

Willsemi (603501 CH)

Sequential margin contraction indicates inventory digestions may persist till FY23E

Willsemi's 1H23 revenue and net profit were RMB8.9bn and RMB153mn, down 20% and 93% YoY, respectively. Margin continued to contract in 2Q23, suggesting the Company is marking efforts to digest inventory. 2Q NP was negative again, failing to continue its profitability from 1Q. This has confirmed our previous prediction that "inventory digestion continues, however, not necessary a hint of market turnaround". ([link](#)) Looking forward, we think the de-stocking process is likely to persist till the end of the year, which will continue to hurt the Company's overall margin. Maintain HOLD, with adjusted TP at RMB85.

■ **Margin erosion in a declining market (mobile/security CIS).** 2Q's GPM dropped to 17.3% from 24.7% in 1Q23 and 33.3% in 2Q22, mainly due to weak mobile and security market demand and inventory digestion. Mobile/security sensor sales declined 45%/23% in 2022 and further declined 14%/25% YoY in 1H23. Inventory was RMB9.8bn, down by 30% from the peak in 3Q22. However, MOI (months of inventory) was still 6M. As de-stocking will continue into 2H23, we expect the overall GPM will remain under pressure. Once the inventory is back to normal level (3-4M), GPM can be expected to gradually return to previous 30% level.

■ **We are more conservative than the consensus as we expect a gradual recovery in 2024.** Counterpoint estimated smartphone shipment will decline 6% to 1.15bn in 2023, "worst in ten years", remain cautious on 1Q24 and show elevated risk of a delayed recovery into next year. Given Willsemi's large inventory and low consumer sentiment, we expect total revenue will decrease modestly by 5% in 2023. Recovery may come in 2024, when the Company's sales resume double-digit growth. 2024/25E revenue is estimated to reach RMB22.9bn/RMB26.4bn, which is 11%/14% lower than consensus.

■ **Maintain HOLD with TP adjusted to RMB85,** based on rollover 29.3x (unchanged) FY25E P/E. Current price is trading at 55x 24E P/E and 32x 25E P/E, which is fair valued. We think investors should watch Willsemi's GPM trend and inventory levels in the following quarters. Potential upside includes earlier-than-expected consumer demand recovery, better sales of new products.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	24,104	20,078	19,184	22,944	26,423
YoY growth (%)	21.6	(16.7)	(4.5)	19.6	15.2
Gross margin (%)	34.5	30.8	22.8	26.8	30.7
Net profit (RMB mn)	4,476	990	816	2,034	3,467
YoY growth (%)	65.4	(77.9)	(17.5)	149.2	70.4
EPS (Reported) (RMB)	3.83	0.84	0.69	1.71	2.91
YoY growth (%)	61.1	(82.1)	22.4	103.4	70.4
P/E (x)	24.3	110.9	135.7	54.5	32.0
ROE (%)	27.5	5.5	4.2	9.4	13.9

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price RMB85.00

(Previous TP) RMB78.00

Up/Downside (8.7%)

Current Price RMB93.15

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Stock Data

Mkt Cap (RMB mn)	109,791.0
Avg 3 mths t/o (RMB mn)	746.9
52w High/Low (RMB)	111.13/71.70
Total Issued Shares (mn)	1178.6

Source: FactSet

Shareholding Structure

Yu Renrong	30.3%
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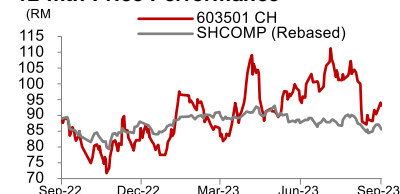
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-10.8%	-6.7%
3-mth	-2.3%	0.0%
6-mth	11.6%	17.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related Reports

- 16/1/2023 Willsemi (603501 CH) – Preliminary 2022 results came in below estimate; Maintain HOLD ([link](#))
- 31/10/2022 Willsemi (603501 CH) – Sluggish 3Q22 performance; Downgrade to HOLD as near-term pressures may last longer ([link](#))
- 12/10/2022 China CIS Sector – Maintain long-term positive outlook; near-term challenges persist ([link](#))
- 16/8/2022 Willsemi (603501 CH) – 2Q results review: Recovery slowed down by weak mobile CIS ([link](#))
- 1/4/2022 China CIS Sector – Can non-mobile CIS strength offset handset weakness? We remain cautiously optimistic ([link](#))

Figure 1: CMBIGM estimates vs. consensus

RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	19,184	22,944	26,423	20,754	25,911	30,875	-8%	-11%	-14%
Gross Profit	4,381	6,141	8,109	4,902	7,643	9,619	-11%	-20%	-16%
Operating Profit	882	2,200	3,770	1,616	3,779	5,385	-45%	-42%	-30%
Net profit	816	2,034	3,467	1,297	3,244	4,614	-37%	-37%	-25%
EPS (RMB)	0.686	1.708	2.911	1.163	2.846	3.909	-41%	-40%	-26%
Gross Margin	22.8%	26.8%	30.7%	23.6%	29.5%	31.2%	-0.8 ppt	-2.7 ppt	-0.5 ppt
Operating Margin	4.6%	9.6%	14.3%	7.8%	14.6%	17.4%	-3.2 ppt	-5 ppt	-3.2 ppt
Net Margin	4.3%	8.9%	13.1%	6.3%	12.5%	14.9%	-2 ppt	-3.7 ppt	-1.8 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	19,184	22,944	21,661	24,178	-11%	-5%
Gross Profit	4,381	6,141	6,477	7,481	-32%	-18%
Operating Profit	882	2,200	3,271	3,694	-73%	-40%
Net profit	816	2,034	2,934	3,313	-72%	-39%
EPS (RMB)	0.686	1.708	2.455	2.769	-72%	-38%
Gross Margin	22.8%	26.8%	29.9%	30.9%	-7.1 ppt	-4.2 ppt
Operating Margin	4.6%	9.6%	15.1%	15.3%	-10.5 ppt	-5.7 ppt
Net Margin	4.3%	8.9%	13.5%	13.7%	-9.3 ppt	-4.8 ppt

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	19,824	24,104	20,078	19,184	22,944	26,423
Cost of goods sold	(13,894)	(15,790)	(13,903)	(14,803)	(16,803)	(18,314)
Gross profit	5,930	8,314	6,175	4,381	6,141	8,109
Operating expenses	(2,865)	(3,292)	(3,719)	(2,989)	(3,483)	(3,905)
Selling expense	(371)	(515)	(516)	(439)	(502)	(551)
Sales tax	(19)	(23)	(25)	(24)	(28)	(32)
G&A expense	(776)	(685)	(765)	(633)	(734)	(819)
R&D expense	(1,727)	(2,110)	(2,496)	(1,957)	(2,294)	(2,589)
Others	27	42	82	63	76	87
Operating profit	3,064	5,022	2,456	1,392	2,658	4,204
Other income	44	5	5	3	5	5
Other expense	(9)	(3)	(2)	(1)	(2)	(2)
Gain/loss on financial assets at FVTPL	(285)	(178)	(1,425)	(289)	(214)	(208)
Investment gain/loss	21	614	1,047	28	31	32
Other gains/(losses)	431	(103)	(186)	130	143	161
EBIT	3,267	5,358	1,895	1,263	2,621	4,193
Interest income	25	25	27	83	128	173
Interest expense	(297)	(410)	(494)	(559)	(546)	(593)
Net Interest income/(expense)	(272)	(385)	(467)	(475)	(418)	(420)
Other income/expense	(4)	29	(127)	96	0	0
Pre-tax profit	2,991	5,002	1,301	884	2,203	3,772
Income tax	(308)	(456)	(343)	(80)	(198)	(340)
After tax profit	2,683	4,546	958	804	2,004	3,433
Minority interest	(23)	70	(32)	(12)	(30)	(34)
Net profit	2,706	4,476	990	816	2,034	3,467

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	13,913	20,296	19,613	17,784	19,891	22,599
Cash & equivalents	5,456	7,671	4,026	7,133	9,968	13,154
Account receivables	2,526	2,878	2,502	3,295	3,069	2,854
Inventories	5,274	8,781	12,356	6,697	6,024	5,800
Prepayment	151	220	236	218	261	300
Financial assets at FVTPL	13	15	14	34	34	34
Other current assets	493	730	479	408	536	457
Non-current assets	8,735	11,784	15,577	17,744	19,090	20,331
PP&E	1,995	2,045	2,540	2,977	3,405	3,823
Right-of-use assets	0	236	209	151	96	40
Deferred income tax	278	270	335	277	337	353
Intangibles	1,509	1,604	2,018	2,133	2,256	2,349
Goodwill	2,800	2,998	3,169	3,870	3,870	3,870
Other non-current assets	2,278	4,814	7,799	9,021	9,971	10,883
Total assets	22,648	32,080	35,190	35,528	38,981	42,931
Current liabilities	6,845	8,700	10,373	8,703	9,084	8,916
Short-term borrowings	2,511	2,387	3,632	1,573	2,002	2,117
Account payables	1,559	2,574	1,128	1,306	1,272	1,237
Tax payable	705	589	145	107	139	141
Other current liabilities	1,738	2,746	5,079	5,428	5,281	5,016
Contract liabilities	110	149	125	131	157	181
Accrued expenses	221	255	263	158	233	224
Non-current liabilities	4,278	7,076	6,717	7,349	8,252	9,121
Long-term borrowings	3,182	3,448	2,750	3,245	4,044	4,687
Bond payables	0	2,250	2,347	2,347	2,347	2,347
Obligations under finance leases	0	179	145	133	153	165
Deferred income	279	304	423	487	501	570
Other non-current liabilities	817	895	1,052	1,138	1,207	1,352
Total liabilities	11,123	15,776	17,090	16,052	17,336	18,037
Share capital	868	876	1,185	1,189	1,191	1,191
Retained earnings	3,895	8,049	8,572	9,288	11,241	14,503
Other reserves	6,476	7,274	8,261	8,928	9,174	9,194
Total shareholders equity	11,239	16,198	18,018	19,406	21,605	24,889
Minority interest	286	106	82	70	40	5

Total equity and liabilities	22,648	32,080	35,190	35,528	38,981	42,931
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CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,683	4,546	958	804	2,004	3,433
Depreciation & amortization	765	927	1,045	1,204	1,386	1,655
Change in working capital	(532)	(3,564)	(5,300)	5,621	416	(59)
Others	429	284	1,303	492	558	750
Net cash from operations	3,345	2,192	(1,993)	8,121	4,364	5,779
Investing						
Capital expenditure	(1,133)	(1,122)	(2,259)	(1,743)	(1,932)	(2,130)
Net proceeds from disposal of short-term investments	6	3	7	40	46	54
Others	(1,504)	(1,780)	(1,765)	(1,318)	(241)	(248)
Net cash from investing	(2,631)	(2,899)	(4,017)	(3,021)	(2,126)	(2,324)
Financing						
Dividend paid	(413)	(569)	(822)	(658)	(628)	(798)
Net borrowings	1,567	3,066	3,242	(1,746)	1,228	759
Proceeds from share issues	683	1,203	273	683	217	(0)
Others	(3)	(767)	(438)	(262)	(220)	(229)
Net cash from financing	1,835	2,932	2,255	(1,983)	597	(268)
Net change in cash						
Cash at the beginning of the year	3,116	5,423	7,630	3,995	7,112	9,947
Exchange difference	(241)	(18)	120	0	0	0
Others	2,548	2,226	(3,755)	3,117	2,835	3,187
Cash at the end of the year	5,423	7,630	3,995	7,112	9,947	13,134

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