

Zhejiang Jingsheng (300316 CH)

1Q23E profit beat expectations; Multiple catalysts ahead

Zhejiang Jingsheng (JSG) preannounced over the weekend that net profit in 1Q23 is expected to surge 81-103% YoY to RMB800-900mn, which is better than expectation. We believe this was likely driven by strong growth of crucibles revenue and margin, as well as faster-than-expected equipment delivery. We revise up our earnings forecast in 2023E/24E/25E by 11%/10%/7%. We revise up our TP to RMB106, based on 32x 2023E P/E, on the back of 32% earnings CAGR in 2023E-24E. Reiterate **BUY**. Upcoming catalysts include: (1) the launch of the 5th generation crystal growing furnace in 2Q23E; (2) new orders on solar cell & module equipment; and (3) spin-off of crucible business unit.

- **5th generation crystal growing furnace to be launched.** JSG recently completed the R&D of the 5th generation furnace. According to JSG, the new generation furnace will allow the customers to develop their own software systems so as to offer differentiated products. We expect JSG to announce the new product in May.
- **TCL Zhonghuan's latest expansion plan positive to JSG.** TCL Zhonghuan (002129 CH, NR) announced last week that it plans to raise RMB13.8bn through the issuance of CB to finance two capacity expansion plans (total capex RMB14.3bn). First, Zhonghuan plans to spend RMB3.65bn on a smart factory with annual wafer capacity of 35GW. We expect JSG will win the majority of equipment orders. Second, Zhonghuan will spend RMB10.7bn to build a smart factory for TOPCon solar cell (annual capacity: 25GW). Given the long-standing cooperation between Zhonghuan and JSG, we see chance for JSG to start winning orders for solar cell equipment.
- **Spin-off of crucible business.** JSG announced last week that it plans to spin off Meijing New Materials (美晶新材料) for separate listing. Meijing is the subsidiary of JSG, which is mainly engaged in the production and sales of crucibles for both solar power and semiconductor sector. The monthly production capacity of crucibles is expected to increase from 15k units as of end-2022 to >20k units in 3Q23E. JSG currently owns 57.8% of Meijing. **OJing Science & Technology (001269 CH, NR)**, major peer of Meijing, is currently trading at 27x 2023E P/E (Bloomberg consensus).
- **We revise up our net profit forecast in 2023E/24E/25E by 11%/10%/7%** to reflect (1) 21%/19%/16% increase in revenue, driven by higher growth assumption on materials and faster equipment delivery; (2) higher gross margin due to price hike of crucibles. Our net profit revision is less than that of the revenue as our MI assumption is higher (JSG owns 57.8% of crucible business).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,961	10,638	17,198	20,322	23,412
YoY growth (%)	56.4	78.5	61.7	18.2	15.2
Adjusted net profit (RMB mn)	1,711.7	2,923.6	4,338.8	5,117.9	5,902.9
EPS (Reported) (RMB)	1.33	2.25	3.32	3.91	4.51
YoY growth (%)	99.3	69.3	47.2	18.0	15.3
Consensus EPS (RMB)	na	na	3.14	3.89	4.67
P/E (x)	40.0	28.8	21.6	18.4	15.9
P/B (x)	10.0	7.9	6.5	5.0	4.0
Yield (%)	0.5	0.7	0.9	1.1	1.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB106.00

(Previous TP) RMB99.00

Up/Downside 47.6%

Current Price RMB71.81

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Stock Data

Mkt Cap (RMB mn)	93,915.3
Avg 3 mths t/o (RMB mn)	67.2
52w High/Low (RMB)	84.01/44.03
Total Issued Shares (mn)	1307.8

Source: FactSet

Shareholding Structure

Shaoxing Shangyu Jingsheng	48.2%
Invt. Mgmt.	
QIU Minxiu	3.0%

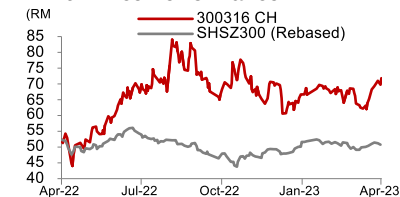
Source: SZSE

Share Performance

	Absolute	Relative
1-mth	6.9%	4.1%
3-mth	8.5%	9.7%
6-mth	5.1%	-1.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

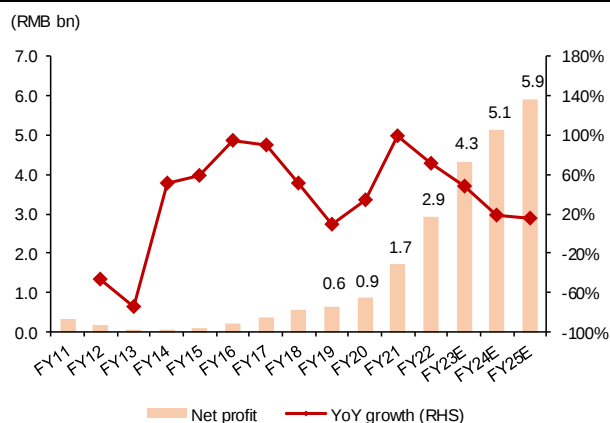
Related Reports

1. Zhejiang Jingsheng (300316 CH, BUY) – Raise estimates on strong materials segment – 3 Apr 2023
2. Zhejiang Jingsheng (300316 CH, BUY) – 2Q22 profit +1.4x YoY with strong cash flow; Raise earnings & TP on solid margin – 29 Aug 2022

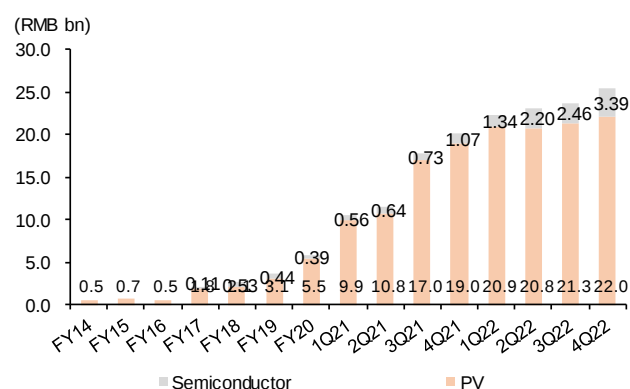
Figure 1: Change in earnings forecast

(RMB mn)	New			Old			Diff		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	17,198	20,322	23,412	14,158	17,014	20,181	21%	19%	16%
Equipment and service	12,702	15,433	18,211	11,517	13,820	16,307	10%	12%	12%
Materials	3,637	3,928	4,124	1,818	2,273	2,841	100%	73%	45%
Others	859	962	1,077	823	922	1,032	4%	4%	4%
Gross margin	40.5%	39.7%	39.0%	39.6%	39.2%	39.1%	1.0ppt	0.5ppt	-0.1ppt
Selling expense ratio	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.0ppt	0.0ppt	0.0ppt
Admin expense ratio	2.6%	2.5%	2.3%	2.6%	2.5%	2.3%	0.0ppt	0.0ppt	0.0ppt
R&D expense ratio	7.5%	6.7%	6.5%	6.8%	6.7%	6.5%	0.7ppt	0.0ppt	0.0ppt
Net profit	4,339	5,118	5,903	3,916	4,632	5,500	11%	10%	7%
EPS (RMB)	3.32	3.91	4.51	2.99	3.54	4.21	11%	10%	7%
BVPS (RMB)	11.11	14.35	18.09	10.78	13.72	17.22	3%	5%	5%
ROE	34.3%	30.7%	27.8%	31.5%	28.9%	27.2%	2.8ppt	1.8ppt	0.6ppt

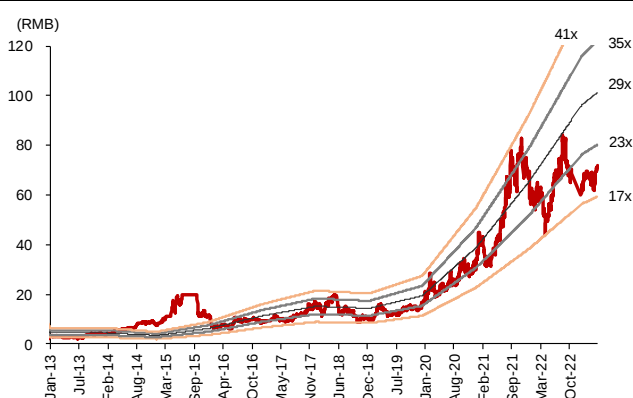
Source: Company data, CMBIGM estimates

Figure 2: Jingsheng's net profit growth

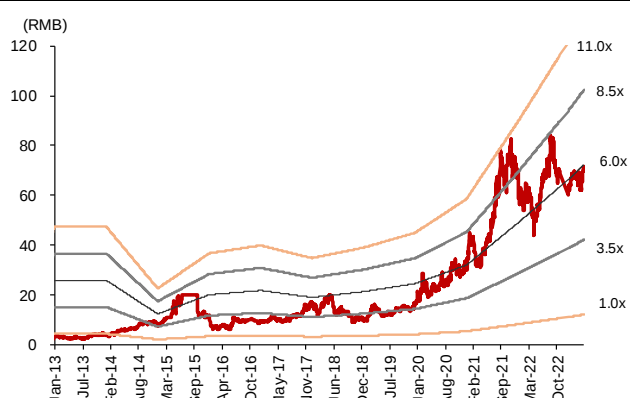
Source: Company data, CMBIGM estimates

Figure 3: Jingsheng's total backlog reached RMB25.4bn as at end-Dec 2022

Source: Company data, CMBIGM

Figure 4: Jingsheng's P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 5: Jingsheng's P/B band

Source: Company data, Bloomberg, CMBIGM estimates

- **Risks:** 1) Slowdown in solar power capex; 2) lower-than-expected gross margin; (3) decline in crucible price.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	3,811	5,961	10,638	17,198	20,322	23,412
Cost of goods sold	(2,416)	(3,593)	(6,420)	(10,229)	(12,261)	(14,272)
Gross profit	1,395	2,368	4,218	6,969	8,061	9,140
Selling expense	(33)	(30)	(45)	(69)	(77)	(87)
Admin expense	(136)	(200)	(287)	(447)	(508)	(538)
R&D expense	(227)	(354)	(796)	(1,290)	(1,351)	(1,522)
Others	(44)	(84)	(126)	(204)	(241)	(278)
Operating profit	955	1,701	2,964	4,959	5,883	6,715
Other income	169	369	646	587	610	632
Other gains/(losses)	(137)	(100)	(210)	(395)	(471)	(547)
Net Interest income/(expense)	4	14	19	16	28	68
Pre-tax profit	992	1,984	3,419	5,167	6,049	6,868
Income tax	(140)	(256)	(341)	(517)	(605)	(687)
After tax profit	852	1,728	3,078	4,650	5,445	6,181
Minority interest	6	(17)	(154)	(312)	(327)	(278)
Adjusted net profit	858	1,712	2,924	4,339	5,118	5,903

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	7,962	13,190	22,590	29,960	36,037	43,379
Cash & equivalents	851	1,785	3,509	3,563	4,819	7,391
Restricted cash	88	82	0	0	0	0
Account receivables	3,713	4,147	5,444	10,319	12,193	14,047
Inventories	2,580	6,051	12,391	14,832	17,779	20,695
Prepayment	167	534	958	958	958	958
Other current assets	563	591	288	288	288	288
Non-current assets	2,536	3,693	6,297	7,508	8,514	9,320
PP&E	1,135	1,509	2,573	3,669	4,572	5,284
Investment in JVs & assos	824	977	951	1,075	1,202	1,333
Intangibles	221	246	429	434	439	443
Other non-current assets	356	961	2,344	2,330	2,300	2,260
Total assets	10,498	16,884	28,887	37,468	44,551	52,699
Current liabilities	5,201	9,620	17,510	22,029	24,535	27,526
Short-term borrowings	22	29	1,091	1,141	1,191	1,201
Account payables	2,775	4,147	6,350	9,717	11,035	12,845
Other current liabilities	401	480	604	604	604	604
Contract liabilities	2,003	4,964	9,465	10,568	11,706	12,877
Non-current liabilities	46	147	164	164	164	164
Long-term borrowings	11	2	1	1	1	1
Other non-current liabilities	35	146	163	163	163	163
Total liabilities	5,247	9,767	17,674	22,193	24,700	27,690
Total shareholders equity	5,240	6,835	10,773	14,524	18,774	23,653
Minority interest	12	281	440	751	1,078	1,356
Total equity and liabilities	10,498	16,884	28,887	37,468	44,551	52,699

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	852	1,728	3,078	4,650	5,445	6,181
Depreciation & amortization	136	153	395	332	442	544
Change in working capital	(124)	(744)	(3,487)	(2,846)	(2,366)	(1,789)
Others	90	599	1,327	21	19	15
Net cash from operations	954	1,737	1,314	2,158	3,539	4,951
Investing						
Capital expenditure	(229)	(778)	(2,323)	(1,420)	(1,320)	(1,220)
Others	(54)	(108)	371	(84)	(82)	(80)
Net cash from investing	(283)	(886)	(1,952)	(1,504)	(1,402)	(1,300)
Financing						
Dividend paid	(132)	(174)	(360)	(589)	(868)	(1,024)
Net borrowings	(44)	(4)	1,063	50	50	10
Proceeds from share issues	18	265	1,498	0	0	0
Others	(209)	(11)	(106)	(61)	(64)	(66)
Net cash from financing	(366)	75	2,094	(600)	(882)	(1,079)
Net change in cash						
Cash at the beginning of the year	542	847	1,783	3,238	3,293	4,548
Exchange difference	0	9	0	0	0	0
Cash at the end of the year	847	1,783	3,238	3,293	4,548	7,120
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	22.5%	56.4%	78.5%	61.7%	18.2%	15.2%
Gross profit	26.2%	69.8%	78.1%	65.2%	15.7%	13.4%
Operating profit	30.5%	78.1%	74.3%	67.3%	18.6%	14.1%
Adj. net profit	34.6%	99.5%	70.8%	48.4%	18.0%	15.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	36.6%	39.7%	39.6%	40.5%	39.7%	39.0%
Operating margin	25.1%	28.5%	27.9%	28.8%	28.9%	28.7%
Adj. net profit margin	22.5%	28.7%	27.5%	25.2%	25.2%	25.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.5	1.4	1.3	1.4	1.5	1.6
Receivable turnover days	302.9	216.4	147.2	162.3	202.2	204.5
Inventory turnover days	190.1	264.2	316.4	288.9	292.8	299.9
Payable turnover days	350.8	351.6	298.4	286.7	308.9	305.4
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	37.8	40.0	28.8	21.6	18.4	15.9
P/B	6.2	10.0	7.9	6.5	5.0	4.0
Div yield (%)	0.5	0.5	0.7	0.9	1.1	1.3

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

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