

Shengyi Tech (600183 CH)

Expect modest sequential growth in 2H23

CCL and PCB industries faced ongoing challenges that added pressure on Shengyi Tech's performance. The Company's 1H23 revenue/NP to shareholders declined by 15.9%/ 40.7% YoY to RMB7,880mn/ RMB555mn. GPM fell to 19.3% in 1H23 vs. 23.4%/20.5% in 1H22/2H22. Looking forward, we expect modest sequential growth in 2H23, as the mgmt. mentioned recent operations of CCL products were running on full capacity. However, we think investors should wait for a clearer signal of full recovery of the downstream demand, which would support revenue growth and margin recovery. **Maintain HOLD, with adjusted TP of RMB16.1, based on 20x rollover 2024E P/E.**

■ **Industry downcycle weighs on the Company's performance.** The worldwide PCB market experienced a significant decline of 20% YoY in 1H23. The falling demand hurt more on the ASP side (CCL/PCB: est. high-teens /low-teens in price change) as sales volume was relatively resilient. Even though the inventory level of some downstream clients is relatively low, they were reluctant to purchase materials. We saw the industry is consolidating through our channel checks, which has suppressed the willingness to pull up inventory.

■ **Shengyi Tech is better-positioned than its peers with operations on full capacity; however, the market is waiting for a clearer signal of demand return.** Per Prismark, the Company ranked second globally in terms of CCL sales with 12% market share globally and with a broad end market coverage. The mgmt. also mentioned operation of CCL business is already at full capacity. There are spot lights on auto, mainly EV, and server market. However, a broader market demand is still weak. Meanwhile, copper price has increased recently and the Company was unable to pass down the incremental cost under the current circumstances, which would further hurt the Company's GPM in the near term.

■ We cut FY23/24E revenue and NP forecasts by 6%/8% and 26%/21%, as the Company's 1H23 results were lower than our expectations and the GPM compression in downcycle is longer-than-expected. We think near-term pressure would persist, but Shengyi Tech should have modest sequential growth in 2H23 from a low base. **Maintain HOLD, with TP adjusted to RMB16.1, based on the same 20x rollover 2024E P/E**, as the market is waiting for a clear sign of demand recovery and up-cycle.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	20,274	18,014	17,498	20,175	23,601
YoY growth (%)	38.0	(11.1)	(2.9)	15.3	17.0
Gross margin (%)	26.8	22.0	19.5	21.3	23.0
Net profit (RMB mn)	2,830	1,531	1,269	1,871	2,547
YoY growth (%)	68.4	(45.9)	(17.1)	47.4	36.1
EPS (Reported) (RMB)	1.23	0.66	0.55	0.80	1.10
YoY growth (%)	66.2	(46.5)	(17.0)	47.4	36.1
P/E (x)	19.6	25.1	27.9	18.9	13.9
ROE (%)	24.6	11.5	9.3	13.2	16.6

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price RMB16.10
 (Previous TP RMB14.80)
Up/Downside 5.6%
Current Price RMB15.25

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Stock Data

Mkt Cap (RMB mn) 35,834.5
 Avg 3 mths t/o (RMB mn) 259.5
 52w High/Low (RMB) 19.85/12.70
 Total Issued Shares (mn) 2349.8
 Source: FactSet

Shareholding Structure

Guangdong Guangxin 24.8%
 Holdings Group
 Dongguan Guohong 13.7%
 Investment

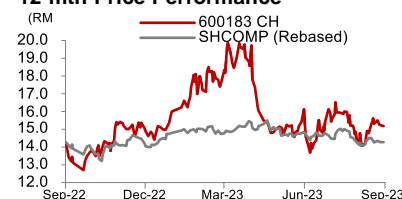
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.5%	6.3%
3-mth	-0.3%	5.0%
6-mth	-16.9%	-13.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM estimates vs. consensus

RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	17,498	20,175	23,601	18,214	21,252	24,343	-4%	-5%	-3%
Gross Profit	3,412	4,300	5,418	3,785	4,777	5,753	-10%	-10%	-6%
Operating Profit	1,478	2,178	2,962	1,842	2,509	3,006	-20%	-13%	-1%
Net profit	1,269	1,871	2,547	1,670	2,300	2,742	-24%	-19%	-7%
EPS (RMB)	0.55	0.80	1.10	0.72	0.96	1.15	-24%	-16%	-4%
Gross Margin	19.5%	21.3%	23.0%	20.8%	22.5%	23.6%	-1.3 ppt	-1.2 ppt	-0.7 ppt
Operating Margin	8.4%	10.8%	12.5%	10.1%	11.8%	12.3%	-1.7 ppt	-1 ppt	0.2 ppt
Net Margin	7.3%	9.3%	10.8%	9.2%	10.8%	11.3%	-1.9 ppt	-1.6 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

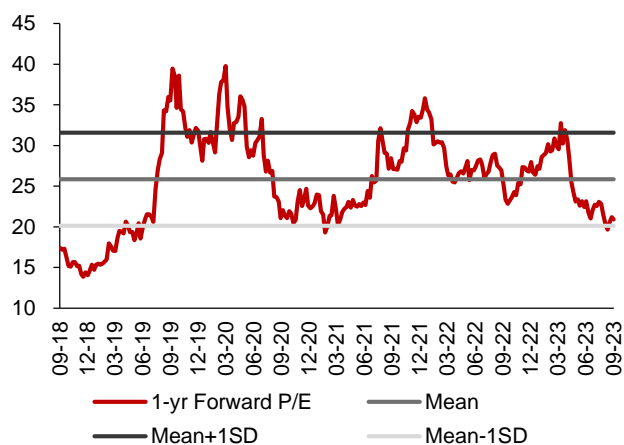
RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	17,498	20,175	23,601	18,617	21,821	NA	-6%	-8%	NA
Gross Profit	3,412	4,300	5,418	4,057	5,150	NA	-16%	-17%	NA
Operating Profit	1,478	2,178	2,962	1,981	2,779	NA	-25%	-22%	NA
Net profit	1,269	1,871	2,547	1,710	2,382	NA	-26%	-21%	NA
EPS (RMB)	0.55	0.80	1.10	0.74	1.03	NA	-26%	-22%	NA
Gross Margin	19.5%	21.3%	23.0%	21.8%	23.6%	NA	-2.3 ppt	-2.3 ppt	NA
Operating Margin	8.4%	10.8%	12.5%	10.6%	12.7%	NA	-2.2 ppt	-1.9 ppt	NA
Net Margin	7.3%	9.3%	10.8%	9.2%	10.9%	NA	-1.9 ppt	-1.6 ppt	NA

Source: Company data, CMBIGM estimates

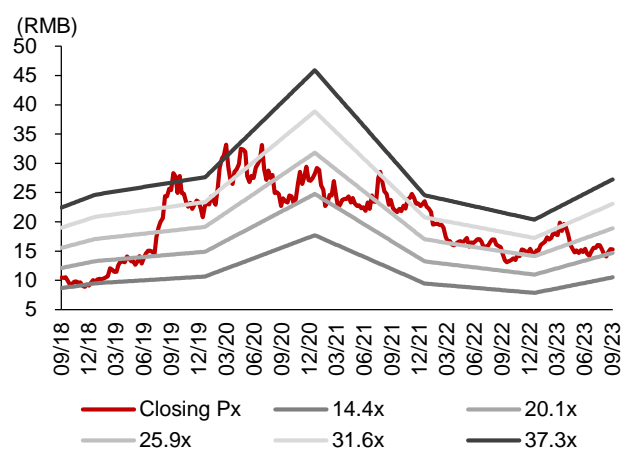
Figure 1: 12M forward PE band

RMB mn	FY20E	FY21E	FY22E	1H23	2H23E	FY23E	FY24E	FY25E
CCL	10,849	16,190	13,998	6,050	7,419	13,470	15,777	17,976
...YoY	8.5%	49.2%	-13.5%	-16.9%	10.5%	-3.8%	17.1%	13.9%
...%	74%	80%	78%	77%	77%	77%	78%	76%
PCB	3,558	3,508	3,404	1,573	1,924	3,497	3,813	4,982
...YoY	17.0%	-1.4%	-3.0%	-9.0%	14.9%	2.7%	9.0%	30.7%
...%	24%	17%	19%	20%	20%	20%	19%	21%
Other	280	577	613	257	274	531	584	643
...YoY	42.1%	106.0%	6.2%	-29.2%	10.0%	-13.3%	10.0%	10.0%
...%	2%	3%	3%	3%	3%	3%	3%	3%
Total	14,687	20,274	18,014	7,881	9,617	17,498	20,175	23,601
...YoY	10.9%	38.0%	-11.1%	-16%	11.3%	-2.9%	15.3%	17.0%

Source: Company data, CMBIGM estimates

Figure 4: 12M forward PE band

Source: Company data, CMBIGM estimates

Figure 5: 12M forward PE chart

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	14,687	20,274	18,014	17,498	20,175	23,601
Cost of goods sold	(10,754)	(14,837)	(14,045)	(14,086)	(15,875)	(18,184)
Gross profit	3,933	5,437	3,969	3,412	4,300	5,418
Operating expenses	(1,773)	(2,254)	(2,105)	(1,867)	(2,081)	(2,348)
Selling expense	(179)	(231)	(234)	(262)	(282)	(307)
Admin expense	(720)	(910)	(797)	(700)	(807)	(944)
Sales tax	(104)	(120)	(107)	(102)	(116)	(136)
R&D expense	(711)	(964)	(943)	(805)	(898)	(1,015)
Others	(129)	105	(103)	(65)	(18)	(54)
Operating profit	2,090	3,316	1,785	1,478	2,178	2,962
Other gains/(losses)	(7)	(6)	(12)	(8)	(12)	(12)
Pre-tax profit	2,083	3,310	1,773	1,469	2,167	2,949
Income tax	(283)	(385)	(141)	(117)	(172)	(235)
After tax profit	1,800	2,925	1,632	1,352	1,994	2,715
Minority interest	120	95	101	84	123	168
Net profit	1,681	2,830	1,531	1,269	1,871	2,547

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,716	14,720	14,232	13,150	14,271	15,574
Cash & equivalents	818	2,105	3,095	3,238	3,588	3,694
Restricted cash	32	181	11	11	11	11
Account receivables	6,050	7,628	6,809	6,086	6,699	7,447
Inventories	2,519	4,520	4,084	3,634	3,759	4,212
Prepayment	20	24	24	21	26	30
Other current assets	278	260	210	159	187	180
Non-current assets	8,642	9,878	11,148	11,530	11,518	11,493
PP&E	6,374	7,071	7,866	8,367	8,594	8,651
Right-of-use assets	0	73	44	38	34	30
Deferred income tax	120	158	220	227	231	246
Investment in JVs & assos	358	622	671	669	675	684
Intangibles	1,678	1,431	2,128	2,060	1,855	1,771
Goodwill	97	19	0	0	0	0
Financial assets at FVTPL	0	0	25	(4)	(24)	(40)
Other non-current assets	14	503	195	172	153	150
Total assets	18,357	24,597	25,380	24,680	25,789	27,067
Current liabilities	6,804	7,253	7,377	6,744	6,564	6,010
Short-term borrowings	2,157	1,693	1,558	1,246	1,165	274
Account payables	3,267	4,292	3,984	3,409	3,193	3,550
Tax payable	125	173	50	65	60	67
Other current liabilities	725	334	1,237	1,684	1,684	1,684
Contract liabilities	32	28	20	25	28	33
Accrued expenses	498	733	529	315	434	401
Non-current liabilities	872	2,277	2,122	1,761	1,933	2,309
Long-term borrowings	605	1,590	1,175	1,102	1,276	1,639
Bond payables	0	300	800	500	500	500
Obligations under finance leases	0	66	39	35	38	40
Deferred income	267	321	108	123	119	130
Other non-current liabilities	0	0	0	0	0	0
Total liabilities	7,676	9,530	9,499	8,505	8,497	8,319
Share capital	2,291	2,312	2,327	2,324	2,324	2,324
Retained earnings	3,681	5,370	5,366	5,454	6,246	7,225
Other reserves	3,918	5,415	5,805	5,945	6,156	6,443
Total shareholders equity	9,889	13,096	13,498	13,723	14,726	15,993
Minority interest	754	1,770	1,798	1,882	2,005	2,173
Total equity and liabilities	18,319	24,396	24,795	24,110	25,228	26,485

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,800	2,925	1,632	1,352	1,994	2,715
Depreciation & amortization	531	673	726	798	872	940
Tax paid	(19)	(37)	4	7	2	13
Change in working capital	(812)	(1,898)	104	574	(903)	(617)
Others	258	113	354	33	176	(99)
Net cash from operations	1,758	1,776	2,820	2,766	2,141	2,951
Investing						
Capital expenditure	(1,761)	(1,787)	(1,534)	(1,635)	(1,325)	(1,393)
Acquisition of subsidiaries/ investments	21	45	377	435	461	507
Net proceeds from disposal of short-term investments	(76)	(134)	(36)	20	14	10
Others	(16)	(4)	(0)	2	(6)	(9)
Net cash from investing	(1,833)	(1,880)	(1,193)	(1,179)	(856)	(884)
Financing						
Dividend paid	(1,101)	(1,161)	(1,619)	(1,210)	(1,028)	(1,433)
Net borrowings	697	404	800	(237)	93	(528)
Proceeds from share issues	189	2,254	192	(6)	0	0
Others	(1)	(99)	(21)	6	(0)	(0)
Net cash from financing	(215)	1,398	(648)	(1,448)	(935)	(1,960)
Net change in cash						
Cash at the beginning of the year	1,051	818	2,105	3,095	3,238	3,588
Exchange difference	58	(6)	11	4	0	0
Others	(290)	1,293	979	139	350	107
Cash at the end of the year	818	2,105	3,095	3,238	3,588	3,694

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