

Shennan Circuit (002916 CH)

FY23 results beat helped by better 4Q

Shennan Circuit released its FY23 earnings, with revenue down 3.3% YoY to RMB13.5bn (5%/2% higher than our forecast/consensus) and net profit down 14.8% YoY to RMB1.4bn (11%/5% higher than our forecast/consensus). **The Company beat estimates thanks to a stronger-than-expected 4Q.** The quarterly revenue/NP accounted for 30%/35% of full year results. 4Q revenue increased by 15.9% YoY/18.6% QoQ to RMB4.1bn, and net profit increased by 6.6% YoY/12.8% QoQ to RMB490mn. GPM rose in three consecutive quarters to 24.2% in 4Q (vs. 22.8%/23.4% in 2Q/3Q).

We expect Shennan to have a modest recovery this year, as we believe the PCB sector has reached the end of the trough in 2H23. 2024 revenue growth is projected to be 12.5% from a low base in 2023, given utilization rates of both PCB and substrate businesses are up. **However, we do not expect a full recovery for Shennan, at least not in 1H24, considering ongoing price erosion in PCB products and weak demand in telecom market.** Meanwhile, we are conservative in NP growth (10% in 2024), due to a **potential increase in copper price.** **Maintain HOLD with TP adjusted to RMB79,** based on 27x 2024E P/E, higher than previous 25x given the current position of the cycle, but lower than 5-year historical of 32x as challenges remain. The stock is currently trading at 28.5x 24E P/E, which is fair.

- By segments, in FY23, PCB/substrate revenue both declined by 8.5% YoY to RMB8.1bn/RMB2.3bn, while PCBA sales rose 21.5% to RMB2.1bn. 2H23 results were much stronger, with 8.0%/49.2%/80.8% increase from 1H. Substrate sales grew as downstream inventory digestion has almost ended and utilization rate was back to 80% in 2H. PCB growth was mainly driven by auto/energy market, partially offset by ongoing weakness in telecom/datacenter. AI demand brought incremental revenue, however, the contribution was not large. GPM for PCB and substrate businesses were 26.6% and 23.9%, declined by 1.57ppts and 3.11ppts, respectively. 2H23 GPM was improved from 1H for both segments (1.36ppts and 7.87ppts).
- Despite industry headwinds, we think Shennan is poised for future growth as the Company achieved a significant milestone in its FC-BGA production lines. Wuxi phase II and Guangzhou factories are ramping up capacity, which will benefit Shennan in the long run. However, in the short term, these two projects are likely to weigh on margins (R&D exp. up 31% in FY23).
- A potential increase in copper price. We saw copper concentrates TC index reached historical low at US\$11/tonne in March. In addition, Fed may cut rates in June 2024. These catalysts may favor a jump in copper price in the near term, which will hurt PCB suppliers' GPM.

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|----------------------|---------|---------|---------|---------|---------|
| Revenue (RMB mn) | 13,992 | 13,526 | 15,212 | 17,461 | 19,850 |
| YoY growth (%) | 0.4 | (3.3) | 12.5 | 14.8 | 13.7 |
| Net profit (RMB mn) | 1,641.2 | 1,398.1 | 1,537.8 | 1,970.5 | 2,467.5 |
| YoY growth (%) | 10.8 | (14.8) | 10.0 | 28.1 | 25.2 |
| EPS (Reported) (RMB) | 3.2 | 2.7 | 3.0 | 3.8 | 4.8 |
| P/E (x) | 27.6 | 32.7 | 29.7 | 23.2 | 18.5 |
| ROE (%) | 13.4% | 10.6% | 10.8% | 12.5% | 14.0% |

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

| | |
|----------------------|-----------------|
| Target Price | RMB79.00 |
| (Previous TP) | RMB72.00) |
| Up/Downside | -11.2% |
| Current Price | RMB88.92 |

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Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (RMB mn) | 45,607.1 |
| Avg 3 mths t/o (RMB mn) | 393.1 |
| 52w High/Low (RMB) | 98.86/49.27 |
| Total Issued Shares (mn) | 512.9 |

Source: FactSet

Shareholding Structure

| | |
|---------------------------------|-------|
| AVIC International Holdings Ltd | 64.0% |
| HKSCC | 3.1% |

Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 59.7% | 41.9% |
| 3-mth | 27.2% | 31.0% |
| 6-mth | 32.2% | 42.4% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM estimates vs. consensus

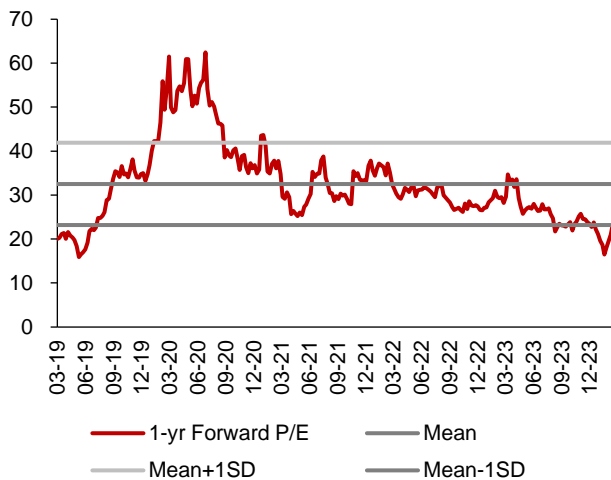
| RMB mn | CMBI estimates | | | Consensus | | | Diff (%) | | |
|---------------------|----------------|--------|--------|-----------|--------|-------|----------|----------|-------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 15,212 | 17,461 | 19,850 | 15,253 | 17,737 | N/A | 0% | -2% | N/A |
| Gross profit | 3,659 | 4,376 | 5,105 | 3,687 | 4,460 | N/A | -1% | -2% | N/A |
| Net profit | 1,538 | 1,971 | 2,468 | 1,563 | 1,920 | N/A | -2% | 3% | N/A |
| EPS (RMB) | 2.99 | 3.83 | 4.80 | 3.33 | 3.99 | N/A | -10% | -4% | N/A |
| Gross margin | 24.1% | 25.1% | 25.7% | 24.2% | 25.1% | N/A | -0.1 ppt | -0.1 ppt | N/A |
| Net margin | 10.1% | 11.3% | 12.4% | 10.2% | 10.8% | N/A | -0.1 ppt | 0.5 ppt | N/A |

Source: Company data, CMBIGM estimates

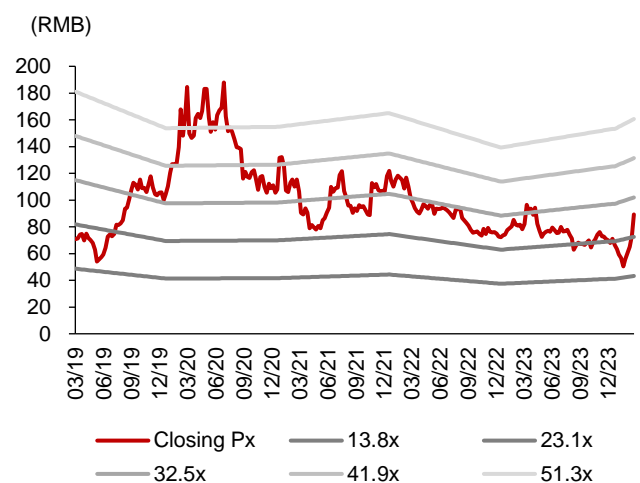
Figure 2: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|---------------------|--------|--------|--------|--------|--------|-------|----------|----------|-------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 15,212 | 17,461 | 19,850 | 14,692 | 17,371 | N/A | 4% | 1% | N/A |
| Gross profit | 3,659 | 4,376 | 5,105 | 3,569 | 4,409 | N/A | 3% | -1% | N/A |
| Net profit | 1,538 | 1,971 | 2,468 | 1,506 | 2,030 | N/A | 2% | -3% | N/A |
| EPS (RMB) | 2.99 | 3.83 | 4.80 | 2.93 | 3.95 | N/A | 2% | -3% | N/A |
| Gross margin | 24.1% | 25.1% | 25.7% | 24.3% | 25.4% | N/A | -0.2 ppt | -0.3 ppt | N/A |
| Net margin | 10.1% | 11.3% | 12.4% | 10.3% | 11.7% | N/A | -0.1 ppt | -0.4 ppt | N/A |

Source: Company data, CMBIGM estimates

Figure 1: 12M forward PE band

Source: Company data, CMBIGM estimates

Figure 2: 12M forward PE chart

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 | 15,212 | 17,461 | 19,850 |
| Cost of goods sold | (10,637) | (10,422) | (10,357) | (11,553) | (13,086) | (14,745) |
| Gross profit | 3,306 | 3,571 | 3,170 | 3,659 | 4,376 | 5,105 |
| Operating expenses | (1,406) | (1,691) | (1,558) | (1,888) | (2,115) | (2,344) |
| SG&A expense | (776) | (926) | (870) | (937) | (1,041) | (1,143) |
| R&D expense | (782) | (820) | (1,073) | (1,217) | (1,379) | (1,548) |
| Others | 152 | 55 | 385 | 266 | 306 | 347 |
| Operating profit | 1,899 | 1,880 | 1,611 | 1,771 | 2,261 | 2,761 |
| Other income | 4 | 4 | 5 | 5 | 6 | 6 |
| Other expense | (11) | (7) | (4) | (6) | (6) | (7) |
| Other gains/(losses) | (175) | (163) | (182) | (146) | (190) | (177) |
| Interest income | 5 | 22 | 12 | 9 | 13 | 19 |
| Interest expense | (91) | (92) | (66) | (76) | (82) | (87) |
| Others | (21) | 77 | 23 | 54 | 62 | 71 |
| Pre-tax profit | 1,609 | 1,720 | 1,398 | 1,612 | 2,065 | 2,586 |
| Income tax | (128) | (79) | (1) | (74) | (95) | (119) |
| After tax profit | 1,481 | 1,641 | 1,398 | 1,538 | 1,970 | 2,467 |
| Minority interest | 0 | 0 | (0) | (0) | (0) | (0) |
| Net profit | 1,481 | 1,641 | 1,398 | 1,538 | 1,971 | 2,468 |

| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 7,270 | 8,578 | 8,597 | 9,515 | 10,840 | 12,702 |
| Cash & equivalents | 620 | 1,913 | 853 | 1,193 | 1,792 | 2,706 |
| Account receivables | 2,732 | 2,770 | 3,091 | 3,328 | 3,657 | 4,066 |
| Inventories | 2,527 | 2,341 | 2,686 | 2,884 | 3,138 | 3,487 |
| Prepayment | 16 | 49 | 8 | 33 | 37 | 43 |
| Other current assets | 1,377 | 1,505 | 1,959 | 2,077 | 2,215 | 2,400 |
| Non-current assets | 9,522 | 12,149 | 14,010 | 14,932 | 15,879 | 16,905 |
| PP&E | 7,789 | 9,138 | 10,083 | 10,966 | 11,746 | 12,768 |
| Right-of-use assets | 44 | 37 | 26 | 17 | 8 | (3) |
| Deferred income tax | 91 | 208 | 272 | 295 | 322 | 357 |
| Intangibles | 407 | 557 | 544 | 546 | 551 | 560 |
| Goodwill | 0 | 0 | 0 | 0 | 0 | 0 |
| Other non-current assets | 1,191 | 2,209 | 3,085 | 3,109 | 3,252 | 3,223 |
| Total assets | 16,792 | 20,727 | 22,607 | 24,448 | 26,719 | 29,607 |
| Current liabilities | 5,948 | 6,708 | 6,425 | 7,124 | 7,717 | 8,639 |
| Short-term borrowings | 350 | 0 | 400 | 699 | 740 | 954 |
| Account payables | 1,881 | 1,638 | 2,037 | 2,205 | 2,384 | 2,625 |
| Tax payable | 78 | 31 | 42 | 45 | 49 | 55 |
| Other current liabilities | 3,141 | 4,484 | 3,291 | 3,532 | 3,844 | 4,226 |
| Contract liabilities | 70 | 93 | 212 | 164 | 175 | 199 |
| Accrued expenses | 428 | 462 | 443 | 479 | 524 | 581 |
| Non-current liabilities | 2,325 | 1,765 | 2,995 | 3,050 | 3,256 | 3,394 |
| Long-term borrowings | 1,368 | 1,175 | 2,407 | 2,413 | 2,560 | 2,623 |
| Bond payables | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred income | 317 | 356 | 372 | 402 | 439 | 487 |
| Other non-current liabilities | 640 | 235 | 217 | 234 | 256 | 284 |
| Total liabilities | 8,272 | 8,474 | 9,420 | 10,174 | 10,972 | 12,033 |
| Share capital | 489 | 513 | 513 | 513 | 513 | 513 |
| Retained earnings | 4,150 | 5,291 | 6,179 | 7,255 | 8,718 | 10,535 |
| Other reserves | 3,877 | 6,446 | 6,492 | 6,503 | 6,514 | 6,524 |
| Total shareholders equity | 8,517 | 12,249 | 13,184 | 14,271 | 15,744 | 17,572 |
| Minority interest | 3 | 3 | 3 | 3 | 3 | 2 |
| Total equity and liabilities | 16,792 | 20,727 | 22,607 | 24,448 | 26,719 | 29,607 |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 1,481 | 1,640 | 1,398 | 1,538 | 1,970 | 2,467 |
| Depreciation & amortization | 863 | 1,062 | 1,272 | 1,391 | 1,586 | 1,789 |
| Change in working capital | (363) | 180 | (364) | 18 | (69) | (105) |
| Others | 361 | 281 | 268 | (122) | (21) | (39) |
| Net cash from operations | 2,342 | 3,163 | 2,574 | 2,825 | 3,466 | 4,111 |
| Investing | | | | | | |
| Capital expenditure | (2,658) | (3,378) | (3,250) | (2,311) | (2,528) | (2,802) |
| 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) | 33 | 34 | 36 |
| Net cash from investing | (2,481) | (3,614) | (3,561) | (2,278) | (2,493) | (2,766) |
| Financing | | | | | | |
| Dividend paid | (541) | (565) | (589) | (538) | (590) | (738) |
| Net borrowings | 536 | (242) | 1,117 | 305 | 189 | 277 |
| Proceeds from share issues | 0 | 2,530 | 0 | 0 | 0 | 0 |
| Others | 266 | (26) | (617) | 11 | 11 | 11 |
| Net cash from financing | 261 | 1,697 | (89) | (222) | (390) | (450) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 504 | 620 | 1,912 | 851 | 1,191 | 1,790 |
| Exchange difference | (7) | 30 | (0) | (0) | (0) | (0) |
| Others | 122 | 1,263 | (1,061) | 340 | 600 | 914 |
| Cash at the end of the year | 620 | 1,912 | 851 | 1,191 | 1,790 | 2,704 |

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

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