

Shengyi Tech (600183 CH)

Decent 3Q results, Shengyi should ride CCL recovery tailwind; Upgrade to BUY

Shengyi released its 3Q results. Revenue was RMB4,467mn with YoY growth of 3.8% growth and QoQ growth of 8.3%. Net profit was RMB344mn with YoY growth of 31.6% and QoQ growth of 12.0%. GPM expanded from 19.7%/18.9% in 1Q23/2Q23 to 20.0% in 3Q23, and its NPM expanded from 6.6%/7.4% in 1Q23/2Q23 to 7.7% in 3Q23. We see Shengyi is poised to enjoy the recovery in the CCL sector given its leading position and broader end market exposure. **We upgrade Shengyi to BUY, with TP adjusted to RMB20.4. But we maintain Shennan at HOLD as we think PCB recovery is slower than CCL.**

- **Decent 3Q results.** We observed that the Company's downstream customers have nearly completed their destocking goals, and there is an accelerated recovery in overall demand during 3Q, possibly marking the beginning of a new restocking cycle. Notably, we have witnessed a surge in demand, particularly in the auto and mobile sectors, which have boosted the Company's CCL sales. Furthermore, compared to its industry peers, the Company has solidified its position as an industry leader, evidenced by its consistently higher utilization rates and nearly full CCL capacity utilization since mid-2023. Finally, the Company's NPM has showed positive progress in the last two quarters.
- **By segment:** 1) CCL revenue was close to RMB3.6bn in 3Q (c.80% of total sales). CCL sales grew roughly 10% QoQ in the past two quarters, confirming a better recovery in the CCL industry. 2) PCB revenue was RMB808mn in 3Q (18% of total sales), decreasing by 7.8% YoY and 3.9% QoQ, suggesting near-term challenges for the industry. In terms of GPM, PCB segment deteriorated further from 18.3%/16.4% in 1Q/2Q23 to 14.2% in 3Q23, while overall GPM improved from 18.9% in 2Q to 20.0% in 3Q, indicating improving GPM for CCL segment.
- **Upgrade to BUY, with TP adjusted to RMB20.4,** based on higher 22.5x 2024E P/E multiple (vs. previous 20x). We believe the valuation is justified considering NP CAGR of 23% over 2022-25E. Potential downside risks include: 1) worse-than-expected macro environment recovery, 2) continuous ASP pressure, and 3) increasing upstream material costs.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	20,274	18,014	17,138	20,422	24,036
YoY growth (%)	38.0	(11.1)	(4.9)	19.2	17.7
Gross margin (%)	26.8	22.0	20.2	22.8	24.4
Net profit (RMB mn)	2,830	1,531	1,342	2,106	2,843
YoY growth (%)	68.4	(45.9)	(12.4)	57.0	35.0
EPS (RMB)	1.23	0.66	0.58	0.91	1.22
Consensus EPS (RMB)	na	na	0.72	0.96	1.15
ROE (%)	24.6	11.5	9.8	14.6	18.1
P/E (x)	13.9	26.0	29.7	18.9	14.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Upgrade)

Target Price	RMB20.40
(Previous TP)	RMB16.10)
Up/Downside	19.1%
Current Price	RMB17.13

China Technology

Lily YANG, Ph.D

(852) 3916 3716

lilyyang@cmbi.com.hk

Kevin ZHANG

(852) 3761 8727

kevinzhang@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	40,252.1
Avg 3 mths t/o (RMB mn)	242.3
52w High/Low (RMB)	19.85/13.50
Total Issued Shares (mn)	2349.8

Source: FactSet

Shareholding Structure

Guangdong Guangxin Holdings Group	24.8%
Dongguan Guohong Investment	13.7%

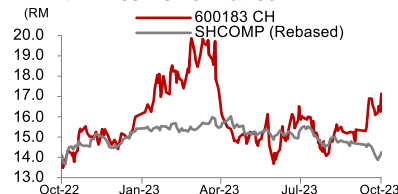
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	15.6%	19.0%
3-mth	8.0%	15.1%
6-mth	5.2%	14.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM estimates vs. consensus

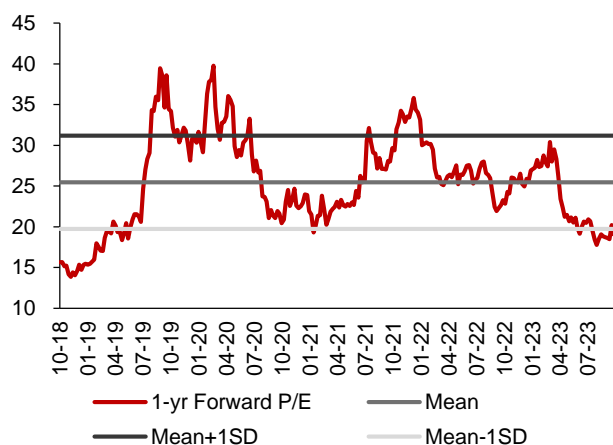
RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	17,138	20,422	24,036	18,163	21,180	24,281	-6%	-4%	-1%
Gross Profit	3,461	4,647	5,875	3,748	4,734	5,719	-8%	-2%	3%
Net profit	1,342	2,106	2,843	1,670	2,300	2,742	-20%	-8%	4%
EPS (RMB)	0.58	0.91	1.22	0.72	0.96	1.15	-19%	-6%	7%
Gross Margin	20.2%	22.8%	24.4%	20.6%	22.3%	23.6%	-0.4 ppt	0.4 ppt	0.9 ppt
Net Margin	8.5%	11.2%	12.8%	9.5%	11.7%	12.4%	-1 ppt	-0.6 ppt	0.4 ppt

Source: Company data, CMBIGM estimates

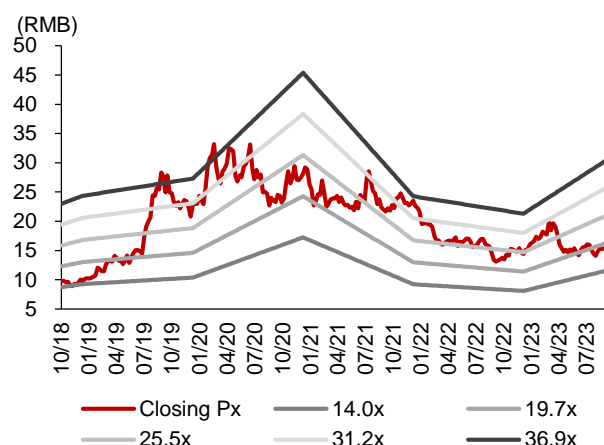
Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	sFY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	17,138	20,422	24,036	17,498	20,175	23,601	-2%	1%	2%
Gross Profit	3,461	4,647	5,875	3,412	4,300	5,418	1%	8%	8%
Net profit	1,342	2,106	2,843	1,269	1,871	2,547	6%	13%	12%
EPS (RMB)	0.58	0.91	1.22	0.55	0.80	1.10	6%	13%	12%
Gross Margin	20.2%	22.8%	24.4%	19.5%	21.3%	23.0%	0.7 ppt	1.4 ppt	1.5 ppt
Net Margin	8.5%	11.2%	12.8%	8.4%	10.8%	12.5%	0 ppt	0.4 ppt	0.2 ppt

Source: Company data, CMBIGM estimates

Figure 1: 12M forward PE band

Source: Company data, CMBIGM estimates

Figure 2: 12M forward PE chart

Source: Company data, CMBIGM estimates

Figure 5: P&L summary

RMB mn	FY21	FY22	1Q23	2Q23	3Q23	4Q23E	FY23E	FY24E	FY25E
Revenue	20,274	18,014	3,756	4,125	4,467	4,790	17,138	20,422	24,036
...YoY	38.0%	-11.1%	-21.2%	-10.5%	3.8%	10.4%	-4.9%	19.2%	17.7%
...QoQ			-13.4%	9.8%	8.3%	7.2%			
...Seasonality			22%	24%	26%	28%			
Cost of sales	(14,837)	(14,045)	(3,014)	(3,346)	(3,575)	(3,741)	(13,677)	(15,775)	(18,161)
Gross profit	5,437	3,969	741	779	891	1,049	3,461	4,647	5,875
...YoY	38.2%	(27.0%)	-34.2%	-27.1%	9.2%	9.6%	(12.8%)	34.3%	26.4%
GPM (%)	26.8%	22.0%	19.7%	18.9%	20.0%	21.9%	20.2%	22.8%	24.4%
SG&A	(1,142)	(1,031)	(235)	(228)	(222)	(291)	(977)	(1,164)	(1,370)
...% of rev	(5.6%)	(5.7%)	-6.3%	-5.5%	-5.0%	-6.1%	(5.7%)	(5.7%)	(5.7%)
R&D	(964)	(943)	(182)	(206)	(221)	(250)	(859)	(1,024)	(1,205)
...% of rev	(4.8%)	(5.2%)	-5%	-5%	-5%	-5%	(5.0%)	(5.0%)	(5.0%)
Net profit	2,830	1,531	248	307	344	443	1,342	2,106	2,843
...YoY	68.4%	-45.9%	-48.6%	-32.2%	31.6%	32.5%	-12.4%	57.0%	35.0%
...QoQ			-25.9%	24%	12%	29%			
NPM (%)	14.0%	8.5%	6.6%	7.4%	7.7%	9.2%	7.8%	10.3%	11.8%

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	14,687	20,274	18,014	17,138	20,422	24,036
Cost of goods sold	(10,754)	(14,837)	(14,045)	(13,677)	(15,775)	(18,161)
Gross profit	3,933	5,437	3,969	3,461	4,647	5,875
Operating expenses	(1,659)	(2,152)	(1,985)	(1,855)	(2,220)	(2,613)
SG&A expense	(899)	(1,142)	(1,031)	(977)	(1,164)	(1,370)
R&D expense	(711)	(964)	(943)	(859)	(1,024)	(1,205)
Others	(49)	(46)	(11)	(19)	(32)	(38)
Operating profit	2,274	3,285	1,984	1,606	2,427	3,261
Other income	5	6	2	2	2	3
Other expense	(12)	(11)	(14)	(13)	(16)	(19)
Other gains/(losses)	(70)	132	(80)	(56)	(50)	(99)
Interest income	11	46	56	63	65	70
Interest expense	(121)	(139)	(171)	(161)	(162)	(157)
Other income/expense	(4)	(9)	(4)	3	0	0
Pre-tax profit	2,083	3,310	1,773	1,443	2,266	3,058
Income tax	(283)	(385)	(141)	(115)	(180)	(243)
After tax profit	1,800	2,925	1,632	1,328	2,086	2,815
Minority interest	120	95	101	(13)	(21)	(28)
Net profit	1,681	2,830	1,531	1,342	2,106	2,843

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,716	14,720	14,232	12,867	14,615	15,478
Cash & equivalents	850	2,287	3,106	3,457	3,342	3,958
Account receivables	4,888	6,120	5,582	4,747	5,883	5,970
Inventories	2,519	4,520	4,084	3,410	3,937	4,024
Prepayment	20	24	24	21	26	30
Other current assets	1,439	1,769	1,436	1,231	1,427	1,495
Non-current assets	8,642	9,711	10,963	11,350	11,382	11,352
PP&E	6,374	7,071	7,866	8,356	8,588	8,646
Right-of-use assets	0	73	44	38	34	31
Deferred income tax	120	158	220	225	234	245
Intangibles	435	399	399	373	347	322
Goodwill	97	19	0	0	0	0
Financial assets at FVTPL	0	0	25	(4)	(24)	(40)
Other non-current assets	1,616	1,991	2,410	2,361	2,203	2,149
Total assets	18,357	24,431	25,196	24,217	25,998	26,829
Current liabilities	6,804	7,253	7,377	6,486	6,843	5,910
Short-term borrowings	2,157	1,693	1,558	1,187	1,279	337
Account payables	2,903	3,296	3,386	2,235	2,519	2,456
Tax payable	125	173	50	65	61	67
Other current liabilities	1,088	1,330	1,835	2,664	2,517	2,617
Contract liabilities	32	28	20	24	28	33
Accrued expenses	498	733	529	311	440	399
Non-current liabilities	910	2,312	2,522	2,150	2,406	2,797
Long-term borrowings	605	1,590	1,175	1,083	1,319	1,680
Bond payables	0	300	800	500	500	500
Obligations under finance leases	0	66	39	35	39	39
Deferred income	267	321	108	122	121	130
Other non-current liabilities	38	35	400	410	427	447
Total liabilities	7,714	9,565	9,899	8,636	9,249	8,707
Share capital	2,291	2,312	2,327	2,324	2,324	2,324
Retained earnings	3,690	5,386	5,355	5,498	6,449	7,530
Other reserves	3,908	5,399	5,816	5,974	6,212	6,532
Total shareholders equity	9,889	13,096	13,498	13,796	14,985	16,387
Minority interest	754	1,770	1,798	1,785	1,764	1,736
Total equity and liabilities	18,357	24,431	25,196	24,217	25,998	26,829

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,800	2,925	1,632	1,328	2,086	2,815
Depreciation & amortization	531	673	726	798	871	939
Change in working capital	(832)	(1,935)	108	836	(1,534)	(62)
Others	258	113	354	64	93	(21)
Net cash from operations	1,758	1,776	2,820	3,027	1,516	3,671
Investing						
Capital expenditure	(1,761)	(1,787)	(1,534)	(1,614)	(1,343)	(1,387)
Others	(72)	(93)	341	458	465	511
Net cash from investing	(1,833)	(1,880)	(1,193)	(1,156)	(879)	(876)
Financing						
Dividend paid	(1,101)	(1,161)	(1,619)	(1,209)	(1,080)	(1,598)
Net borrowings	697	404	800	(315)	327	(581)
Others	189	2,155	171	(0)	(0)	(0)
Net cash from financing	(215)	1,398	(648)	(1,524)	(752)	(2,179)
Net change in cash						
Cash at the beginning of the year	1,051	818	2,105	3,095	3,446	3,331
Exchange difference	58	(6)	11	4	0	0
Others	(290)	1,293	979	347	(115)	616
Cash at the end of the year	818	2,105	3,095	3,446	3,331	3,947

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.