

Willsemi (603501 CH)

Solid 4Q; Well poised to embrace 2022. Reiterate BUY

Willsemi (603501 CH) announced FY21 preliminary results. FY21 net profit is expected to grow 65-80% YoY to RMB4,468mn-RMB4,868mn, and mid-point of implied 4Q21 net profit is expected to reach RMB1,150mn, representing 17% YoY and -10% QoQ. FY21 result is slightly higher than our forecasts by 0.3%. We remain positive on Willsemi and believe its non-mobile CIS business will maintain strong momentum and drive the company's future growth. **Reiterate BUY with TP at RMB346.6.**

- New products to gain market share in FY22E despite challenging Android smartphone market in short term.** Apple became China's top selling smartphone brand in 4Q21 for the 1st time since 2015, and there is clear pressure on Android manufacturers. Third party data indicated higher Android smartphone inventory build-up and weaker-than-expected sell through. However, we believe Willsemi's mobile CIS can still gain share (in RMB1k-2k/RMB3k+ models) with its new 50MP/100MP/200MP products.
- Non-mobile CIS will help to underpin Willsemi's future growth.** We are optimistic on Willsemi's auto CIS sales. The auto CIS experienced faster-than-expected growth in 2021 and we expect the momentum would continue given peer's supply chain constraints. The growth visibility in auto CIS is clearer due to longer certification period for its peers. Meanwhile, AR/VR market opportunity and demand of security camera upgrade will also contribute Willsemi's future growth. According to Qualcomm's estimate, the shipment of Oculus Quest 2 headsets has already exceeded 10 million since it launched last October. More importantly, non-mobile CIS has high GPM, and we expect Willsemi's profitability will improve due to favorable product mix.
- Reiterate BUY with TP at RMB346.6 based on 50x FY22E P/E.** We reiterate BUY rating on Willsemi with TP of RMB 346.60, based on 50x FY22E P/E. We believe this valuation is justified given 1) its leading position CIS market, 2) share gain in auto, AR/VR, security CIS and 3) diversified product portfolio. Potential upsides include: 1) better-than-expected global smartphone demand and 5G adoption; 2) new killer app released in VR/AR that drives substantial device sales. Potential downside risks include: 1) worse-than-expected global economy that curbs consumer spending and 2) overhung chip shortage led to unfilled demand.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	13,632	19,824	24,470	32,968	41,635
YoY growth (%)	-	45.4%	23.4%	34.7%	26.3%
Gross profit (RMB mn)	3,734	5,930	8,261	11,260	14,293
Gross profit margin %	27.4%	29.9%	33.8%	34.2%	34.3%
Net profit (RMB mn)	466	2,706	4,656	6,180	8,056
Net profit margin %	3.4%	13.7%	19.0%	18.7%	19.3%
EPS (RMB)	0.76	3.21	5.22	6.93	9.04
YoY growth (%)	-	322.4%	62.7%	32.7%	30.3%
Consensus EPS (RMB)	-	3.21	5.35	6.89	8.80
P/E (x)	345.4	81.8	50.3	37.9	29.1
P/B (x)	20.3	19.7	14.9	10.0	7.2
ROE (%)	5.9%	23.5%	29.1%	26.0%	24.4%
Net gearing (%)	23.5%	6.7%	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB 346.60
(Previous TP)	RMB 346.60)
Up/Downside	+32%
Current Price	RMB 262.5

China Technology Sector

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Stock Data

Mkt Cap (RMBmn)	229,878
Avg 3 mths t/o (RMBmn)	1,790
52w High/Low (RMB)	345/221.5
Total Issued Shares (mn)	875.7

Source: Bloomberg

Shareholding Structure

Yu Renrong	30.32%
SX Weihao Equity Invest. FD	9.23%
HKSCC	6.55%

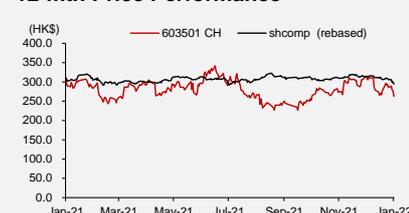
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-10.3%	-6.0%
3-mth	7.7%	12.1%
6-mth	-4.8%	-4.5%

Source: Bloomberg

12-mth Price Performance



Auditor: BDO

Recent report:

- Long-term positive view unchanged with non-mobile CIS to power future growth – 1 Nov 2021 ([Link](#))
- The next chapter beyond mobile CIS is coming – 27 Aug 2021 ([Link](#))

4Q21 Results Review

Figure 1: 4Q21 results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
Revenue	3,817	4,226	5,926	5,855	6,212	6,236	5,866			
Gross Profit	1,230	1,371	1,653	1,675	2,014	2,105	2,082			
Operating Profit	489	559	797	1,110	1,175	1,358	1,378			
Net profit	445	545	736	980	1,041	1,203	1,275	1,150	-9.8%	17.4%
EPS (RMB)	0.53	0.67	0.64	1.37	1.20	1.39	1.47			
Gross Margin	32.2%	32.4%	27.9%	28.6%	32.4%	33.7%	35.5%			
Operating Margin	12.8%	13.2%	13.5%	19.0%	18.9%	21.8%	23.5%			
Net Margin	11.7%	12.9%	12.4%	16.7%	16.8%	19.3%	21.7%			

Source: Company data, CMBIS estimates

Figure 2: 4Q21 results review

RMB mn	FY18	FY19	FY20	FY21E	YoY	CMBI estimates		Consensus	
						FY21	Diff%	FY21	Diff %
Revenue	9,702	13,632	19,824			24,470		26,291	
Gross Profit	2,355	3,734	5,930			8,261		8,840	
Operating Profit	224	785	2,956			5,146		5,145	
Net profit	145	466	2,706	4,668	72.5%	4,656	0.3%	4,657	0.3%
EPS (RMB)	0.290	0.760	3.210			5.222		5.346	
Gross Margin	24.3%	27.4%	29.9%			33.8%		33.6%	
Operating Margin	2.3%	5.8%	14.9%			21.0%		19.6%	
Net Margin	1.5%	3.4%	13.7%			19.0%		17.7%	

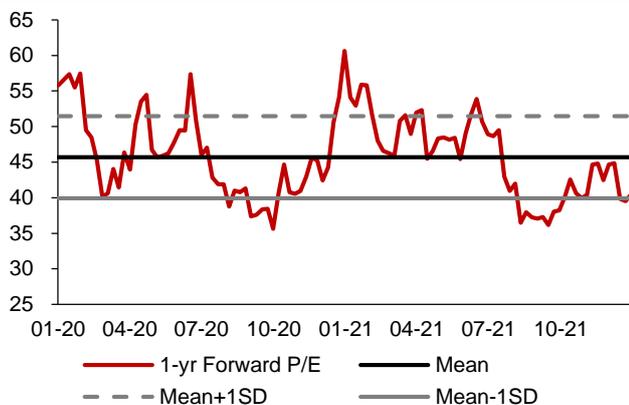
Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	24,470	32,968	41,635	26,291	33,754	41,296	-7%	-2%	1%
Gross Profit	8,261	11,260	14,293	8,840	11,425	14,052	-7%	-1%	2%
Operating profit	5,146	6,801	8,885	5,145	6,666	8,410	0%	2%	6%
Net profit	4,656	6,180	8,056	4,657	6,025	7,599	0%	3%	6%
EPS (RMB)	5.222	6.932	9.035	5.346	6.885	8.797	-2%	1%	3%
Gross Margin	33.8%	34.2%	34.3%	33.6%	33.8%	34.0%	0.1 ppt	0.3 ppt	0.3 ppt
Operating Margin	21.0%	20.6%	21.3%	19.6%	19.7%	20.4%	1.5 ppt	0.9 ppt	1 ppt
Net Margin	19.0%	18.7%	19.3%	17.7%	17.9%	18.4%	1.3 ppt	0.9 ppt	0.9 ppt

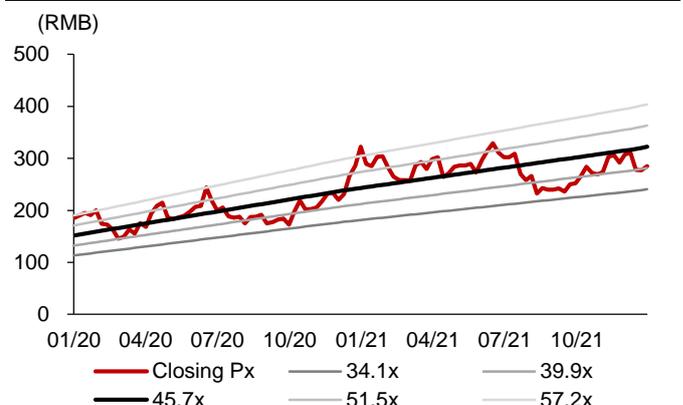
Source: Company data, CMBIS estimates

Figure 4: 12M forward P/E chart



Source: Company data, CMBIS estimates

Figure 5: 12M forward P/E band



Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,632	19,824	24,470	32,968	41,635	Pretax profit	705	2,683	4,710	6,253	8,150
COGS	-9,898	-13,894	-16,209	-21,707	-27,342	D&A	578	765	850	930	1,132
Gross Profit	3,734	5,930	8,261	11,260	14,293	Change in working capital	-1,037	-221	-2,142	-1,796	-2,363
SG&A	-1,132	-1,147	-1,162	-1,418	-1,749	Others	560	117	6	555	633
R&D exp.	-1,282	-1,727	-2,007	-2,637	-3,248	Net cash from operating	805	3,345	3,425	5,942	7,552
Financing exp.	-274	-275	-337	-343	-319	Capex	-743	-1,133	-1,028	-1,525	-1,918
Other opex	-260	176	392	-62	-93	Purchase/sale of	-93	-373	-178	-128	-142
Operating profit	785	2,956	5,146	6,801	8,885	Purchase/sale of subs	-805	-1,163	-607	42	42
Non-operating income	6	44	1	37	25	Other	-87	38	527	123	104
Non-operating exp.	-6	-9	-4	-10	-10	Net cash from investing	-1,728	-2,631	-1,287	-1,489	-1,914
Pre-tax profit	784	2,991	5,144	6,828	8,900	Change in shares	380	683	-97	2,153	1,725
Income tax expenses	-79	-308	-434	-575	-750	Change in debt	1,017	1,567	3,373	1,614	-190
Net profit	705	2,683	4,710	6,253	8,150	Dividend/interests paid	-319	-413	-644	-938	-1,124
Non-controlling interests	240	-23	54	72	94	Other	41	-3	321	-157	81
Net profit to shareholders	466	2,706	4,656	6,180	8,056	Net cash from financing	1,120	1,835	2,953	2,672	493
Adj. EBITDA	1,363	3,722	5,997	7,730	10,017	Net change in cash	198	2,548	5,091	7,125	6,131
						Cash, beginning	2,921	3,116	5,423	10,452	17,516
						Exchange difference	-2	-241	-61	-61	-61
						Cash, end	3,116	5,423	10,452	17,516	23,586

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	10,881	13,913	21,279	32,305	41,640	Revenue by segment					
Cash & equivalents	3,161	5,456	10,469	17,533	23,603	CMOS	9,779	14,697	16,861	22,861	29,474
Trade & other receivables	2,577	2,583	3,180	4,448	5,351	TDDI	0	744	1,756	2,980	3,621
Inventories	4,366	5,274	6,912	9,247	11,414	Others	3,853	4,383	5,853	7,127	8,540
Other current assets	777	600	718	1,077	1,271	Total	13,632	19,824	24,470	32,968	41,635
Non-current assets	6,596	8,735	10,083	10,926	12,293	CMOS %	71.7%	74.1%	68.9%	69.3%	70.8%
PPE	1,588	1,871	1,770	1,961	2,284	Growth (%)					
Intangibles	1,334	1,509	1,695	1,453	1,249	Revenue	40.5%	45.4%	23.4%	34.7%	26.3%
Goodwill	2,249	2,800	3,005	2,964	2,922	Adj. EBITDA	92.4%	173.1%	61.1%	28.9%	29.6%
Other non-current assets	1,425	2,556	3,613	4,549	5,839	Net profit	221.1%	481.2%	72.1%	32.7%	30.3%
Total assets	17,476	22,648	31,362	43,231	53,933	Profit & loss ratio (%)					
Current liabilities	7,606	6,845	8,565	11,781	11,664	Gross margin	27.4%	29.9%	33.8%	34.2%	34.3%
ST debt & LT debt to	4,101	3,041	4,177	5,498	4,211	EBITDA margin	10.0%	18.8%	24.5%	23.4%	24.1%
Trade & other payables	3,027	2,544	3,496	4,474	5,564	Net profit margin	3.4%	13.7%	19.0%	18.7%	19.3%
Other current liabilities	478	1,260	892	1,809	1,889	Balance sheet ratio					
Non-current liabilities	1,915	4,278	6,786	7,700	9,225	Net debt/total equity (%)	23.5%	6.7%	net	net	net
LT debt	928	3,182	3,193	3,711	4,808	Debt/EBITDA	3.7	1.7	1.6	1.5	1.1
Bonds payables	0	0	2,225	2,000	2,000	Interest coverage	4.8	12.5	16.2	16.5	20.0
Other non-current liabilities	987	1,096	1,368	1,989	2,417	Cash conversion cycle (days)	130.9	123.1	133.5	128.0	128.5
Total liabilities	9,521	11,123	15,351	19,481	20,890	Profitability (%)					
Total equity	7,955	11,525	16,011	23,750	33,043	ROE	5.9%	23.5%	29.1%	26.0%	24.4%
Share capital	864	868	892	892	892	ROA	2.7%	11.9%	14.8%	14.3%	14.9%
Reserves	6,650	7,248	11,911	12,094	12,277	Per share data (RMB)					
Retained earnings	1,002	3,895	7,812	12,904	19,530	EPS	0.76	3.21	5.22	6.93	9.04
Other equities	-589	-772	-4,945	-2,553	-163	BVPS	12.94	13.33	17.58	26.17	36.49
Minority interests	29	286	341	413	507						
Total liabilities and equity	17,476	22,648	31,362	43,231	53,933						

Source: Company data, CMBIS estimates

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