

Zhejiang Jingsheng (300316 CH)

2Q22 profit +1.4x YoY with strong cash flow; Raise earnings & TP on solid margin

Zhejiang Jingsheng (JSG)'s net profit in 1H22 doubled YoY to RMB1.2bn, close to the high-end of the range stated in the pre-announced profit in Jul. Net profit in 2Q22 surged 1.4x YoY to RMB765mn, implying an acceleration from 57% growth in 1Q22. Besides, operating cash flow sharply improved from -RMB744mn in 1Q22 to +RMB691mn in 2Q22. We continue to see high visibility on the upcoming growth as the backlog (as of Jun) reached RMB23bn (solar/semiconductor: 90%/10%) which we estimate will be enough to cover the revenue in 2022E-23E. We revise up our EPS forecast by 7-10% in 2022-24E, driven largely by higher margin assumptions as we expect JSG to maintain a strong pricing power. We raise our TP to RMB96 (35x 2023E P/E) from RMB93. JSG remains a key beneficiary of the solid growth of wafer capex. Breakthrough in SiC technology will serve as a catalyst. Maintain **BUY**.

- **2Q22 results review.** Net profit in 2Q22 surged 1.4x YoY to RMB765mn, driven by 76% YoY revenue growth (RMB2.4bn) and 3.3ppt YoY gross margin expansion (40%). The resilient gross margin level suggested that JSG has maintained a strong pricing power. SG&A ratio remained stable at 3.2%. R&D expense ratio increased 1.2ppt YoY to 6.9% which we believe is necessary to maintain the competitive edge. JSC recognized RMB200mn of gains in 2Q22, which came mainly from government grant. As at Jun, contract liabilities (an indicator of down-payment from customers) reached RMB6.97bn, an increase of 41% from Dec 2021.
- **Encouraging order growth for semiconductor equipment.** As at Jun 2022, backlog for semiconductor equipment surged 2.4x YoY (64% QoQ) to RMB2.2bn (10% of total backlog). We expect the upcoming order growth of semiconductor will be faster than solar equipment. For SiC, JSC achieved the production of the first 8-inch N-type SiC substrate in laboratory this month. We see huge room of growth arising from the continuous technology breakthrough.
- **Valuation.** Our new TP of RMB96 is based on 35x 2023E P/E after rolling over our valuation base. Our target P/E is based on 1x PEG on the back of 35% earnings CAGR in 2022E-24E.
- **Risks:** 1) Weaker-than-expected solar power capacity expansion; 2) lower-than-expected gross margin; 3) risk of semiconductor business expansion.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,811	5,961	10,934	14,758	17,578
YoY growth (%)	23	56	83	35	19
Net income (RMB mn)	858	1,712	2,848	3,595	4,268
EPS (RMB)	0.67	1.33	2.20	2.75	3.26
YoY growth (%)	35	99	65	25	19
Consensus EPS (RMB)	N/A	N/A	1.98	2.62	3.13
P/E (x)	115.2	57.8	35.0	28.0	23.6
P/B (x)	18.9	14.5	9.4	7.3	5.8
Yield (%)	0.2	0.4	0.6	0.7	0.8
ROE (%)	17.5	28.4	32.4	29.3	27.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB96.00**
 (Previous TP **RMB93.00**)
 Up/Downside **+25%**
 Current Price **RMB76.91**

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Stock Data

Mkt Cap (RMB mn)	100,585
Avg 3 mths t/o (RMB mn)	723.03
52w High/Low (RMB)	85.91/42.20
Total Issued Shares (mn)	1,308

Source: Bloomberg

Shareholding Structure

Shaoxing Shangyu Jingsheng	
Inv. Mgmt. and Consulting	48.24%
QIU Minxiu	2.97%
CAO Jianwei	2.77%

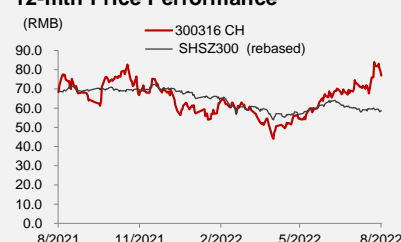
Source: Company data

Share Performance

	Absolute	Relative
1-mth	15.6%	18.3%
3-mth	45.7%	41.0%
6-mth	24.8%	38.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Pan-China CPA

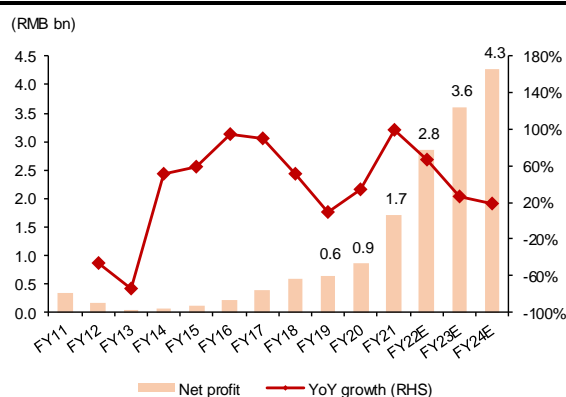
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1. Zhejiang Jingsheng (300316 CH, BUY) High visibility with backlog covering >80% of revenue in 2022E-23E – 28 Apr 2021
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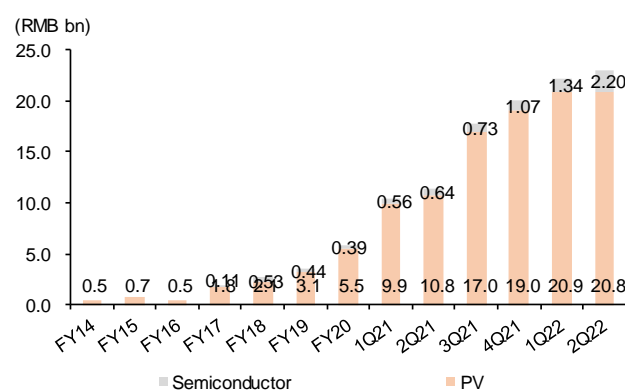
Figure 1: Change in earnings forecast

(RMB mn)	New			Old			Diff		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY23E	FY22E	FY23E	FY24E
Revenue	10,934	14,758	17,578	11,830	14,731	17,546	-8%	0%	0%
Equipment and service	9,555	13,091	15,709	10,451	13,064	15,676	-9%	0%	0%
Sapphire products	545	709	815	545	709	815	0%	0%	0%
Others	833	959	1,054	833	959	1,054	0%	0%	0%
Gross margin	40.0%	38.5%	38.7%	37.4%	37.2%	37.3%	2.6ppt	1.3ppt	1.3ppt
Selling expense ratio	0.5%	0.5%	0.0%	0.5%	0.5%	0.0%	0.0ppt	0.0ppt	0.0ppt
Admin expense ratio	3.0%	2.9%	2.9%	3.0%	2.9%	2.9%	0.0ppt	0.0ppt	0.0ppt
R&D expense ratio	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	0.0ppt	0.0ppt	0.0ppt
Net profit	2,848	3,595	4,268	2,671	3,276	3,908	7%	10%	9%

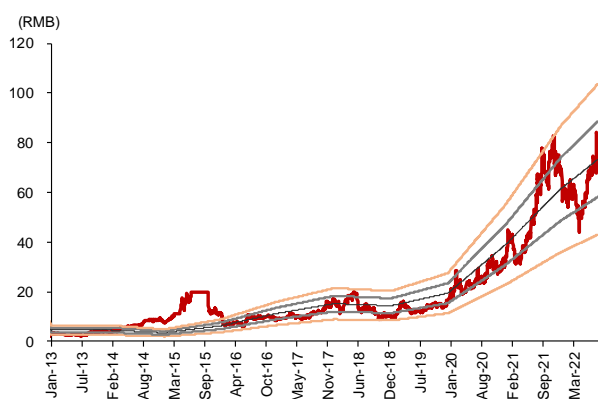
Source: Company data, CMBIGM estimates

Figure 2: Jingsheng's net profit growth

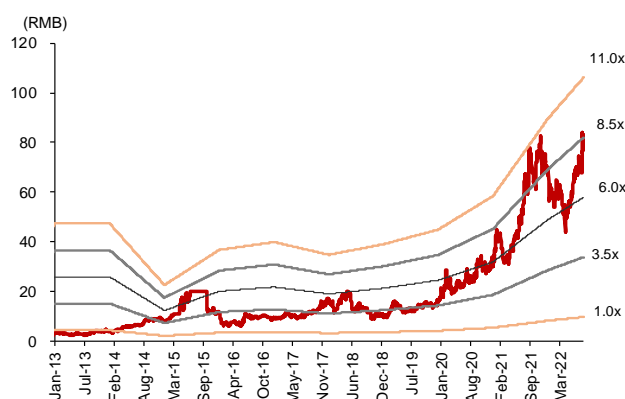
Source: Company data, CMBIGM estimates

Figure 3: Jingsheng's total backlog reached RMB23bn as at end-Jun 2022

Source: Company data, CMBIGM

Figure 4: Jingsheng's forward P/E band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 5: Jingsheng's forward P/B band

Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,811	5,961	10,934	14,758	17,578
Equipment and service	3,276	4,977	9,555	13,091	15,709
Sapphire products	194	389	545	709	815
Others	341	595	833	959	1,054
COGS	(2,416)	(3,593)	(6,560)	(9,073)	(10,783)
Gross profit	1,395	2,368	4,374	5,684	6,795
Selling expenses	(33)	(30)	(55)	(74)	(88)
Admin expenses	(136)	(200)	(328)	(428)	(510)
R&D expenses	(227)	(354)	(711)	(959)	(1,143)
Other opex	(39)	(70)	(89)	(106)	(113)
Core operating profit	959	1,715	3,191	4,117	4,942
Impairment losses	(137)	(100)	(221)	(284)	(333)
Other expenses and income	129	300	247	235	234
Pre-tax profit	992	1,984	3,307	4,174	4,956
Income tax	(140)	(256)	(430)	(543)	(644)
Minority interest	6	(17)	(29)	(36)	(43)
Net profit	858	1,712	2,848	3,595	4,268

Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
PAT	852	1,728	2,877	3,632	4,312
D&A	136	153	184	244	310
Change in working capital	(124)	(744)	(620)	(1,129)	(1,089)
Others	90	599	(40)	(44)	(49)
Operating cash flow	954	1,737	2,402	2,702	3,484
CAPEX	(229)	(778)	(1,120)	(940)	(750)
Others	(54)	(108)	(83)	(81)	(79)
Investing cash flow	(283)	(886)	(1,203)	(1,021)	(829)
Proceeds from fund raising	18	265	1,416	-	-
Changes in borrowings	(44)	(4)	10	10	10
Dividends paid	(132)	(174)	(360)	(570)	(719)
Others	(209)	(11)	(2)	(3)	(3)
Financing cash flow	(366)	75	1,064	(562)	(712)
Net change in cash	305	927	2,262	1,119	1,943
Cash at the beginning	542	847	1,783	4,045	5,164
Forex change, net	0	9	-	-	-
Less: restricted cash	88	82	-	-	-
Cash at the end	847	1,783	4,045	5,164	7,106

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	7,962	13,190	21,458	27,174	32,611
Cash and restricted cash	938	1,867	4,129	5,248	7,190
Trade receivables	3,713	4,147	9,840	12,544	14,590
Inventories	2,580	6,051	6,363	8,257	9,705
Other current assets	731	1,126	1,126	1,126	1,126
Non-current assets	2,536	3,693	4,754	5,578	6,149
Long-term equity investment	824	977	1,102	1,230	1,362
Fixed assets	1,135	1,509	2,085	2,687	3,193
Other non-current assets	577	1,207	1,567	1,660	1,594
Total assets	10,498	16,884	26,212	32,752	38,759
Current liabilities	5,201	9,620	15,015	18,493	20,907
ST borrowings	22	29	39	48	58
Trade payables	2,775	4,147	7,413	9,527	10,244
Contract liabilities	2,003	4,964	7,084	8,437	10,125
Other current liabilities	401	480	480	480	480
Non-current liabilities	46	147	148	148	149
LT borrowings	11	2	2	3	3
Other non-current liabilities	35	146	146	146	146
Total liabilities	5,247	9,767	15,163	18,641	21,055
Share capital	1,286	1,286	1,286	1,286	1,286
Reserves	1,528	1,738	1,738	1,738	1,738
Retained earnings	2,426	3,810	7,714	10,740	14,289
Shareholders' fund	5,240	6,835	10,739	13,765	17,314
Minority interest	12	281	310	346	390
Total equity	5,251	7,116	11,049	14,111	17,704

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix (%)					
Equipment and service	86	83	87	89	89
Sapphire products	5	7	5	5	5
Others	9	10	8	6	6
YoY growth (%)					
Revenue	23	56	83	35	19
Gross profit	26	70	85	30	20
Net profit	35	99	66	26	19
Operating efficiency					
Gross margin	36.6	39.7	40.0	38.5	38.7
Core operating margin	25.2	28.8	29.2	27.9	28.1
Net profit margin	22.5	28.7	26.1	24.4	24.3
B/S ratios (%)					
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
Receivable turnover	303	216	224	277	282
Inventory turnover	190	264	207	181	186
Payable turnover days	351	352	322	341	335
Profitability (%)					
ROE	17.5	28.4	32.4	29.3	27.5
ROA	9.3	12.5	13.2	12.2	11.9
Per share data (RMB)					
EPS	0.67	1.33	2.20	2.75	3.26
DPS	0.14	0.28	0.44	0.55	0.65
BVPS	4.08	5.31	8.21	10.52	13.24

Source: Company data, CMBIGM estimates

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