

Wingtech (600745 CH)

Strong 2Q23 results on ODM business turning profitable

Wingtech released its 1H23 results, posting revenue and NP growth of 2.5% and 7.2% YoY. By segment, ODM/semi sales (accounted for 71%/26% of the total business) grew 6.2%/-0.3% YoY. Overall GPM was 17% amid soft consumer electronic consumption. We think Wingtech's management is making material progress to stabilize and grow its multiple business segments. ODM and optical module segments have turned profitable in 2Q23, suggesting these businesses are back on track for growth, which should alleviate market concerns on its legacy business' competitiveness and new business' integration and growth. We expect these positive signs can boost investors' confidence in Wingtech. Maintain BUY, with TP adjusted to RMB68.

- **Semi business continued its resilience helped by strong auto growth.** Its auto semi sales grew 26.9% YoY in 1H23, continuing the strong growth momentum (36.5%/28.0% YoY in 2021/22). We expect the trend to persist into 2H23/2024. However, the semi business is not immune to the broader weakness in consumer electronics market: mobile/computing/consumer-related semi sales declined by 64.5%/17.4%/38.7% YoY, offsetting the growth from auto. Industrial and electricity sales was flat with 2.2% YoY growth. Overall semi sales decreased by 0.3% YoY, with GPM staying above 40%.
- **ODM and optical module business turned profitable in 2Q23, showing these businesses are on track for future growth.** ODM's NPM was finally positive with 1.1% in 2Q23 vs. -4.0%/-1.0% in 2022/1Q23. Despite soft consumer electronic spending, Wingtech ODM sales grew 13.7% YoY in 2Q23, showing the Company is regaining its competitiveness in the ODM market. Optical module's net profit was RMB41mn in 2Q23 vs. RMB-335mn/RMB-48mn in 2022/1Q23. This segment is ramping up capacity and expanding consumer base. We expect these two segments will help lift overall NPM in the following years.
- **Maintain BUY with TP adjusted to RMB68**, based on 25x FY24 P/E, slightly below avg. 1-year forward P/E multiple, as consumer electronic inventory ingestion is longer-than-expected. We think the Company's valuation at the current level looks attractive (trading 15x 2024 P/E), as most negative news have been priced in already. **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; 3) further share selling from major shareholders.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	52,729	58,079	61,488	69,601	79,784
YoY growth (%)	2.0	10.1	5.9	13.2	14.6
Gross margin (%)	16.2	18.2	17.9	18.9	19.7
Net profit (RMB mn)	2,611.5	1,459.8	2,457.8	3,406.6	4,527.0
YoY growth (%)	8.1	(44.1)	68.4	38.6	32.9
EPS (RMB)	2.11	1.17	1.97	2.73	3.63
YoY growth (%)	2.4	(44.5)	68.4	38.6	32.9
EPS Consensus RMB)	NA	NA	2.34	3.38	4.10
P/E (x)	19.5	35.1	20.8	15.0	11.3
ROE (%)	7.7%	4.1%	6.3%	7.8%	9.3%

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB68.0
 (Previous TP RMB88.6)
Up/Downside 66.3%
Current Price RMB41.10

China Technology

Lily YANG, Ph.D

(852) 3916 3716

lilyyang@cmbi.com.hk

Kevin ZHANG

(852) 3761 8727

kevinzhang@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	51,079.1
Avg 3 mths t/o (RMB mn)	727.3
52w High/Low (RMB)	66.20/41.10
Total Issued Shares (mn)	1242.8

Source: FactSet

Shareholding Structure

WENTIANXIA TECH GRP	12.4%
WUXI GUOLIAN INTE CIR INV	9.8%

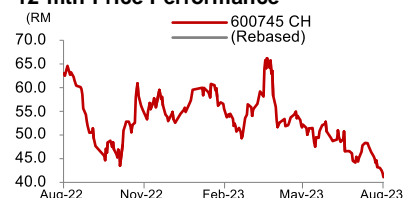
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-9.4%	NM
3-mth	-21.3%	NM
6-mth	-25.9%	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM estimates vs consensus

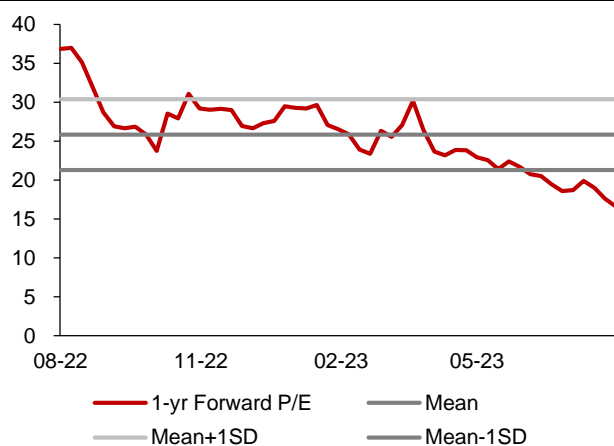
RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	61,488	69,601	79,784	66,155	78,282	89,083	-7%	-11%	-10%
Gross Profit	11,028	13,149	15,723	11,677	13,859	15,805	-6%	-5%	-1%
Operating Profit	3,620	5,017	6,665	3,968	5,297	6,686	-9%	-5%	0%
Net profit	2,458	3,407	4,527	2,757	4,126	4,845	-11%	-17%	-7%
EPS (RMB)	1.97	2.73	3.63	2.34	3.38	4.10	-16%	-19%	-11%
Gross Margin	17.9%	18.9%	19.7%	17.7%	17.7%	17.7%	0.3 ppt	1.2 ppt	2 ppt
Operating Margin	5.9%	7.2%	8.4%	6.0%	6.8%	7.5%	-0.1 ppt	0.4 ppt	0.8 ppt
Net Margin	4.0%	4.9%	5.7%	4.2%	5.3%	5.4%	-0.2 ppt	-0.4 ppt	0.2 ppt

Source: Company data, CMBIGM estimates

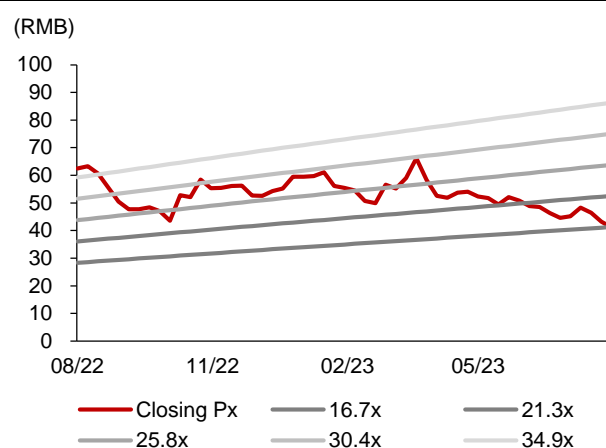
Figure 2: Earnings revision

RMB mn	New		Old		Diff(%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	61,488	69,601	70,609	88,943	-12.9%	-21.7%
Gross Profit	11,028	13,149	13,432	17,117	-17.9%	-23.2%
Operating Profit	3,620	5,017	5,420	7,242	-33.2%	-30.7%
Net profit	2,458	3,407	4,416	5,892	-44.3%	-42.2%
EPS (RMB)	1.97	2.73	3.54	4.73	-44.3%	-42.2%
Gross Margin	17.9%	18.9%	19.0%	19.2%	-1.1 ppt	-0.4 ppt
Operating Margin	5.9%	7.2%	7.7%	8.1%	-1.8 ppt	-0.9 ppt
Net Margin	4.0%	4.9%	6.3%	6.6%	-2.3 ppt	-1.7 ppt

Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band

Source: Bloomberg, CMBIGM estimates

Figure 4: 12M forward P/E chart

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	51,707	52,729	58,079	61,488	69,601	79,784
Cost of goods sold	(44,105)	(44,200)	(47,534)	(50,460)	(56,453)	(64,061)
Gross profit	7,602	8,528	10,545	11,028	13,149	15,723
Operating expenses	(4,443)	(5,592)	(6,769)	(6,989)	(7,919)	(8,834)
Selling expense	(816)	(760)	(919)	(909)	(1,065)	(1,200)
Admin expense	(1,288)	(2,026)	(2,320)	(2,480)	(2,807)	(3,058)
Sales tax	(118)	(117)	(136)	(193)	(191)	(234)
R&D expense	(2,221)	(2,689)	(3,394)	(3,407)	(3,857)	(4,341)
Operating profit	3,158	2,936	3,776	4,039	5,229	6,889
Other income	176	388	436	335	379	434
Other expense	(852)	(382)	(560)	(599)	(551)	(525)
Gain/loss on financial assets at FVTPL	158	72	(371)	(76)	0	0
Investment gain/loss	217	67	61	43	4	(22)
Other gains/(losses)	(179)	(134)	(1,229)	(122)	(45)	(111)
EBIT	2,678	2,948	2,112	3,620	5,017	6,665
Other income/expense	(27)	24	(5)	(4)	(5)	(6)
Pre-tax profit	2,652	2,972	2,107	3,616	5,011	6,659
Income tax	(192)	(460)	(747)	(1,196)	(1,658)	(2,203)
After tax profit	2,460	2,513	1,360	2,420	3,354	4,457
Minority interest	44	(99)	(100)	(38)	(53)	(70)
Net profit	2,415	2,612	1,460	2,458	3,407	4,527
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	24,929	30,446	29,829	26,390	29,804	33,790
Cash & equivalents	7,659	11,250	7,895	6,206	9,130	11,706
Restricted cash	(1,907)	(745)	933	296	296	296
Account receivables	6,868	9,633	8,615	9,916	9,802	10,527
Inventories	6,134	6,299	10,132	7,840	7,627	8,169
Prepayment	454	284	204	246	285	323
Financial assets at FVTPL	4,429	2,731	843	772	1,466	1,466
Other current assets	1,293	993	1,206	1,115	1,198	1,302
Non-current assets	34,962	42,130	46,861	48,358	50,522	53,477
PP&E	5,460	8,138	10,524	12,130	13,492	14,977
Right-of-use assets	0	898	859	634	499	450
Deferred income tax	664	1,027	1,285	1,280	1,376	1,495
Investment in JVs & assos	178	196	500	451	451	451
Intangibles	3,918	4,527	4,991	5,078	5,207	5,345
Goodwill	22,697	22,697	22,188	22,193	22,197	22,201
Financial assets at FVTPL	277	587	434	(3)	(771)	(838)
Other non-current assets	1,766	4,060	6,080	6,596	8,071	9,395
Current liabilities	21,478	23,727	26,674	20,190	21,238	22,244
Short-term borrowings	450	3,537	7,951	5,256	5,453	6,727
Account payables	18,649	17,753	16,163	12,452	13,153	12,731
Tax payable	569	411	381	394	423	460
Other current liabilities	1,069	1,122	909	1,071	1,094	1,122
Contract liabilities	131	96	68	52	79	79
Accrued expenses	610	809	1,201	965	1,037	1,127
Non-current liabilities	9,338	14,332	13,402	14,688	14,969	15,701
Long-term borrowings	7,805	4,218	2,617	3,280	3,287	3,680
Bond payables	0	7,190	7,556	7,749	7,749	7,749
Obligations under finance leases	0	683	621	663	712	773
Deferred income	485	1,119	1,482	1,771	1,903	2,068
Other non-current liabilities	1,049	1,122	1,126	1,226	1,318	1,431
Total liabilities	30,816	38,060	40,076	34,878	36,207	37,945
Share capital	1,245	2,790	2,790	2,765	2,878	3,020
Capital surplus	(444)	(294)	(197)	(120)	(62)	(3)
Retained earnings	3,792	5,945	7,668	10,644	14,568	19,613
Other reserves	24,466	25,258	25,638	25,906	26,110	26,138
Total shareholders equity	29,060	33,699	35,899	39,195	43,495	48,768
Minority interest	15	817	715	676	623	553
Total equity and liabilities	59,891	72,576	76,690	74,749	80,326	87,266

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,460	2,513	1,360	2,420	3,354	4,457
Depreciation & amortization	1,629	1,961	2,714	2,981	3,321	3,856
Tax paid	(211)	220	81	293	37	46
Change in working capital	1,247	(3,940)	(4,632)	(2,552)	1,215	(1,562)
Others	1,490	995	2,140	725	695	834
Net cash from operations	6,614	1,749	1,664	3,867	8,621	7,631
Investing						
Capital expenditure	(2,222)	(5,092)	(6,927)	(4,944)	(6,734)	(7,375)
Acquisition of subsidiaries/ investments	(221)	(453)	(213)	1,157	73	40
Net proceeds from disposal of short-term investments	0	31	14	228	263	307
Others	(771)	(431)	0	0	0	0
Net cash from investing	(3,214)	(5,945)	(7,127)	(3,558)	(6,398)	(7,028)
Financing						
Dividend paid	(695)	(480)	(449)	(768)	(735)	(775)
Net borrowings	(6,797)	7,992	2,671	(1,760)	205	1,666
Proceeds from share issues	6,200	1,036	13	344	263	87
Others	(708)	(638)	(227)	87	868	896
Net cash from financing	(2,001)	7,910	2,008	(2,097)	601	1,874
Net change in cash						
Cash at the beginning of the year	6,437	7,659	11,250	7,895	6,206	9,130
Exchange difference	(178)	(123)	100	100	100	100
Others	1,399	3,715	(3,454)	(1,788)	2,824	2,477
Cash at the end of the year	7,659	11,250	7,895	6,206	9,130	11,706

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CMB International Global Markets Limited

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

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