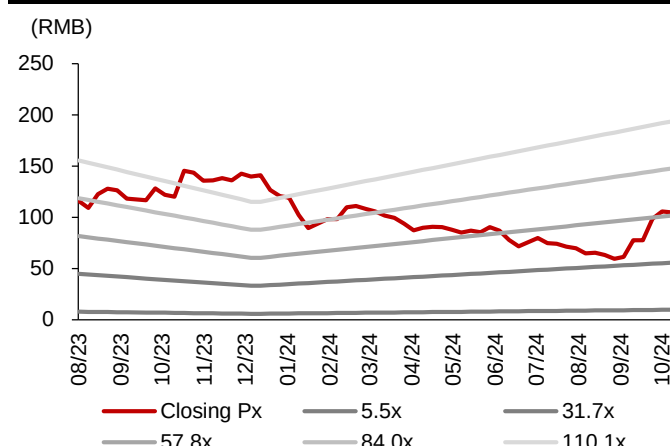
Source: FactSet

Figure 1: 1-yr forward PE band



Source: Company data, Bloomberg

Figure 2: PE chart



Source: Company data, Bloomberg

Figure 3: Earnings revisions

RMBmn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,582	5,639	6,895	5,002	6,069	7,154	-8%	-7%	-4%
Gross profit	1,831	2,324	3,065	2,096	2,567	3,091	-13%	-9%	-1%
Net profit	558	1,019	1,728	818	1,205	1,761	-32%	-15%	-2%
EPS (RMB)	1.05	1.91	3.24	1.53	2.25	3.29	-32%	-15%	-2%
Gross margin	40.0%	41.2%	44.4%	41.9%	42.3%	43.2%	-1.9 ppt	-1.1 ppt	1.2 ppt
Net margin	12.2%	18.1%	25.1%	16.3%	19.9%	24.6%	-4.2 ppt	-1.8 ppt	0.4 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

RMBmn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,582	5,639	6,895	5,324	6,608	7,955	-14%	-15%	-13%
Gross profit	1,831	2,324	3,065	2,285	2,851	3,483	-20%	-18%	-12%
Net profit	558	1,019	1,728	1,128	1,545	2,017	-50%	-34%	-14%
EPS (RMB)	1.05	1.91	3.24	2.23	3.08	4.11	-53%	-38%	-21%
Gross margin	40.0%	41.2%	44.4%	42.9%	43.1%	43.8%	-3 ppt	-1.9 ppt	0.7 ppt
Net margin	12.2%	18.1%	25.1%	21.2%	23.4%	25.4%	-9 ppt	-5.3 ppt	-0.3 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

Figure 5: Company financials

	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24	3Q24	4Q24E	FY24E
(RMB mn)										
Revenue	712	954	1,409	1,304	4,378	1,190	1,095	1,083	1,215	4,582
YoY%	-46.5%	5.4%	80.2%	97.3%	19.1%	67.2%	14.8%	-23.1%	-6.9%	4.7%
QoQ%	7.7%	34.0%	47.7%	-7.4%		-8.8%	-7.9%	-1.1%	12.2%	
Gross profit	348	469	656	561	2,034	509	453	402	466	1,831
GPM%	48.8%	49.2%	46.6%	43.0%	46.4%	42.8%	41.4%	37.1%	38.4%	40.0%
Selling expense	-7	-9	-9	-21	-47	-13	-11	-11	-12	-47
YoY%	-1.2%	57.7%	17.0%	127.7%	55.1%	84.9%	23.9%	20.2%	-43.8%	1.2%
% rev.	-1.0%	-0.9%	-0.6%	-1.6%	-1.1%	-1.1%	-1.0%	-1.0%	-1.0%	-1.0%
Admin expense	-30	-44	-44	-37	-155	-41	-43	-40	-39	-163
YoY%	35.1%	48.0%	9.9%	113.3%	41.6%	37.3%	-1.4%	-9.3%	6.5%	5.7%
% rev.	-4.2%	-4.6%	-3.1%	-2.8%	-3.5%	-3.4%	-3.9%	-3.7%	-3.2%	-3.6%
R&D expense	-123	-131	-156	-219	-629	-269	-224	-260	-225	-978
YoY%	55.2%	46.9%	40.7%	28.8%	40.0%	118.6%	71.3%	66.1%	2.8%	55.4%
% rev.	-17.3%	-13.7%	-11.1%	-16.8%	-14.4%	-22.6%	-20.5%	-24.0%	-18.5%	-21.3%
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Operating income	118	250	476	331	1,175	190	148	24	148	510
YoY%	-77.9%	-12.7%	120.3%	448.7%	7.2%	61.7%	-41.0%	-94.9%	-55.3%	-56.6%
OPM%	16.5%	26.2%	33.8%	25.4%	26.8%	16.0%	13.5%	2.2%	12.2%	11.1%
Pretax income	115	247	476	332	1,171	190	144	24	148	506
Income tax expense	1	3	-24	-31	-52	7	12	48	-15	52
Tax rate%	0.6%	1.2%	-5.1%	-9.3%	-4.4%	3.9%	8.2%	197.4%	-10.0%	10.3%
Net profit	116	250	452	301	1,119	197	156	72	133	558
YoY%	-74.7%	-14.6%	93.9%	221.5%	3.8%	69.7%	-37.6%	-84.1%	-55.9%	-50.2%
Minority interest	0	0	-1	-2	-3	-1	0	1	0	0
% NP	-0.3%	0.0%	-0.1%	-0.6%	-0.3%	-0.4%	-0.3%	1.1%	0.0%	-0.1%
Net profit attributable to shareholders	116	250	452	303	1,122	198	157	71	133	558
YoY%	-74.6%	-14.6%	94.3%	260.0%	5.0%	69.8%	-37.4%	-84.3%	-56.2%	-50.2%
QoQ%	38.2%	114.7%	80.9%	-32.9%		-34.8%	-20.8%	-54.6%	87.2%	
NPM%	16.4%	26.2%	32.1%	23.3%	25.6%	16.6%	14.3%	6.6%	10.9%	12.2%

Source: Company data, CMBIGM estimates

Figure 6: Peers table

Figure 6.1 peers table

Company	Ticker	Mkt Cap (US\$mn)	Price (LC)	P/E (x)			EPS (US\$)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Domestic peers									
Maxscend	300782 CH	6,848	95.68	87.2	47.8	28.2	0.24	0.34	0.45
Vanchip	688153 CH	1,980	34.15	45.6	32.6	25.1	0.10	0.14	0.18
GigaDevice	603986 CH	8,067	90.17	51.9	34.3	27.2	0.23	0.35	0.45
Hangzhou Lion	605358 CH	2,423	26.59	64.3	39.9	33.2	0.06	0.09	0.11
Sanan Opto.	600703 CH	9,280	13.75	60.8	38.2	26.6	0.03	0.05	0.07
Shenzhen Goodix	603160 CH	5,420	89.92	60.9	48.7	41.4	0.19	0.24	0.29
Ingenic Semi	300223 CH	4,640	72.88	54.6	41.2	33.1	0.18	0.23	0.29
3Peak	688536 CH	1,948	111.46	89.7	42.9	28.4	0.16	0.34	0.51
Average				64.4	40.7	30.4			

Source: Company data, Bloomberg consensus, CMBIGM estimates

Note: earnings estimates based on Bloomberg consensus; data as of 1 Nov close.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	4,634	3,677	4,378	4,582	5,639	6,895
Cost of goods sold	(1,959)	(1,732)	(2,345)	(2,752)	(3,315)	(3,831)
Gross profit	2,675	1,946	2,034	1,831	2,324	3,065
Operating expenses	(405)	(595)	(841)	(1,206)	(1,108)	(1,088)
SG&A expense	(97)	(139)	(201)	(211)	(217)	(225)
R&D expense	(304)	(449)	(629)	(978)	(872)	(842)
Others	(4)	(6)	(11)	(18)	(19)	(21)
Operating profit	2,269	1,351	1,192	625	1,216	1,977
Other income	212	13	18	37	60	60
Other expense	(7)	(8)	(10)	(5)	0	0
Other gains/(losses)	(48)	(302)	(73)	(115)	(112)	(108)
EBIT	2,427	1,055	1,127	541	1,164	1,928
Interest income	12	13	46	12	24	39
Interest expense	(0)	(1)	(2)	(33)	(40)	(33)
Others	(24)	22	0	(15)	(15)	(15)
Pre-tax profit	2,415	1,089	1,171	506	1,132	1,919
Income tax	(280)	(11)	(52)	52	(113)	(192)
After tax profit	2,135	1,078	1,119	558	1,019	1,728
Minority interest	(0)	9	(3)	(0)	0	0
Net profit	2,135	1,069	1,122	558	1,019	1,728

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	4,980	3,588	3,269	4,468	5,118	6,724
Cash & equivalents	2,661	1,277	1,008	810	1,741	3,082
Account receivables	572	400	518	637	661	737
Inventories	1,476	1,720	1,493	2,578	2,235	2,383
Prepayment	12	35	48	43	44	49
Other current assets	259	156	202	400	437	473
Non-current assets	3,468	5,915	7,689	9,056	8,924	8,850
PP&E	246	2,043	2,418	6,626	6,477	6,318
Right-of-use assets	3	14	71	78	86	94
Deferred income tax	23	69	84	123	123	123
Intangibles	75	123	122	187	251	327
Goodwill	0	0	0	0	0	0
Other non-current assets	3,121	3,667	4,994	2,042	1,988	1,988
Total assets	8,448	9,504	10,958	13,524	14,042	15,574
Current liabilities	752	721	881	2,885	2,501	2,349
Short-term borrowings	0	0	0	2,019	1,631	1,412
Account payables	376	476	635	722	731	781
Tax payable	298	136	121	39	40	44
Other current liabilities	18	17	21	23	14	17
Contract liabilities	8	6	7	1	1	1
Accrued expenses	52	85	97	81	84	93
Non-current liabilities	62	98	274	369	279	310
Long-term borrowings	0	0	0	100	0	0
Bond payables	0	0	0	0	0	0
Other non-current liabilities	62	98	274	269	279	310
Total liabilities	813	819	1,154	3,254	2,780	2,658
Share capital	334	534	534	534	534	534
Retained earnings	3,428	4,334	5,271	5,598	6,357	7,810
Other reserves	3,881	3,814	3,998	4,138	4,371	4,572
Total shareholders equity	7,642	8,682	9,803	10,270	11,262	12,916
Minority interest	(8)	3	0	(0)	(0)	(0)
Total equity and liabilities	8,448	9,504	10,958	13,524	14,042	15,574

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,135	1,078	1,119	558	1,019	1,728
Depreciation & amortization	52	103	222	556	763	788
Change in working capital	(1,086)	(518)	431	(1,105)	402	(86)
Others	49	279	122	249	(56)	(51)
Net cash from operations	1,150	942	1,894	258	2,128	2,379
Investing						
Capital expenditure	(2,858)	(1,711)	(2,122)	(2,497)	(698)	(784)
Others	(497)	93	(169)	203	38	41
Net cash from investing	(3,356)	(1,618)	(2,290)	(2,293)	(660)	(743)
Financing						
Dividend paid	(185)	(234)	(91)	(152)	(96)	(135)
Net borrowings	0	0	0	2,120	(499)	(218)
Others	2,965	1	(3)	48	48	48
Net cash from financing	2,780	(233)	(94)	2,016	(547)	(305)
Net change in cash						
Cash at the beginning of the year	1,475	2,020	1,214	720	711	1,641
Exchange difference	(29)	104	(2)	10	10	10
Others	574	(909)	(490)	(20)	921	1,331
Cash at the end of the year	2,020	1,215	722	711	1,641	2,982
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	66.0%	(20.6%)	19.1%	4.7%	23.0%	22.3%
Gross profit	82.1%	(27.3%)	4.5%	(10.0%)	26.9%	31.9%
Operating profit	85.6%	(40.5%)	(11.7%)	(47.6%)	94.6%	62.6%
EBIT	96.4%	(56.6%)	6.9%	(52.0%)	115.1%	65.7%
Net profit	99.0%	(49.9%)	5.0%	(50.2%)	82.4%	69.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	57.7%	52.9%	46.4%	40.0%	41.2%	44.4%
Operating margin	49.0%	36.7%	27.2%	13.6%	21.6%	28.7%
Return on equity (ROE)	41.4%	13.1%	12.1%	5.6%	9.5%	14.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	6.6	5.0	3.7	1.5	2.0	2.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	14.2	45.6	43.4	87.2	47.8	28.2

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

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