

# Shennan Circuit (002916 CH)

## 3Q results review: Solid revenue growth with lower margin

Shennan Circuit released its 3Q24 results. Revenue went up 37.9% YoY/8.5% QoQ to RMB4.73bn, beating Bloomberg consensus by 19.7%. Net profit rose 15.3% YoY but declined 17.6% QoQ. GPM declined to 25.4% QoQ in 3Q24 from 27.1%/23.4% in 2Q24/3Q23. Mgmt. attributed this to 1) higher sales contribution from lower margin PCBA business (GPM at c.15%), 2) Guangzhou factory ramp-up suppressed substrate margin, and 3) high copper price (avg. copper price in 3Q24 was ~US\$9.9k/t), and increased auto sales weighed on PCB's profitability. NPM declined 3.3ppts sequentially to 10.6%. **Maintain HOLD on Shennan with TP adjusted to RMB115, reflecting 27x 2025E P/E (vs. prev. 30.8x), closed to its 3-yr avg. historical forward P/E.**

■ **PCB GPM erosion on higher material costs and greater auto PCB sales.** By end market, telecom remained the largest market with c.40% of segment sales in 3Q24. Aside from telecom, datacom/auto/industrial & medical/energy markets contributed ~20%/13%/10%/5% of PCB revenue. GPM declined QoQ due to 1) increasing material costs (i.e., FR4) and 2) auto PCB growth, which has a relatively lower margin than other products. Mgmt. highlighted relatively high utilization rate (~90%) from AI-related PCB production, while that of non-AI production remained at between 85-90%. Looking forward, we expect PCB revenue to grow at 11% in 2025E.

■ **Strong growth in PCBA sales offset substrate weakness.** We think the beat in 3Q revenue is mainly due to higher-than-expected PCBA sales, which weighed on margin (down 1.7% sequentially). Substrate business continued to be weak in 3Q due to challenging demand, especially in the consumer electronics market. Substrate (excl. Guangzhou factory) utilization rate maintained at level of c.70%. For Guangzhou factory, mgmt. mentioned mass production capability for sub-16 layered PCB products that have been shipped to a few domestic clients. Looking forward, we expect substrate revenue to grow at 7% in 2025E.

■ **Maintain HOLD, with TP adjusted to RMB115, based on 27.0x rollover 2025E P/E, closed to 3-yr avg. historical forward P/E.** We revise up our 2024/25E revenue forecasts by 9%/3%, reflecting higher-than-expected PCBA sales. EPS was up by 7% for 2024E but remained unchanged for 2025E, considering ongoing margin pressure. Potential risks include: 1) weaker-than-expected demand recovery, 2) slower product certification at clients, and 3) slower capacity ramp-up.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	13,992	13,526	17,574	18,765	20,516
YoY growth (%)	0.4	(3.3)	29.9	6.8	9.3
Gross margin (%)	25.5	23.4	25.0	25.5	26.6
Net profit (RMB mn)	1,641.2	1,398.1	1,877.9	2,178.2	2,670.6
YoY growth (%)	10.8	(14.8)	34.3	16.0	22.6
EPS (Reported) (RMB)	3.22	2.72	3.68	4.27	5.23
P/E (x)	33.0	39.1	28.9	24.9	20.3
ROE (%)	15.8	11.0	13.5	14.2	15.6

Source: Company data, Bloomberg, CMBIGM estimates

**HOLD (Maintain)**

**Target Price** RMB115.00  
(Previous TP RMB106.40)  
**Up/Downside** 8.3%  
**Current Price** RMB106.20

### China Semiconductors

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### Stock Data

Mkt Cap (RMB mn) 54,470.0  
Avg 3 mths t/o (RMB mn) 785.4  
52w High/Low (RMB) 130.50/49.27  
Total Issued Shares (mn) 512.9  
Source: FactSet

### Shareholding Structure

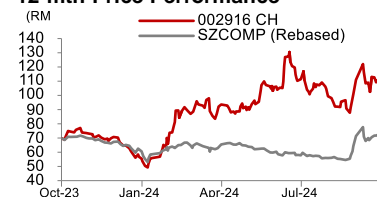
AVIC International Holdings Ltd 64.0%  
E Fund Management 5.6%  
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	5.3%	-7.3%
3-mth	-4.7%	-24.5%
6-mth	13.5%	1.7%

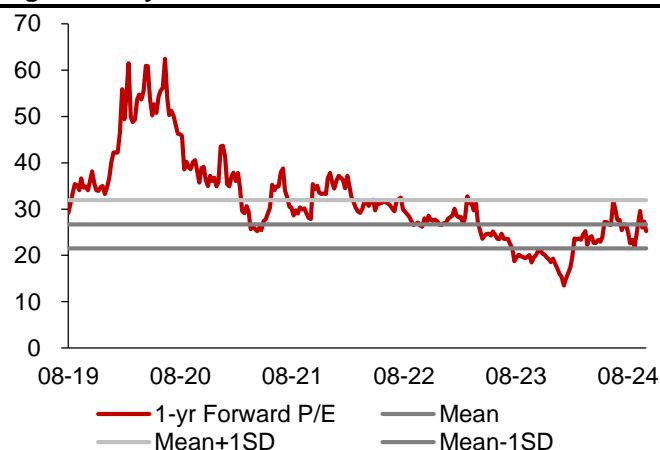
Source: FactSet

### 12-mth Price Performance



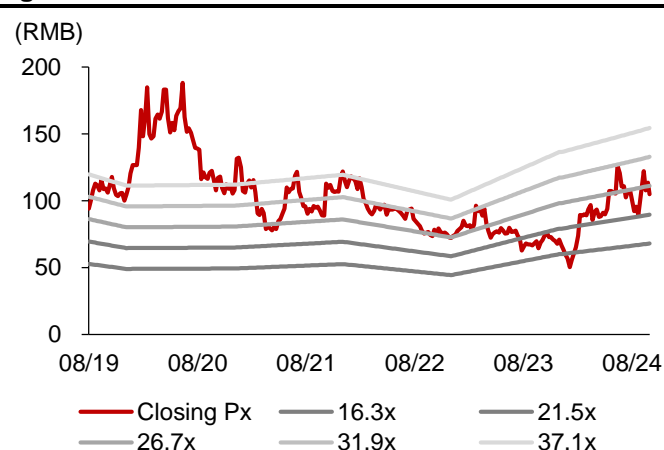
Source: FactSet

Figure 1: 1-yr forward PE band



Source: Company data, Bloomberg

Figure 2: PE chart



Source: Company data, Bloomberg

Figure 3: Earnings revisions

US\$mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,574	18,765	20,516	16,051	18,216	20,813	9%	3%	-1%
Gross profit	4,398	4,791	5,466	4,091	4,628	5,403	8%	4%	1%
Net profit	1,878	2,178	2,671	1,762	2,174	2,791	7%	0%	-4%
EPS (RMB)	3.68	4.27	5.23	3.45	4.26	5.46	7%	0%	-4%
Gross margin	25.0%	25.5%	26.6%	25.5%	25.4%	26.0%	-0.5 ppt	0.1 ppt	0.7 ppt
Net margin	10.7%	11.6%	13.0%	11.0%	11.9%	13.4%	-0.3 ppt	-0.3 ppt	-0.4 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

US\$mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,574	18,765	20,516	16,797	19,540	22,469	5%	-4%	-9%
Gross profit	4,398	4,791	5,466	4,281	5,035	5,875	3%	-5%	-7%
Net profit	1,878	2,178	2,671	1,912	2,304	2,764	-2%	-5%	-3%
EPS (RMB)	3.68	4.27	5.23	3.63	4.32	5.33	1%	-1%	-2%
Gross margin	25.0%	25.5%	26.6%	25.5%	25.8%	26.1%	-0.5 ppt	-0.2 ppt	0.5 ppt
Net margin	10.7%	11.6%	13.0%	11.4%	11.8%	12.3%	-0.7 ppt	-0.2 ppt	0.7 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	13,943	13,992	13,526	17,574	18,765	20,516
Cost of goods sold	(10,637)	(10,422)	(10,357)	(13,176)	(13,974)	(15,050)
Gross profit	3,306	3,571	3,170	4,398	4,791	5,466
Operating expenses	(1,406)	(1,691)	(1,558)	(2,079)	(2,211)	(2,284)
SG&A expense	(776)	(926)	(870)	(1,025)	(1,057)	(1,094)
R&D expense	(782)	(820)	(1,073)	(1,342)	(1,470)	(1,546)
Others	152	55	385	287	316	356
Operating profit	1,899	1,880	1,611	2,319	2,580	3,182
Other income	4	4	5	6	6	7
Other expense	(11)	(7)	(4)	(7)	(6)	(7)
Other gains/(losses)	(175)	(163)	(182)	(279)	(181)	(268)
Interest income	5	22	12	13	30	59
Interest expense	(91)	(92)	(66)	(81)	(85)	(88)
Others	(21)	77	23	70	75	82
Pre-tax profit	1,609	1,720	1,398	2,041	2,420	2,967
Income tax	(128)	(79)	(1)	(163)	(242)	(297)
After tax profit	1,481	1,641	1,398	1,878	2,178	2,670
Minority interest	0	0	(0)	(0)	(0)	(0)
Net profit	1,481	1,641	1,398	1,878	2,178	2,671

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	7,270	8,578	8,597	11,153	11,522	15,681
Cash & equivalents	620	1,913	853	912	3,235	4,963
Account receivables	2,732	2,770	3,091	4,421	3,497	4,597
Inventories	2,527	2,341	2,686	3,812	2,927	3,918
Prepayment	16	49	8	50	46	54
Other current assets	1,377	1,505	1,959	1,959	1,817	2,149
Non-current assets	9,522	12,149	14,010	14,470	14,345	14,068
PP&E	7,789	9,138	10,083	12,225	12,261	11,712
Right-of-use assets	44	37	26	21	20	18
Deferred income tax	91	208	272	272	274	315
Intangibles	407	557	544	519	493	468
Goodwill	0	0	0	0	0	0
Other non-current assets	1,191	2,209	3,085	1,433	1,298	1,556
Total assets	16,792	20,727	22,607	25,622	25,867	29,749
Current liabilities	5,948	6,708	6,425	7,793	6,392	8,042
Short-term borrowings	350	0	400	219	179	213
Account payables	1,881	1,638	2,037	2,873	2,257	3,020
Tax payable	78	31	42	56	57	65
Other current liabilities	3,141	4,484	3,291	3,744	3,268	4,029
Contract liabilities	70	93	212	462	188	205
Accrued expenses	428	462	443	439	443	509
Non-current liabilities	2,325	1,765	2,995	3,226	3,315	3,595
Long-term borrowings	1,368	1,175	2,407	2,578	2,661	2,843
Bond payables	0	0	0	0	0	0
Deferred income	317	356	372	401	405	466
Other non-current liabilities	640	235	217	247	249	286
Total liabilities	8,272	8,474	9,420	11,019	9,706	11,637
Share capital	489	513	513	513	513	513
Retained earnings	4,150	5,291	6,179	7,595	9,153	11,104
Other reserves	3,877	6,446	6,492	6,492	6,493	6,493
Total shareholders equity	8,517	12,249	13,184	14,600	16,158	18,110
Minority interest	3	3	3	3	2	2
Total equity and liabilities	16,792	20,727	22,607	25,622	25,867	29,749

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,481	1,640	1,398	1,878	2,178	2,670
Depreciation & amortization	863	1,062	1,272	1,399	1,694	1,825
Change in working capital	(363)	180	(364)	(1,389)	903	(581)
Others	361	281	268	(118)	(224)	(136)
<b>Net cash from operations</b>	<b>2,342</b>	<b>3,163</b>	<b>2,574</b>	<b>1,770</b>	<b>4,551</b>	<b>3,777</b>
<b>Investing</b>						
Capital expenditure	(2,658)	(3,378)	(3,250)	(2,004)	(1,765)	(1,731)
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	187	257
<b>Net cash from investing</b>	<b>(2,481)</b>	<b>(3,614)</b>	<b>(3,561)</b>	<b>(1,477)</b>	<b>(1,578)</b>	<b>(1,474)</b>
<b>Financing</b>						
Dividend paid	(541)	(565)	(589)	(542)	(705)	(807)
Net borrowings	536	(242)	1,117	274	42	216
Proceeds from share issues	0	2,530	0	0	0	0
Others	266	(26)	(617)	(2)	(24)	(24)
<b>Net cash from financing</b>	<b>261</b>	<b>1,697</b>	<b>(89)</b>	<b>(270)</b>	<b>(687)</b>	<b>(615)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	504	620	1,912	851	910	3,233
Exchange difference	(7)	30	(0)	24	24	24
Others	122	1,263	(1,061)	35	2,299	1,703
<b>Cash at the end of the year</b>	<b>620</b>	<b>1,912</b>	<b>851</b>	<b>910</b>	<b>3,233</b>	<b>4,961</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	20.2%	0.4%	(3.3%)	29.9%	6.8%	9.3%
Gross profit	7.6%	8.0%	(11.2%)	38.7%	8.9%	14.1%
Operating profit	0.1%	(1.0%)	(14.3%)	43.9%	11.3%	23.3%
Net profit	3.5%	10.8%	(14.8%)	34.3%	16.0%	22.6%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	23.7%	25.5%	23.4%	25.0%	25.5%	26.6%
Operating margin	13.6%	13.4%	11.9%	13.2%	13.7%	15.5%
Return on equity (ROE)	18.6%	15.8%	11.0%	13.5%	14.2%	15.6%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	1.2	1.3	1.3	1.4	1.8	1.9
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	35.2	33.0	39.1	28.9	24.9	20.3

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

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