

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 US\$566mn, 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**

China Semiconductors

Lily YANG, Ph.D
 (852) 3916 3716
 lilyyang@cmbi.com.hk

Jiahao Jiang
 (852) 39163739
 JiangJiahao@cmbi.com.hk

Kevin ZHANG
 (852) 3761 8727
 kevinzhang@cmbi.com.hk

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%

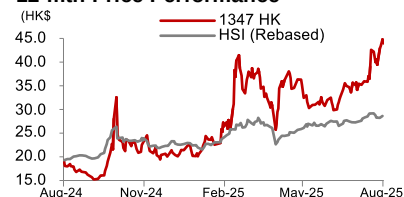
Source: HKEx

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

US\$m	New			Old			Diff (%)		
	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

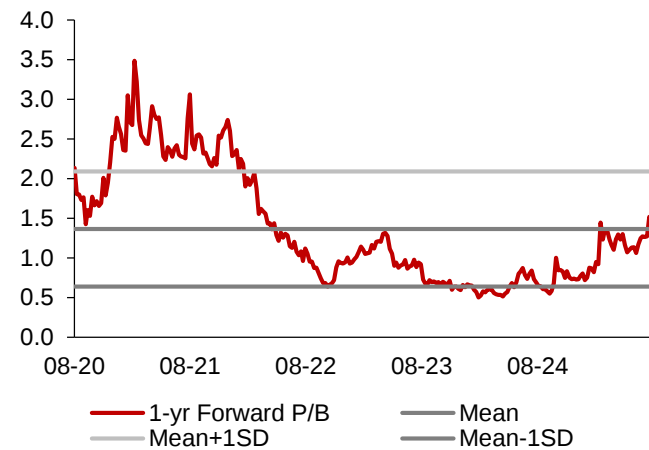
Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs. Bloomberg consensus

US\$m	CMBIGM			BBG Consensus			Diff (%)		
	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

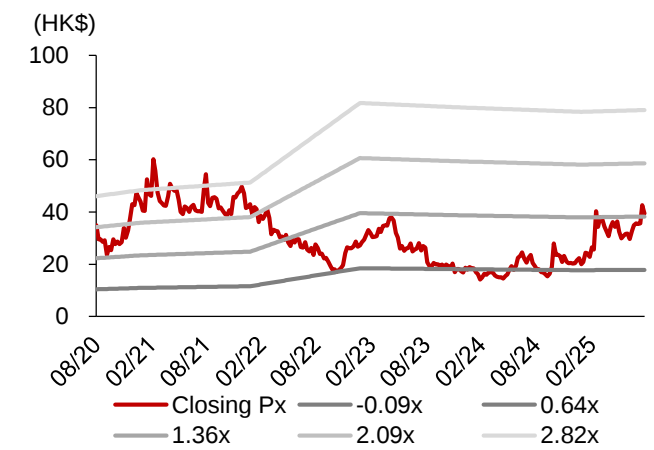
Source: Bloomberg consensus, CMBIGM estimates

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.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.