

Willsemi (603501 CH)

Preliminary 2022 results came in below estimate; Maintain HOLD

Willsemi announced preliminary 2022 net income of RMB800mn to RMB1,200mn, showing 73.2% to 82.1% YoY decline. Even a weak 4Q22 was already widely anticipated, the results came in significantly below our/consensus forecasts of RMB2.46bn/RMB2.97bn. The mgmt. attributed the miss to 1) weak consumer electronic market demand (lower rev. and margin), 2) an inventory write down of RMB1.3bn to RMB1.5bn (as a result of high inventory base). We see no clear sign of recovery of consumer electronic demand in near-term, maintain HOLD and revise TP to RMB72.

- Smartphone demand will remain weak due to ongoing macroeconomics pressure.** Entering into 2023, worldwide economic environment remains challenged, while re-opening in China may boost economy. However, we expect its overall impact on consumer electronic demand will be limited in short-term. In other words, smartphone/PC will not be the top spending categories after reopening, compared to catering, travel, etc. Global smartphone shipment is projected to grow only 2%/2.6% YoY according to Counterpoint/IDC, despite a low base in 2022 (c.11% decline). Although 4Q22 may be the worst quarter for Willsemi, we think the low growth of smartphone market will cap the Company's topline recovery in 2023 (44% of CIS rev. contribution from mobile).
- Inventory digestion continues, however, not necessary a hint of market turnaround.** The mgmt. expected the inventory level would decrease meaningfully in 4Q. While inventory digestion will continue in 1Q23, it does not necessarily mean the downstream OEMs will increase their orders significantly. At this stage of the cycle, we think any meaningful change in market confidence (demand side) would be a more valuable catalyst for the supply chain (earnings upside and potential revaluation) than a gradually decreasing inventory level (supply side).
- Maintain HOLD with new TP of RMB72.** As 4Q22 results came in lower than estimates, we think demand pressure will persist into 1H23. We revised down 2023E EPS by 8%. The new TP of RMB72 is based on the same 29.3x 2023E P/E. Potential upside include earlier-than-expected consumer demand recovery.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	19,824	24,104	19,849	21,661	24,178
YoY growth (%)	45.4%	21.6%	-17.7%	9.1%	11.6%
Gross margin (%)	29.9%	34.5%	31.1%	29.9%	30.9%
Net income (RMB mn)	2,706	4,476	1,085	2,934	3,313
Net margin (%)	13.7%	18.6%	5.5%	13.5%	13.7%
EPS (RMB)	3.21	5.16	0.91	2.45	2.77
YoY growth (%)	322.4%	60.7%	-82.4%	169.6%	12.8%
Consensus EPS (RMB)	-	-	2.56	3.48	4.63
P/E (x)	26.3	16.4	92.7	34.4	30.5
ROE (%)	23.5%	27.5%	5.8%	13.3%	13.1%
Net gearing (%)	6.7%	10.9%	22.1%	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	RMB72.0
(Previous TP	RMB78.0)
Up/Downside	-15%
Current Price	RMB84.37

China Technology Sector

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Stock Data

Mkt Cap (HK\$ mn)	100,011
Avg 3 mths t/o (HK\$ mn)	994.67
52w High/Low (HK\$)	221.39/66.64
Total Issued Shares (mn)	1185.4
Source: Bloomberg	

Shareholding Structure

Yu Renrong	30.24%
SX Weihao Equity Invest. FD	9.21%
HKSCC	7.44%

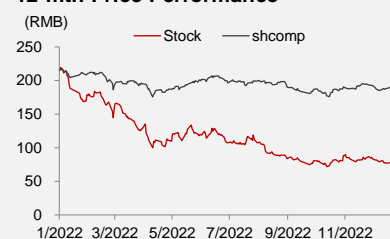
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.2%	-0.8%
3-mth	-5.0%	0.9%
6-mth	-21.7%	-19.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

Related Reports

- 13/10/2022 Willsemi (603501 CH) – Sluggish 3Q22 performance; Downgrade to HOLD as near-term pressures may last longer ([link](#))
- 12/10/2022 China CIS Sector – Maintain long-term positive outlook; near-term challenges persist ([link](#))
- 16/8/2022 Willsemi (603501 CH) – 2Q results review: Recovery slowed down by weak mobile CIS ([link](#))
- 1/4/2022 China CIS Sector – Can non-mobile CIS strength offset handset weakness? We remain cautiously optimistic ([link](#))

Preview of 4Q22 results

Figure 1: 4Q22 results preview

RMBmn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Revenue	6,212	6,236	5,866	5,789	5,538	5,533	4,311	
Gross Profit	2,014	2,105	2,082	2,113	1,955	1,841	1,226	
Operating Profit	1,175	1,358	1,378	1,088	933	1,549	-122	
Net profit	1,041	1,203	1,275	958	896	1,373	-120	-1,349 to -949
EPS (RMB)	1.20	1.39	1.47	1.10	1.03	0.90	-0.10	
Gross Margin	32.4%	33.7%	35.5%	36.5%	35.3%	33.3%	28.4%	
Operating Margin	18.9%	21.8%	23.5%	18.8%	16.8%	28.0%	-2.8%	
Net Margin	16.8%	19.3%	21.7%	16.5%	16.2%	24.8%	-2.8%	

Source: Company data, CMBIS estimates

Figure 2: Earnings revisions

RMBmn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	19,849	21,661	24,178	20,285	23,223	27,834	-2%	-7%	-13%
Gross Profit	6,181	6,477	7,481	6,515	7,550	9,181	-5%	-14%	-19%
Operating Profit	1,310	3,271	3,694	2,770	3,597	4,727	-53%	-9%	-22%
Net profit	1,085	2,934	3,313	2,458	3,188	4,191	-56%	-8%	-21%
EPS (RMB)	0.911	2.455	2.769	2.063	2.668	3.503	-56%	-8%	-21%
Gross Margin	31.1%	29.9%	30.9%	32.1%	32.5%	33.0%	-1 ppt	-2.6 ppt	-2 ppt
Operating Margin	6.6%	15.1%	15.3%	13.7%	15.5%	17.0%	-7.1 ppt	-0.4 ppt	-1.7 ppt
Net Margin	5.5%	13.5%	13.7%	12.1%	13.7%	15.1%	-6.7 ppt	-0.2 ppt	-1.4 ppt

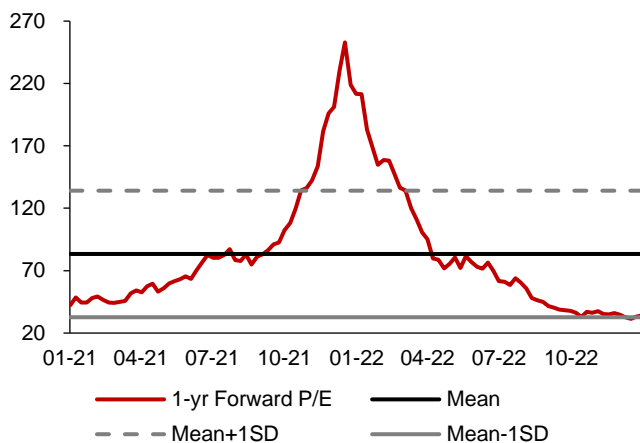
Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMBmn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	19,849	21,661	24,178	21,865	27,008	33,219	-9%	-20%	-27%
Gross Profit	6,181	6,477	7,481	6,928	8,841	11,210	-11%	-27%	-33%
Operating Profit	1,310	3,271	3,694	3,316	4,744	6,293	-60%	-31%	-41%
Net profit	1,085	2,934	3,313	2,840	4,094	5,515	-62%	-28%	-40%
EPS (RMB)	0.911	2.455	2.769	2.559	3.478	4.626	-64%	-29%	-40%
Gross Margin	31.1%	29.9%	30.9%	31.7%	32.7%	33.7%	-0.5 ppt	-2.8 ppt	-2.8 ppt
Operating Margin	6.6%	15.1%	15.3%	15.2%	17.6%	18.9%	-8.6 ppt	-2.5 ppt	-3.7 ppt
Net Margin	5.5%	13.5%	13.7%	13.0%	15.2%	16.6%	-7.5 ppt	-1.6 ppt	-2.9 ppt

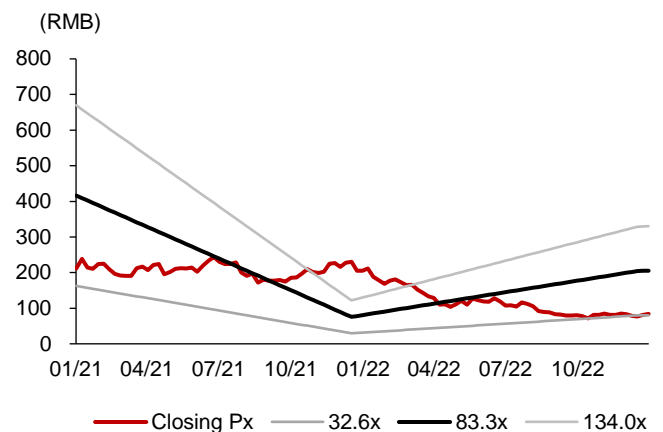
Source: Company data, CMBIGM estimates

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	19,824	24,104	19,849	21,661	24,178
COGS	-13,894	-15,790	-13,668	-15,184	-16,697
Gross Profit	5,930	8,314	6,181	6,477	7,481
SG&A	-1,147	-1,201	-1,260	-1,079	-1,325
R&D exp.	-1,727	-2,110	-2,382	-1,896	-2,418
Financing exp.	-275	-356	-564	-370	-311
Other opex	176	352	-664	139	267
Operating profit	2,956	5,000	1,310	3,271	3,694
Non-operating income	44	5	12	13	15
Non-operating exp.	-9	-3	-5	-6	-7
Pre-tax profit	2,991	5,002	1,317	3,278	3,703
Income tax expenses	-308	-456	-263	-299	-338
Net profit	2,683	4,546	1,053	2,979	3,365
Non-controlling interests	-23	70	-32	46	52
Net profit to shareholders	2,706	4,476	1,085	2,934	3,313
Adj. EBITDA	3,830	5,949	3,543	4,614	5,038

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Pretax profit	2,683	4,546	1,053	2,979	3,365
D&A	765	879	887	972	1,138
Change in working capital	-221	-3,328	-4,111	1,965	749
Others	117	96	1,211	396	239
Net cash from operating	3,345	2,192	-960	6,312	5,491
Capex	-1,133	-1,122	-1,151	-1,228	-1,344
Purchase/sale of investments	-373	-1,969	-2,301	-1,036	-1,135
Purchase/sale of subs	-1,163	96	12	12	12
Other	38	96	1,191	477	597
Net cash from investing	-2,631	-2,899	-2,249	-1,775	-1,870
Change in shares	683	1,203	2,086	628	217
Change in debt	1,567	3,066	478	-1,616	-748
Dividend/interests paid	-413	-569	-884	-506	-643
Other	-3	-767	-320	-267	-294
Net cash from financing	1,835	2,932	1,360	-1,760	-1,467
Net change in cash	2,548	2,226	-1,849	2,777	2,154
Cash, beginning	3,116	5,423	7,630	5,763	8,522
Exchange difference	-241	-18	-18	-18	-18
Cash, end	5,423	7,630	5,763	8,522	10,658

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	13,913	20,296	19,809	21,012	21,995
Cash & equivalents	5,456	7,671	5,775	8,533	10,670
Trade & other receivables	2,583	3,029	2,700	2,963	2,994
Inventories	5,274	8,781	10,877	8,802	7,745
Other current assets	600	814	457	715	586
Non-current assets	8,735	11,784	14,159	15,429	16,805
PPE	1,871	1,863	1,982	2,147	2,318
Intangibles	1,509	1,604	1,500	1,354	1,170
Goodwill	2,800	2,998	2,986	2,974	2,962
Other non-current assets	2,556	5,320	7,692	8,953	10,356
Total assets	22,648	32,080	33,969	36,441	38,800
Current liabilities	6,845	8,700	9,923	8,422	7,352
ST debt & LT debt to mature	3,041	3,745	6,149	3,998	3,038
Trade & other payables	2,544	3,956	3,244	3,589	3,559
Other current liabilities	1,260	999	529	835	755
Non-current liabilities	4,278	7,076	5,262	5,889	6,212
LT debt	3,182	3,448	1,772	2,307	2,519
Bonds payables	0	2,250	2,000	2,000	2,000
Other non-current liabilities	1,096	1,378	1,490	1,582	1,693
Total liabilities	11,123	15,776	15,185	14,311	13,564
Total equity	11,525	16,304	18,784	22,130	25,235
Share capital	868	876	1,192	1,195	1,196
Reserves	7,248	8,434	10,204	10,829	11,045
Treasury stock	-255.4	-741.7	-741.7	-741.7	-741.7
Retained earnings	3,895	8,049	8,667	11,458	14,437
Other equities	-516.2	-418.8	-611.1	-730.3	-872.3
Minority interests	286	106	74	120	172
Total liabilities and equity	22,648	32,080	33,969	36,441	38,800

Key ratios

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue by segment					
CMOS	14,697	16,264	12,953	14,730	16,647
TDDI	744	1,963	1,707	1,765	1,892
Others	4,383	5,877	5,188	5,166	5,639
Total	19,824	24,104	19,849	21,661	24,178
CMOS %	74.1%	67.5%	65.3%	68.0%	68.9%
Growth (%)					
Revenue	45.4%	21.6%	-17.7%	9.1%	11.6%
Adj. EBITDA	102.5%	55.4%	-40.4%	30.2%	9.2%
Net profit	481.2%	65.4%	-75.8%	170.4%	12.9%
Profit & loss ratio (%)					
Gross margin	29.9%	34.5%	31.1%	29.9%	30.9%
EBITDA margin	19.3%	24.7%	17.9%	21.3%	20.8%
Net profit margin	13.7%	18.6%	5.5%	13.5%	13.7%
Balance sheet ratio					
Net debt/total equity (%)	6.7%	10.9%	22.1%	net cash	net cash
Debt/EBITDA	1.6	1.6	2.8	1.8	1.5
Interest coverage	12.9	14.5	8.3	11.7	14.6
Cash conversion cycle (days)	123.1	152.5	266.0	264.8	210.5
Profitability (%)					
ROE	23.5%	27.5%	5.8%	13.3%	13.1%
ROA	11.9%	14.0%	3.2%	8.1%	8.5%
Per share data (RMB)					
EPS	3.21	5.16	0.91	2.45	2.77
BVPS	13.33	18.67	15.70	18.42	20.95

Source: Company data, CMBIGM estimates

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