

BaTeLab (2149 HK)

Record-high FY24 NPM of 28.8% underpins ability to maintain high margins

We held a mgmt. call with BaTeLab post earnings. The company's FY24 revenue went up by 25% YoY to RMB579mn, 11% below our estimate. NP surged by 52% YoY to RMB167mn, 14% above our estimate. GPM declined 2.4ppt to 53% in FY24 mainly due to the impact of provisions for inventory impairment. Excluding this impact, there was no significant change in GPM per mgmt. We revise down our revenue forecasts by 14%/18% for FY25/26E, given prolonged inventory impairment. We project its GPM to be 53%-54% during FY25/26E. We revise up FY25 NP slightly by 3% to RMB217mn due to cost optimization, while we trim FY26 NP to RMB285mn on lower sales projection. The company focuses on the industrial-grade niche market, where demand is diversified (long-tail) and competition is less intensified (vs. consumer-grade analog market). We expect BaTeLab to deliver 27-33% revenue growth and maintain a stable NPM at ~28% in 2025-27E. **Reiterate BUY, with TP adjusted up to HK\$69.5, based on 18x rollover 2025E P/E (vs. 20.4x previously as the industry is coming through a downcycle).**

■ **BaTeLab's sales to maintain robust growth on continuous expansion of new SKUs.** The company's SKU base (BaTeLab's key growth driver) increased significantly by 60%+ YoY to 700+ in 2024 (vs. 8 in 2020). During FY21-FY24, BaTeLab's revenue rose 140%/66%/32%/25% YoY, while the number of new product types expanded steadily at 45/157/200+/275 each year. Looking forward, we expect BaTeLab to continue growing its product coverage. We project the number of new product types will be 200+ per year during 2025-27E. We estimate its serviceable market of each SKU to remain at RMB1mn, leading to an overall revenue growth of 33%/31% in 2025/26E.

■ **Resilient GPM and NPM outlook.** BaTeLab's GPM declined to 51.3% in 1H24 mainly due to provisions for inventory impairment. GPM recovered to 54.8% in 2H24, as market conditions improved and provisions for inventory impairment reduced. NPM improved sequentially from 23.1% in 1H24 to 33.3% in 2H24. Mgmt. is confident in maintaining its high margins going forward, given its 1) focus on a long-tail niche market with relatively less competition and 2) unique business model with a full-stack analog IC design platform, empowered by proprietary EDA tools and reusable IP library. We project BaTeLab's GPM and NPM to be maintained at 53%-54% and ~28% in FY25/26E.

■ **Maintain BUY, with TP adjusted up to HK\$69.5, corresponding to 18x 2025E P/E.** We like BaTeLab given its 1) 30% 2024-27E revenue CAGR, 2) high GPM and NPM, and 3) attractive valuation (currently trading at 9.0x 2025E P/E). Risks: 1) volatile economic conditions; 2) change in relationship with its core customers or suppliers; and 3) slower-than-expected introduction of new product categories.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	464	579	770	1,006	1,284
YoY growth (%)	31.6	24.8	33.0	30.8	27.6
Gross margin (%)	55.4	53.0	53.8	53.5	53.3
Net profit (RMB mn)	109.2	166.6	216.7	285.1	363.3
YoY growth (%)	14.6	52.6	30.1	31.5	27.4
EPS (Reported) (RMB)	2.42	2.78	3.61	4.75	6.05
P/E (x)	13.5	11.7	9.0	6.9	5.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$69.50
(Previous TP)	HK\$49.80)
Up/Downside	99.1%
Current Price	HK\$34.90

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Stock Data

Mkt Cap (HK\$ mn)	2,094.0
Avg 3 mths t/o (HK\$ mn)	1.5
52w High/Low (HK\$)	34.90/23.05
Total Issued Shares (mn)	60.0

Source: FactSet

Shareholding Structure

Li Zhen	53.5%
Zhang Guangping	39.5%

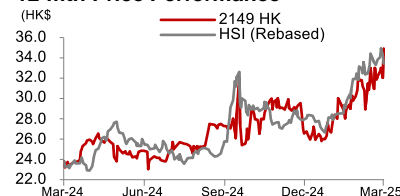
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	9.7%	8.8%
3-mth	31.5%	9.4%
6-mth	27.4%	-1.8%

Source: FactSet

12-mth Price Performance

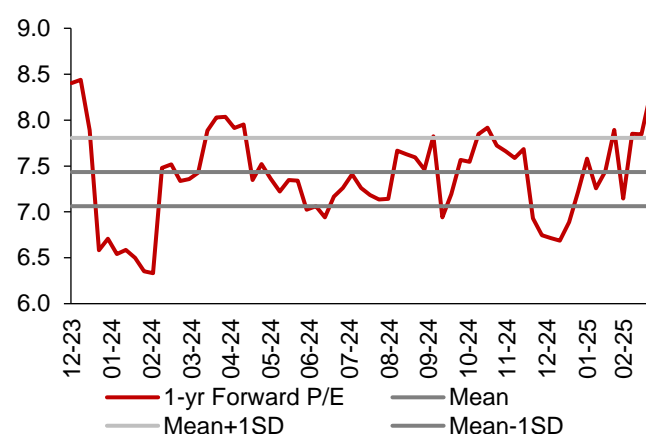


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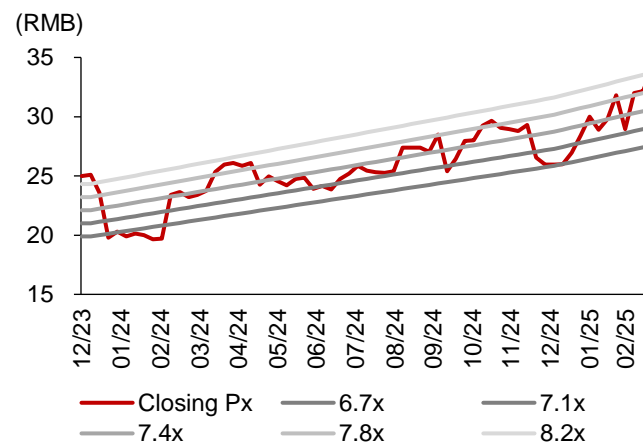
Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	770	1,006	1,284	896	1,220	NA	-14%	-18%	NA
Gross Profit	414	539	684	487	662	NA	-15%	-19%	NA
Net profit	217	285	363	211	305	NA	3%	-7%	NA
EPS (RMB)	3.61	4.75	6.05	3.51	5.09	NA	3%	-7%	NA
Gross Margin	53.8%	53.5%	53.3%	54.3%	54.3%	NA	-0.5 ppt	-0.8 ppt	NA
Net Margin	28.2%	28.3%	28.3%	23.5%	25.0%	NA	4.7 ppt	3.3 ppt	NA

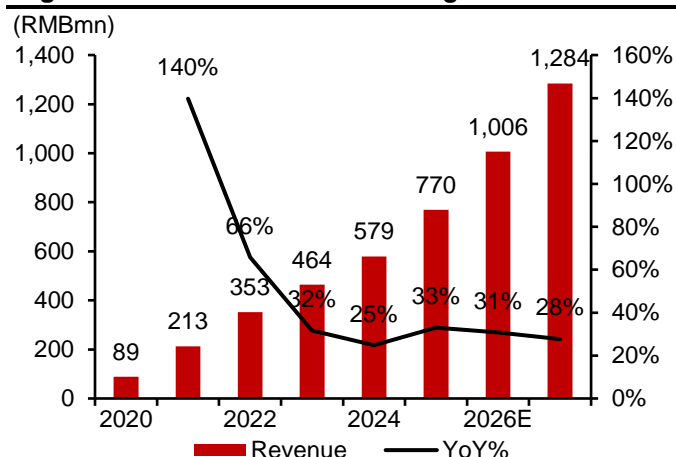
Source: Company data, CMBIGM estimates

Figure 2: 12M forward P/E band

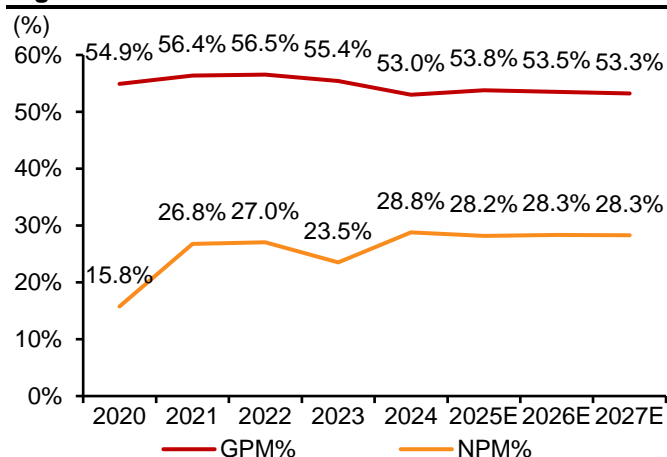
Source: Bloomberg, CMBIGM estimates

Figure 3: 12M forward P/E chart

Source: Bloomberg, CMBIGM estimates

Figure 4: BaTeLab's revenue and growth

Source: Company data, CMBIGM estimates

Figure 5: BaTeLab's GPM and NPM

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	353	464	579	770	1,006	1,284
Cost of goods sold	(153)	(207)	(272)	(355)	(467)	(600)
Gross profit	199	257	307	414	539	684
Operating expenses	(101)	(144)	(133)	(187)	(243)	(310)
Admin expense	(22)	(26)	(32)	(42)	(55)	(70)
R&D expense	(85)	(119)	(129)	(165)	(209)	(260)
Others	6	2	28	20	21	21
Operating profit	98	113	174	227	296	375
Interest expense	(2)	(4)	(8)	(11)	(12)	(13)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	97	109	166	216	284	362
Income tax	(2)	0	1	1	1	1
After tax profit	95	109	167	217	285	363
Minority interest	0	0	0	0	0	0
Net profit	95	109	167	217	285	363

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	530	1,166	1,451	1,712	2,054	2,468
Cash & equivalents	163	551	636	888	1,004	1,151
Account receivables	67	69	52	71	89	115
Inventories	76	218	315	308	384	471
Prepayment	203	261	396	385	503	642
Other current assets	21	67	52	61	73	88
Non-current assets	66	105	158	186	224	269
PP&E	59	62	62	71	84	101
Right-of-use assets	3	7	4	7	9	12
Intangibles	0	0	1	1	1	2
Other non-current assets	3	35	91	107	129	155
Total assets	596	1,271	1,609	1,899	2,277	2,737
Current liabilities	195	427	602	675	768	863
Short-term borrowings	96	172	320	373	393	404
Account payables	96	249	278	297	369	453
Lease liabilities	4	7	4	5	6	7
Other non-current liabilities	5	6	2	2	3	3
Total liabilities	200	433	604	677	770	867
Share capital	45	60	60	60	60	60
Other reserves	351	778	945	1,162	1,447	1,810
Total shareholders equity	396	838	1,005	1,222	1,507	1,870
Minority interest	0	0	0	0	0	0
Total equity and liabilities	596	1,271	1,609	1,899	2,277	2,737

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	97	109	0	216	284	362
Depreciation & amortization	3	6	0	10	13	18
Change in working capital	(110)	(52)	0	19	(140)	(168)
Others	(22)	(33)	0	(13)	(19)	(24)
Net cash from operations	(31)	30	0	232	138	187
Investing						
Capital expenditure	(19)	(44)	(34)	(23)	(31)	(39)
Net proceeds from disposal of short-term investments	464	30	0	0	0	0
Others	(461)	(28)	(30)	0	0	0
Net cash from investing	(15)	(42)	(64)	(23)	(30)	(39)
Financing						
Net cash from financing	63	401	128	43	8	(1)
Net change in cash						
Cash at the beginning of the year	147	163	551	636	888	1,004
Exchange difference	0	(1)	8	0	0	0
Others	16	389	77	252	116	147
Cash at the end of the year	163	551	636	888	1,004	1,151
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	65.7%	31.6%	24.8%	33.0%	30.8%	27.6%
Gross profit	66.1%	29.0%	19.4%	35.0%	30.1%	27.0%
Operating profit	61.8%	15.2%	53.4%	30.5%	30.5%	26.5%
Net profit	67.2%	14.6%	52.6%	30.1%	31.5%	27.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	56.5%	55.4%	53.0%	53.8%	53.5%	53.3%
Operating margin	27.9%	24.5%	30.1%	29.5%	29.4%	29.2%
Return on equity (ROE)	27.4%	17.7%	18.1%	19.5%	20.9%	21.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.7	2.7	2.4	2.5	2.7	2.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	15.4	13.5	11.7	9.0	6.9	5.4

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

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