

# Sunway (300136 CH)

## Downgrade to HOLD on margin concerns

Sunway released full set of 1Q21/FY20 results with net profit growth of +84%/-5% YoY, largely in-line with its earnings preview earlier, but we are disappointed by GPM decline to 21.4%/21.2% in 1Q21/4Q20 (vs 40.5%/24.0% in 3Q20/1Q20). While we remain positive on revenue outlook, we are cautious on near-term margin pressure due to rising competition and higher mix of lower-margin wireless charging products. We cut FY21/22E EPS by 36-37%, and downgrade the stock to HOLD given lower earnings visibility and margin pressure. We cut TP to RMB29.9 based on the same 31x FY21 P/E.

- **Sharp drop on 4Q20/1Q21 GPM.** Although 4Q20/1Q21 revenue was solid at 32%/54% YoY growth, we are cautious on GPM decline to 21.4%/21.2% (vs. 24.0%/34.4%/40.5% in 1Q/2Q/3Q20), mainly due to 1) rising competition on traditional antenna products; 2) delayed progress in 5G LCP antenna; 3) higher mix of lower margin wireless charging products. We believe margin pressure will remain in the near future given 1) no signs of easing competition in traditional antenna products; 2) low yield and rising material costs for new products given early stage of development; 3) in unfavorable sales mix with fast-growing wireless charging segment.
- **Positive outlook for 5G antenna upgrade and wireless charging.** Backed by smartphone demand recovery and 5G upgrade cycle, we remain positive for Sunway's LDS antenna and wireless charging businesses, as we believe Sunway will benefit from share gain in 5G antenna and wireless charging adoption (cancellation of in-box chargers). Overall, we lowered our FY21/22E revenue by 6%/9% due to progress delays in new LCP antenna products.
- **Downgrade to HOLD on margin pressure.** We adjusted our estimates and lower TP to RMB29.4 (same 31x FY21 P/E) to reflect more conservative margin assumptions. We expect near-term pressure on stock price given intense competition. Potential risks include slower-than-expected market share gain and delay in 5G upgrades.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,134	6,394	8,589	11,409	15,124
YoY growth (%)	9.1	24.5	34.3	32.8	32.6
GPM	37.3	30.2	25.8	27.1	29.3
Net profit (RMB mn)	1,020	972	908	1,297	1,971
EPS (RMB)	1.05	1.01	0.94	1.34	2.04
YoY growth (%)	4%	-4%	-7%	43%	52%
Consensus EPS (RMB)	na	na	1.51	1.95	NA
PE (x)	27.0	28.1	30.2	21.1	13.9
PB (x)	5.8	4.9	4.3	3.6	2.9
Yield (%)	0.2	0.4	0.3	0.5	0.7
ROE (%)	21.4	17.5	14.2	17.1	21.1
Net gearing (%)	27.6	15.4	17.2	20.6	27.3

Source: Company data, Bloomberg, CMBIS estimates

**HOLD (Down)**

Target Price **RMB 29.4**  
 (Previous TP **RMB 46.7**)  
 Up/Downside **+3.9%**  
 Current Price **RMB 28.3**

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### Stock Data

Mkt. Cap. (RMB mn)	27,392
Avg. 3mths t/o (RMB mn)	798
52W High/Low (RMB)	66.28/26.6
Total Issued Shares (mn)	967.6

Source: Bloomberg

### Shareholding Structure

Peng Hao	19.48%
HKSCC	5.50%
Yu Wei	1.80%

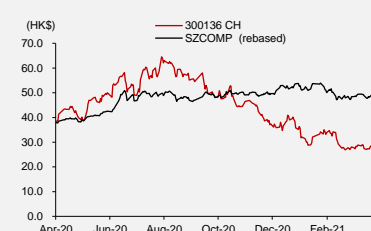
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	5.6%	-0.5%
3-mth	-17.1%	-11.2%
6-mth	-39.6%	-42.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Bakertilly

### Recent Report:

1. Sunway (300136 CH) – 4Q20 miss on slower antenna and FX impact; Trim TP to RMB46.7 – 29 Jan 2021
2. China 5G Technology - Picking structural winners amid uncertainties; Initiate at Outperform – 18 Dec 2020

## 1Q21 Results Review

Figure 1: 1Q21 results review

RMB mn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY
Revenue	1,559	1,045	1,513	1,783	2,054	1,613	-21.5%	54.4%
Gross Profit	519	251	521	722	436	345	-20.8%	37.6%
Operating Profit	228	70	295	482	87	142	64.5%	102.2%
Net profit	192	63	266	417	228	115	-49.6%	83.6%
EPS (RMB)	0.20	0.06	0.27	0.43	0.24	0.12	-49.1%	84.7%
Gross Margin	33.3%	24.0%	34.4%	40.5%	21.2%	21.4%	0.2 ppt	-2.6 ppt
Operating Margin	14.6%	6.7%	19.5%	27.0%	4.2%	8.8%	4.6 ppt	2.1 ppt
Net Margin	12.3%	6.0%	17.6%	23.4%	11.1%	7.1%	-4 ppt	1.1 ppt

Source: Company data, CMBIS estimates

## Earnings Revision

Figure 2: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,589	11,409	15,124	9,170	12,567	NA	-6%	-9%	NA
Gross Profit	2,214	3,091	4,437	3,194	4,411	NA	-31%	-30%	NA
Operating Profit	989	1,450	2,207	1,607	2,300	NA	-38%	-37%	NA
Net profit	908	1,297	1,971	1,439	2,025	NA	-37%	-36%	NA
EPS (RMB)	0.94	1.34	2.04	1.49	2.09	NA	-37%	-36%	NA
Gross Margin	25.8%	27.1%	29.3%	34.8%	35.1%	NA	-9.1 ppt	-8 ppt	NA
Operating Margin	11.5%	12.7%	14.6%	17.5%	18.3%	NA	-6 ppt	-5.6 ppt	NA
Net Margin	10.6%	11.4%	13.0%	15.7%	16.1%	NA	-5.1 ppt	-4.7 ppt	NA

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	8,589	11,409	15,124	9,195	11,855	NA	-7%	-4%	NA
Gross Profit	2,214	3,091	4,437	3,079	3,994	NA	-28%	-23%	NA
Operating Profit	989	1,450	2,207	1,593	2,110	NA	-38%	-31%	NA
Net profit	908	1,297	1,971	1,378	1,881	NA	-34%	-31%	NA
EPS (RMB)	0.94	1.34	2.04	1.51	1.95	NA	-38%	-31%	NA
Gross Margin	25.8%	27.1%	29.3%	33.5%	33.7%	NA	-7.7 ppt	-6.6 ppt	NA
Operating Margin	11.5%	12.7%	14.6%	17.3%	17.8%	NA	-5.8 ppt	-5.1 ppt	NA
Net Margin	10.6%	11.4%	13.0%	15.0%	15.9%	NA	-4.4 ppt	-4.5 ppt	NA

Source: Bloomberg, CMBIS estimates

**Figure 4: Revenue breakdown**

RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Antenna/RF modules	2,105	2,302	3,190	3,754	4,353
...YoY	-5%	9%	39%	18%	16%
Wireless charging	719	1,215	1,840	2,620	3,300
...YoY	27%	69%	51%	42%	26%
EMC/EMI	1,720	2,110	2,637	3,297	4,121
...YoY	26%	20%	25%	25%	25%
Cables/connectors	590	767	921	1,105	1,326
...YoY	5%	15%	20%	20%	20%
RFFE	0	0	0	633	2,024
...YoY	-	-	-	-	-
<b>Total</b>	<b>5,134</b>	<b>6,394</b>	<b>8,589</b>	<b>11,409</b>	<b>15,124</b>
<b>...YoY</b>	<b>9%</b>	<b>25%</b>	<b>34%</b>	<b>33%</b>	<b>33%</b>

Source: Company data, CMBIS estimates

**Figure 5: P&L forecast**

RMB mn	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>5,134</b>	<b>6,394</b>	<b>8,589</b>	<b>11,409</b>	<b>15,124</b>
...YoY	9%	25%	34%	33%	33%
Cost of sales	(3,217)	(4,464)	(6,375)	(8,317)	(10,687)
<b>Gross profit</b>	<b>1,917</b>	<b>1,930</b>	<b>2,214</b>	<b>3,091</b>	<b>4,437</b>
GPM (%)	37%	30%	26%	27%	29%
...YoY	12%	1%	15%	40%	44%
SG&A	(324)	(404)	(558)	(753)	(1,013)
...% of rev	-6%	-6%	-7%	-7%	-7%
R&D	(430)	(586)	(687)	(924)	(1,255)
...% of rev	-8%	-9%	-8%	-8%	-8%
<b>Operating profit</b>	<b>1,174</b>	<b>932</b>	<b>989</b>	<b>1,450</b>	<b>2,207</b>
OPM (%)	23%	15%	12%	13%	15%
...YoY	4%	-21%	6%	47%	52%
<b>Net profit</b>	<b>1,020</b>	<b>972</b>	<b>908</b>	<b>1,297</b>	<b>1,971</b>
NPM (%)	20%	15%	11%	11%	13%
...YoY	3%	-5%	-7%	43%	52%

Source: Company data, CMBIS estimates

## Valuation

### Downgrade to HOLD and lower TP to RMB29.4 (3.9% upside)

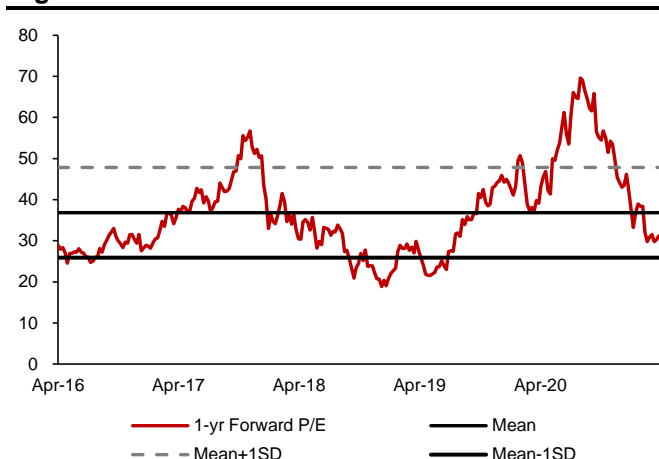
We derived our new TP of RMB29.4 based on same 31.4x FY21E P/E, in line with 5-year historical forward P/E. We believe this is justified as the stock has been mostly trading on 26-37x EPS. We expect Sunway's GPM will remain under pressure in the near future. Risks include slower-than-expected expansion of market share, US-China disputes and overseas 5G deployment delays.

Figure 6: Peers' valuation

Company	Ticker	Rating	Mkt Cap US\$(mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Antenna</b>												
Sunway	300136 CH	Buy	4,224	28.31	29.4	4%	30.2	21.1	4.3	3.6	14.2	17.1
Amphenol	APH US	NR	41,344	68.98	NA	NA	31.9	28.6	7.1	6.4	24.0	24.4
<b>Average</b>							<b>31.0</b>	<b>24.9</b>	<b>5.7</b>	<b>5.0</b>	<b>19.1</b>	<b>20.8</b>
<b>Wireless charging</b>												
Sunway	300136 CH	Buy	4,224	28.31	29.4	4%	30.2	21.1	4.3	3.6	14.2	17.1
Luxshare	002475 CH	NR	38,936	36.33	NA	NA	26.7	20.9	7.0	5.4	26.9	26.7
Lingyi iTech	002600 CH	NR	9,314	8.62	NA	NA	17.7	14.0	2.4	2.0	18.2	18.9
Anjie Tech	002635 CH	NR	1,476	13.75	NA	NA	16.1	14.9	1.4	1.3	8.8	9.2
Amphenol	APH US	NR	41,344	68.98	NA	NA	31.9	28.6	7.1	6.4	24.0	24.4
<b>Average</b>							<b>24.5</b>	<b>19.9</b>	<b>4.4</b>	<b>3.7</b>	<b>18.4</b>	<b>19.3</b>
<b>RF FE</b>												
Sunway	300136 CH	Buy	4,224	28.31	29.4	4%	30.2	21.1	4.3	3.6	14.2	17.1
Skyworks	SWKS US	NR	32,961	199.66	NA	NA	19.6	18.5	7.5	6.5	40.9	34.0
Broadcom	AVGO US	NR	192,657	471.85	NA	NA	17.6	16.2	8.0	7.4	47.9	47.7
Qorvo	QRVO US	NR	22,536	198.97	NA	NA	21.1	19.2	4.9	4.3	24.4	26.0
Murata	6981 JP	NR	55,692	8,923.00	NA	NA	25.2	21.9	3.1	2.8	12.6	13.7
<b>Average</b>							<b>22.7</b>	<b>19.4</b>	<b>5.6</b>	<b>4.9</b>	<b>28.0</b>	<b>27.7</b>

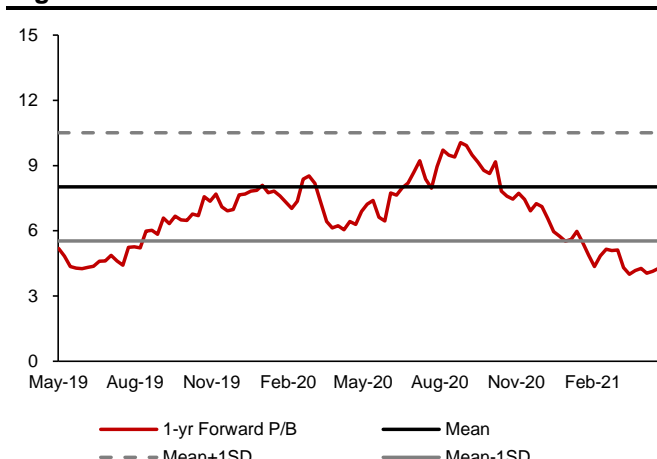
Source: Bloomberg, CMBIS

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)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>5,134</b>	<b>6,394</b>	<b>8,589</b>	<b>11,409</b>	<b>15,124</b>
Cost of sales	3,217	4,464	6,375	8,317	10,687
<b>Gross profit</b>	<b>1,917</b>	<b>1,930</b>	<b>2,214</b>	<b>3,091</b>	<b>4,437</b>
Selling exp	118	65	129	183	257
Admin exp	206	338	429	570	756
R&D exp	430	586	687	924	1,255
Finance costs	64	25	87	107	151
Other operating exp.	-74	-17	-107	-143	-189
<b>Operating profit</b>	<b>1,174</b>	<b>932</b>	<b>989</b>	<b>1,450</b>	<b>2,207</b>
Other non-oper exp.	-3	157	34	11	15
<b>Pre-tax profit</b>	<b>1,171</b>	<b>1,089</b>	<b>1,023</b>	<b>1,462</b>	<b>2,222</b>
Income tax expense	144	115	108	154	235
Minority interests	7	1	7	10	16
<b>Net profit to shareholders</b>	<b>1,020</b>	<b>972</b>	<b>908</b>	<b>1,297</b>	<b>1,971</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net profit</b>	<b>1,027</b>	<b>974</b>	<b>915</b>	<b>1,307</b>	<b>1,987</b>
Dep. /amort.	239	356	390	529	690
Change in working capital	-665	-100	-213	-649	-1,797
Others	76	268	87	107	151
<b>Net cash from operating</b>	<b>677</b>	<b>1,498</b>	<b>1,179</b>	<b>1,293</b>	<b>1,031</b>
Capex	-1,064	-917	-1,417	-1,882	-2,495
Other	21	174	106	154	196
<b>Net cash from investing</b>	<b>-1,043</b>	<b>-743</b>	<b>-1,311</b>	<b>-1,729</b>	<b>-2,299</b>
Share issuance	11	-	-	-	-
Dividend paid	-90	-105	-97	-90	-129
Debt issuance/(paydown)	135	615	-581	1,159	1,412
Other	-186	27	-87	-107	-151
<b>Net cash from financing</b>	<b>-129</b>	<b>537</b>	<b>-765</b>	<b>962</b>	<b>1,133</b>
<b>Net change in cash</b>	<b>-496</b>	<b>1,294</b>	<b>-897</b>	<b>527</b>	<b>-136</b>
Cash at beginning of year	935	439	1,733	836	1,363
Exchange difference	-1	2	-	-	-
<b>Cash at the end of year</b>	<b>439</b>	<b>1,733</b>	<b>836</b>	<b>1,363</b>	<b>1,227</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>4,162</b>	<b>6,837</b>	<b>6,229</b>	<b>7,844</b>	<b>10,251</b>
Cash & equivalents	444	1,756	859	1,385	1,250
Account receivables	2,785	2,464	3,262	4,344	5,739
Inventory	609	2,176	1,642	1,618	2,703
Other current assets	323	441	467	497	560
<b>Non-current assets</b>	<b>4,208</b>	<b>4,126</b>	<b>5,047</b>	<b>6,247</b>	<b>7,856</b>
PPE	1,543	2,197	2,687	3,439	4,484
Construction in process	734	500	805	1,132	1,530
Intangibles	823	252	285	330	392
Goodwill	545	545	545	545	545
Deferred cost	185	175	269	344	448
Other non-current assets	377	456	456	456	456
<b>Total assets</b>	<b>8,369</b>	<b>10,962</b>	<b>11,276</b>	<b>14,091</b>	<b>18,107</b>
<b>Current liabilities</b>	<b>2,746</b>	<b>4,042</b>	<b>3,816</b>	<b>4,932</b>	<b>6,521</b>
ST borrowings	1,444	1,501	1,205	1,842	2,619
Account payables	858	1,783	1,860	2,299	3,045
Other current liabilities	444	759	752	791	858
<b>Non-current liabilities</b>	<b>862</b>	<b>1,353</b>	<b>1,068</b>	<b>1,589</b>	<b>2,225</b>
LT borrowings	817	1,271	986	1,507	2,143
Other non-current liabilities	45	82	82	82	82
<b>Total liabilities</b>	<b>3,608</b>	<b>5,395</b>	<b>4,884</b>	<b>6,521</b>	<b>8,746</b>
Share capital	969	963	963	963	963
Retained earnings	3,358	3,964	4,709	5,773	7,391
Other equity items	389	597	670	774	932
Minority interest	46	43	50	60	76
<b>Total equity</b>	<b>4,762</b>	<b>5,567</b>	<b>6,392</b>	<b>7,570</b>	<b>9,362</b>
<b>Total liabilities and equity</b>	<b>8,369</b>	<b>10,962</b>	<b>11,276</b>	<b>14,091</b>	<b>18,107</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue mix</b>					
Antenna/RF modules	2,105	2,302	3,190	3,754	4,353
Wireless charging	719	1,215	1,840	2,620	3,300
EMC/EMI	1,720	2,110	2,637	3,297	4,121
Cables/connectors	590	767	921	1,105	1,326
RFFE	-	-	-	633	2,024
<b>Growth (%)</b>					
Revenue	9.1	24.5	34.3	32.8	32.6
Gross profit	11.6	0.7	14.7	39.6	43.5
Operating profit	3.6	-20.6	6.1	46.7	52.2
Net profit	3.2	-4.7	-6.7	42.9	52.0
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	37.3	30.2	25.8	27.1	29.3
Operating margin	22.9	14.6	11.5	12.7	14.6
Net profit margin	19.9	15.2	10.6	11.4	13.0
<b>Balance sheet ratio</b>					
Net debt/total equity (%)	27.6	15.4	17.2	20.6	27.3
Current ratio (x)	1.5	1.7	1.6	1.6	1.6
Receivable turnover days	177.1	149.8	121.7	121.7	121.7
Inventory turnover days	40.7	79.5	81.1	52.1	52.1
Payable turnover days	97.4	108.0	104.3	91.3	91.3
Cash conversion cycle	120.4	121.3	98.5	82.6	82.6
<b>Profitability (%)</b>					
ROE	21.4	17.5	14.2	17.1	21.1
ROA	12.2	8.9	8.0	9.2	10.9
<b>Per share data (RMB)</b>					
EPS	1.05	1.01	0.94	1.34	2.04
DPS	0.05	0.10	0.09	0.13	0.20

Source: Company data, CMBIS estimates

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<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

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