

Naura Technology (002371 CH)

Robust earnings with margin expansion; Maintain BUY

Naura announced 1H24 results. 1H revenue grew 46.4% YoY to RMB12.3bn, while NP grew 54.5% YoY to RMB2.8bn, both aligning with the mid-point of company's earnings pre-announcement. 1H24 revenue/NP were 40%/46% of our FY24E forecast, consistent with the company's historical seasonality, which saw 38%/46% in 1H23. GPM improved to 45.5% in 1H24 (vs. 42%/41% in 1H23/FY23), while NPM expanded to 22.5% in 1H24 from 17.7% in FY23. We think Naura's 1H24 results confirm that the company's growth trajectory remains intact. Looking forward, we expect Naura to 1) ride the tailwinds of semiconductor localization trend, 2) grow on product coverage expansion and market share gains, and 3) benefit from economies of scale and improving GPM. **Reiterate BUY with TP unchanged at RMB405.**

■ **1H24 revenue in-line with expectation.** From a quarterly standpoint, 2Q24 revenue/NP increased by 42.2%/37.0% YoY (vs. 38%/120% YoY in 2Q23) and 10.5%/46.8% QoQ. We maintain our previous revenue projection for 2024/25E, given the in-line results. The company's 1H24 semiconductor equipment revenue increased by 55.1% YoY, making up 92% of total revenue (vs. 87% in 1H23). We believe that escalating geopolitical tensions, coupled with the push for faster domestication of semiconductor equipment and favorable policies/subsidies, have contributed to the company's enhanced revenue in 1H24. We expect the equipment segment to grow 45.9%/28.5% YoY in 2024/25E, and maintain our total revenue projection at RMB30.9bn/RMB39.0 for the same period, implying 39.7%/26.5% growth.

■ **Better-than-expected GPM expansion, driven by favourable product mix and economies of scale.** 2Q GPM was 47.4%, up 4.0ppt sequentially. We revised up our 2024/25E GPM forecasts by 5.2ppt/3.9ppt, as we believe Naura will continue to benefit from these tailwinds and maintain GPM at a similar level. We revised up our 2024/25E NP forecasts by 9%/1%, on higher GPM estimates. The accretive impact will be partially offset by higher R&D and other operating expenses, since Naura's priority is to expand its product coverage.

■ **We reiterate our BUY rating for Naura, with an unchanged TP at RMB405.** The TP implies a valuation at 35.77x 2024E P/E, close to 1SD above 2-year historical average forward P/E, which we think is justified considering Naura's leading position in domestic semiconductor equipment market. Naura is our favourite pick under the semiconductor localization theme. Risks: 1) intensified competition from overseas and domestic peers and 2) escalating geopolitical tensions.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	14,688	22,079	30,856	39,030	48,443
YoY growth (%)	51.7	50.3	39.7	26.5	24.1
Gross margin (%)	43.8	41.1	45.0	45.4	45.9
Net profit (RMB mn)	2,352.7	3,899.1	6,012.5	7,875.5	10,329.5
YoY growth (%)	118.4	65.7	54.2	31.0	31.2
P/S (x)	10.9	7.2	5.2	4.1	3.3
P/E (x)	67.4	40.8	26.6	20.3	15.5
ROE (%)	12.8	17.7	22.0	23.2	24.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB405.00
Up/Downside 34.7%
Current Price RMB300.64

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Stock Data

Mkt Cap (RMB mn)	159,419.2
Avg 3 mths t/o (RMB mn)	1,579.5
52w High/Low (RMB)	355.66/216.52
Total Issued Shares (mn)	530.3

Source: FactSet

Shareholding Structure

Beijing Sevenstar Huadian Technology Gro	33.6%
Beijing Electronics Holding	9.4%

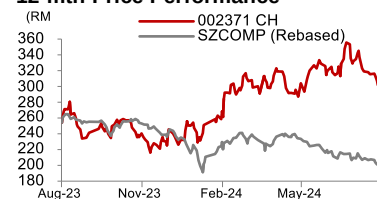
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-9.4%	-4.8%
3-mth	-1.1%	15.7%
6-mth	12.1%	28.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

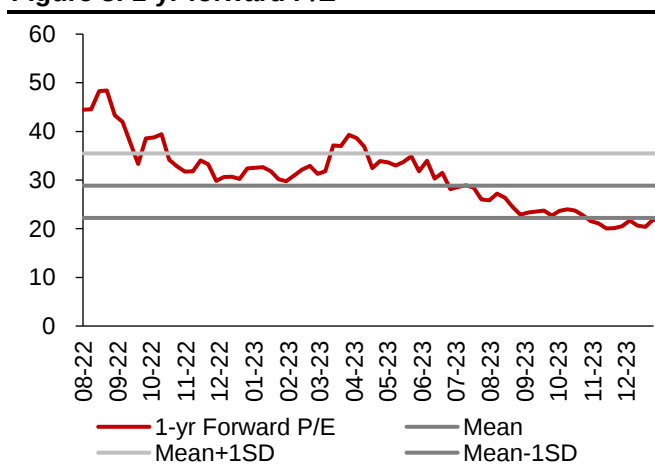
RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	30,856	39,030	48,443	30,856	39,030	48,443	0%	0%	0%
Gross profit	13,890	17,714	22,248	12,281	16,203	20,503	13%	9%	9%
Net profit	6,013	7,875	10,330	5,527	7,833	10,526	9%	1%	-2%
EPS (RMB)	11.32	14.83	19.45	10.40	14.70	19.70	9%	1%	-1%
Gross margin	45.0%	45.4%	45.9%	39.8%	41.5%	42.3%	5.2 ppt	3.9 ppt	3.6 ppt
Net margin	19.5%	20.2%	21.3%	17.9%	20.1%	21.7%	1.6 ppt	0.1 ppt	-0.4 ppt

Source: Company data, CMBIGM estimates

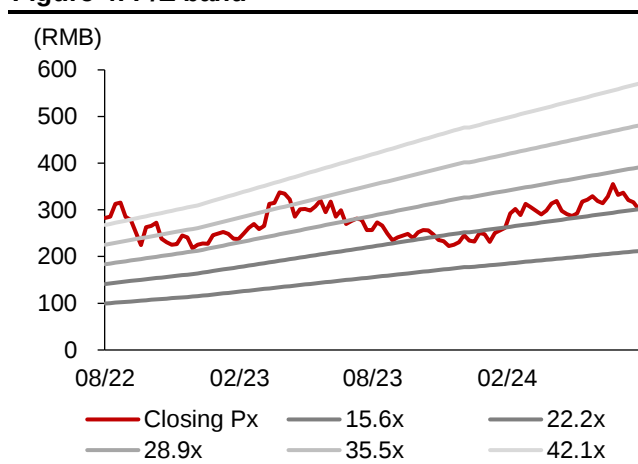
Figure 2: CMBIGM estimates vs. consensus

RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	30,856	39,030	48,443	30,335	39,094	48,460	2%	0%	0%
Gross profit	13,890	17,714	22,248	13,077	16,975	21,240	6%	4%	5%
Net profit	6,013	7,875	10,330	5,616	7,599	9,772	7%	4%	6%
EPS (RMB)	11.32	14.83	19.45	10.61	14.29	18.43	7%	4%	6%
Gross Margin	45.0%	45.4%	45.9%	43.1%	43.4%	43.8%	1.9 ppt	2 ppt	2.1 ppt
Net Margin	19.5%	20.2%	21.3%	18.5%	19.4%	20.2%	1 ppt	0.7 ppt	1.2 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

Figure 3: 1-yr forward P/E

Source: Company data, CMBIGM estimates

Figure 4: P/E band

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	9,683	14,688	22,079	30,856	39,030	48,443
Cost of goods sold	(5,867)	(8,250)	(13,005)	(16,966)	(21,317)	(26,195)
Gross profit	3,817	6,438	9,075	13,890	17,714	22,248
Operating expenses	(2,580)	(3,571)	(4,627)	(6,804)	(8,429)	(10,065)
Selling expense	(84)	(135)	(167)	(203)	(237)	(270)
SG&A expense	(1,705)	(2,224)	(2,836)	(3,733)	(4,448)	(5,182)
R&D expense	(1,297)	(1,845)	(2,475)	(3,703)	(4,488)	(5,329)
Others	507	633	852	834	745	715
Operating profit	1,236	2,867	4,448	7,085	9,285	12,183
Other income	18	14	22	20	22	24
Other expense	(2)	(27)	(4)	0	0	0
Pre-tax profit	1,253	2,854	4,466	7,105	9,307	12,207
Income tax	(59)	(313)	(433)	(1,066)	(1,396)	(1,831)
After tax profit	1,193	2,541	4,033	6,040	7,911	10,376
Minority interest	116	188	134	27	35	47
Net profit	1,077	2,353	3,899	6,013	7,875	10,330

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	22,323	31,117	38,226	44,594	51,158	60,159
Cash & equivalents	9,068	10,435	12,451	11,697	11,926	14,519
Account receivables	1,899	2,995	3,767	6,377	7,524	8,933
Inventories	8,035	13,041	16,992	22,053	25,836	30,860
Prepayment	658	1,551	1,480	1,446	1,439	1,543
Other current assets	2,663	3,096	3,535	3,021	4,434	4,303
Non-current assets	8,732	11,434	15,399	19,152	22,937	26,933
PP&E	2,423	2,484	3,352	5,735	6,755	7,870
Right-of-use assets	68	147	215	266	306	326
Deferred income tax	473	363	450	492	572	673
Intangibles	2,063	2,003	2,547	5,536	8,037	10,208
Goodwill	17	18	27	27	27	27
Other non-current assets	3,689	6,419	8,808	7,094	7,239	7,829
Total assets	31,054	42,551	53,625	63,745	74,095	87,092
Current liabilities	11,268	15,770	19,083	23,538	26,132	28,845
Short-term borrowings	0	227	23	25	53	87
Account payables	3,499	5,592	6,117	10,617	12,510	14,761
Tax payable	110	130	209	107	124	146
Other current liabilities	2,096	1,841	3,418	2,982	3,470	4,247
Contract liabilities	5,046	7,198	8,317	8,962	8,991	8,448
Accrued expenses	517	782	999	846	984	1,156
Non-current liabilities	2,588	6,797	9,717	9,457	9,941	10,685
Long-term borrowings	0	3,740	5,835	5,435	5,297	5,259
Bond payables	0	0	0	0	0	0
Deferred income	0	2	4	4	4	4
Other non-current liabilities	2,587	3,055	3,877	4,018	4,640	5,422
Total liabilities	13,856	22,567	28,800	32,995	36,073	39,529
Share capital	526	529	530	531	531	531
Retained earnings	2,924	5,159	8,776	14,374	21,611	31,104
Other reserves	13,448	14,058	15,061	15,360	15,360	15,360
Total shareholders equity	16,898	19,746	24,367	30,265	37,502	46,995
Minority interest	301	238	458	485	520	567
Total equity and liabilities	31,054	42,551	53,625	63,745	74,095	87,092

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,253	2,854	4,466	7,105	9,307	12,207
Depreciation & amortization	460	552	730	946	1,592	2,197
Tax paid	(59)	(313)	(433)	(1,066)	(1,396)	(1,831)
Change in working capital	(3,133)	(4,424)	(3,409)	(3,157)	(3,817)	(3,236)
Others	703	603	1,012	(2,335)	(2,733)	(3,493)
Net cash from operations	(777)	(728)	2,365	1,495	2,953	5,844
Investing						
Capital expenditure	(447)	(1,409)	(1,980)	(1,792)	(2,160)	(2,761)
Acquisition of subsidiaries/ investments	0	(15)	(81)	0	0	0
Net proceeds from disposal of short-term investments	0	0	3	0	0	0
Others	0	1	0	221	341	504
Net cash from investing	(447)	(1,423)	(2,058)	(1,571)	(1,819)	(2,258)
Financing						
Dividend paid	(114)	(241)	(388)	(589)	(806)	(1,002)
Net borrowings	(602)	3,453	1,888	(383)	(110)	(3)
Proceeds from share issues	8,497	157	212	299	0	0
Others	(101)	(24)	(66)	1	0	0
Net cash from financing	7,680	3,345	1,647	(671)	(916)	(1,005)
Net change in cash						
Cash at the beginning of the year	2,578	9,031	10,261	12,229	11,495	11,725
Exchange difference	(4)	37	14	11	12	12
Others	6,457	1,194	1,954	(745)	218	2,581
Cash at the end of the year	9,031	10,261	12,229	11,495	11,725	14,318
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	59.9%	51.7%	50.3%	39.7%	26.5%	24.1%
Gross profit	71.8%	68.7%	40.9%	53.1%	27.5%	25.6%
Operating profit	84.8%	131.9%	55.1%	59.3%	31.0%	31.2%
Net profit	100.7%	118.4%	65.7%	54.2%	31.0%	31.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	39.4%	43.8%	41.1%	45.0%	45.4%	45.9%
Operating margin	12.8%	19.5%	20.1%	23.0%	23.8%	25.1%
Return on equity (ROE)	9.1%	12.8%	17.7%	22.0%	23.2%	24.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.0	2.0	2.0	1.9	2.0	2.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	140.0	67.4	40.8	26.6	20.3	15.5
P/E (diluted)	140.0	67.6	41.0	26.6	20.3	15.5

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

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