

Shengyi Technology (600183CH)

1Q21 beat on strong CCL upcycle

Shengyi Tech pre-announced 1Q21 net profit with 59-62% YoY growth, above our/consensus expectations, as 1Q21 NP accounted for 24%/25% of our/consensus FY21E NP forecast (vs 20%/17% in FY20/FY19). We believe strong results was driven by better volume and pricing of CCL products given demand recovery and CCL ASP upcycle. Although PCB segment remained slow in near term given delayed 5G deployment in 1Q21, we expect it will recover in next batch of 5G rollout in 2Q21E. We remain positive on CCL upcycle, and lifted our TP to RMB30.48 based on same 30x FY21E P/E. Maintain BUY.

- **1Q21 beat on strong CCL business despite delayed PCB demand.** We believe strong 1Q21 growth was driven by 1) increasing demand for CCL due to global economic recovery and 2) rising CCL ASP as material cost burden was gradually transferred to downstream clients. We believe the growth was slightly dragged by slower PCB as telcos delayed next 5G tender in 1Q21.
- **Expect GPM recovery due to stronger bargaining power.** Copper price (the largest material cost for CCL) has surged 20% YTD. Given the current low inventory level and sustained demand, we expect copper price to rise further in 2Q21E. The price of other CCL raw materials were also up significantly since last year, resulting in GPM decline to 24.1% in 2H20 (vs 27.3% in 1H20). We believe cost pressure started to transfer to downstream PCB suppliers since 1Q21, reflecting a stronger bargaining power of CCL suppliers over PCB players. We believe Shengyi's GPM will recover to 27.3% in FY21E (vs 26.8% in FY20).
- **Positive outlook on demand recovery and capacity expansion.** We expect CCL supply will remain tight this year as demand from domestic and overseas will continue to grow post-pandemic. PCB business will also pick up once Chinese telcos start the next phase of 5G deployment in 2Q21E (64k 5G BTS est. for FY21). Shengyi planned to add new capacity (CCL: 11.4mn sqm/ prepreg: 36mn m) earlier this year to capture future opportunities.
- **Maintain BUY; Lift TP to RMB30.48.** Our new TP is RMB30.48 based on same 30x FY21/P/E. Trading at 24.5x FY21E P/E, 1-sd below historical P/E, the stock is very attractive in our view. Near-term catalysts include continued increase in CCL price and 5G BTS tenders. Potential risks include less-than-expected transfer of material costs and delay in 5G upgrades.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Turnover (RMB mn)	13,241	14,687	18,976	22,591	25,237
YoY growth (%)	10.5	10.9	29.2	19.0	11.7
Gross margin (%)	26.6	26.8	27.3	27.5	27.8
Net profit (RMB mn)	1,449	1,681	2,327	2,826	3,246
EPS (RMB)	0.66	0.74	1.02	1.23	1.42
YoY growth (%)	39.7	12.1	37.3	21.4	14.9
Consensus EPS (RMB)	NA	NA	0.97	1.17	1.40
PE (x)	37.7	33.6	24.5	20.1	17.5
PB (x)	6.4	5.8	5.0	4.4	3.9
Yield (%)	1.6	1.6	2.2	2.7	3.1
Roe (%)	16.4	17.0	20.6	22.0	22.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB 30.48**
 (Previous TP **RMB 29.45**)
 Up/Downside **+22.6%**
 Current Price **RMB 24.85**

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	56,940
Avg. 3mths t/o (RMB mn)	678
52W High/Low (RMB)	35.27/21.20
Total Issued Shares (mn)	2,291.4
Source: Bloomberg	

Shareholding Structure

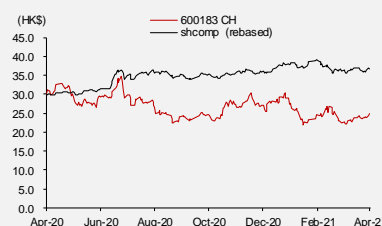
Guangdong Guangxin Holdings	22.11%
Dongguan Guohong Invest.	15.01%
Weihua Electronics	14.24%
Source: Bloomberg	

Share Performance

	Absolute	Relative
1-mth	7.8%	5.6%
3-mth	-11.3%	-9.0%
6-mth	-1.5%	-6.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: GP CPAs

Recent Reports:

1. 4Q20 miss on slower 5G and cost pressure; Expect gradual GPM recovery in 1H21E – 1 Feb 2021

2. China 5G Technology - Picking structural winners amid uncertainties; Initiate at Outperform – 18 Dec 2020

Forecasts revision

Figure 1: CMBIS estimate revisions

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	18,976	22,591	25,237	18,442	22,831	NA	3%	-1%	NA
Gross Profit	5,172	6,215	7,025	5,046	6,315	NA	2%	-2%	NA
Operating Profit	2,915	3,539	4,065	2,778	3,520	NA	5%	1%	NA
Net profit	2,327	2,826	3,246	2,249	2,849	NA	3%	-1%	NA
EPS (RMB)	1.02	1.23	1.42	0.98	1.24	NA	3%	-1%	NA
Gross Margin	27.3%	27.5%	27.8%	27.4%	27.7%	NA	-0.1 ppt	-0.1 ppt	NA
Operating Margin	15.4%	15.7%	16.1%	15.1%	15.4%	NA	0.3 ppt	0.2 ppt	NA
Net Margin	12.3%	12.5%	12.9%	12.2%	12.5%	NA	0.1 ppt	0 ppt	NA

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	18,976	22,591	25,237	18,141	21,439	25,306	5%	5%	0%
Gross Profit	5,172	6,215	7,025	4,911	5,859	6,761	5%	6%	4%
Operating Profit	2,915	3,539	4,065	2,809	3,412	4,077	4%	4%	0%
Net profit	2,327	2,826	3,246	2,215	2,710	3,166	5%	4%	3%
EPS (RMB)	1.02	1.23	1.42	0.97	1.17	1.40	4%	5%	1%
Gross Margin	27.3%	27.5%	27.8%	27.1%	27.3%	26.7%	0.2 ppt	0.2 ppt	1.1 ppt
Operating Margin	15.4%	15.7%	16.1%	15.5%	15.9%	16.1%	-0.1 ppt	-0.2 ppt	0 ppt
Net Margin	12.3%	12.5%	12.9%	12.2%	12.6%	12.5%	0.1 ppt	-0.1 ppt	0.4 ppt

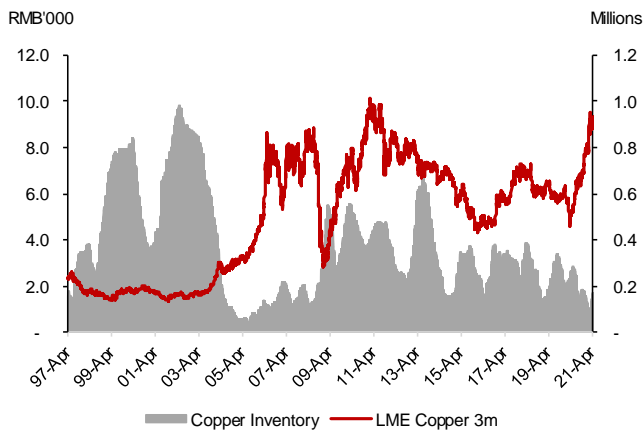
Source: Company data, CMBIS estimates

Figure 3: P&L forecasts

RMB mn	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,241	14,687	18,976	22,591	25,237
...YoY	11%	11%	29%	19%	12%
Cost of sales	(9,713)	(10,754)	(13,804)	(16,375)	(18,212)
Gross profit	3,528	3,933	5,172	6,215	7,025
GPM (%)	27%	27%	27%	28%	28%
...YoY	33%	11%	31%	20%	13%
SG&A	(932)	(899)	(1,158)	(1,355)	(1,489)
...% of rev	-7%	-6%	-6%	-6%	-6%
R&D	(605)	(711)	(892)	(1,062)	(1,186)
...% of rev	-5%	-5%	-5%	-5%	-5%
Operating profit	1,805	2,090	2,915	3,539	4,065
OPM (%)	14%	14%	15%	16%	16%
...YoY	47%	16%	39%	21%	15%
Net profit	1,449	1,681	2,327	2,826	3,246
NPM (%)	11%	11%	12%	13%	13%
...YoY	45%	16%	38%	21%	15%

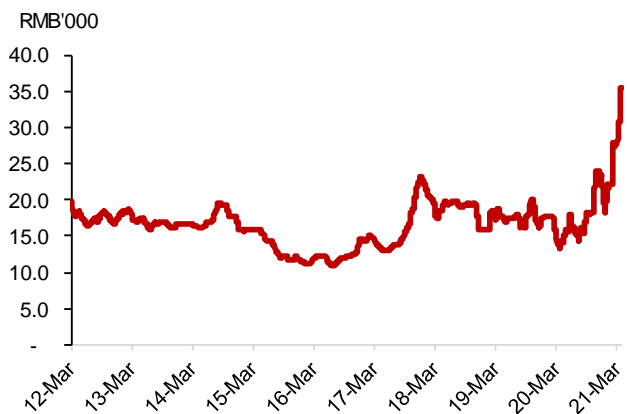
Source: Company data, CMBIS estimates

Figure 4: LME 3m Copper price and inventory



Source: Company data, CMBIS estimates

Figure 5: Epoxy resin price



Source: Company data, CMBIS estimates

Valuation

Maintain BUY and adjust TP to RMB30.48 (23% upside)

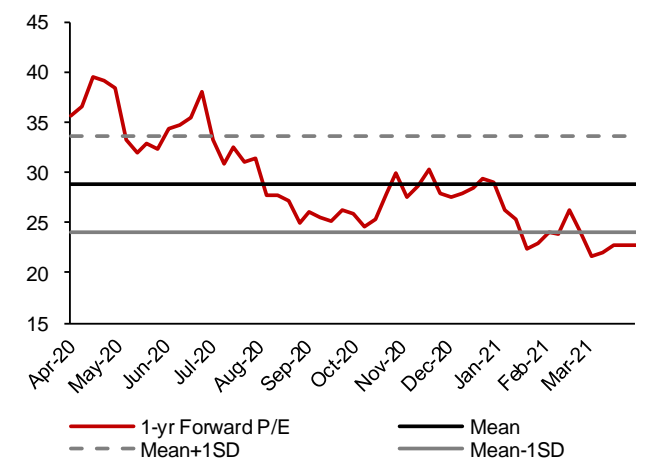
We slightly raise our TP to RMB30.48 based on same 30x FY21E P/E. We believe this is justified as the stock has been mostly trading on 24-33x EPS. We estimate 25% EPS FY20-23E CAGR, backed by 20% revenue CAGR given that 1) next phase of 5G tenders is believed to resume soon, 2) GPM will improve with rising CCL ASP to transfer cost pressure and 3) new capacity for prepreg/CCL/PCB and diversification into downstream applications. Potential risks include less-than-expected transfer of material costs and delay in 5G upgrades.

Figure 6: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY21E	P/E (x) FY22E	P/B (x) FY21E	P/B (x) FY22E	ROE (%) FY21E	ROE (%) FY22E
CCL												
Shengyi Tech	600183 CH	Buy	8,764	24.85	30.5	23%	24.5	20.1	5.0	4.4	20.6	22.0
Nanya	1303 TT	NR	25,709	91.10	NA	NA	17.7	16.9	2.0	1.9	12.3	11.5
ITEQ	6213 TT	NR	1,688	142.50	NA	NA	13.8	11.2	3.5	3.4	25.0	28.3
Kingboard	148 HK	NR	6,667	46.75	NA	NA	6.4	5.7	-	-	-	-
Sumitomo	4203 JT	NR	2,077	4540.00	NA	NA	18.5	13.8	1.1	1.1	8.4	7.7
Rogers	ROG US	NR	3,757	201.17	NA	NA	27.1	23.4	3.7	-	-	-
Average							18.0	15.2	3.1	2.7	16.6	17.4
PCB												
Shengyi Tech	600183 CH	Buy	8,764	24.85	30.5	23%	24.5	20.1	5.0	4.4	20.6	22.0
Shennan Circuits	002916 CH	Hold	6,078	80.70	82.7	2%	29.3	23.8	4.7	4.1	16.2	17.4
WUS	002463 CH	NR	4,310	16.24	NA	NA	17.4	14.8	3.7	3.1	21.9	21.5
DSBJ	002384 CH	NR	4,974	18.90	NA	NA	16.1	13.0	2.5	2.1	15.9	16.5
Zhen Ding	4958 TT	NR	3,435	107.00	NA	NA	9.6	8.3	1.3	1.1	12.4	13.4
TTM	TTMI US	NR	1,608	15.04	NA	NA	12.1	10.5	1.1	1.1	8.8	9.1
UMTC	3037 TT	NR	4,996	93.30	NA	NA	21.1	14.1	2.7	2.4	12.2	16.6
Tripod	3044 TT	NR	2,628	140.50	NA	NA	11.1	10.0	1.9	1.8	17.5	18.0
Comped	2313 TT	NR	1,832	43.20	NA	NA	9.9	8.8	1.6	1.4	17.3	17.2
SEMCO	009150 KS	NR	13,413	200000.00	NA	NA	16.8	14.9	2.3	2.0	14.5	14.6
Average							16.8	13.8	2.7	2.4	15.7	16.6

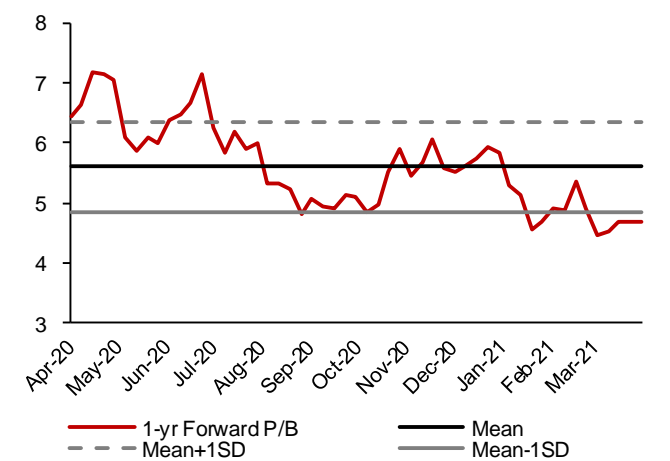
Source: Bloomberg, CMBIS estimates

Figure 7: 12M forward P/E band



Source: Company data, CMBIS estimates

Figure 8: 12M forward P/B band



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,241	14,687	18,976	22,591	25,237
Cost of sales	9,713	10,754	13,804	16,375	18,212
Gross profit	3,528	3,933	5,172	6,215	7,025
Selling exp	288	179	247	294	328
Admin exp	644	720	911	1,062	1,161
R&D exp	605	711	892	1,062	1,186
Finance costs	142	114	187	224	239
Other operating exp.	44	119	20	35	45
Operating profit	1,805	2,090	2,915	3,539	4,065
Other non-oper exp.	0	(7)	-	-	-
Pre-tax profit	1,805	2,083	2,915	3,539	4,065
Income tax expense	242	283	396	480	552
Minority interests	115	120	192	233	268
Net profit to shareholders	1,449	1,681	2,327	2,826	3,246

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	1,563	1,800	2,519	3,059	3,513
Depreciation/amortization	409	531	825	933	1,070
Change in working capital	(479)	(832)	(1,465)	(1,017)	(563)
Others	198	258	187	224	239
Net cash from operating	1,692	1,758	2,067	3,199	4,260
Capex	(1,580)	(1,761)	(2,077)	(2,024)	(2,251)
Other	14	(72)	0	0	0
Net cash from investing	(1,566)	(1,833)	(2,077)	(2,024)	(2,251)
Share issuance	0	189	0	0	0
Dividend paid	(872)	(1,101)	(916)	(1,269)	(1,541)
Other	699	696	980	176	151
Net cash from financing	(173)	(215)	64	(1,093)	(1,390)
Net change in cash	(50)	(232)	53	81	619
Cash at beginning of the year	1,101	1,051	818	871	953
Exchange difference	(3)	58	0	0	0
Cash at the end of the year	1,051	818	871	953	1,572

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	8,712	9,716	12,330	13,418	15,295
Cash & equivalents	1,062	850	903	984	1,603
Account receivables	4,598	4,888	6,613	7,506	8,267
Inventory	2,100	2,519	3,355	3,468	3,966
Prepayment	11	20	20	20	20
Other current assets	941	1,439	1,439	1,439	1,439
Non-current assets	6,823	8,642	9,894	10,985	12,166
PPE	5,003	6,374	7,257	8,149	9,114
Deferred tax assets	76	120	120	120	120
Other non-current assets	1,744	2,148	2,517	2,717	2,933
Total assets	15,535	18,357	22,224	24,403	27,461
Current liabilities	5,257	6,804	8,865	9,185	10,202
ST borrowings	1,519	2,157	2,879	3,126	3,368
Account payables	2,656	2,903	3,999	3,989	4,684
Tax payable	116	125	125	125	125
Other current liabilities	965	1,619	1,861	1,944	2,025
Non-current liabilities	925	910	1,112	1,182	1,249
LT borrowings	732	605	807	877	944
Deferred tax liability	13	38	38	38	38
Other non-current	179	267	267	267	267
Total liabilities	6,181	7,714	9,977	10,366	11,451
Share capital	2,276	2,291	2,291	2,291	2,291
Reserve	2,505	2,795	2,795	2,795	2,795
Minority interest	520	754	946	1,180	1,448
Total equity	9,354	10,643	12,246	14,037	16,009
Total liabilities and equity	15,535	18,357	22,224	24,403	27,461

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix					
CCL	76	74	72	66	62
PCB	23	24	26	32	36
Others	1	2	2	2	1
Growth (%)					
Revenue	10.5	10.9	29.2	19.0	11.7
Gross profit	32.8	11.5	31.5	20.2	13.0
Operating profit	46.9	15.8	39.5	21.4	14.9
Net profit	39.7	12.1	37.3	21.4	14.9
Profit & loss ratio (%)					
Gross margin	26.6	26.8	27.3	27.5	27.8
Operating margin	13.6	14.2	15.4	15.7	16.1
Net profit margin	10.9	11.4	12.3	12.5	12.9
Balance sheet ratio					
Net debt/total equity (%)	12.7	18.0	22.7	21.5	16.9
Current ratio (x)	1.7	1.4	1.4	1.5	1.5
Receivable turnover days	116	118	111	114	114
Inventory turnover days	72	78	78	76	74
Payable turnover days	85	94	91	89	87
Profitability (%)					
ROE	16.4	17.0	20.6	22.0	22.3
ROA	9.3	9.2	10.5	11.6	11.8
Per share data (RMB)					
EPS	0.66	0.74	1.02	1.23	1.42
DPS	0.40	0.40	0.55	0.67	0.77
BPS	3.88	4.32	4.93	5.61	6.36

Source: Company data, CMBIS estimates

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