

Maxscend (300782 CH)

Revenue grew while GPM deteriorated due to intense competition and capacity ramp-up

Maxscend reported 1H24 results. Revenue grew 37% YoY to RMB2.3bn from a low base in 1H23, driven by clients' restocking behavior. GPM declined to 42.1%, down 6.9ppt from 1H23. Margin erosion was mainly due to 1) an unfavorable revenue mix towards higher module sales, 2) ramp up in fab production and 3) intensified competition. Despite a slow recovery in consumer demand and prolonged replacement cycle of handsets, we expect Maxscend to outperform its peers, with its unique fab-lite model to support 1) supply chain security, 2) better product performance and 3) potential in cost optimization once utilization reaches a higher level. **Maintain BUY with adj. TP at RMB100.**

- **We remain optimistic that Maxscend's module business will drive future growth.** By segment, discrete products revenue grew 15% YoY in 1H24, while module products grew 81% YoY. Module revenue contribution increased steadily from 29%/36% in 2022/23 to 45% in 1H24. We expect module sales to grow further by 37%/30% YoY in 2024/25E, driven by the modulization trend in RFFE sector. We hold a positive outlook for Maxscend with the company's recent development in filters, which will enhance Maxscend's capabilities in meeting clients' customization and miniaturization requirements that eventually lead to market share gains.
- **We see domestic RFFE suppliers are all facing ASP pressures from a deteriorating industry environment, as competition gets intensified.** However, we think the impact will be mitigated eventually as the sector continues to consolidate. In addition, Maxscend is increasing its high-end product coverage with its own fabrication capacities. Looking forward, the launch of new products will be in focus. We think new product ramp-up will weigh on GPM in the near term. We project overall GPM to be 41.9%/42.2% for 2024/25E.
- **Maintain BUY rating.** We cut 2024/25E earnings forecasts by 31%/27% on GPM pressure from longer-than-expected price war. TP is trimmed to RMB100, based on 44.5x 2025E P/E, which is 1SD below 1-year hist. avg. fwd. P/E, given near-term GPM pressures and uncertainties in mobile recovery. We think Maxscend will be a key beneficiary of the semiconductor localization trend in China. Despite a challenging market, the company's growth story is intact, in our view. Its fabrication capabilities will serve as a pillar stone for its long-term development.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,677	4,378	5,002	6,069	7,154
YoY growth (%)	(20.6)	19.1	14.2	21.3	17.9
Gross margin (%)	52.9	46.4	41.9	42.3	43.2
Net profit (RMB mn)	1,069.2	1,122.3	817.5	1,205.1	1,760.7
YoY growth (%)	(49.9)	5.0	(27.2)	47.4	46.1
EPS (Reported) (RMB)	2.00	2.10	1.53	2.25	3.29
P/E (x)	33.2	31.6	43.4	29.5	20.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB100.00
 (Previous TP) RMB174.00
Up/Downside 50.7%
Current Price RMB66.35

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Stock Data

Mkt Cap (RMB mn)	35,417.6
Avg 3 mths t/o (RMB mn)	568.8
52w High/Low (RMB)	150.70/63.33
Total Issued Shares (mn)	533.8

Source: FactSet

Shareholding Structure

WX HUIZHI UNITED INV	11.5%
Feng Chenhui	7.6%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-9.5%	-8.6%
3-mth	-23.7%	-14.8%
6-mth	-38.3%	-31.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

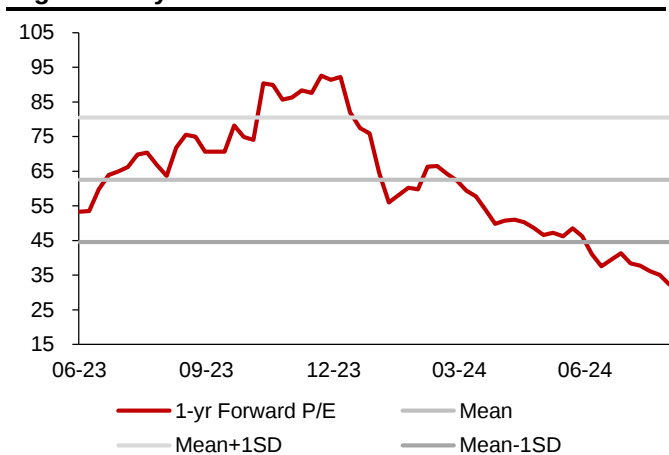
RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,002	6,069	7,154	5,324	6,608	7,955	-6%	-8%	-10%
Gross Profit	2,094	2,566	3,089	2,285	2,851	3,483	-8%	-10%	-11%
Net profit	818	1,205	1,761	1,128	1,545	2,017	-28%	-22%	-13%
EPS (RMB)	1.53	2.26	3.30	2.23	3.08	4.11	-31%	-27%	-20%
Gross Margin	41.9%	42.3%	43.2%	42.9%	43.1%	43.8%	-1.1 ppt	-0.9 ppt	-0.6 ppt
Net Margin	16.3%	19.9%	24.6%	21.2%	23.4%	25.4%	-4.8 ppt	-3.5 ppt	-0.7 ppt

Source: Company data, CMBIGM estimates

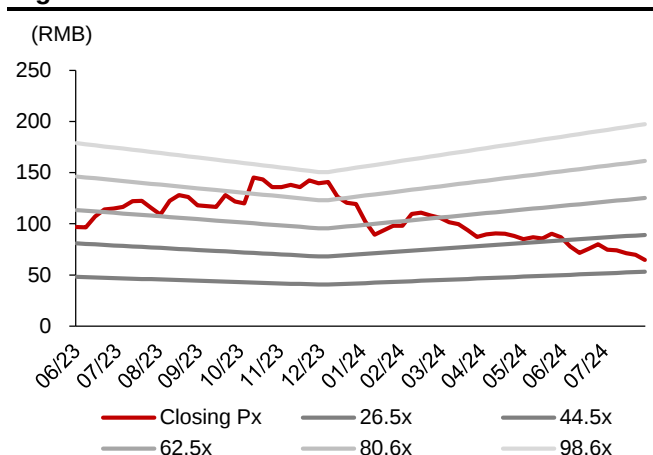
Figure 2: CMBIGM estimates vs. consensus

RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,002	6,069	7,154	5,865	7,745	N/A	-15%	-22%	N/A
Gross Profit	2,094	2,566	3,089	2,663	3,523	N/A	-21%	-27%	N/A
Net profit	818	1,205	1,761	1,554	2,209	N/A	-47%	-45%	N/A
EPS (RMB)	1.53	2.26	3.30	2.91	4.14	N/A	-47%	-45%	N/A
Gross Margin	41.9%	42.3%	43.2%	45.4%	45.5%	N/A	-3.5 ppt	-3.2 ppt	N/A
Net Margin	16.3%	19.9%	24.6%	26.5%	28.5%	N/A	-10.2 ppt	-8.7 ppt	N/A

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

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	4,634	3,677	4,378	5,002	6,069	7,154
Cost of goods sold	(1,959)	(1,732)	(2,345)	(2,908)	(3,503)	(4,065)
Gross profit	2,675	1,946	2,034	2,094	2,566	3,089
Operating expenses	(405)	(595)	(841)	(1,153)	(1,109)	(1,042)
SG&A expense	(97)	(139)	(201)	(223)	(234)	(205)
R&D expense	(304)	(449)	(629)	(913)	(858)	(820)
Others	(4)	(6)	(11)	(16)	(16)	(17)
Operating profit	2,269	1,351	1,192	941	1,457	2,047
Other income	212	13	18	16	(12)	(8)
Other expense	(7)	(8)	(10)	(12)	1	2
Other gains/(losses)	(48)	(302)	(73)	(121)	(141)	(129)
EBIT	2,427	1,055	1,127	824	1,306	1,912
Interest income	12	13	46	21	65	75
Interest expense	(0)	(1)	(2)	(13)	(27)	(27)
Others	(24)	22	0	(12)	(10)	(10)
Pre-tax profit	2,415	1,089	1,171	820	1,335	1,950
Income tax	(280)	(11)	(52)	(5)	(133)	(195)
After tax profit	2,135	1,078	1,119	815	1,201	1,755
Minority interest	(0)	9	(3)	(2)	(4)	(5)
Net profit	2,135	1,069	1,122	818	1,205	1,761

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	4,980	3,588	3,269	4,434	6,440	8,753
Cash & equivalents	2,661	1,277	1,008	819	2,730	5,078
Account receivables	572	400	518	496	502	478
Inventories	1,476	1,720	1,493	2,491	2,500	2,400
Prepayment	12	35	48	190	231	272
Other current assets	259	156	202	438	478	526
Non-current assets	3,468	5,915	7,689	9,925	9,251	8,549
PP&E	246	2,043	2,418	5,868	5,252	4,115
Right-of-use assets	3	14	71	83	98	116
Deferred income tax	23	69	84	92	101	111
Intangibles	75	123	122	192	273	363
Goodwill	0	0	0	0	0	0
Other non-current assets	3,121	3,667	4,994	3,689	3,527	3,845
Total assets	8,448	9,504	10,958	14,359	15,691	17,302
Current liabilities	752	721	881	3,511	3,702	3,654
Short-term borrowings	0	0	0	2,064	2,168	2,057
Account payables	376	476	635	959	961	932
Tax payable	298	136	121	41	45	49
Other current liabilities	18	17	21	23	23	27
Contract liabilities	8	6	7	339	411	484
Accrued expenses	52	85	97	86	94	104
Non-current liabilities	62	98	274	286	312	344
Long-term borrowings	0	0	0	0	0	0
Bond payables	0	0	0	0	0	0
Other non-current liabilities	62	98	274	286	312	344
Total liabilities	813	819	1,154	3,797	4,014	3,998
Share capital	334	534	534	535	535	535
Retained earnings	3,428	4,334	5,271	5,903	6,924	8,415
Other reserves	3,881	3,814	3,998	4,127	4,224	4,366
Total shareholders equity	7,642	8,682	9,803	10,564	11,683	13,315
Minority interest	(8)	3	0	(2)	(6)	(11)
Total equity and liabilities	8,448	9,504	10,958	14,359	15,691	17,302

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,135	1,078	1,119	815	1,201	1,755
Depreciation & amortization	52	103	222	524	1,277	1,406
Change in working capital	(1,086)	(518)	431	(516)	163	262
Others	49	279	122	(1,155)	(340)	(373)
Net cash from operations	1,150	942	1,894	(332)	2,302	3,050
Investing						
Capital expenditure	(2,858)	(1,711)	(1,445)	(1,864)	(400)	(449)
Others	(497)	93	(192)	132	(11)	(17)
Net cash from investing	(3,356)	(1,618)	(1,637)	(1,732)	(411)	(466)
Financing						
Dividend paid	(185)	(234)	(97)	(133)	(114)	(155)
Net borrowings	0	0	5	2,064	104	(111)
Others	2,965	1	11	93	29	29
Net cash from financing	2,780	(233)	-82	2,024	20	(237)
Net change in cash						
Cash at the beginning of the year	1,475	2,020	1,214	720	680	2,591
Exchange difference	(29)	104	(2)	0	0	0
Others	574	(909)	175	(41)	1,910	2,347
Cash at the end of the year	2,020	1,215	1387	680	2,591	4,938

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

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