

Zhejiang Jingsheng (300316 CH)

Raise estimates on strong materials segment

Zhejiang Jingsheng (JSG)'s net profit in 2022 surged 71% YoY to RMB2.9bn, in line with the pre-announced profit released in mid-Mar. Net profit in 4Q22 grew 52% YoY to RMB915mn. As of end-2022, total backlog reached RMB25.4bn (solar/semiconductor: 87%/13%). We estimate this offers good visibility over the coming 18 months. In the foreseeable future, we believe JSG will remain a key beneficiary of the tight supply of crucibles. We therefore revise up our earnings forecast in 2023E/24E both by 9%, due to higher revenue and margin assumptions on the materials segments. We raise our TP to RMB99, based on 33x 2023E P/E on the back of 33% earnings growth in 2023E. Longer term, import substitution through continuous breakthrough in semiconductor equipment, including SiC, will offer upside to our current estimates. Maintain **BUY**.

- **Strong growth of materials segment.** Revenue grew 78% YoY to RMB10.6bn in 2022. By segment, equipment revenue (solar + semiconductor) grew 70% YoY RMB8.47bn. Materials revenue (crucibles, diamond wire saw & sapphire) surged 2.7x YoY to RMB1.46bn, implying 4.5x YoY growth in 2H22. Materials gross margin sharply expanded by 14.5ppt YoY to 39% in 2022, which partially offset the 1.8ppt contraction of equipment segment (to 40.8%). Blended gross margin in 2022 was therefore largely stable at 39.6%.
- **Operating expense largely under control.** SG&A ratio dropped 0.7ppt YoY to 3.1% in 2022 while R&D expense ratio increased 1.6ppt YoY to 7.5% which we believe is essential given the continuous development of new technology. JSC recognized RMB538mn (+85% YoY) gains in 2022, which came mainly from government subsidies.
- **Substantial increase in customers' downpayment.** As at Dec 2022, contract liabilities (an indicator of down-payment from customers) surged 91% YoY to RMB9.47bn. We believe this suggests strong bargaining power of JSG.
- **Decline in operating cash flow should be temporary.** Operating cash flow dropped 24% YoY to RMB1.3bn in 2022, due to large increase in inventory (up >RMB6bn YoY). That said, 75% of the total inventories as of end-2022 (RMB12.3bn) belonged to goods in transit. We expect the cash flow to see improvement in 1H23E.
- **Risks:** 1) Slowdown in solar power capex; 2) lower-than-expected gross margin; 3) risk of semiconductor business expansion.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,961	10,638	14,158	17,014	20,181
YoY growth (%)	56	78	33	20	19
Net income (RMB mn)	1,712	2,924	3,916	4,632	5,500
EPS (RMB)	1.33	2.25	2.99	3.54	4.21
YoY growth (%)	99	69	33	18	19
Consensus EPS (RMB)	N/A	NA	2.96	3.61	NA
P/E (x)	49.1	29.0	21.8	18.4	15.5
P/B (x)	12.3	7.9	6.1	4.8	3.8
Yield (%)	0.4	0.7	0.9	1.1	1.3
ROE (%)	28.4	33.2	31.5	28.9	27.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB99.00
(Previous TP)	RMB96.00)
Up/Downside	+52%
Current Price	RMB65.29

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Stock Data

Mkt Cap (RMB mn)	85,446
Avg 3 mths t/o (RMB mn)	428.94
52w High/Low (RMB)	85.91/42.20
Total Issued Shares (mn)	1,308

Source: Bloomberg

Shareholding Structure

Shaoxing Shangyu Jingsheng	
Invst. Mgmt. and Consulting	47.4%
QIU Minxiu	2.97%
CAO Jianwei	2.72%

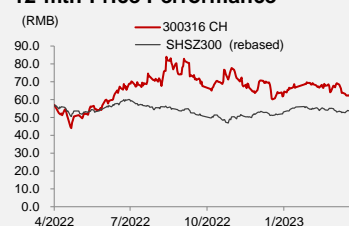
Source: Company data

Share Performance

	Absolute	Relative
1-mth	1.9%	3.5%
3-mth	2.7%	-1.8%
6-mth	-3.4%	-9.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Pan-China CPA

Related Reports

1. Zhejiang Jingsheng (300316 CH, BUY) – 2Q22 profit +1.4x YoY with strong cash flow; Raise earnings & TP on solid margin – 29 Aug 2022
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Figure 1: 2022 results highlights

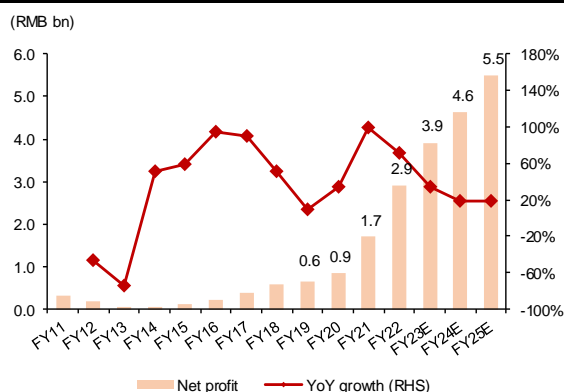
(RMB mn)	FY21	FY22	YoY
Revenue	5,961	10,638	78%
Equipment and service	4,977	8,468	70%
Materials	389	1,455	274%
Others	595	716	20%
COGS	(3,593)	(6,420)	79%
Gross profit	2,368	4,218	78%
Opex	(653)	(1,234)	89%
Core operating profit	1,715	2,984	74%
Impairment losses	(100)	(210)	110%
Other expenses and incomes	300	539	80%
Pre-tax profit	1,984	3,419	72%
Income tax	(256)	(341)	33%
Minority interest	(17)	(154)	832%
Net profit	1,712	2,924	71%
Ratios	FY21	FY22	YoY
Gross profit margin	39.7%	39.6%	-0.1ppt
Core operating margin	28.8%	28.0%	-0.7ppt
ROE	28.4%	33.2%	4.9ppt
ROA	12.5%	12.8%	0.3ppt

Source: Company data, CMBIGM estimates

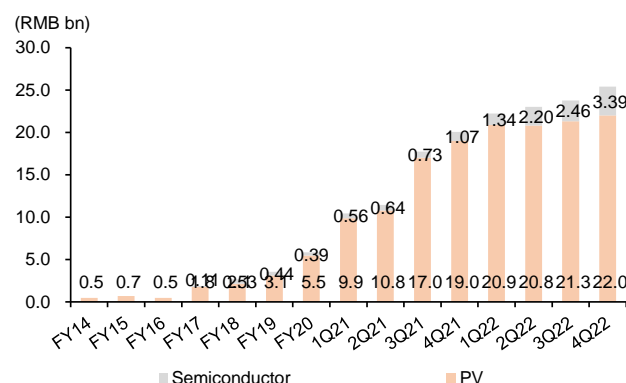
Figure 2: Change in earnings forecast

(RMB mn)	New			Old			Diff		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	14,158	17,014	20,181	14,758	17,578	-	- 4%	- 3%	-
Equipment and service	11,517	13,820	16,307	13,091	15,709	-	- 12%	- 12%	-
Materials	1,818	2,273	2,841	709	815	-	157%	179%	-
Others	823	922	1,032	959	1,054	-	- 14%	- 13%	-
Gross margin	39.6%	39.2%	39.1%	38.5%	38.7%	-	1.0ppt	0.5ppt	-
Selling expense ratio	0.4%	0.0%	1.7%	0.5%	0.0%	-	- 0.1ppt	0.0ppt	-
Admin expense ratio	2.9%	2.9%	2.9%	2.9%	2.9%	-	0.0ppt	0.0ppt	-
R&D expense ratio	6.5%	6.5%	6.5%	6.5%	6.5%	-	0.0ppt	0.0ppt	-
Net profit	3,916	4,632	5,500	3,595	4,268	-	9%	9%	-
EPS (RMB)	2.99	3.54	4.21	2.75	3.26	-	9%	9%	-
BVPS (RMB)	10.78	13.72	17.22	10.52	13.24	-	2%	4%	-
ROE	31.5%	28.9%	27.2%	29.3%	27.5%	-	2.1ppt	1.4ppt	-

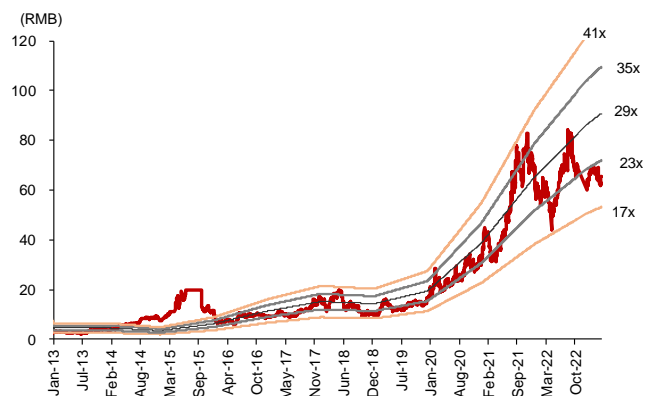
Source: Company data, CMBIGM estimates

Figure 3: Jingsheng's net profit growth

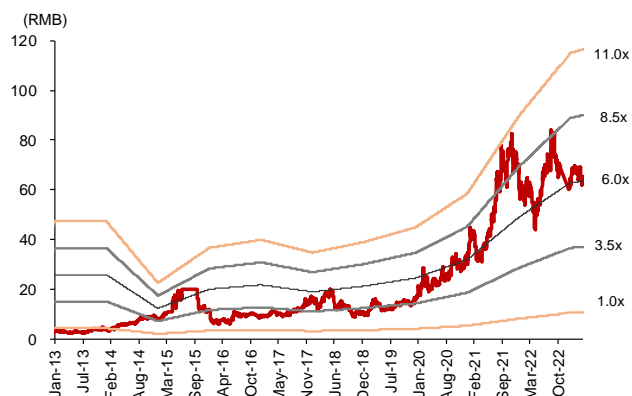
Source: Company data, CMBIGM estimates

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

Source: Company data, CMBIGM

Figure 5: Jingsheng's P/E band

Source: Company data, Bloomberg, CMBIGM estimates

Figure 6: Jingsheng's P/B band

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	5,961	10,638	14,158	17,014	20,181
Equipment and service	4,977	8,468	11,517	13,820	16,307
Materials	389	1,455	1,818	2,273	2,841
Others	595	716	823	922	1,032
COGS	(3,593)	(6,420)	(8,557)	(10,347)	(12,281)
Gross profit	2,368	4,218	5,601	6,668	7,900
Selling expenses	(30)	(45)	(57)	(65)	(75)
Admin expenses	(200)	(287)	(368)	(425)	(464)
R&D expenses	(354)	(796)	(963)	(1,131)	(1,312)
Other opex	(70)	(107)	(135)	(136)	(128)
Core operating profit	1,715	2,984	4,078	4,910	5,921
Impairment losses	(100)	(210)	(270)	(320)	(380)
Other expenses and income	300	539	451	473	504
Pre-tax profit	1,984	3,419	4,395	5,199	6,173
Income tax	(256)	(341)	(439)	(520)	(617)
Minority interest	(17)	(154)	(40)	(47)	(56)
Net profit	1,712	2,924	3,916	4,632	5,500

Cash flow

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
PAT	1,728	3,078	3,955	4,679	5,556
D&A	153	395	332	442	538
Change in working capital	(744)	(3,487)	(650)	(1,450)	(1,583)
Others	599	1,327	21	19	15
Operating cash flow	1,737	1,314	3,659	3,689	4,526
CAPEX	(778)	(2,323)	(1,420)	(1,120)	(820)
Others	(108)	371	(84)	(82)	(80)
Investing cash flow	(886)	(1,952)	(1,504)	(1,202)	(900)
Proceeds from fund raising	265	1,498	-	-	-
Changes in borrowings	(4)	1,063	50	50	10
Dividends paid	(174)	(360)	(589)	(783)	(926)
Others	(11)	(106)	(61)	(64)	(66)
Financing cash flow	75	2,094	(600)	(797)	(982)
Net change in cash	927	1,456	1,555	1,690	2,644
Cash at the beginning	847	1,783	3,238	4,793	6,483
Forex change, net	9	-	-	-	-
Less: restricted cash	82	-	-	-	-
Cash at the end	1,783	3,238	4,793	6,483	9,127

Balance sheet

YE 31 Dec (RMB mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Current assets					
Cash and restricted cash	1,867	3,509	5,064	6,754	9,398
Trade receivables	4,147	5,444	12,034	14,122	16,750
Inventories	6,051	12,391	7,787	9,312	11,053
Other current assets	1,126	1,246	1,246	1,246	1,246
Non-current assets	3,693	6,297	7,508	8,314	8,726
Long-term equity investment	977	951	1,075	1,202	1,333
Fixed assets	1,509	2,573	3,669	4,492	5,002
Other non-current assets	1,207	2,773	2,764	2,619	2,391
Total assets	16,884	28,887	33,640	39,748	47,174
Current liabilities	9,620	17,510	18,896	21,109	23,905
ST borrowings	29	1,091	1,141	1,191	1,201
Trade payables	4,147	6,350	8,985	9,830	11,667
Contract liabilities	4,964	9,465	8,167	9,485	10,434
Other current liabilities	480	604	604	604	604
Non-current liabilities	147	164	164	164	164
LT borrowings	2	1	1	1	1
Other non-current liabilities	146	163	163	163	163
Total liabilities	9,767	17,674	19,060	21,273	24,069
Share capital	1,286	1,309	1,309	1,309	1,309
Reserves	1,738	3,357	3,357	3,357	3,357
Retained earnings	3,810	6,108	9,435	13,284	17,858
Shareholders' fund	6,835	10,773	14,100	17,950	22,523
Minority interest	281	440	479	526	581
Total equity	7,116	11,213	14,579	18,475	23,104

Key ratios

YE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue mix (%)					
Equipment and service	83	80	81	81	81
Sapphire products	7	14	13	13	14
Others	10	7	6	5	5
YoY growth (%)					
Revenue	56	78	33	20	19
Gross profit	70	78	33	19	18
Net profit	99	71	34	18	19
Operating efficiency					
Gross margin	39.7	39.6	39.6	39.2	39.1
Core operating margin	28.8	28.0	28.8	28.9	29.3
Net profit margin	28.7	27.5	27.7	27.2	27.3
B/S ratios (%)					
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
Receivable turnover	216	147	219	281	279
Inventory turnover	264	316	260	183	184
Payable turnover days	352	298	327	332	319
Profitability (%)					
ROE	28.4	33.2	31.5	28.9	27.2
ROA	12.5	12.8	12.5	12.6	12.7
Per share data (RMB)					
EPS	1.33	2.25	2.99	3.54	4.21
DPS	0.28	0.45	0.60	0.71	0.84
BVPS	5.31	8.24	10.78	13.72	17.22

Source: Company data, CMBIGM estimates

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