

Zhejiang Jingsheng (300316 CH)

Robust solar capex; Earnings & TP revised up

The recent rounds of solar wafer capacity expansion plans announced by major players offer high visibility to Jingsheng's potential order intakes of crystal growing furnace over the coming two years, which reaffirms our bullish stance on the Company. Besides, the on-track progress on silicon carbide (SiC) equipment development will offer new growth opportunity. On the cost side, Jingsheng is managed to collaborate with suppliers to limit the component cost pressure. We revise up our 2021E-22E earnings by 14%/34% and lift our TP to RMB60.90, based on 53x FY21E P/E (previously 50x), equivalent to 1.1x PEG (48% EPS CAGR in 2021E-23E). Reiterate **BUY**.

- Aggressive capacity expansion by wafer manufacturers.** Based on our project-by-project calculation, major solar wafer makers have announced in 1H21 a total of 184GW of wafer capacity construction plan with total capex of RMB55bn (Figure 1). Majority of these new capacities are scheduled to put into operation in 2022-23E. Such expansion is faster than our expectation and we believe Jingsheng is set to benefit from the strong spending growth.
- Jingsheng's growth to be driven by both Zhonghuan (002129 CH, NR) and other new players.** Zhonghuan, Jingsheng's largest customer, plans to boost the wafer capacity significantly to 135GW by 2022E from 55GW as at end-2020 (Figure 2). Besides, Gaojing Solar, a fast-growing new player, plans to add 50GW of wafer capacity by 2023E. We believe Jingsheng, by leveraging its technological know-how, brand equity and solid track record, will be capable of winning orders from Gaojing and other fast growing wafer manufacturers.
- On-track progress on SiC equipment.** SiC is the third-generation semiconductor materials. According to CASA, the global SiC power device industry size is expected to grow from ~US\$0.7bn in 2020 to >US\$3bn in 2025E, with major downstream demand coming from new energy vehicles. Jingsheng has planned to deliver 60-100 sets of SiC crystal growing equipment this year. Given that the development is still at the beginning stage, we have not modelled the earnings contribution but see potential upside from there.
- Risk: 1) Weaker or slower-than-expected solar power capacity expansion; 2) lower-than-expected gross margin.**

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,110	3,811	7,008	10,280	12,776
YoY growth (%)	23	23	84	47	24
Net income (RMB mn)	637	858	1,486	2,230	2,779
EPS (RMB)	0.50	0.67	1.16	1.73	2.16
YoY growth (%)	(5)	35	73	50	25
Consensus EPS (RMB)	N/A	N/A	1.16	1.64	1.95
P/E (x)	96.3	71.6	41.4	27.6	22.1
P/B (x)	13.5	11.7	9.4	7.2	5.7
Yield (%)	0.2	0.3	0.5	0.7	0.9
ROE (%)	14.8	17.5	25.2	29.7	28.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB 60.90
(Previous TP)	RMB 50.20)
Up/Downside	+28%
Current Price	RMB 47.79

China Capital Goods

Wayne Fung, CFA

(852) 3900 0826

waynefung@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	61,437
Avg 3 mths t/o (RMB mn)	571
52w High/Low (RMB)	51.44/23.30
Total Issued Shares (mn)	1,286

Source: Bloomberg

Shareholding Structure

Shaoxing Shangyu Jingsheng	
Invt. Mgmt. and Consulting	48.32%
QIU Minxiu	2.97%
CAO Jianwei	2.77%

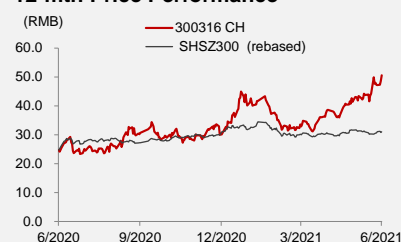
Source: Company data

Share Performance

	Absolute	Relative
1-mth	11.0%	13.3%
3-mth	42.4%	39.1%
6-mth	58.9%	58.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Pan-China CPA

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- Zhejiang Jingsheng (300316 CH, BUY) – Riding on the wave of large wafers – 18 Feb 2021
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Figure 1: Announced capacity expansion plans by major wafer makers in 1H21

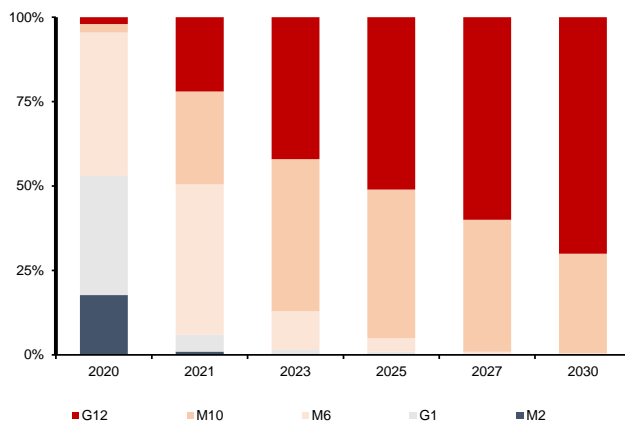
Date of announcement	Company	Type	Capacity (GW)	Location	Commencement	Investment amount (RMB bn)	Capex/GW (RMB mn)
Jan-21	Gaojing Solar	Ingot pulling/wafer slicing	50	Wafer: Zhuhai, Guangdong; Ingot: Ningxia	Phase 1: 15GW (2021) Phase 2 & 3: 35GW (2023)	17.0	340
Feb-21	Zhonghuan	Ingot pulling/wafer slicing	50	Yinchuan, Ningxia	n/a	12.0	240
	JYT	Ingot pulling/wafer slicing	24	Leshan, Sichuan	Phase 1: 12GW	7.0	292
	Shangji	Ingot pulling/wafer slicing	10	Baotao, Inner Mongolia	2022	3.5	350
Mar-21	JA Solar	Ingot pulling/wafer slicing	20	Baotao, Inner Mongolia	2023	5.0	251
	Shuangliang	Ingot pulling/wafer slicing	20	Baotao, Inner Mongolia	n/a	7.0	350
Apr-21	Canadian Solar	Ingot pulling/wafer slicing	10	Xining, Qinghai	2022	3.0	300
	Total		184			54.5	296

Source: Company data, news reports, CMBIS estimates

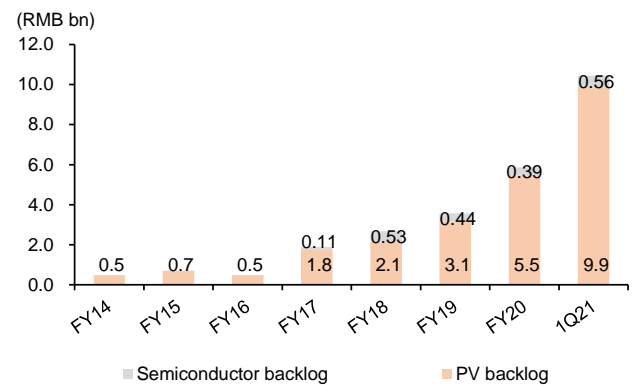
Figure 2: Capacity expansion by major wafer manufacturers

	2019	2020	2021E	2022E	2020	2021E	2022E
Wafer capacity (GW) (as at year end)					Additions		
LONGi	42	85	110	130	43	25	20
Zhonghuan	33	55	85	135	22	30	50
Jinko	15	26	33	35	11	8	2
JA Solar	8	18	32	40	10	14	8
JYT	2	7	17	32	5	10	15
Shangji Automation	2	13	30	35	11	17	5
Huantai (Meike)	3	3	15	15	0	12	0
Tongwei & Trina	0	0	8	15	0	8	8
Gaojing Solar	0	0	15	30	0	15	15
Solargiga	4	3	9	20	-0	5	12
Others	15	20	20	20	5	0	0
Total	124	230	373	507	106	143	134

Source: Company data, news reports, CMBIS estimates

Figure 3: CPIA estimates large wafer (M10/G12) will account for 50% share in 2021, from 2.5% in 2020

Source: CPIA, CMBIS

Figure 4: Jingsheng's total backlog reached RMB10.5bn (including RMB560mn from semiconductor) as at end-Mar 2021

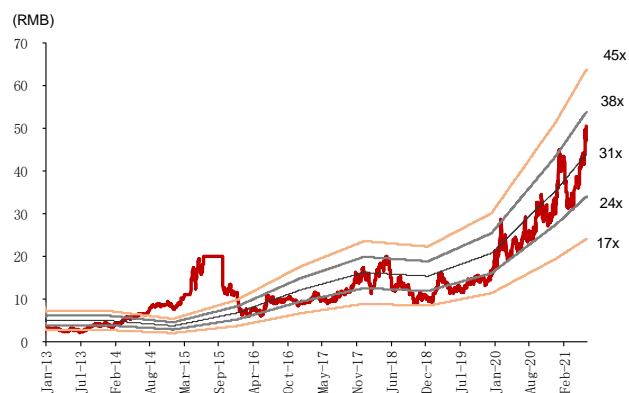
Source: Company data, CMBIS

Figure 5: Earnings revision

(RMB mn)	New		Old		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	7,008	10,280	6,160	7,845	14%	31%
Crystal growing eqpt.	5,115	7,672	4,688	6,048	9%	27%
Intelligent processing eqpt.	1,075	1,613	649	805	66%	100%
Sapphire products	272	339	231	289	18%	17%
Eqpt. modification	137	164	347	410	-61%	-60%
Others	409	491	244	293	68%	68%
COGS	(4,487)	(6,531)	(3,921)	(4,978)	14%	31%
Gross profit (mn)	2,520	3,749	2,240	2,867	13%	31%
SG&A expenses	(280)	(391)	(333)	(408)	-16%	-4%
R&D expenses	(420)	(617)	(345)	(451)	22%	37%
Core operating profit	1,764	2,660	1,490	1,924	18%	38%
Impairment losses	(159)	(197)	(111)	(120)	43%	64%
Pre-tax profit	1,727	2,593	1,511	1,938	14%	34%
Income tax	(244)	(366)	(227)	(291)	7%	26%
Minority interest	3	2	13	13	-77%	-85%
Net profit	1,486	2,230	1,298	1,661	14%	34%
EPS (RMB)	1.16	1.73	1.01	1.29	14%	34%
BVPS (RMB)	5.10	6.60	4.81	6.00	6%	10%
ROE	25.2%	29.7%	23.2%	23.9%	2.0ppt	5.8ppt

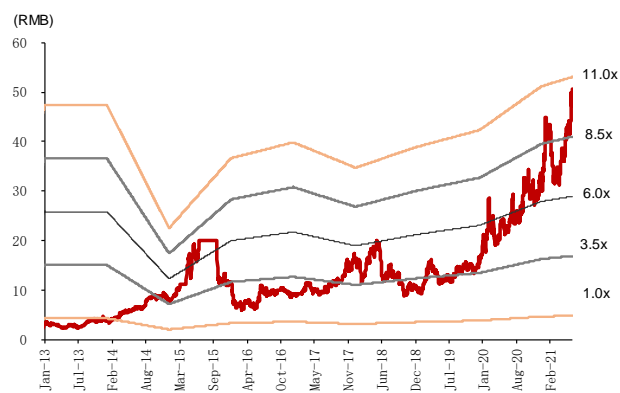
Source: CMBIS estimates

Figure 6: Jingsheng's forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 7: Jingsheng's forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,110	3,811	7,008	10,280	12,776	PAT	624	852	1,483	2,228	2,777
Crystal growing eqpt.	2,173	2,623	5,115	7,672	9,590	D&A	114	136	137	153	172
Intelligent processing eqpt.	504	552	1,075	1,613	2,017	Change in working capital	(47)	(124)	(497)	(1,243)	(1,457)
Eqpt. modification	165	101	137	164	197	Others	88	90	(29)	(39)	(43)
Sapphire products	66	194	272	339	407	Operating cash flow	779	954	1,094	1,099	1,449
Others	201	341	409	491	565	CAPEX	(95)	(229)	(265)	(260)	(260)
COGS	(2,004)	(2,416)	(4,487)	(6,531)	(8,101)	Others	(441)	(54)	(88)	(84)	(82)
Gross profit	1,105	1,395	2,520	3,749	4,674	Investing cash flow	(536)	(283)	(353)	(344)	(342)
S&M expenses	(46)	(33)	(56)	(82)	(102)	Proceeds from fund raising	1	18	-	-	-
G&A expenses	(126)	(136)	(224)	(308)	(358)	Changes in borrowings	(45)	(44)	(10)	10	10
R&D expenses	(186)	(227)	(420)	(617)	(767)	Dividends paid	(135)	(132)	(174)	(297)	(446)
Other opex	(15)	(39)	(55)	(82)	(98)	Others	5	(209)	(2)	(2)	(2)
Core operating profit	733	959	1,764	2,660	3,349	Financing cash flow	(174)	(366)	(185)	(289)	(438)
Impairment losses	(97)	(137)	(159)	(197)	(252)	Net change in cash	69	305	556	467	668
Other expenses and incomes	70	129	66	49	37	Cash at the beginning	473	542	847	1,403	1,870
Pre-tax profit	721	992	1,727	2,593	3,233	Forex change, net	(0)	0	-	-	-
Income tax	(97)	(140)	(244)	(366)	(456)	Less: restricted cash	37	88	-	-	-
Minority interest	13	6	3	2	2	Cash at the end	542	847	1,403	1,870	2,538
Net profit	637	858	1,486	2,230	2,779						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	5,675	7,962	12,481	17,289	21,987	Revenue mix (%)					
Cash and restricted cash	582	938	1,494	1,961	2,629	Crystal growing eqpt.	70	69	73	75	75
Trade receivables	2,865	3,713	6,307	9,046	11,498	Intelligent processing eqpt.	16	14	15	16	16
Inventories	1,389	2,580	3,949	5,551	7,129	Eqpt. modification	5	3	2	2	2
Other current assets	839	731	731	731	731	Sapphire products	2	5	4	3	3
Non-current assets	2,187	2,536	2,783	3,014	3,229	Others	6	9	6	5	4
Long-term equity investment	503	824	943	1,067	1,194	YoY growth (%)					
Fixed assets	1,147	1,135	1,244	1,348	1,431	Revenue	23	23	84	47	24
Other non-current assets	537	577	596	598	604	Gross profit	10	26	81	49	25
Total assets	7,863	10,498	15,264	20,302	25,216	Net profit	9	35	73	50	25
Current liabilities	3,085	5,201	8,660	11,765	14,345	Operating efficiency					
ST borrowings	42	22	15	22	29	Gross margin	35.5	36.6	36.0	36.5	36.6
Trade payables	1,869	2,775	5,160	7,510	9,316	Core operating margin	23.6	25.2	25.2	25.9	26.2
Contract liabilities	1,007	2,003	3,084	3,833	4,599	Net profit margin	20.5	22.5	21.2	21.7	21.8
Other current liabilities	167	401	401	401	401	B/S ratios (%)					
Non-current liabilities	61	46	43	46	49	Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
LT borrowings	36	11	8	11	14	Receivable turnover days	261	303	254	273	293
Other non-current liabilities	25	35	35	35	35	Inventory turnover days	167	190	170	169	181
Total liabilities	3,146	5,247	8,703	11,811	14,394	Payable turnover days	282	351	323	354	379
Share capital	1,284	1,286	1,286	1,286	1,286	Profitability (%)					
Reserves	1,448	1,528	1,528	1,528	1,528	ROE	14.8	17.5	25.2	29.7	28.8
Retained earnings	1,819	2,426	3,738	5,671	8,004	ROA	9.0	9.3	11.5	12.5	12.2
Shareholders' fund	4,551	5,240	6,552	8,485	10,817	Per share data (RMB)					
Minority interest	165	12	9	7	5	EPS	0.50	0.67	1.16	1.73	2.16
Total equity	4,716	5,251	6,561	8,491	10,822	DPS	0.10	0.14	0.23	0.35	0.43
						BVPS	3.54	4.08	5.10	6.60	8.41

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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