

# Willsemi (603501 CH)

## Sluggish 3Q22 performance; Downgrade to HOLD as near-term pressures may last longer

Willsemi announced its 3Q22 results. 3Q revenue declined 26.5% YoY and 22.1% QoQ to RMB4.3bn. NP to shareholders recorded a net loss of RMB120mn, a hard hit from smartphone market weakness and slow digestion of CIS inventory. GPM dropped to 28.4% in 3Q (vs. 33.3%/34.5% in 2Q22 and 2021). Although we had expected a weak 3Q performance and revised down our forecast pre-earnings announcement ([link](#)), 3Q results came in much lower than our estimates. We think the near-term weakness may last longer. **We downgrade Willsemi to HOLD and cut TP to RMB78.18.**

- **3Q22 results were lower than estimates and NP to shareholder recorded a net loss.** Although weak 3Q results had been widely expected, the numbers were much lower than estimates. Sales declined 22.1% QoQ in 3Q, which was usually the best quarter of a year. The decline was due to disappointing Android smartphone shipment, which resulted in slow destocking of handset CIS. Meanwhile, ASP was also falling given the intense competition.
- **Inventory increased another quarter by 11.6% QoQ and 96.6% YoY to RMB1.4bn in 3Q, which equaled to almost ~10 months of sales at current run rate (vs. 4.6x/5.7x/6.9x during 4Q21-2Q22).** While the company guided that de-stocking process is improving, **we expect it might take longer (normal level 4x monthly sales) than market currently expects, any de-stocking pace stagnation would cause downward pressure on stock.** In addition, high level of inventory may increase the possibility of a potential write-off in near future.
- **Downgrade to HOLD and lower TP to RMB78.18.** We lower bottom line forecasts for 2022/23E by 29% and 27%. **We downgrade Willsemi to HOLD, as we expect the near-term pressures (demand weakness, ASP pressure, market sentiment, etc.) may take longer than expected to improve.** The new TP is based on 29.3x 2023E P/E (vs. prev. 32x), ~1.0 PEG and close to domestic peers avg. (28.9x). Potential upsides include: 1) faster-than-expected CIS de-stocking; 2) Android smartphone shipment recovery.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	19,824	24,104	20,285	23,223	27,834
YoY growth (%)	45.4%	21.6%	-15.8%	14.5%	19.9%
Gross margin (%)	29.9%	34.5%	32.1%	32.5%	33.0%
Net profit (US\$ mn)	2,706	4,476	2,458	3,188	4,191
Net profit margin (%)	13.7%	18.6%	12.1%	13.7%	15.1%
EPS (US\$)	3.21	5.16	2.06	2.67	3.50
YoY growth (%)	322.4%	60.7%	-60.0%	29.3%	31.3%
Consensus EPS (US\$)	-	-	3.87	4.95	6.60
PE (x)	22.3	13.9	34.8	26.9	20.5
ROE (%)	23.5%	27.5%	12.1%	13.4%	15.1%
Net debt/total equity (%)	6.7%	10.9%	21.9%	3.7%	net cash

Source: Company data, Bloomberg, CMBIGM estimates

**HOLD (Down)**

Target Price **RMB78.18**  
 (Previous TP **RMB120.0**)  
 Up/Downside **+9%**  
 Current Price **RMB71.7**

### China Technology Sector

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### Stock Data

Mkt Cap (HK\$ mn)	84.914
Avg 3 mths t/o (HK\$ mn)	1346.448
52w High/Low (HK\$)	238.44/71.47
Total Issued Shares (mn)	1184.30
Source: Bloomberg	

### Shareholding Structure

Yu Renrong	30.27%
SX Weihao Equity Invest. FD	9.21%
HKSCC	7.45%

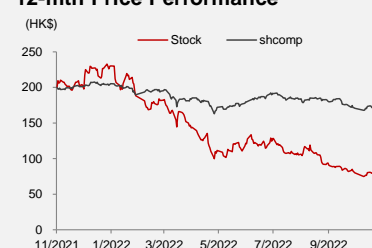
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-10.5%	-7.2%
3-mth	-31.8%	-24.0%
6-mth	-35.7%	-32.8%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: DBO**

### Related Report

China CIS Sector – Maintain long-term positive outlook; near-term challenges persist ([link](#))

## Review of 3Q22 results

Figure 1: 3Q22 results review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY
Revenue	6,212	6,236	5,866	5,789	5,538	5,533	4,311	-22.1%	-26.5%
Gross Profit	2,014	2,105	2,082	2,113	1,955	1,841	1,226	-33.4%	-41.1%
Operating Profit	1,175	1,358	1,378	1,088	933	1,549	-122	-107.8%	-108.8%
Net profit	1,041	1,203	1,275	958	896	1,373	-120	-108.7%	-109.4%
EPS (RMB)	1.20	1.39	1.47	1.10	1.03	0.90	-0.10	-111.1%	-106.8%
Gross Margin	32.4%	33.7%	35.5%	36.5%	35.3%	33.3%	28.4%	-4.8 ppt	-7.1 ppt
Operating Margin	18.9%	21.8%	23.5%	18.8%	16.8%	28.0%	-2.8%	-30.8 ppt	-26.3 ppt
Net Margin	16.8%	19.3%	21.7%	16.5%	16.2%	24.8%	-2.8%	-27.6 ppt	-24.5 ppt

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	20,285	23,223	27,834	22,951	26,407	31,934	-12%	-12%	-13%
EBITDA	6,515	7,550	9,181	7,746	9,117	11,245	-16%	-17%	-18%
Operating Profit	2,770	3,597	4,727	4,616	4,924	6,278	-40%	-27%	-25%
Net profit	2,458	3,188	4,191	4,220	4,502	5,739	-42%	-29%	-27%
EPS (US\$ cents)	2.063	2.668	3.503	3.541	3.767	4.797	-42%	-29%	-27%
Gross Margin	32.1%	32.5%	33.0%	33.8%	34.5%	35.2%	-1.6 ppt	-2 ppt	-2.2 ppt
Operating Margin	13.7%	15.5%	17.0%	20.1%	18.6%	19.7%	-6.5 ppt	-3.2 ppt	-2.7 ppt
Net Margin	12.1%	13.7%	15.1%	18.4%	17.0%	18.0%	-6.3 ppt	-3.3 ppt	-2.9 ppt

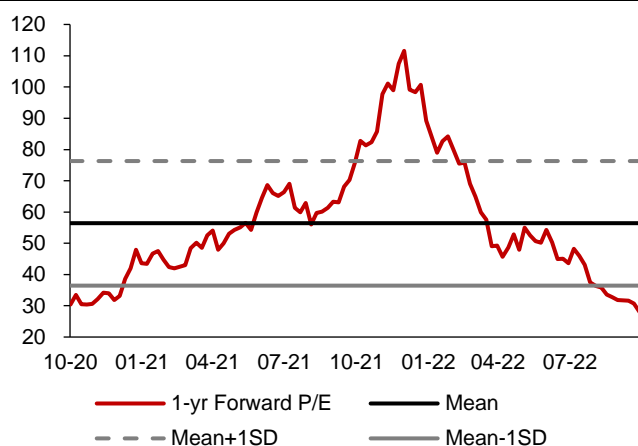
Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	20,285	23,223	27,834	24,548	30,957	38,004	-17%	-25%	-27%
EBITDA	6,515	7,550	9,181	8,195	10,728	13,404	-20%	-30%	-32%
Operating Profit	2,770	3,597	4,727	4,709	6,316	8,026	-41%	-43%	-41%
Net profit	2,458	3,188	4,191	4,316	5,547	7,212	-43%	-43%	-42%
EPS (US\$ cents)	2.063	2.668	3.503	3.871	4.955	6.596	-47%	-46%	-47%
Gross Margin	32.1%	32.5%	33.0%	33.4%	34.7%	35.3%	-1.3 ppt	-2.1 ppt	-2.3 ppt
Operating Margin	13.7%	15.5%	17.0%	19.2%	20.4%	21.1%	-5.5 ppt	-4.9 ppt	-4.1 ppt
Net Margin	12.1%	13.7%	15.1%	17.6%	17.9%	19.0%	-5.5 ppt	-4.2 ppt	-3.9 ppt

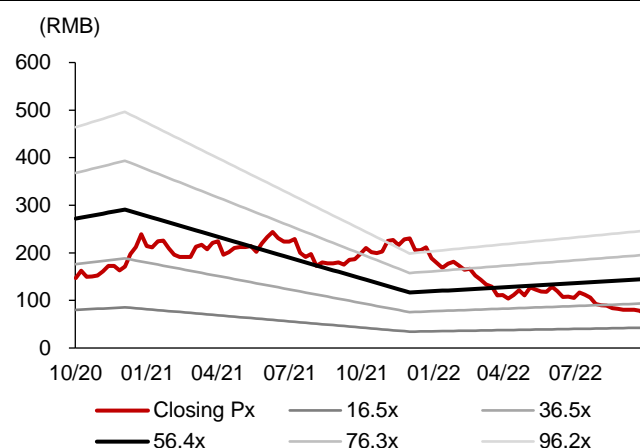
Source: Company data, CMBIGM estimates

Figure 4: 12M forward P/E chart



Source: Company data, CMBIGM estimates

Figure 5: 12M forward P/E band



Source: Company data, CMBIGM estimates

## Valuation Table

Name	Ticker	Mkt Cap (US\$ mn)	Last Price (LC)	P/E (x)		ROE	
				FY22E	FY23E	FY22E	FY23E
Global							
Willsemi	603501 CH	12,098	71.70	34.8	26.9	12.1	13.4
Sony	SONY US	85,564	67.85	14.2	15.1	14.2	11.3
Samsung	005930 KS	251,730	57300.00	10.4	13.8	12.1	8.5
STM	STM FP	28,835	31.79	8.1	8.9	33.2	24.5
ON Semi	ON US	29,235	67.48	13.1	13.5	39.7	28.4
Peers avg.				11.5	12.8	24.8	18.2
Domestic							
Willsemi	603501 CH	12,098	71.70	34.8	26.9	12.1	13.4
GalaxyCore	688728 CH	5,815	16.24	40.7	35.4	12.3	12.8
Gigadevice	603986 CH	7,708	82.99	19.1	15.6	19.0	19.2
Maxscend	300782 CH	6,833	86.80	29.6	23.4	20.1	21.1
Goodix	603160 CH	3,103	45.80	80.3	32.3	3.1	7.2
SG Micro	300661 CH	7,337	145.74	50.4	37.7	34.2	32.4
Peers avg.				44.0	28.9	17.7	18.5

Source: Company data, Bloomberg and CMBIGM estimates as of 30 October 2022.

## Financial Summary – Willsemi (603501 CH)

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	19,824	24,104	20,285	23,223	27,834
COGS	-13,894	-15,790	-13,770	-15,673	-18,653
Gross Profit	5,930	8,314	6,515	7,550	9,181
SG&A	-1,147	-1,201	-1,261	-1,351	-1,535
R&D exp.	-1,727	-2,110	-2,333	-2,322	-2,783
Financing exp.	-275	-356	-596	-526	-547
Other opex	176	352	445	245	412
Operating profit	2,956	5,000	2,770	3,597	4,727
Non-operating income	44	5	12	10	14
Non-operating exp.	-9	-3	-6	-4	-6
Pre-tax profit	2,991	5,002	2,777	3,602	4,735
Income tax expenses	-308	-456	-278	-360	-473
Net profit	2,683	4,546	2,499	3,242	4,261
Non-controlling interests	-23	70	41	53	70
Net profit to shareholders	2,706	4,476	2,458	3,188	4,191
Adj. EBITDA	3,830	5,949	3,908	4,947	6,148

### Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	2,683	4,546	2,499	3,242	4,261
D&A	765	879	867	954	1,145
Change in working capital	-221	-3,328	-4,638	1,070	-1,656
Others	117	96	149	432	330
Net cash from operating	3,345	2,192	-1,122	5,697	4,081
Capex	-1,133	-1,122	-1,233	-1,423	-1,660
Purchase/sale of investments	-373	-1,969	-2,330	-905	-1,163
Purchase/sale of subs	-1,163	96	12	12	12
Other	38	96	-2,643	610	768
Net cash from investing	-2,631	-2,899	-6,194	-1,705	-2,044
Change in shares	683	1,203	2,086	628	217
Change in debt	1,567	3,066	2,282	1,631	168
Dividend/interests paid	-413	-569	-929	-811	-926
Other	-3	-767	-298	-239	-280
Net cash from financing	1,835	2,932	3,142	1,209	-820
Net change in cash	2,548	2,226	-4,175	5,201	1,218
Cash, beginning	3,116	5,423	7,630	3,438	8,621
Exchange difference	-241	-18	-18	-18	-18
Cash, end	5,423	7,630	3,438	8,621	9,820

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	13,913	20,296	22,918	27,738	30,763
Cash & equivalents	5,456	7,671	7,288	12,471	13,671
Trade & other receivables	2,583	3,029	2,837	3,276	3,665
Inventories	5,274	8,781	12,303	11,186	12,705
Other current assets	600	814	489	805	722
Non-current assets	8,735	11,784	14,577	16,006	17,779
PPE	1,871	1,863	2,015	2,258	2,541
Intangibles	1,509	1,604	1,506	1,385	1,257
Goodwill	2,800	2,998	2,986	2,974	2,962
Other non-current assets	2,556	5,320	8,070	9,389	11,020
Total assets	22,648	32,080	37,495	43,745	48,542
Current liabilities	6,845	8,700	11,644	13,624	13,611
ST debt & LT debt to mature	3,041	3,745	7,771	8,883	8,451
Trade & other payables	2,544	3,956	3,299	3,756	4,230
Other current liabilities	1,260	999	574	985	929
Non-current liabilities	4,278	7,076	5,599	6,373	7,192
LT debt	3,182	3,448	1,954	2,473	3,074
Bonds payables	0	2,250	2,000	2,000	2,000
Other non-current liabilities	1,096	1,378	1,645	1,899	2,119
Total liabilities	11,123	15,776	17,243	19,997	20,804
Total equity	11,525	16,304	20,252	23,748	27,738
Share capital	868	876	1,192	1,195	1,196
Reserves	7,248	8,434	10,204	10,829	11,045
Treasury stock	-255.4	-741.7	-741.7	-741.7	-741.7
Retained earnings	3,895	8,049	10,025	12,929	16,750
Other equities	-516.2	-418.8	-574.0	-663.1	-781.3
Minority interests	286	106	147	200	270
Total liabilities and equity	22,648	32,080	37,495	43,745	48,542

### Key ratios

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue by segment					
CMOS	14,697	16,264	12,675	15,165	18,968
TDDI	744	1,963	1,705	1,833	2,110
Others	4,383	5,877	5,905	6,225	6,756
Total	19,824	24,104	20,285	23,223	27,834
CMOS %	74.1%	67.5%	62.5%	65.3%	68.1%
Growth (%)					
Revenue	45.4%	21.6%	-15.8%	14.5%	19.9%
Adj. EBITDA	102.5%	55.4%	-34.3%	26.6%	24.3%
Net profit	481.2%	65.4%	-45.1%	29.7%	31.5%
Profit & loss ratio (%)					
Gross margin	29.9%	34.5%	32.1%	32.5%	33.0%
EBITDA margin	19.3%	24.7%	19.3%	21.3%	22.1%
Net profit margin	13.7%	18.6%	12.1%	13.7%	15.1%
Balance sheet ratio					
Net debt/total equity (%)	6.7%	10.9%	21.9%	3.7%	net
Debt/EBITDA	1.6	1.6	3.0	2.7	2.2
Interest coverage	12.9	14.5	8.3	8.8	10.2
Cash conversion cycle (days)	123.1	152.5	271.0	279.8	240.5
Profitability (%)					
ROE	23.5%	27.5%	12.1%	13.4%	15.1%
ROA	11.9%	14.0%	6.6%	7.3%	8.6%
Per share data (RMB)					
EPS	3.21	5.16	2.06	2.67	3.50
BVPS	13.33	18.67	16.87	19.70	22.96

Source: Company data, CMBIGM estimates

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