

Wingtech (600745 CH)

Mispriced business represents attractive buying opportunity

Wingtech announced its 3Q22 results. 3Q revenue declined slightly by 2.1% YoY and 0.8% QoQ, to RMB13.6bn. NP to shareholders declined by 5.8% YoY but grew 12.2% QoQ to RMB762mn. GPM increased to 20.2% in 3Q22 (vs. 17.0%/17.2% in 3Q21/2Q22). We think **3Q results were solid and confirmed the resilience of Wingtech's power semi business**. We revised down our forecasts mainly on the top line, and slightly adjusted TP to RMB90.13 (same 25x 2023E P/E). We think the market is overly concerned on Wingtech's performance, which is valid and understandable given some of its business units are still in transition. **We reiterate BUY on Wingtech and believe the share is mispriced at 12.1x 2023E P/E, significantly low compared to its peers. This represents attractive buying opportunity.**

- **3Q22 results confirmed the resilience of Wingtech's power semi business.** Semi business maintained its strong growth momentum, reaching RMB4.3bn in sales, increased by 26.1% YoY and 8.3% QoQ, respectively. Among which, 75% were from auto (~2/3) and industrial (~1/3) markets. Meanwhile, GPM increased significantly to 44.0% vs. 37.2% in 2021. NPM was 23.5% (vs. 19.1% in 2021). Riding the tailwind of vehicle electrification, the Company's power semi unit will continue to be the growth engine in 2023.
- **ODM business was affected by weaker consumer sentiment as the majority of revenue was from mobile.** ODM's sales fell QoQ for another quarter (-12.1%/-4.3% QoQ for 2Q/3Q). GPM recovered to 9.1% in 3Q from 7.5% in 2Q (vs. 8.7% in 2021), as the Company focused on high-margin clients and improved operation efficiency. The segment remained unprofitable (3Q NPM: -2.2%), as non-mobile business had not entered mass production. However, the non-mobile business will diversify ODM's revenue structure and enhance the Company presence in auto/consumer market in the future.
- **The optical module business is still in transition (acquired in 2021), but managed to break-even from 2Q.** The Company will continue improving its operational efficiency while proceeding with a series of projects that will create growth opportunity in mobile, notebook, auto, etc.
- **Reiterate BUY with slightly adjusted TP of RMB90.13. We believe share is mispriced that represents attractive buying opportunity** (current trades at 12.1x 2023E P/E). **Upside catalysts:** 1) new 12-inch factory to begin production; 2) ODM and optical modules' new projects to begin mass production. **Downside risks:** 1) macro challenges such as overseas inflation and slowdown in economic growth; and 2) delay/disruption in operations.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	51,707	52,729	56,659	71,141	89,837
YoY growth (%)	24.4%	2.0%	7.5%	25.6%	26.3%
Gross margin (%)	14.7%	16.2%	19.0%	19.1%	19.4%
Net income (RMB mn)	2,415	2,612	2,959	4,493	6,020
EPS (RMB)	2.06	2.11	2.37	3.61	4.83
YoY growth (%)	17.0%	2.4%	12.5%	51.9%	34.0%
Consensus EPS (RMB)	NA	NA	2.83	4.01	4.92
P/E (x)	21.1	20.6	18.3	12.1	9.0
Yield (%)	0.4%	0.5%	0.5%	0.8%	1.1%
ROE (%)	8.3%	7.7%	8.0%	10.7%	12.5%
Net gearing (%)	8.6%	Net cash	8.0%	12.9%	14.4%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB90.13
(Previous TP)	RMB93.12)
Up/Downside	+107%
Current Price	RMB43.53

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Stock Data

Mkt Cap (RMBmn)	54,253
Avg 3 mths t/o (RMBmn)	1,100.69
52w High/Low (RMB)	143.88/43.45
Total Issued Shares (mn)	1,246.3

Source: Bloomberg

Shareholding Structure

Wentianxia Tech	12.35%
WX Guolian Integ Ci Inv	9.75%
ZH Ronglin Equ Inv	7.42%

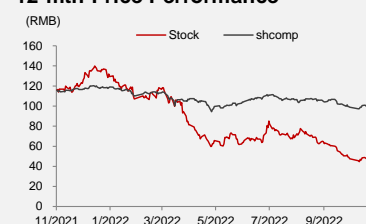
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-11.4%	-7.6%
3-mth	-36.5%	-29.2%
6-mth	-33.8%	-30.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Zhonghua

Related Reports

1. Wingtech (600745 CH) – 2Q results in line; Maintain BUY – 29 Aug 2022 ([Link](#))
2. Diversified hardware play with bright outlook – 8 Jul 2022 ([Link](#))

Review of 3Q22 results

Figure 1: 3Q22 results review

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ	YoY
Revenue	11,991	12,778	13,877	14,083	14,803	13,693	13,589	-0.8%	-2.1%
Gross Profit	1,865	2,144	2,366	2,154	2,627	2,375	2,750	15.8%	16.2%
Operating Profit	772	679	840	657	697	916	973	6.2%	15.8%
Net profit	652	581	809	570	503	679	762	12.2%	-5.8%
EPS (RMB)	0.53	0.47	0.65	0.46	0.40	0.55	0.61	10.9%	-6.2%
Gross Margin	15.6%	16.8%	17.0%	15.3%	17.7%	17.3%	20.2%	2.9 ppt	3.2 ppt
Operating Margin	6.4%	5.3%	6.1%	4.7%	4.7%	6.7%	7.2%	0.5 ppt	1.1 ppt
Net Margin	5.4%	4.5%	5.8%	4.0%	3.4%	5.0%	5.6%	0.6 ppt	-0.2 ppt

Source: Company data, CMBIS estimates

Figure 2: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	56,659	71,141	89,837	65,658	90,941	116,979	-14%	-22%	-23%
EBITDA	10,749	13,614	17,429	11,291	15,625	20,433	-5%	-13%	-15%
Operating Profit	3,796	5,513	7,400	3,931	5,635	7,919	-3%	-2%	-7%
Net profit	2,959	4,493	6,020	3,024	4,642	6,512	-2%	-3%	-8%
EPS (US\$ cents)	2.37	3.61	4.83	2.43	3.72	5.23	-2%	-3%	-8%
Gross Margin	19.0%	19.1%	19.4%	17.2%	17.2%	17.5%	1.8 ppt	2 ppt	1.9 ppt
Operating Margin	6.7%	7.7%	8.2%	6.0%	6.2%	6.8%	0.7 ppt	1.6 ppt	1.5 ppt
Net Margin	5.2%	6.3%	6.7%	4.6%	5.1%	5.6%	0.6 ppt	1.2 ppt	1.1 ppt

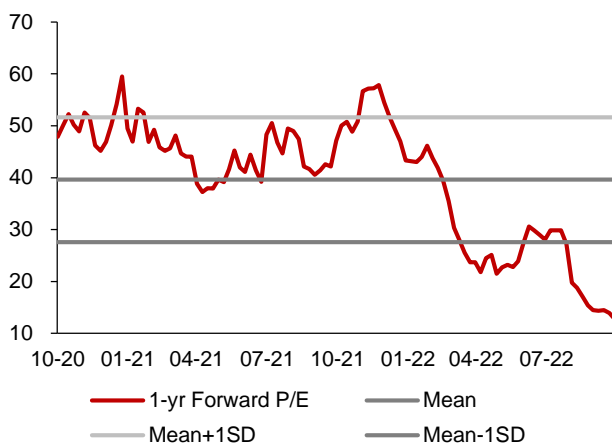
Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	56,659	71,141	89,837	65,418	83,699	103,000	-13%	-15%	-13%
EBITDA	10,749	13,614	17,429	11,074	14,044	17,367	-3%	-3%	0%
Operating Profit	3,796	5,513	7,400	4,117	5,653	7,157	-8%	-2%	3%
Net profit	2,959	4,493	6,020	3,504	4,881	6,202	-16%	-8%	-3%
EPS (US\$ cents)	2.37	3.61	4.83	2.83	4.01	4.92	-16%	-10%	-2%
Gross Margin	19.0%	19.1%	19.4%	16.9%	16.8%	16.9%	2 ppt	2.4 ppt	2.5 ppt
Operating Margin	6.7%	7.7%	8.2%	6.3%	6.8%	6.9%	0.4 ppt	1 ppt	1.3 ppt
Net Margin	5.2%	6.3%	6.7%	5.4%	5.8%	6.0%	-0.1 ppt	0.5 ppt	0.7 ppt

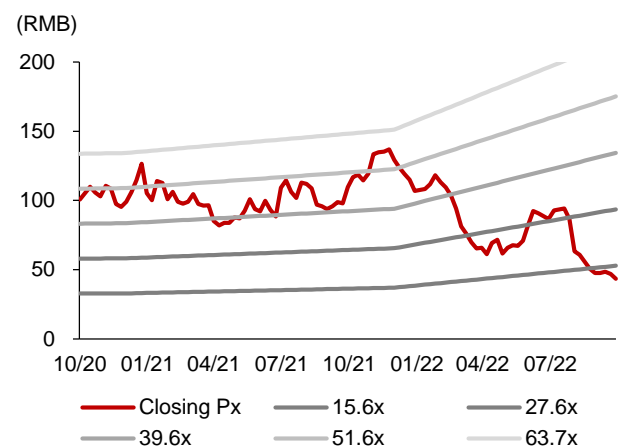
Source: Company data, CMBIGM estimates

Figure 4: 12M forward P/E chart



Source: Company data, CMBIGM estimates

Figure 5: 12M forward P/E band



Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	51,707	52,729	56,659	71,141	89,837
Cost of sales	(44,105)	(44,200)	(45,910)	(57,527)	(72,408)
Gross profit	7,602	8,528	10,749	13,614	17,429
Selling exp	(816)	(760)	(880)	(1,065)	(1,370)
Admin exp	(1,288)	(2,026)	(2,039)	(2,418)	(2,874)
R&D exp	(2,221)	(2,689)	(3,301)	(4,145)	(5,234)
Finance costs	(852)	(382)	(279)	(765)	(953)
Other operating exp.	10,101	11,437	13,453	16,494	20,461
Operating profit	2,678	2,948	3,796	5,513	7,400
Other non-oper exp.	(27)	24	(3)	15	7
Pre-tax profit	2,652	2,972	3,793	5,528	7,407
Income tax expense	(192)	(460)	(834)	(1,035)	(1,387)
Minority interests	44	(99)			
Net profit to shareholders	2,415	2,612	2,959	4,493	6,020

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	2,460	2,513	2,959	4,493	6,020
Depreciation/amortization	944	934	1,338	1,806	2,382
Change in working capital	1,036	(3,720)	(5,071)	(1,697)	(590)
Others	2,175	2,022	2,569	2,397	2,967
Net cash from operating	6,614	1,749	1,795	6,999	10,779
Capex	(2,222)	(5,092)	(7,990)	(8,852)	(11,277)
Other	(992)	(853)	135	283	275
Net cash from investing	(3,214)	(5,945)	(7,855)	(8,570)	(11,002)
Share issuance	6,200	1,036	446	343	261
Dividend paid	(695)	(480)	(1,039)	(1,328)	(1,771)
Other	(7,505)	7,355	7,872	5,049	9,748
Net cash from financing	(2,001)	7,910	7,279	4,065	8,238
Net change in cash	1,399	3,715	1,219	2,494	8,015
Cash at beginning of the year	6,437	7,659	11,250	12,552	15,128
Exchange difference	(178)	(123)	83	83	83
Cash at the end of the year	7,659	11,250	12,552	15,128	23,227

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	24,929	30,446	35,117	42,003	54,684
Cash & equivalents	5,751	10,505	12,552	15,128	23,227
Account receivables	6,417	9,298	9,330	11,330	14,267
Inventory	6,134	6,299	9,298	11,191	12,614
Prepayment	454	284	360	475	586
Other current assets	6,172	4,060	3,577	3,878	3,990
Non-current assets	34,962	42,130	48,029	54,456	62,832
PPE	5,460	8,138	10,812	13,960	17,864
Deferred tax assets	664	1,027	1,303	1,512	1,842
Other non-current assets	28,837	32,966	35,914	38,984	43,126
Total assets	59,891	72,576	83,146	96,459	117,515
Current liabilities	21,478	23,727	28,766	35,038	46,698
ST borrowings	450	3,537	9,923	13,389	20,835
Account payables	11,900	11,389	11,252	13,020	15,547
Tax payable	569	411	678	786	958
Other current liabilities	8,558	8,391	6,915	7,843	9,359
Non-current liabilities	9,338	14,332	16,551	18,746	21,843
LT borrowings	7,805	4,218	5,640	7,254	9,430
Deferred tax liability	485	1,119	1,473	1,709	2,082
Other non-current liabilities	1,049	8,995	9,437	9,783	10,331
Total liabilities	30,816	38,060	45,317	53,784	68,542
Share capital	1,245	1,246	1,246	1,246	1,246
Reserve	24,325	24,924	25,271	25,538	25,741
Retained earnings	3,931	6,082	8,569	12,442	17,581
Other	(441)	1,446	1,926	2,632	3,587
Minority interest	15	817	817	817	817
Total equity	29,075	34,516	37,829	42,675	48,974
Total liabilities and equity	59,891	72,576	83,146	96,459	117,515

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
ODM	41,667	38,685	36,976	41,953	47,963
Camera	0	0	2,504	5,420	8,685
Semi	9,892	13,803	16,979	23,768	33,189
Other	148	241	200	0	0
Growth (%)					
Revenue	24.4%	2.0%	7.5%	25.6%	26.3%
Gross profit	77.1%	12.2%	26.0%	26.7%	28.0%
Operating profit	74.3%	10.1%	28.8%	45.2%	34.2%
Net profit	92.7%	8.1%	13.3%	51.9%	34.0%
Profit & loss ratio (%)					
Gross margin	14.7%	16.2%	19.0%	19.1%	19.4%
Operating margin	5.2%	5.6%	6.7%	7.7%	8.2%
Net profit margin	4.7%	5.0%	5.2%	6.3%	6.7%
Balance sheet ratio					
Net debt/total equity (%)	8.6%	Net cash	8.0%	12.9%	14.4%
Current ratio (x)	1.2	1.3	1.2	1.2	1.2
Receivable turnover days	72	54	60	53	52
Inventory turnover days	(49)	(51)	(62)	(65)	(60)
Payable turnover days	(115)	(96)	(90)	(77)	(72)
Profitability (%)					
ROE	8.3%	7.7%	8.0%	10.7%	12.5%
ROA	4.0%	3.6%	3.6%	4.7%	5.1%
Per share data (RMB)					
EPS	2.06	2.11	2.37	3.61	4.83
DPS	0.17	0.20	0.23	0.35	0.47
BPS	24.78	27.23	29.70	33.59	38.64

Source: Company data, CMBIGM estimates

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