

S.C New Energy Technology (300724 CH)

3Q22 net profit +1.2x YoY; A clean beat

S.C comfortably beat market expectations by delivering net profit growth of 1.2x YoY in 3Q22, driven by 41% YoY increase in revenue, 0.4ppt YoY expansion of gross margin and FX gains on strong dollar. The impressive results reaffirm our positive stance on S.C's well diversified offerings of technologies including TOPCon, HJT and Perovskite solar cell (鈣鈦礦) equipment. We revise up our 2022E/23E/24E earnings forecast by 21%/9%/8%. Accordingly, we revise up our TP to RMB187, based on 52x P/E (1SD above the historical average of 36x to reflect the breakthroughs in the new equipment). Reiterate **BUY**.

- All-round beat in 3Q22.** Revenue in 3Q22 grew 41% YoY to RMB1.58bn. Gross margin expanded 0.5ppt YoY and 1.6ppt QoQ to 25.4%. Finance income reached RMB102mn in 3Q22, thanks to >RMB80mn of net FX gains (helped by appreciation of US\$). Net profit in 3Q22 surged 121% YoY to RMB313mn. In 9M22, revenue / net profit grew 26% / 37% YoY to RMB1.08bn / RMB821mn. As at end-Sep, the contract liabilities (an indicator of customers' down-payment) grew 28% YoY to RMB4.6bn, suggesting solid growth of order intakes.
- 10GW of PE-poly route TOPCon equipment orders in overseas.** As of mid-Oct, S.C already won a total of 10GW of PE-poly route TOPCon turnkey contracts in overseas, which again indicates the PE-Poly route has been gaining client recognition. To recap, key advantages of PE-Poly route include better solar cell efficiency, higher production efficiency and yield rate, which help accelerate the mass production of TOPCon solar cell.
- Planned capacity of TOPCon solar cell expanding faster than our expectation.** Based on the capacity expansion plans of 20 major solar cell manufacturers, we calculate that the cumulative capacity of TOPCon will reach 147GW/217GW in 2023E/24E. This is about 60% higher than our calculation in Aug. S.C is set to benefit from in this capex upcycle.
- Risks:** 1) Weaker-than-expected downstream capacity expansion; and 2) solar cell technology transformation risk.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,044	5,047	5,813	7,552	9,812
YoY growth (%)	60	25	15	30	30
Net income (RMB mn)	523	717	1,042	1,251	1,643
EPS (RMB)	1.63	2.14	2.99	3.59	4.72
YoY growth (%)	37	31	40	20	31
Consensus EPS (RMB)	N/A	N/A	2.75	3.58	4.46
P/E (x)	91.1	69.3	49.7	41.4	31.5
P/B (x)	15.7	8.3	7.2	6.2	5.3
Yield (%)	0.1	0.1	0.2	0.2	0.3
ROE (%)	18.7	15.5	15.6	16.1	18.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB 187.00
(Previous TP)	RMB 178.00)
Up/Downside	+26%
Current Price	RMB 148.61

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Stock Data

Mkt Cap (RMB mn)	51,753
Avg 3 mths t/o (RMB mn)	1567.69
52w High/Low (RMB)	168.50/47.20
Total Issued Shares (mn)	348.3

Source: Bloomberg

Shareholding Structure

YU Zhong	8.42%
LIANG Meizhen	7.24%
ZUO Guojun	7.51%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	12.9%	20.0%
3-mth	16.9%	35.7%
6-mth	179.1%	193.6%

Source: Bloomberg

12-mth Price Performance



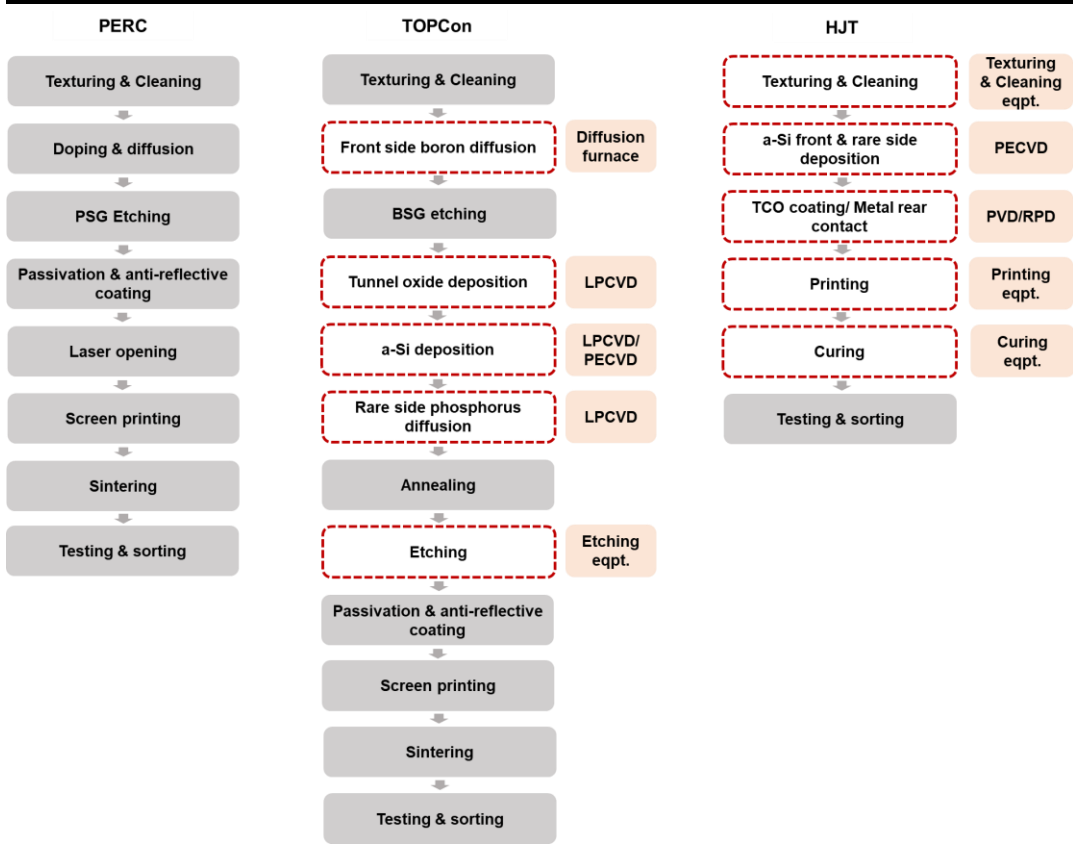
Source: Bloomberg

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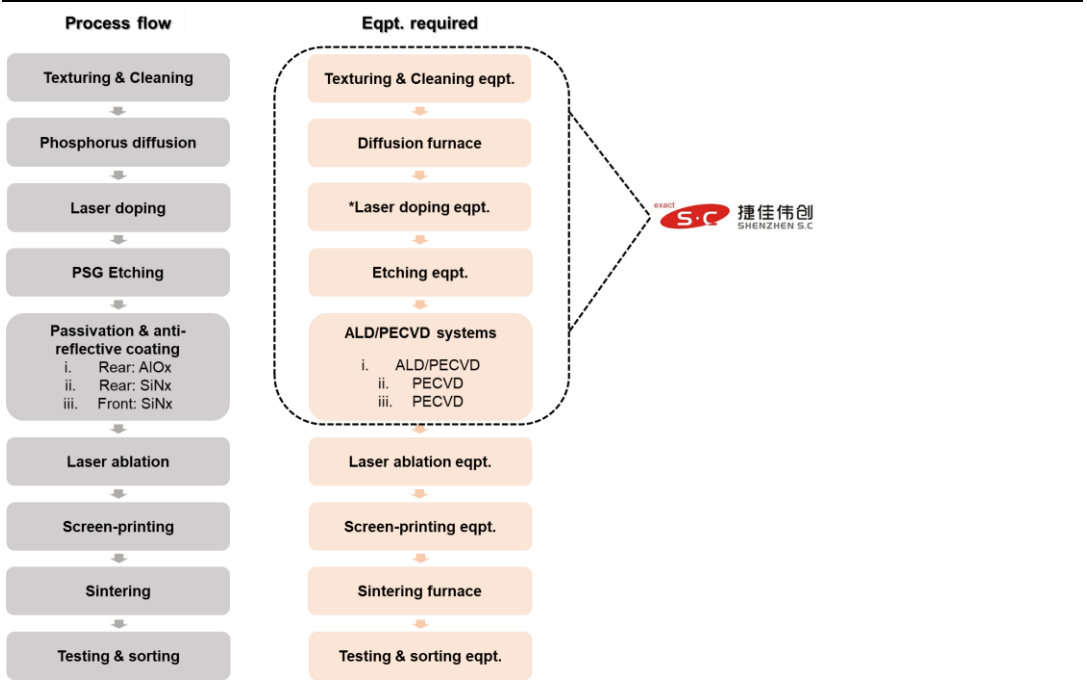
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Figure 1: Comparison of production process of PERC, TOPCon and HJT cells; steps in red dotted lines require additional or different eqpt. vs. PERC production



Source: CMBIGM

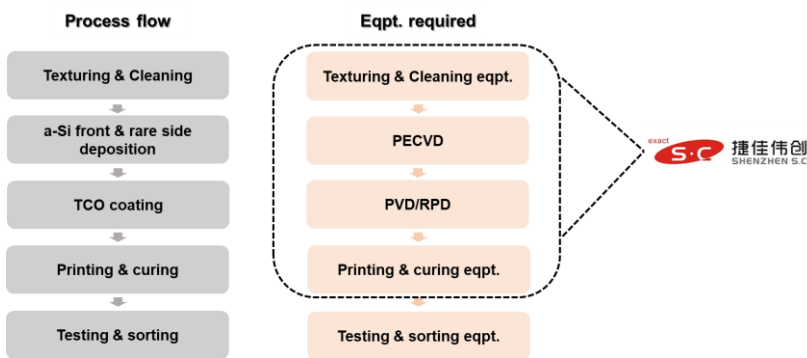
Figure 2: S.C's key products coverage on TOPCon cell production line



Source: CMBIGM

*Note: Laser doping equipment is under trial stage.

Figure 3: S.C's key products coverage on HJT cell production line



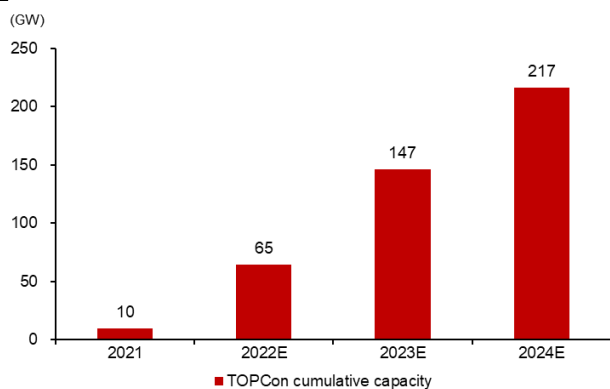
Source: CMBIGM

Figure 4: S.C's key products coverage on HJT cell production line

(RMB mn)	New			Old			Chg		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,813	7,552	9,812	5,632	7,316	9,505	3%	3%	3%
Gross profit	2,571	2,571	2,571	2,571	2,571	2,571	0%	0%	0%
S&D expense ratio	2.4%	2.3%	2.3%	1.9%	1.8%	1.7%	0.5ppt	0.5ppt	0.6ppt
Admin expense ratio	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	0.1ppt	0.0ppt	0.0ppt
R&D expense ratio	5.5%	5.2%	5.0%	5.2%	5.2%	5.0%	0.3ppt	0.0ppt	0.0ppt
Net finance income/(expenses)	239	122	135	27	34	44	786%	256%	203%
Net profit	1,042	1,251	1,643	863	1,144	1,526	21%	9%	8%
EPS (RMB)	2.99	3.59	4.72	2.48	3.29	4.38	21%	9%	8%
ROE	15.57%	16.13%	18.08%	13.07%	15.20%	17.41%	2.5ppt	0.9ppt	0.7ppt

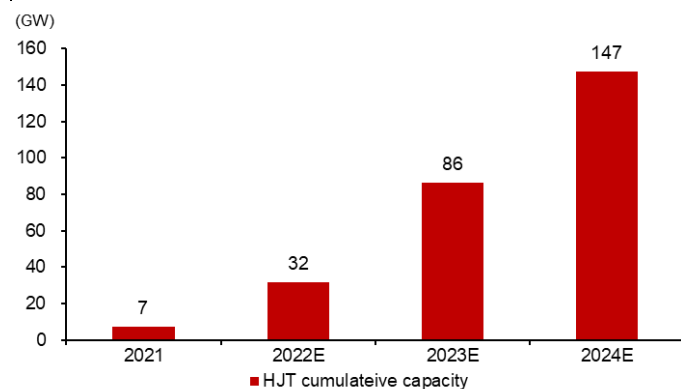
Source: CMBIGM estimates

Figure 5: Projected market size of TOPCon capacity



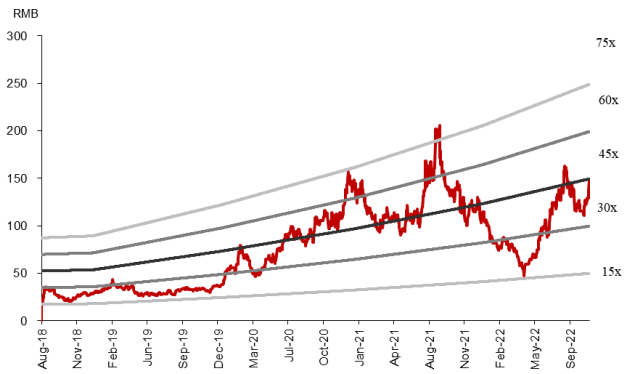
Source: Data based on 20 companies that announced expansion plan, CMBIGM

Figure 6: Projected market size of HJT capacity



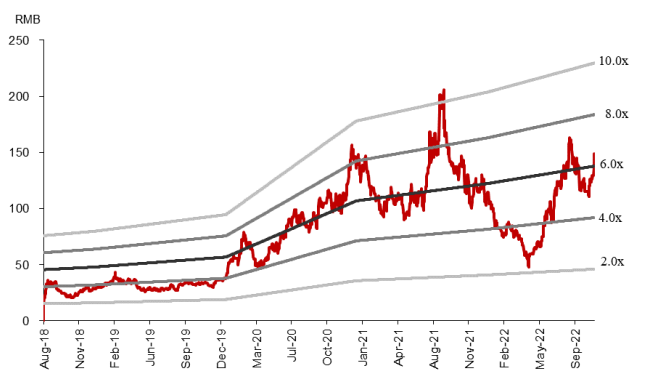
Source: Data based on 35 companies that announced expansion plan, CMBIGM

Figure 7: S.C P/E band



Source: Company data, Bloomberg, CMBIGM estimates

Figure 8: S.C P/B band



Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,044	5,047	5,813	7,552	9,812
Diffusion & deposition & Wet process eqpt.	3,425	4,200	4,788	6,225	8,092
Automation eqpt.	471	682	778	1,011	1,314
Parts and others	148	165	247	317	405
COGS	(2,976)	(3,806)	(4,324)	(5,548)	(7,172)
Gross profit	1,069	1,241	1,489	2,004	2,640
Tax and surcharges	(22)	(21)	(25)	(32)	(42)
S&M expenses	(81)	(71)	(137)	(174)	(226)
G&A expenses	(86)	(102)	(108)	(136)	(177)
R&D expenses	(191)	(238)	(320)	(393)	(491)
Net finance income/(exp)	(52)	7	239	122	135
Core operating profit	637	816	1,139	1,392	1,840
Impairment losses	(146)	(127)	(80)	(90)	(90)
Other expenses and incomes	92	127	132	129	129
Pre-tax profit	583	816	1,191	1,431	1,879
Income tax	(71)	(103)	(150)	(180)	(236)
Minority interest	11	4	1	-	-
Net profit	523	717	1,042	1,251	1,643

Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
PAT	512	714	1,041	1,251	1,643
D&A	32	40	49	63	99
Change in working capital	(440)	486	417	57	(148)
Others	230	110	(248)	(128)	(141)
Operating cash flow	334	1,349	1,260	1,243	1,453
CAPEX	(169)	(239)	(200)	(400)	(400)
Others	91	(332)	-	-	-
Investing cash flow	(78)	(571)	(200)	(400)	(400)
Proceeds from funding raising	31	2,521	-	-	-
Changes in borrowings	193	(180)	-	20	(30)
Dividends paid	(82)	(81)	176	18	10
Others	(20)	(19)	-	-	(0)
Financing cash flow	122	2,241	176	38	(20)
Net change in cash	378	3,020	1,236	881	1,033
Cash at the beginning	501	864	3,413	4,649	5,530
Forex change, net	(16)	(470)	-	-	-
Less: restricted cash	684	578	-	-	-
Cash at the end	864	3,413	4,649	5,530	6,562

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	8,693	11,652	13,598	15,836	18,772
Cash and restricted cash	1,548	3,991	5,227	6,107	7,140
Trade receivables	2,811	2,828	3,779	4,380	5,396
Inventories	3,823	4,033	4,238	4,993	5,881
Other current assets	511	801	355	355	355
Non-current assets	591	1,131	1,290	1,634	1,941
Long-term equity investment	85	77	86	92	99
Fixed assets	291	377	536	882	1,191
Other non-current assets	215	677	668	660	651
Total assets	9,284	12,783	14,889	17,469	20,713
Current liabilities	6,207	6,538	7,665	9,099	10,825
ST borrowings	194	16	16	36	6
Trade payables	2,066	2,250	2,595	3,329	4,303
Advances from customers	3,325	3,749	4,531	5,211	5,993
Other current liabilities	623	524	524	524	524
Non-current liabilities	41	41	41	41	41
Deferred income	11	9	9	9	9
Other non-current liabilities	29	32	32	32	32
Total liabilities	6,248	6,579	7,706	9,140	10,866
Share capital	321	348	348	348	348
Reserves	1,284	3,817	3,817	3,817	3,817
Retained earnings	1,431	2,038	3,017	4,164	5,682
Shareholders' fund	3,036	6,203	7,182	8,329	9,847
Minority interest	(1)	1	0	0	0
Total equity	3,035	6,204	7,183	8,329	9,847

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix (%)					
Diffusion & deposition & Wet process eqpt.	85	83	82	82	82
Automation eqpt.	12	14	13	13	13
Parts and others	4	3	4	4	4
YoY growth (%)					
Revenue	60	25	15	30	30
Gross profit	32	16	20	35	32
Net profit	37	37	45	20	31
Operating efficiency (%)					
GP margin	26.4	24.6	25.6	26.5	26.9
Core operating margin	15.8	16.2	19.6	18.4	18.8
Net profit margin	12.7	14.1	17.9	16.6	16.7
B/S ratios (%)					
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
Receivable turnover days	198	204	207	197	182
Inventory turnover days	323	284	260	223	202
Payable turnover days	192	207	204	195	194
Profitability (%)					
ROE	18.7	15.5	15.6	16.1	18.1
ROA	6.6	6.5	7.5	7.7	8.6
Per share (RMB)					
EPS	1.63	2.14	2.99	3.59	4.72
DPS	0.19	0.18	0.30	0.36	0.47
BVPS	9.45	17.81	20.62	23.92	28.27

Source: Company data, CMBIGM estimates

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