

# Naura Technology (002371 CH)

## Key beneficiary of semiconductor localization

We recently held an NDR with Naura Technology's management and we maintain our positive outlook for the Company. We expect Naura to deliver robust revenue growth on capex expansion from downstream clients and accelerated semi localization trend. In addition, we believe the Company could be one of the beneficiaries of the recently launched "Big Fund III" (US\$47.5bn) in China. **Naura is currently our favourite under the semi localization theme. Reiterate BUY rating for Naura (002371 CH), with an unchanged TP at RMB405.**

- Geopolitical tensions have driven major economies worldwide to pursue resilience over efficiency, leading to significant investments to strengthen domestic chip fabrication capabilities. The recently established "Big Fund III" (US\$47.5bn) in China is so far the largest phase of the series, with registered capital of RMB344bn (vs. Phase I/II: RMB139bn/RMB200bn). The phase III underscores yet another Chinese government's effort to achieve self-sufficiency in semi amid the escalating geopolitical tensions. Previous phases focused on chip fabrication, equipment, materials, etc., and we expect similar investment interests for Phase III, as well as a potential focus on AI-related areas. **We expect Naura to be one of the beneficiaries.**
- **Looking forward, Naura will likely maintain robust growth on capex expansion from clients and accelerated semi localization trend.** Key drivers of revenue could be from order wins in CCP, CVD and cleanser products. The Company disclosed that new orders signed in 2023 were RMB30bn, of which 70%+ were for semiconductor equipment and 15% were for new energy/PV. We think these orders will support 40% revenue growth in 2024.
- **We reiterate our BUY rating for Naura (002371 CH), with an unchanged TP at RMB405, based on the same 39x 2024E P/E.** We raise our GPM forecasts by 1.9ppt and 3.9ppt for 2024/25E, considering larger revenue contribution from more advanced equipment. This accretive impact on net profit was offset by a higher projection for R&D spending (~11% of total revenue), as the Company is expanding its product coverage. **Risks:** 1) intensified competition from overseas and domestic peers, and 2) escalating geopolitical tensions.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	14,688	22,079	30,856	39,030	48,443
YoY growth (%)	51.7	50.3	39.7	26.5	24.1
Gross margin (%)	43.8	41.1	39.8	41.5	42.3
Operating profit (RMB mn)	2,867.5	4,447.9	6,306.2	8,944.4	12,026.3
YoY growth (%)	131.9	55.1	41.8	41.8	34.5
Net profit (RMB mn)	2,352.7	3,899.1	5,527.3	7,833.0	10,526.2
YoY growth (%)	118.4	65.7	41.8	41.7	34.4
P/E (x)	90.8	55.0	38.9	27.5	20.4

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** RMB405.00  
**Up/Downside** 32.8%

**Current Price** RMB304.98

#### China Semi

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#### Stock Data

Mkt Cap (RMB mn)	161,926
Avg 3 mths t/o (RMB mn)	1,644.98
52w High/Low (RMB)	349.48/213.42
Total Issued Shares (mn)	531

Source: FactSet

#### Shareholding Structure

Beijing Sevenstar Huadian Technology Gro	33.6%
Beijing Electronics Holding	9.4%

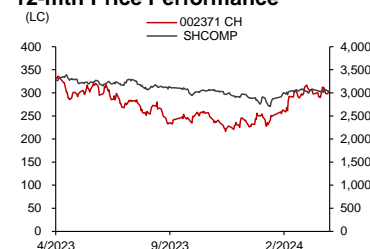
Source: Bloomberg

#### Share Performance

	Absolute	Relative
1-mth	-3.1%	-9.1%
3-mth	13.3%	1.1%
6-mth	26.4%	17.7%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

## National Integrated Circuit Industry Investment Fund (The Big Fund)

The National Integrated Circuit Industry Investment Fund, known as the Big Fund, was created in 2014 with registered capital of RMB139bn. The initial phase focused on developing China's semi manufacturing capabilities with major investments directing towards leading Chinese semi foundries, such as SMIC (688951 CH) and Hua Hong Semi (1347 HK). Additionally, the fund supported other parts of the semi ecosystem, such as materials and equipment, laying the groundwork for a more self-sufficient semi industry. According to ijiwei's analysis, 67% of the fund was invested in IC manufacturing, 17% in chip design, 10% in packaging, and 6% in equipment and materials.

**Big Fund II** was launched in 2019, significantly expanding its scope and financial flexibility with registered capital of RMB200bn. This phase shifted its focus to strengthening the upstream semi supply chain, particularly in equipment and materials. Investments were aimed at companies producing essential semi equipment, such as etching machines and testing equipment. Phase II also aimed to further reduce China's reliance on foreign tech and support domestic semi solutions.

**Big Fund III** is so far the largest phase of the series with registered capital of RMB344bn. This phase underscores yet another Chinese government's effort to achieve self-sufficiency in semi amid the escalating geopolitical tensions. The investments are likely to further the previous objectives (advanced materials, manufacturing capacity and equipment, etc.), while potentially adding other critical areas in AI developments.

**Figure 1: History of China's Big Fund**

Fund	Date	Amount	Investments
<b>Big Fund I</b>	2014	RMB139bn	Major investments in SMIC (688981 CH, NR) and Yangtze Memory Technologies Corp (YMTC), Hua Hong Semi (1347 HK, NR), etc.
<b>Big Fund II</b>	2019	RMB200bn	Continued support for SMIC, YMTC, Hua Hong Semi, and other local semi manufacturers, such as Naura Technology (002371 CH, BUY) and AMEC 688012 CH, NR).
<b>Big Fund III</b>	2024	RMB344bn	

Source: Bloomberg, Reuters, CMBIGM

**Figure 2: CMBIGM estimates vs. consensus**

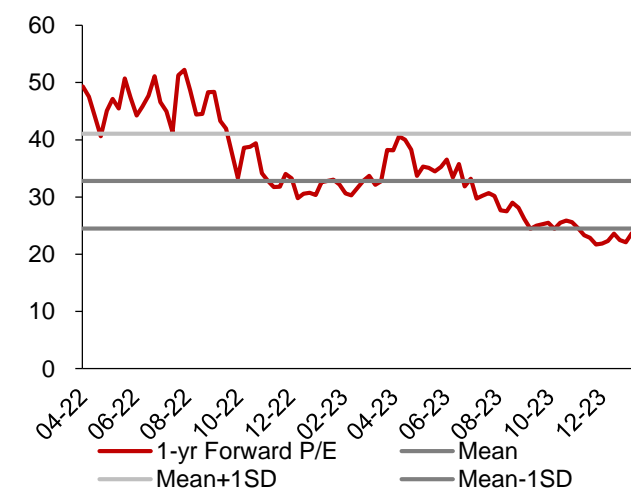
RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	30,856	39,030	48,443	30,322	39,607	48,527	2%	-1%	0%
Gross Profit	12,281	16,203	20,503	12,829	16,781	20,695	-4%	-3%	-1%
Net profit	5,525	7,813	10,481	5,556	7,581	9,423	-1%	3%	11%
EPS (RMB)	10.41	14.72	19.74	10.61	14.46	18.17	-2%	2%	9%
<b>Gross Margin</b>	39.8%	41.5%	42.3%	42.3%	42.4%	42.6%	-2.5 ppt	-0.9 ppt	-0.3 ppt
<b>Net Margin</b>	17.9%	20.0%	21.6%	18.3%	19.1%	19.4%	-0.4 ppt	0.9 ppt	2.2 ppt

Source: Bloomberg, CMBIGM estimates

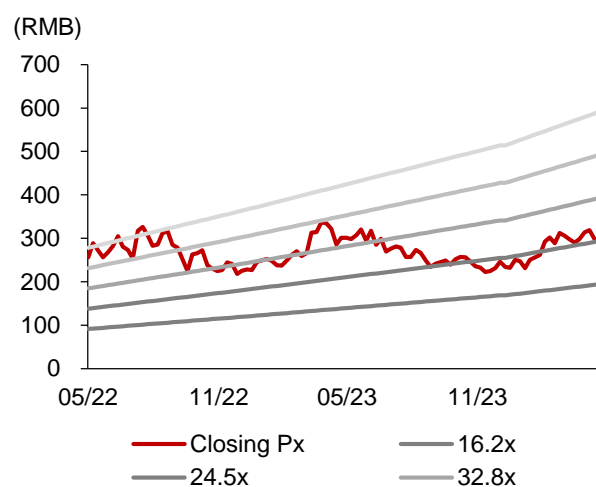
**Figure 3: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	30,856	39,030	48,443	30,477	40,625	49,229	1%	-4%	-2%
Gross profit	12,281	16,203	20,503	11,564	15,274	18,413	6%	6%	11%
Net profit	5,525	7,813	10,481	5,499	7,618	9,461	0%	3%	11%
EPS (RMB)	10.41	14.72	19.74	10.37	14.37	17.85	0%	2%	11%
<b>Gross margin</b>	39.8%	41.5%	42.3%	37.9%	37.6%	37.4%	1.9 ppt	3.9 ppt	4.9 ppt
<b>Net margin</b>	17.9%	20.0%	21.6%	18.0%	18.8%	19.2%	-0.1 ppt	1.3 ppt	2.4 ppt

Source: Company data, CMBIGM estimates

**Figure 4: 12M forward PE band**

Source: Company data, CMBIGM estimates

**Figure 5: 12M forward PE chart**

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	9,683	14,688	22,079	30,856	39,030	48,443
Cost of goods sold	(5,867)	(8,250)	(13,005)	(18,575)	(22,827)	(27,940)
Gross profit	3,817	6,438	9,075	12,281	16,203	20,503
Operating expenses	(2,580)	(3,571)	(4,627)	(5,974)	(7,259)	(8,477)
Selling expense	(84)	(135)	(167)	(203)	(217)	(221)
SG&A expense	(1,705)	(2,224)	(2,836)	(3,393)	(3,921)	(4,455)
R&D expense	(1,297)	(1,845)	(2,475)	(3,305)	(4,180)	(5,189)
Others	507	633	852	926	1,060	1,389
Operating profit	1,236	2,867	4,448	6,306	8,944	12,026
Other income	18	14	22	24	27	29
Other expense	(2)	(27)	(4)	0	0	0
Pre-tax profit	1,253	2,854	4,466	6,330	8,971	12,056
Income tax	(59)	(313)	(433)	(614)	(870)	(1,169)
After tax profit	1,193	2,541	4,033	5,717	8,102	10,887
Minority interest	116	188	134	189	269	361
Net profit	1,077	2,353	3,899	5,527	7,833	10,526

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	22,323	31,117	38,226	50,792	55,409	77,046
Cash & equivalents	9,068	10,435	12,451	16,481	19,703	27,076
Account receivables	1,899	2,995	3,767	6,039	6,365	9,030
Inventories	8,035	13,041	16,992	22,703	22,950	32,930
Prepayment	658	1,551	1,480	1,733	1,997	2,237
Other current assets	2,663	3,096	3,535	3,836	4,394	5,772
Non-current assets	8,732	11,434	15,399	19,439	23,278	26,709
PP&E	2,423	2,484	3,352	3,758	4,327	4,977
Right-of-use assets	68	147	215	282	328	353
Deferred income tax	473	363	450	572	641	845
Intangibles	2,063	2,003	2,547	3,028	3,363	3,477
Goodwill	17	18	27	27	27	27
Other non-current assets	3,689	6,419	8,808	11,772	14,592	17,030
Total assets	31,054	42,551	53,625	70,231	78,687	103,754
Current liabilities	11,268	15,770	19,083	28,404	29,192	41,869
Short-term borrowings	0	227	23	308	447	605
Account payables	3,499	5,592	6,117	9,150	8,986	13,213
Tax payable	110	130	209	238	267	352
Other current liabilities	2,096	1,841	3,418	4,212	4,343	6,086
Contract liabilities	5,046	7,198	8,317	13,572	14,116	20,250
Accrued expenses	517	782	999	923	1,035	1,364
Non-current liabilities	2,588	6,797	9,717	11,651	11,852	14,233
Long-term borrowings	0	3,740	5,835	6,820	6,467	7,208
Bond payables	0	0	0	0	0	0
Deferred income	0	2	4	4	4	4
Other non-current liabilities	2,587	3,055	3,877	4,827	5,380	7,021
Total liabilities	13,856	22,567	28,800	40,055	41,044	56,102
Share capital	526	529	530	531	531	531
Retained earnings	2,924	5,159	8,776	13,842	21,041	30,689
Other reserves	13,448	14,058	15,061	15,155	15,155	15,155
Total shareholders equity	16,898	19,746	24,367	29,529	36,728	46,375
Minority interest	301	238	458	647	916	1,277
Total equity and liabilities	31,054	42,551	53,625	70,231	78,687	103,754

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,253	2,854	4,466	6,330	8,971	12,056
Depreciation & amortization	460	552	730	894	1,107	1,296
Tax paid	(59)	(313)	(433)	(614)	(870)	(1,169)
Change in working capital	(3,133)	(4,424)	(3,409)	(4,883)	(1,154)	(8,067)
Others	703	603	1,012	6,407	1,096	7,935
<b>Net cash from operations</b>	<b>(777)</b>	<b>(728)</b>	<b>2,365</b>	<b>8,135</b>	<b>9,151</b>	<b>12,051</b>
<b>Investing</b>						
Capital expenditure	(447)	(1,409)	(1,980)	(4,955)	(5,061)	(4,724)
Acquisition of subsidiaries/ investments	0	(15)	(81)	na	na	na
Net proceeds from disposal of short-term investments	0	0	3	na	na	na
Others	0	1	0	(157)	143	197
<b>Net cash from investing</b>	<b>(447)</b>	<b>(1,423)</b>	<b>(2,058)</b>	<b>(5,112)</b>	<b>(4,917)</b>	<b>(4,527)</b>
<b>Financing</b>						
Dividend paid	(114)	(241)	(388)	(620)	(810)	(1,066)
Net borrowings	(602)	3,453	1,888	1,281	(214)	898
Proceeds from share issues	8,497	157	212	95	0	0
Others	(101)	(24)	(66)	(46)	(47)	(47)
<b>Net cash from financing</b>	<b>7,680</b>	<b>3,345</b>	<b>1,647</b>	<b>709</b>	<b>(1,071)</b>	<b>(214)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,578	9,031	10,261	12,229	16,017	19,239
Exchange difference	(4)	37	14	56	60	63
Others	6,457	1,194	1,954	3,732	3,163	7,311
<b>Cash at the end of the year</b>	<b>9,031</b>	<b>10,261</b>	<b>12,229</b>	<b>16,017</b>	<b>19,239</b>	<b>26,613</b>

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

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<b>NOT RATED</b>	: Stock is not rated by CMBIGM

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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