

Shengyi Technology (600183CH)

4Q20 miss on slower 5G and cost pressure; Expect gradual GPM recovery in 1H21E

Shengyi Tech announced FY20 preliminary results with revenue/net profit of RMB14,687mn/1,663mn, up 11%/14% YoY, and earnings is 12%/10% below our/consensus estimates. By 4Q20, revenue/net profit grew +6%/-11.6% YoY. We believe the miss is mainly due to 1) weak telecom demand on slower 5G deployment in 4Q20 and 2) margin pressure with copper price hike given delayed cost transfer to downstream clients. We cut FY20-22E estimates by 10-13% to reflect more conservative assumptions, and trimmed our TP to RMB29.45 based on same 30x FY21E P/E. We expect Shengyi's GPM to improve in next 1-2 quarters given that CCL price will start to rise in 1Q21E. Maintain BUY.

- Weaker 4Q20 due to slower 5G deployment and cost hike.** With over 30% revenue exposure to telecom segment (2019: 30% of CCL, 47% of PCB), we believe the miss was mainly due to 1) weaker telecom demand with soft 5G BTS deployment in 4Q20, and 2) lower gross margin given delay of cost transfer (e.g. copper) to downstream clients. Given continued copper price hike, we expect Shengyi will start to raise CCL ASP in 1Q21E, and gross margin will gradually improve in FY21E.
- Capacity expansion of prepreg and CCL to drive future growth.** Shengyi announced a new project last week to add 11.4mn sq m capacity for CCL and 36mn m capacity for prepreg. Total investment is RMB945mn which will be funded by own capital or financing. Total construction period will be 15 months, and production will start in 3Q22E. Shengyi expected new capacity to generate RMB1,319mn/143mn revenue/net profit each year. The new product lines will cover HDI, 5G communications, consumer electronics, auto and wearables. We believe it will help Shengyi to diversify revenue sources and accelerate expansion into consumer electronics and automobile markets.
- Maintain BUY with new TP of RMB29.45.** We trimmed our FY20-22E EPS by 10-13% and lower TP to RMB29.45 (same 30x FY21/P/E), reflecting more conservative revenue and margin assumptions. Trading at 23.8x FY21E P/E, close to 1-sd below historical P/E, the stock is attractive in our view. Near-term catalysts include increase in CCL price and 5G BTS tenders. Potential risks include slower-than-expected transfer of material costs and delay in 5G upgrades.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Turnover (RMB mn)	11,981	13,241	14,687	18,442	22,831
YoY growth (%)	11.4	10.5	10.9	25.6	23.8
Gross margin (%)	22.2	26.6	27.0	27.4	27.7
Net profit (RMB mn)	1,000	1,449	1,662	2,249	2,849
EPS (RMB)	0.47	0.64	0.73	0.98	1.24
YoY growth (%)	-35.9	34.7	14.0	35.3	26.7
Consensus EPS (RMB)	na	na	na	0.98	1.19
PE (x)	49.4	36.7	32.2	23.8	18.8
PB (x)	7.7	6.0	5.4	4.8	4.2
Yield (%)	1.5	1.7	1.9	2.5	3.2
Roe (%)	15.6	16.4	16.8	20.2	22.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB 29.45
(Previous TP)	RMB 33.69)
Up/Downside	+26.2%
Current Price	RMB 23.34

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Stock Data

Mkt. Cap. (RMB mn)	53,078
Avg. 3mths t/o (RMB mn)	1,003
52W High/Low (RMB)	36.8/19.86
Total Issued Shares (mn)	2,290.8
Source: Bloomberg	

Shareholding Structure

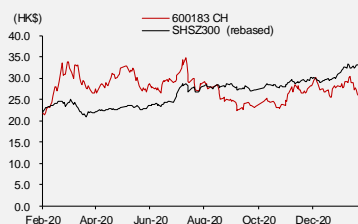
Guangdong Guangxin Holdings	22.11%
Dongguan Guohong Invest.	15.02%
Weihua Electronics	14.24%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	-9.4%	-11.8%
3-mth	6.7%	-6.4%
6-mth	-11.3%	-22.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: GP CPAs

Recent Reports:

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4Q20 Review

Figure 1: FY20 results review

RMB mn	FY18	FY19	FY20E	YoY	CMBIS estimate		Consensus	
					FY20E	Diff%	FY20E	Diff %
Revenue	11,981	13,241	14,687	11%	15,440	-5%	15,306	-4%
Operating Profit	1,229	1,805	2,061	14%	2,283	-10%	2,320	-11%
Net profit	1,000	1,449	1,662	15%	1,878	-12%	1,857	-10%
EPS (RMB)	0.47	0.64	0.73	14%	0.82	-12%	0.82	-11%
Operating Margin	10.3%	13.6%	14.0%	0.4 ppt	14.8%	-0.8 ppt	15.2%	-1.1 ppt
Net Margin	8.4%	10.9%	11.3%	0.4 ppt	12.2%	-0.8 ppt	12.1%	-0.8 ppt

Source: Bloomberg, CMBIS estimates

Figure 2: 4Q20 results review

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20E	QoQ	YoY
Revenue	3,497	3,771	3,072	3,807	3,811	3,997	4.9%	6.0%
Operating Profit	531	496	432	602	575	453	-21.1%	-8.7%
Net profit	413	406	339	487	477	359	-24.7%	-11.6%
EPS (RMB)	0.19	0.18	0.15	0.21	0.21	0.16	-24.7%	-12.2%
Operating Margin	15.2%	13.2%	14.0%	15.8%	15.1%	11.3%	-3.7 ppt	-1.8 ppt
Net Margin	11.8%	10.8%	11.0%	12.8%	12.5%	9.0%	-3.5 ppt	-1.8 ppt

Source: Company data, Bloomberg, CMBIS estimates

Forecasts revision

Figure 3: CMBIS estimate revisions

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	14,687	18,442	22,831	15,440	20,593	25,361	-5%	-10%	-10%
Gross Profit	3,969	5,046	6,315	4,241	5,708	7,037	-6%	-12%	-10%
Operating Profit	2,061	2,778	3,520	2,283	3,125	3,867	-10%	-11%	-9%
Net profit	1,662	2,249	2,849	1,878	2,572	3,182	-12%	-13%	-10%
EPS (RMB)	0.73	0.98	1.24	0.82	1.12	1.39	-12%	-13%	-10%
Gross Margin	27.0%	27.4%	27.7%	27.5%	27.7%	27.7%	-0.4 ppt	-0.4 ppt	-0.1 ppt
Operating Margin	14.0%	15.1%	15.4%	14.8%	15.2%	15.2%	-0.8 ppt	-0.1 ppt	0.2 ppt
Net Margin	11.3%	12.2%	12.5%	12.2%	12.5%	12.5%	-0.8 ppt	-0.3 ppt	-0.1 ppt

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	14,687	18,442	22,831	15,067	18,150	21,671	-3%	2%	5%
Gross Profit	3,969	5,046	6,315	4,071	4,970	5,994	-3%	2%	5%
Operating Profit	2,061	2,778	3,520	2,302	2,865	3,529	-10%	-3%	0%
Net profit	1,662	2,249	2,849	1,802	2,226	2,716	-8%	1%	5%
EPS (RMB)	0.73	0.98	1.24	0.79	0.98	1.19	-8%	0%	4%
Gross Margin	27.0%	27.4%	27.7%	27.0%	27.4%	27.7%	0 ppt	0 ppt	0 ppt
Operating Margin	14.0%	15.1%	15.4%	15.3%	15.8%	16.3%	-1.2 ppt	-0.7 ppt	-0.9 ppt
Net Margin	11.3%	12.2%	12.5%	12.0%	12.3%	12.5%	-0.6 ppt	-0.1 ppt	-0.1 ppt

Source: Company data, CMBIS estimates

Figure 5: P&L forecasts

RMB mn	FY18A	FY19A	1Q20	2Q20	3Q20	4Q20E	FY20E	FY21E	FY22E
Revenue	11,981	13,241	3,072	3,807	3,811	3,997	14,687	18,442	22,831
...YoY	11%	11%	12%	18%	9%	6%	11%	26%	24%
Cost of sales	(9,324)	(9,713)	(2,190)	(2,716)	(2,819)	(2,993)	(10,718)	(13,396)	(16,516)
Gross profit	2,657	3,528	882	1,091	992	1,005	3,969	5,046	6,315
GPM (%)	22%	27%	29%	29%	26%	25%	27%	27%	28%
...YoY	15%	33%	33%	24%	0%	2%	12%	27%	25%
SG&A	(728)	(932)	(224)	(210)	(221)	(233)	(889)	(1,116)	(1,381)
...% of rev	-6%	-7%	-7%	-6%	-6%	-6%	-6%	-6%	-6%
R&D	(529)	(605)	(154)	(190)	(187)	(197)	(727)	(913)	(1,130)
...% of rev	-4%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Operating profit	1,229	1,805	432	602	575	453	2,061	2,778	3,520
OPM (%)	10%	14%	14%	16%	15%	11%	14%	15%	15%
...YoY	-6%	47%	36%	31%	8%	-9%	14%	35%	27%
Net profit	1,000	1,449	339	487	477	359	1,662	2,249	2,849
NPM (%)	8%	11%	11%	13%	13%	9%	11%	12%	12%
...YoY	-7%	45%	36%	28%	15%	-12%	15%	35%	27%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY and lower TP to RMB29.45 (26% upside)

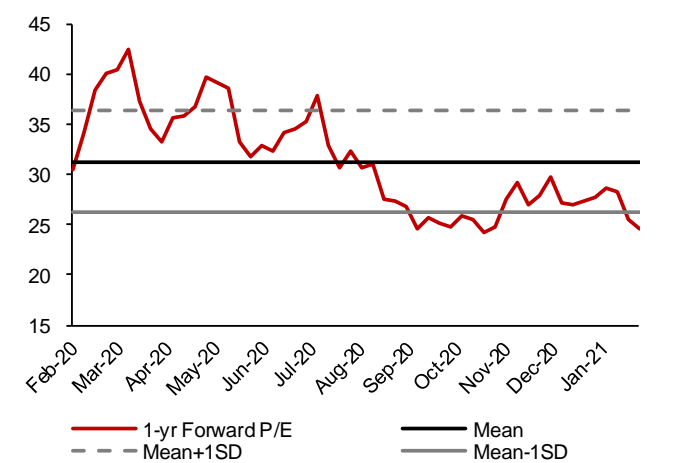
We trimmed our TP to RMB29.45 based on same 30x FY21E P/E, in line with 1-year historical forward P/E. We believe this is justified as the stock has been mostly trading on 26-36x EPS. We estimate 26% EPS FY20-23E CAGR, backed by 23% revenue CAGR given that 1) next phase of 5G tenders is believe to resume soon, 2) GPM will improve as CCL's ASP is expected to increase to reflect the material cost pressure and 3) new capacity for pregreg/CCL/PCB and the diversification in downstream applications. Potential risks include slower-than-expected transfer of material costs and delay in 5G upgrades.

Figure 6: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY20E	P/E (x) FY21E	P/B (x) FY20E	P/B (x) FY21E	ROE (%) FY20E	ROE (%) FY21E
CCL												
Shengyi Tech	600183 CH	Buy	8270	23.34	29.5	26%	32.2	23.8	5.4	4.8	16.8	20.2
Nanya	1303 TT	NR	18892	66.70	NA	NA	26.3	17.1	1.6	1.5	6.4	8.7
ITEQ	6213 TT	NR	1570	132.00	NA	NA	17.5	13.1	4.1	3.7	25.1	27.2
Kingboard	148 HK	NR	4585	32.15	NA	NA	8.6	7.0	-	-	-	-
Sumitomo	4203 JT	NR	1778	3760.00	NA	NA	16.6	21.0	1.0	1.0	6.2	4.8
Rogers	ROG US	NR	2915	156.07	NA	NA	31.7	25.0	2.9	2.7	-	-
Average							22.2	17.8	3.0	2.7	13.6	15.2
PCB												
Shengyi Tech	600183 CH	Buy	8270	23.34	29.5	26%	32.2	23.8	5.4	4.8	16.8	20.2
Shennan Circuits	002916 CH	Hold	8180	108.07	129.1	19%	35.8	27.2	7.0	5.8	19.4	21.4
WUS	002463 CH	NR	4302	16.13	NA	NA	20.5	17.0	4.5	3.7	22.9	23.2
DSBJ	002384 CH	NR	5919	22.38	NA	NA	24.9	19.0	3.4	3.0	14.0	16.4
Zhen Ding	4958 TT	NR	3673	114.00	NA	NA	12.2	9.8	1.3	1.3	11.1	13.4
TTM	TTMI US	NR	1431	13.41	NA	NA	13.1	10.8	1.0	1.0	8.8	8.9
UMTC	3037 TT	NR	4611	85.80	NA	NA	30.5	22.3	2.8	2.6	8.5	12.0
Tripod	3044 TT	NR	2421	129.00	NA	NA	11.4	10.6	1.8	1.7	16.7	16.6
Comped	2313 TT	NR	1783	41.90	NA	NA	10.1	9.1	1.7	1.5	17.7	17.9
SEMCO	009150 KS	NR	13751	206000.00	NA	NA	26.9	18.6	2.7	2.4	10.5	13.7
Average							21.8	16.8	3.2	2.8	14.7	16.4

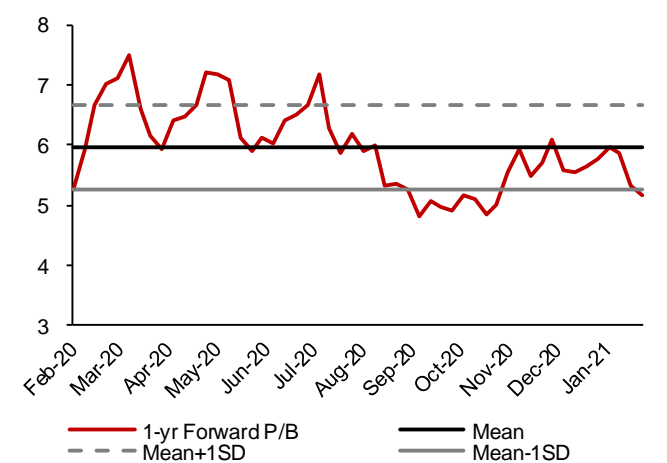
Source: Bloomberg, CMBIS estimates

Figure 7: 12M forward P/E band



Source: Company data, CMBIS estimates

Figure 8: 12M forward P/B band



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	11,981	13,241	14,687	18,442	22,831
Cost of sales	9,324	9,713	10,718	13,396	16,516
Gross profit	2,657	3,528	3,969	5,046	6,315
Selling exp	244	288	184	231	285
Admin exp	484	644	705	885	1,096
R&D exp	529	605	727	913	1,130
Finance costs	185	142	162	204	232
Other operating exp.	(13)	44	131	36	51
Operating profit	1,229	1,805	2,061	2,778	3,520
Other non-oper exp.	(6)	0	(7)	(0)	0
Pre-tax profit	1,223	1,805	2,053	2,778	3,520
Income tax expense	158	242	257	347	440
Minority interests	64	115	135	182	231
Net profit to shareholders	1,000	1,449	1,662	2,249	2,849

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net profit	1,065	1,563	1,797	2,431	3,080
Depreciation/amortization	366	409	412	459	512
Change in working capital	(249)	(479)	(467)	(1,246)	(437)
Others	155	198	10	204	232
Net cash from operating	1,337	1,692	1,751	1,847	3,387
Capex	(1,273)	(1,580)	(1,699)	(1,395)	(1,734)
Other	75	14	104	0	0
Net cash from investing	(1,198)	(1,566)	(1,595)	(1,395)	(1,734)
Share issuance	9	0	289	0	0
Dividend paid	(774)	(872)	(910)	(997)	(1,349)
Other	(485)	699	831	298	374
Net cash from financing	(1,250)	(173)	210	(699)	(975)
Net change in cash	(1,104)	(50)	362	(246)	678
Cash at beginning of the year	2,202	1,100	1,050	1,412	1,166
Exchange difference	7	(3)	(4)	0	0
Cash at the end of the year	1,098	1,050	1,412	1,166	1,844

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	7,652	8,712	10,055	12,029	13,299
Cash & equivalents	1,125	1,062	1,449	1,202	1,880
Account receivables	3,816	4,598	4,303	5,942	6,074
Inventory	1,748	2,100	2,560	3,141	3,600
Prepayment	4	11	27	27	27
Other current assets	957	941	1,717	1,717	1,717
Non-current assets	5,234	6,823	8,257	9,193	10,415
PPE	3,456	5,003	5,678	6,305	7,110
Deferred tax assets	40	76	114	114	114
Other non-current assets	1,738	1,744	2,465	2,774	3,191
Total assets	12,886	15,535	18,313	21,222	23,714
Current liabilities	3,778	5,257	6,949	8,349	9,019
ST borrowings	824	1,519	2,395	2,721	3,115
Account payables	1,850	2,656	2,703	3,676	3,831
Tax payable	74	116	135	135	135
Other current liabilities	1,030	965	1,717	1,817	1,938
Non-current liabilities	2,267	925	838	913	1,004
LT borrowings	539	732	553	628	719
Deferred tax liability	45	13	35	35	35
Other non-current	1,683	179	250	250	250
Total liabilities	6,044	6,181	7,787	9,262	10,023
Share capital	2,117	2,276	2,291	2,291	2,291
Reserve	647	2,505	2,780	2,780	2,780
Minority interest	439	520	654	837	1,068
Total equity	6,842	9,354	10,526	11,960	13,691
Total liabilities and equity	12,886	15,535	18,313	21,222	23,714

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix					
CCL	82	76	72	66	63
PCB	17	23	24	32	36
Others	1	1	1	1	1
Growth (%)					
Revenue	11.4	10.5	10.9	25.6	23.8
Gross profit	15.1	32.8	12.5	27.1	25.1
Operating profit	(5.9)	46.9	14.2	34.8	26.7
Net profit	(35.9)	34.7	14.0	35.3	26.7
Profit & loss ratio (%)					
Gross margin	22.2	26.6	27.0	27.4	27.7
Operating margin	10.3	13.6	14.0	15.1	15.4
Net profit margin	8.4	10.9	11.3	12.2	12.5
Balance sheet ratio					
Net debt/total equity (%)	3.5	12.7	14.2	17.9	14.3
Current ratio (x)	2.0	1.7	1.4	1.4	1.5
Receivable turnover days	116	116	111	101	96
Inventory turnover days	66	72	79	78	74
Payable turnover days	75	85	91	87	83
Profitability (%)					
ROE	15.6	16.4	16.8	20.2	22.6
ROA	7.8	9.3	9.1	10.6	12.0
Per share data (RMB)					
EPS	0.47	0.64	0.73	0.98	1.24
DPS	0.35	0.40	0.44	0.59	0.75

Source: Company data, CMBIS estimates

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