

# Shengyi Technology (600183CH)

## 1Q21 results confirmed CCL upcycle; Maintain BUY

Shengyi Tech reported 1Q21 results with revenue of RMB4.5bn (46.7% YoY) and net profit of RMB544mn (60.4% YoY). The results are largely in-line with its preannounced earnings earlier. We believe Shengyi's solid results confirmed the upcycle for CCL products. Although PCB business remains under pressure due to rising raw material costs which partially offset the growth from CCL, we remain positive on Shengyi Tech's outlook with unchanged TP at RMB30.48. Reiterate BUY.

- Solid 1Q21 results; Strong CCL /pregreg offset by weaker PCB.** By segment, CCL/pregreg revenue/net profit grew 61%/107% YoY and PCB grew revenue/net profit grew 4%/-40% YoY. CCL/pregreg GPM expanded to 29.3% in 1Q (vs 28.3% in 1Q20), while PCB GPM declined to 21.6% (vs. 29.9% for 1Q20). This confirmed our view that CCL suppliers have stronger bargaining power to transfer rising raw material costs to downstream PCB manufacturers. Blended GPM improved QoQ to 27.9% in 1Q21 from 24.4% in 4Q20, driven by 1) margin recovery from CCL business and 2) favorable product mix with less PCB revenue.
- Copper price hit 10-year high on supply worries.** Recent copper price is approaching to \$10k per tonne, back to 10-year high as in Jul 2011 (\$9.8k) but with much lower inventory level now (163k ton vs. 467k ton in Jul 2011). The soaring price is mainly driven by 1) supply disruption in Chile, 2) low inventory level, 3) stronger demand from economy recovery in China. We believe cost pressure will continue into 2Q21E, supported by imbalanced supply and demand. We believe this trend will cannibalize gross profit of its PCB business and partially offset the margin upside from CCL segment.
- Maintain BUY with TP of RMB30.48.** We maintain our TP at RMB30.48 based on same 30x FY21/P/E. Trading at 21.4x FY21E P/E, 1-sd below historical P/E, the stock is very attractive in our view. Near-term catalysts include continued increase in CCL price and 5G BTS tenders. Potential risks include less-than-expected transfer of material costs and delay in 5G upgrades.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Turnover (RMB mn)	13,241	14,687	18,976	22,591	25,237
YoY growth (%)	10.5	10.9	29.2	19.0	11.7
Gross margin (%)	26.6	26.8	27.3	27.5	27.8
Net profit (RMB mn)	1,449	1,681	2,327	2,826	3,246
EPS (RMB)	0.66	0.74	1.02	1.23	1.42
YoY growth (%)	39.7	12.1	37.3	21.4	14.9
Consensus EPS (RMB)	NA	NA	0.98	1.17	1.39
PE (x)	37.7	33.6	24.5	20.1	17.5
PB (x)	6.4	5.8	5.0	4.4	3.9
Yield (%)	1.6	1.6	2.2	2.7	3.1
ROE (%)	16.4	17.0	20.6	22.0	22.3

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **RMB 30.48**  
 (Previous TP **RMB 30.48**)  
 Up/Downside **+27.9%**  
 Current Price **RMB 23.83**

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### Stock Data

Mkt. Cap. (RMB mn)	54,603
Avg. 3mths t/o (RMB mn)	597
52W High/Low (RMB)	35.27/21.20
Total Issued Shares (mn)	2,291.4

Source: Bloomberg

### Shareholding Structure

Guangdong Guangxin Holdings	22.11%
Dongguan Guohong Invest.	15.01%
Weihua Electronics	14.24%

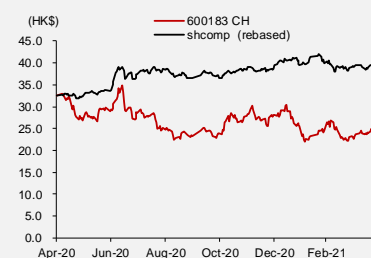
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	2.9%	1.7%
3-mth	-6.6%	-6.4%
6-mth	-0.4%	-6.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: GP CPAs

### Recent Reports:

- 4Q20 miss on slower 5G and cost pressure; Expect gradual GPM recovery in 1H21E – 1 Feb 2021
- 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	3,771	3,072	3,807	3,811	3,997	4,505	12.7%	46.7%
Gross Profit	989	882	1,091	992	968	1,259	30.0%	42.7%
Operating Profit	496	432	602	575	482	675	40.0%	56.5%
Net profit	406	339	487	477	378	544	44.1%	60.4%
EPS (RMB)	0.18	0.15	0.21	0.21	0.16	0.24	45.5%	61.0%
Gross Margin	26.2%	28.7%	28.6%	26.0%	24.2%	27.9%	3.7 ppt	-0.8 ppt
Operating Margin	13.2%	14.0%	15.8%	15.1%	12.1%	15.0%	2.9 ppt	0.9 ppt
Net Margin	10.8%	11.0%	12.8%	12.5%	9.4%	12.1%	2.6 ppt	1.0 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	18,976	22,591	25,237	18,226	21,355	25,296	4%	6%	0%
Gross Profit	5,172	6,215	7,025	4,944	5,856	6,812	5%	6%	3%
Operating Profit	2,915	3,539	4,065	2,849	3,474	4,005	2%	2%	1%
Net profit	2,327	2,826	3,246	2,227	2,683	3,176	5%	5%	2%
EPS (RMB)	1.02	1.23	1.42	0.98	1.17	1.39	4%	5%	2%
Gross Margin	27.3%	27.5%	27.8%	27.1%	27.4%	26.9%	0.1 ppt	0.1 ppt	0.9 ppt
Operating Margin	15.4%	15.7%	16.1%	15.6%	16.3%	15.8%	-0.3 ppt	-0.6 ppt	0.3 ppt
Net Margin	12.3%	12.5%	12.9%	12.2%	12.6%	12.6%	0 ppt	-0.1 ppt	0.3 ppt

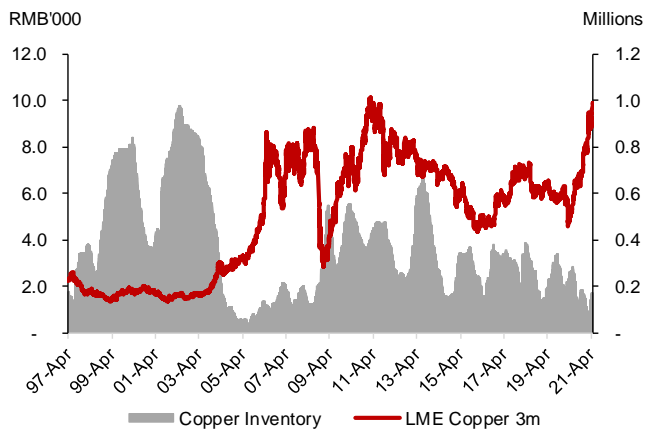
Source: Company data, CMBIS estimates

Figure 3: P&L forecasts

RMB mn	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>13,241</b>	<b>14,687</b>	<b>18,976</b>	<b>22,591</b>	<b>25,237</b>
...YoY	11%	11%	29%	19%	12%
Cost of sales	(9,713)	(10,754)	(13,804)	(16,375)	(18,212)
<b>Gross profit</b>	<b>3,528</b>	<b>3,933</b>	<b>5,172</b>	<b>6,215</b>	<b>7,025</b>
GPM (%)	27%	27%	27%	28%	28%
...YoY	33%	11%	31%	20%	13%
SG&A	(932)	(899)	(1,158)	(1,355)	(1,489)
...% of rev	-7%	-6%	-6%	-6%	-6%
R&D	(605)	(711)	(892)	(1,062)	(1,186)
...% of rev	-5%	-5%	-5%	-5%	-5%
<b>Operating profit</b>	<b>1,805</b>	<b>2,090</b>	<b>2,915</b>	<b>3,539</b>	<b>4,065</b>
OPM (%)	14%	14%	15%	16%	16%
...YoY	47%	16%	39%	21%	15%
<b>Net profit</b>	<b>1,449</b>	<b>1,681</b>	<b>2,327</b>	<b>2,826</b>	<b>3,246</b>
NPM (%)	11%	11%	12%	13%	13%
...YoY	45%	16%	38%	21%	15%

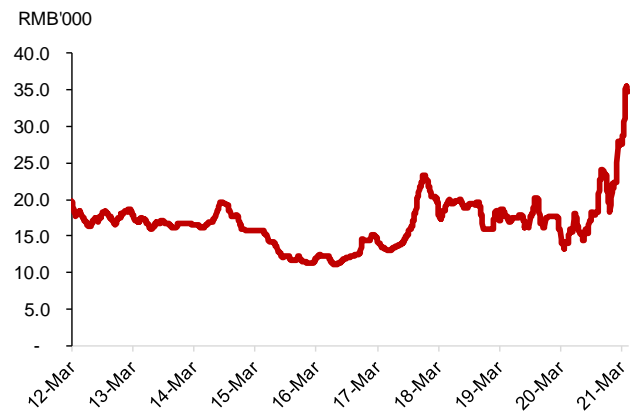
Source: Company data, CMBIS estimates

Figure 4: LME 3m Copper price and inventory



Source: Wind, CMBIS estimates

Figure 5: Epoxy resin price



Source: Wind, CMBIS estimates

## Valuation

### Maintain BUY and maintain TP at RMB30.48 (28% upside)

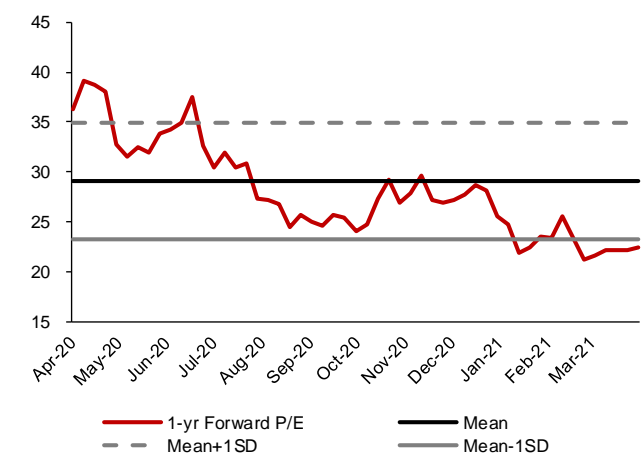
We maintain our TP at RMB30.48 based on same 30x FY21E P/E. We believe this is justified as the stock has been mostly trading on 23-34x EPS. We estimate 25% EPS FY20-23E CAGR, backed by 20% revenue CAGR. Potential risks include less-than-expected transfer of material costs and delay in 5G upgrades.

Figure 6: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY21E	P/E (x) FY22E	P/B (x) FY21E	P/B (x) FY22E	ROE (%) FY21E	ROE (%) FY22E
<b>CCL</b>												
Shengyi Tech	600183 CH	Buy	8,437	23.83	30.5	28%	23.5	19.3	4.8	4.2	20.6	22.0
Nanya	1303 TT	NR	25,124	88.20	NA	NA	16.0	15.8	1.9	1.9	13.1	11.9
ITEQ	6213 TT	NR	1,764	147.50	NA	NA	14.0	11.6	3.5	3.5	23.3	28.3
Kingboard	148 HK	NR	6,504	45.60	NA	NA	6.2	5.5	-	-	-	-
Sumitomo	4203 JT	NR	1,992	4370.00	NA	NA	17.8	13.3	1.1	1.0	8.4	7.7
Rogers	ROG US	NR	3,572	191.23	NA	NA	25.8	22.3	3.5	-	-	-
<b>Average</b>							<b>17.2</b>	<b>14.6</b>	<b>3.0</b>	<b>2.7</b>	<b>16.3</b>	<b>17.5</b>
<b>PCB</b>												
Shengyi Tech	600183 CH	Buy	8,437	23.83	30.5	28%	23.5	19.3	4.8	4.2	20.6	22.0
Shennan Circuits	002916 CH	Hold	6,120	80.95	82.7	2%	29.4	23.8	4.8	4.1	16.2	17.4
WUS	002463 CH	NR	3,946	14.81	NA	NA	16.2	13.7	3.4	2.8	21.6	21.1
DSBJ	002384 CH	NR	4,629	17.52	NA	NA	15.2	12.2	2.2	1.8	14.7	15.2
Zhen Ding	4958 TT	NR	3,435	106.00	NA	NA	9.5	8.3	1.2	1.1	12.4	13.4
TTM	TTMI US	NR	1,604	15.00	NA	NA	12.1	10.2	1.0	1.0	8.7	9.0
UMTC	3037 TT	NR	6,215	115.00	NA	NA	24.6	16.9	3.3	2.9	12.9	17.0
Tripod	3044 TT	NR	2,624	139.00	NA	NA	10.9	9.9	1.9	1.7	17.5	18.0
Comped	2313 TT	NR	1,856	43.35	NA	NA	9.9	8.8	1.6	1.4	17.2	17.2
SEMCO	009150 KS	NR	12,392	184000.00	NA	NA	15.5	13.8	2.2	1.9	14.5	14.4
<b>Average</b>							<b>16.6</b>	<b>13.6</b>	<b>2.6</b>	<b>2.3</b>	<b>15.7</b>	<b>16.6</b>

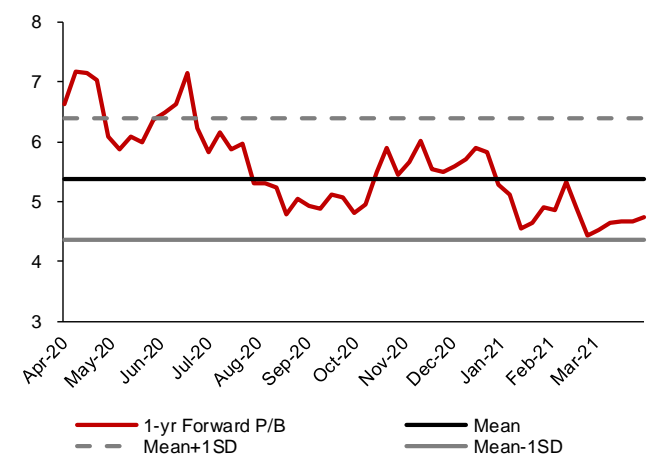
Source: Bloomberg, CMBIS estimates

**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>13,241</b>	<b>14,687</b>	<b>18,976</b>	<b>22,591</b>	<b>25,237</b>
Cost of sales	9,713	10,754	13,804	16,375	18,212
<b>Gross profit</b>	<b>3,528</b>	<b>3,933</b>	<b>5,172</b>	<b>6,215</b>	<b>7,025</b>
Selling exp	288	179	247	294	328
Admin exp	644	720	911	1,062	1,161
R&D exp	605	711	892	1,062	1,186
Finance costs	142	114	187	224	239
Other operating exp.	44	119	20	35	45
<b>Operating profit</b>	<b>1,805</b>	<b>2,090</b>	<b>2,915</b>	<b>3,539</b>	<b>4,065</b>
Other non-oper exp.	0	(7)	-	-	-
<b>Pre-tax profit</b>	<b>1,805</b>	<b>2,083</b>	<b>2,915</b>	<b>3,539</b>	<b>4,065</b>
Income tax expense	242	283	396	480	552
Minority interests	115	120	192	233	268
<b>Net profit to shareholders</b>	<b>1,449</b>	<b>1,681</b>	<b>2,327</b>	<b>2,826</b>	<b>3,246</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net profit</b>	1,563	1,800	2,519	3,059	3,513
Depreciation/amortization	409	531	825	933	1,070
Change in working capital	(479)	(832)	(1,465)	(1,017)	(563)
Others	198	258	187	224	239
<b>Net cash from operating</b>	<b>1,692</b>	<b>1,758</b>	<b>2,067</b>	<b>3,199</b>	<b>4,260</b>
Capex	(1,580)	(1,761)	(2,077)	(2,024)	(2,251)
Other	14	(72)	0	0	0
<b>Net cash from investing</b>	<b>(1,566)</b>	<b>(1,833)</b>	<b>(2,077)</b>	<b>(2,024)</b>	<b>(2,251)</b>
Share issuance	0	189	0	0	0
Dividend paid	(872)	(1,101)	(916)	(1,269)	(1,541)
Other	699	696	980	176	151
<b>Net cash from financing</b>	<b>(173)</b>	<b>(215)</b>	<b>64</b>	<b>(1,093)</b>	<b>(1,390)</b>
<b>Net change in cash</b>	<b>(50)</b>	<b>(232)</b>	<b>53</b>	<b>81</b>	<b>619</b>
Cash at beginning of the year	1,101	1,051	818	871	953
Exchange difference	(3)	58	0	0	0
<b>Cash at the end of the year</b>	<b>1,051</b>	<b>818</b>	<b>871</b>	<b>953</b>	<b>1,572</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>8,712</b>	<b>9,716</b>	<b>12,330</b>	<b>13,418</b>	<b>15,295</b>
Cash & equivalents	1,062	850	903	984	1,603
Account receivables	4,598	4,888	6,613	7,506	8,267
Inventory	2,100	2,519	3,355	3,468	3,966
Prepayment	11	20	20	20	20
Other current assets	941	1,439	1,439	1,439	1,439
<b>Non-current assets</b>	<b>6,823</b>	<b>8,642</b>	<b>9,894</b>	<b>10,985</b>	<b>12,166</b>
PPE	5,003	6,374	7,257	8,149	9,114
Deferred tax assets	76	120	120	120	120
Other non-current assets	1,744	2,148	2,517	2,717	2,933
<b>Total assets</b>	<b>15,535</b>	<b>18,357</b>	<b>22,224</b>	<b>24,403</b>	<b>27,461</b>
<b>Current liabilities</b>	<b>5,257</b>	<b>6,804</b>	<b>8,865</b>	<b>9,185</b>	<b>10,202</b>
ST borrowings	1,519	2,157	2,879	3,126	3,368
Account payables	2,656	2,903	3,999	3,989	4,684
Tax payable	116	125	125	125	125
Other current liabilities	965	1,619	1,861	1,944	2,025
<b>Non-current liabilities</b>	<b>925</b>	<b>910</b>	<b>1,112</b>	<b>1,182</b>	<b>1,249</b>
LT borrowings	732	605	807	877	944
Deferred tax liability	13	38	38	38	38
Other non-current	179	267	267	267	267
<b>Total liabilities</b>	<b>6,181</b>	<b>7,714</b>	<b>9,977</b>	<b>10,366</b>	<b>11,451</b>
Share capital	2,276	2,291	2,291	2,291	2,291
Reserve	2,505	2,795	2,795	2,795	2,795
Minority interest	520	754	946	1,180	1,448
<b>Total equity</b>	<b>9,354</b>	<b>10,643</b>	<b>12,246</b>	<b>14,037</b>	<b>16,009</b>
<b>Total liabilities and equity</b>	<b>15,535</b>	<b>18,357</b>	<b>22,224</b>	<b>24,403</b>	<b>27,461</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue mix</b>					
CCL	76	74	72	66	62
PCB	23	24	26	32	36
Others	1	2	2	2	1
<b>Growth (%)</b>					
Revenue	10.5	10.9	29.2	19.0	11.7
Gross profit	32.8	11.5	31.5	20.2	13.0
Operating profit	46.9	15.8	39.5	21.4	14.9
Net profit	39.7	12.1	37.3	21.4	14.9
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	26.6	26.8	27.3	27.5	27.8
Operating margin	13.6	14.2	15.4	15.7	16.1
Net profit margin	10.9	11.4	12.3	12.5	12.9
<b>Balance sheet ratio</b>					
Net debt/total equity (%)	12.7	18.0	22.7	21.5	16.9
Current ratio (x)	1.7	1.4	1.4	1.5	1.5
Receivable turnover days	116	118	111	114	114
Inventory turnover days	72	78	78	76	74
Payable turnover days	85	94	91	89	87
<b>Profitability (%)</b>					
ROE	16.4	17.0	20.6	22.0	22.3
ROA	9.3	9.2	10.5	11.6	11.8
<b>Per share data (RMB)</b>					
EPS	0.66	0.74	1.02	1.23	1.42
DPS	0.40	0.40	0.55	0.67	0.77
BPS	3.88	4.32	4.93	5.61	6.36

Source: Company data, CMBIS estimates

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

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

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