

Shennan Circuit (002916 CH)

Strong 1H24 results w/ double-digit growth across segments & meaningful margin expansion

SCC released 1H24 results. Revenue went up by 38% YoY to RMB8.3bn, with double-digit growth across all segments (PCB/Substrate/PCBA: 25%/94%/42% YoY). NP increased by 108% YoY to RMB987mn, on higher GPM (26.2% in 1H24 vs. 22.9%/23.8% in 1H/2H23) and cost optimization. SCC delivered strong 1H24 results, driven by 1) strong AI demand, 2) Eagle Stream upgrades, 3) robust auto orders, 4) inventory restocking on consumer electronics market, and 5) margin expansion. However, we expect demand in the consumer electronics market to become softer in 2H and estimate 1H24 revenue/NP to be 52%/56% of our FY24E forecast (vs. 45%/34% in 1H23). SCC's share price is currently trading at ~30x 2024E P/E, which is fair in our view. **Maintain HOLD, with TP unchanged at RMB106.4.**

■ **A very solid 1H24 with margin expansion surprise.** By segment, PCB (58% of 1H24 sales) grew by 25% YoY/16% HoH to RMB4.9bn, with strong growth in DC and auto sales. Telecom was stable with greater contribution from wired communication, including switches, routers and optical-related sales (100% YoY growth). Wireless side and industrial/medical sectors remained weak. Substrate revenue (19% of 1H24 sales) grew by 94% YoY/7.4% HoH to RMB1.6bn, driven by recovering demand with low inventory in the channel. PCBA business (15% of 1H24 sales) also grew 42% YoY to RMB1.2bn, benefitting from higher PCB sales. GPM increased to 27.1% in 2Q, up from 22.8%/25.2% in 2Q23/1Q24, benefitting from a favourable product mix.

■ **Expect SCC's FY24E revenue to be 1H weighted.** In our previous sector report ([report](#)), we pointed out 7 out of the 16 leading PCB manufacturers in China have announced profit alerts, with an avg. 75%-105% YoY and 21%-43% QoQ increase in NP for 2Q24. This supported a strong momentum for PCB sector as the market expected a meaningful recovery in end-market demand. We maintain our view that the sector is recovering from the cyclical trough with modest growth in 2024E (5.0% YoY). However, the growth won't be evenly distributed across end markets. We expect SCC's revenue will be 1H weighted this year on weaker consumer demand in 2H due to fewer rush orders and inventory restocking behavior. This will also put pressure on ASP, which could limit revenue growth. We estimate 2H24 revenue to grow by 3.2% YoY but decline by 7.1% HoH from 1H24 to RMB7.7bn.

■ **Maintain HOLD, with TP at RMB106.4.** We revise up 2024/25E NP forecasts by 5%/2% on higher GPM and lower R&D expenses. We expect GPM to return to ~25% level in 2H24 (vs. 27.1% in 2Q), considering weaker demand and higher material costs. R&D expenses are projected to decline QoQ according to mgmt. Our TP of RMB106.4 implies a 30.8x 2024E P/E, which is 5% below 5-year historical avg. forward P/E (32.5x). Key risks include: 1) volatility in raw material prices, and 2) weaker consumer sentiment and slower-than-expected demand recovery.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	13,992	13,526	16,051	18,216	20,813
YoY growth (%)	0.4	(3.3)	18.7	13.5	14.3
Net profit (RMB mn)	1,641.2	1,398.1	1,762.1	2,173.8	2,790.9
YoY growth (%)	10.8	(14.8)	26.0	23.4	28.4
EPS (Reported) (RMB)	3.22	2.72	3.45	4.26	5.46
P/E (x)	32.2	38.1	30.0	24.4	19.0
ROE (%)	15.8	11.0	12.7	14.2	16.3

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price RMB106.40
Up/Downside 2.7%
Current Price RMB103.65

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Stock Data

Mkt Cap (RMB mn)	53,162.1
Avg 3 mths t/o (RMB mn)	634.2
52w High/Low (RMB)	130.50/49.27
Total Issued Shares (mn)	512.9

Source: FactSet

Shareholding Structure

AVIC International Holdings Ltd	64.0%
E Fund Management	5.1%

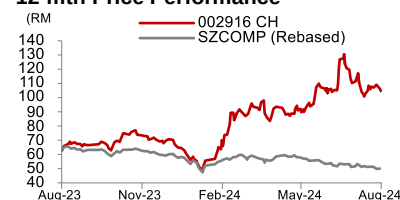
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-6.4%	-1.6%
3-mth	15.6%	33.8%
6-mth	57.0%	73.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	16,051	18,216	20,813	16,067	18,348	20,828	0%	-1%	0%
Gross profit	4,091	4,628	5,403	4,006	4,667	5,448	2%	-1%	-1%
Net profit	1,762	2,174	2,791	1,672	2,138	2,693	5%	2%	4%
EPS (RMB)	3.45	4.26	5.46	3.25	4.16	5.24	6%	2%	4%
Gross margin	25.5%	25.4%	26.0%	24.9%	25.4%	26.2%	0.6 ppt	0 ppt	-0.2 ppt
Net margin	11.0%	11.9%	13.4%	10.4%	11.7%	12.9%	0.6 ppt	0.3 ppt	0.5 ppt

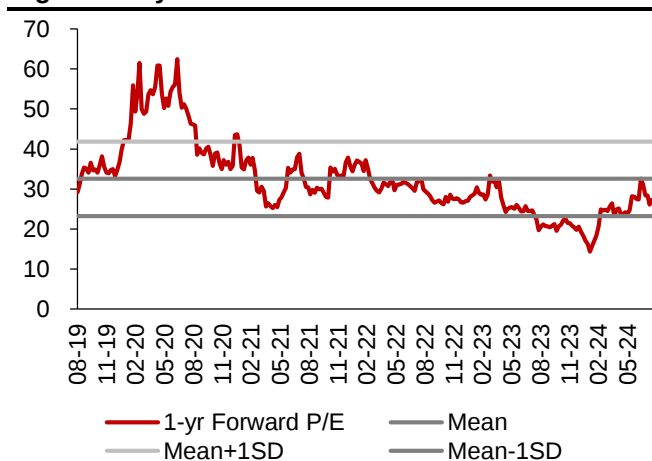
Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. consensus

RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	16,051	18,216	20,813	16,310	18,926	21,946	-2%	-4%	-5%
Gross profit	4,091	4,628	5,403	4,094	4,799	5,663	0%	-4%	-5%
Net profit	1,762	2,174	2,791	1,829	2,232	2,803	-4%	-3%	0%
EPS (RMB)	3.45	4.26	5.46	3.50	4.23	5.38	-1%	1%	2%
Gross margin	25.5%	25.4%	26.0%	25.1%	25.4%	25.8%	0.4 ppt	0 ppt	0.2 ppt
Net margin	11.0%	11.9%	13.4%	11.2%	11.8%	12.8%	-0.2 ppt	0.1 ppt	0.6 ppt

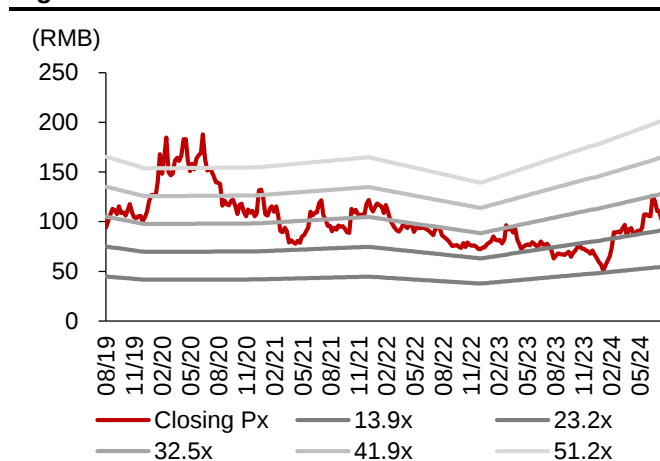
Source: Company data, CMBIGM estimates, Bloomberg consensus

Figure 3: 1-yr forward P/E



Source: Company data, CMBIGM estimates

Figure 4: P/E band



Source: Company data, CMBIGM estimates

Figure 5: Company's financials

RMB mn	FY23	1Q24	2Q24	3Q24E	4Q24E	FY24E	FY25E	FY26E
Revenue	13,526	3,961	4,360	3,706	4,024	16,051	18,216	20,813
YoY%	-3%	42%	34%	8%	-1%	19%	13%	14%
QoQ%		-3%	10%	-15%	9%			
Seasonality%		25%	27%	23%	25%			
Cost of sales	-10,357	-2,963	-3,178	-2,789	-3,031	-11,960	-13,587	-15,411
Gross profit	3,170	998	1,182	917	993	4,091	4,628	5,403
YoY%	-11%	55%	59%	14%	1%	29%	13%	17%
GPM%	23.4%	25.2%	27.1%	24.8%	24.7%	25.5%	25.4%	26.0%
Sales tax	-103	-30	-36	-31	-33	-131	-139	-149
Selling expense	-270	-69	-67	-74	-94	-304	-327	-352
Admin expense	-601	-144	-167	-148	-205	-664	-681	-716
R&D expense	-1,073	-338	-302	-289	-265	-1,193	-1,290	-1,402
Others	274	-9	58	49	63	160	224	317
Operating income	1,398	408	668	423	460	1,959	2,415	3,101
YoY%	-19%	94%	179%	-3%	-10%	40%	23%	28%
OPM%	10.3%	10.3%	15.3%	11.4%	11.4%	12.2%	13.3%	14.9%
Pretax income	1,398	407	668	423	460	1,958	2,415	3,101
Income tax expense	-1	-28	-60	-38	-71	-196	-241	-310
Net profit	1,398	379	608	386	389	1,762	2,173	2,790
Minority interest	0	0	0	0	0	0	0	0
Net profit attributable to shareholders	1,398	380	608	386	389	1,762	2,174	2,791
YoY%	-15%	84%	127%	-11%	-21%	26%	23%	28%
QoQ%		-23%	60%	-37%	1%			
NPM%	10.3%	9.6%	13.9%	10.4%	9.7%	11.0%	11.9%	13.4%
Seasonality%		22%	34%	22%	22%			

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	13,943	13,992	13,526	16,051	18,216	20,813
Cost of goods sold	(10,637)	(10,422)	(10,357)	(11,960)	(13,587)	(15,411)
Gross profit	3,306	3,571	3,170	4,091	4,628	5,403
Operating expenses	(1,406)	(1,691)	(1,558)	(1,907)	(2,000)	(2,119)
SG&A expense	(776)	(926)	(870)	(968)	(1,008)	(1,068)
R&D expense	(782)	(820)	(1,073)	(1,193)	(1,290)	(1,402)
Others	152	55	385	254	298	351
Operating profit	1,899	1,880	1,611	2,183	2,628	3,283
Other income	4	4	5	5	6	7
Other expense	(11)	(7)	(4)	(6)	(6)	(8)
Other gains/(losses)	(175)	(163)	(182)	(225)	(232)	(236)
Interest income	5	22	12	16	30	60
Interest expense	(91)	(92)	(66)	(80)	(84)	(89)
Others	(21)	77	23	64	73	83
Pre-tax profit	1,609	1,720	1,398	1,958	2,415	3,101
Income tax	(128)	(79)	(1)	(196)	(241)	(310)
After tax profit	1,481	1,641	1,398	1,762	2,173	2,790
Minority interest	0	0	(0)	(0)	(0)	(0)
Net profit	1,481	1,641	1,398	1,762	2,174	2,791

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,270	8,578	8,597	10,158	12,051	15,513
Cash & equivalents	620	1,913	853	1,316	2,849	5,401
Account receivables	2,732	2,770	3,091	3,770	3,916	4,295
Inventories	2,527	2,341	2,686	3,212	3,340	3,669
Prepayment	16	49	8	45	45	55
Other current assets	1,377	1,505	1,959	1,815	1,901	2,093
Non-current assets	9,522	12,149	14,010	14,352	14,312	14,008
PP&E	7,789	9,138	10,083	12,156	12,210	11,662
Right-of-use assets	44	37	26	20	19	17
Deferred income tax	91	208	272	260	279	313
Intangibles	407	557	544	518	493	467
Goodwill	0	0	0	0	0	0
Other non-current assets	1,191	2,209	3,085	1,397	1,310	1,549
Total assets	16,792	20,727	22,607	24,511	26,362	29,521
Current liabilities	5,948	6,708	6,425	6,883	6,966	7,702
Short-term borrowings	350	0	400	200	176	236
Account payables	1,881	1,638	2,037	2,420	2,568	2,836
Tax payable	78	31	42	54	58	65
Other current liabilities	3,141	4,484	3,291	3,368	3,531	3,851
Contract liabilities	70	93	212	422	182	208
Accrued expenses	428	462	443	420	451	505
Non-current liabilities	2,325	1,765	2,995	3,140	3,317	3,668
Long-term borrowings	1,368	1,175	2,407	2,520	2,651	2,921
Bond payables	0	0	0	0	0	0
Deferred income	317	356	372	384	413	462
Other non-current liabilities	640	235	217	236	254	284
Total liabilities	8,272	8,474	9,420	10,023	10,283	11,369
Share capital	489	513	513	513	513	513
Retained earnings	4,150	5,291	6,179	7,479	9,071	11,144
Other reserves	3,877	6,446	6,492	6,492	6,493	6,493
Total shareholders equity	8,517	12,249	13,184	14,484	16,076	18,150
Minority interest	3	3	3	3	3	2
Total equity and liabilities	16,792	20,727	22,607	24,511	26,362	29,521

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,481	1,640	1,398	1,762	2,173	2,790
Depreciation & amortization	863	1,062	1,272	1,403	1,683	1,822
Change in working capital	(363)	180	(364)	(912)	111	(63)
Others	361	281	268	(89)	(276)	(76)
Net cash from operations	2,342	3,163	2,574	2,163	3,691	4,474
Investing						
Capital expenditure	(2,658)	(3,378)	(3,250)	(1,916)	(1,798)	(1,718)
Acquisition of subsidiaries/ investments	(3)	0	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	181	(237)	(311)	527	186	257
Net cash from investing	(2,481)	(3,614)	(3,561)	(1,389)	(1,612)	(1,462)
Financing						
Dividend paid	(541)	(565)	(589)	(541)	(665)	(807)
Net borrowings	536	(242)	1,117	197	106	331
Proceeds from share issues	0	2,530	0	0	0	0
Others	266	(26)	(617)	(2)	(24)	(24)
Net cash from financing	261	1,697	(89)	(346)	(583)	(499)
Net change in cash						
Cash at the beginning of the year	504	620	1,912	851	1,314	2,847
Exchange difference	(7)	30	(0)	24	24	24
Others	122	1,263	(1,061)	440	1,508	2,528
Cash at the end of the year	620	1,912	851	1,314	2,847	5,399
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	20.2%	0.4%	(3.3%)	18.7%	13.5%	14.3%
Gross profit	7.6%	8.0%	(11.2%)	29.1%	13.1%	16.7%
Operating profit	0.1%	(1.0%)	(14.3%)	35.5%	20.4%	24.9%
Net profit	3.5%	10.8%	(14.8%)	26.0%	23.4%	28.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	23.7%	25.5%	23.4%	25.5%	25.4%	26.0%
Operating margin	13.6%	13.4%	11.9%	13.6%	14.4%	15.8%
Return on equity (ROE)	18.6%	15.8%	11.0%	12.7%	14.2%	16.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.2	1.3	1.3	1.5	1.7	2.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	34.3	32.2	38.1	30.0	24.4	19.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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