

# Willsemi (603501 CH)

## 3Q results in line with gradual recovery

Willsemi reported 3Q24 results, and we attended its earnings call. The company achieved a record quarterly revenue of RMB6.8bn (up 9.5% YoY/5.7% QoQ), 2%/4% lower than our estimate/consensus. Mgmt. attributed the growth to consumer demand recovery, increasing product penetration in high-end smartphone market and autonomous driving applications. GPM remained stable at 30.4% in 3Q (vs. 30.2% in 2Q24), suggesting the business has been recovered from the cycle trough (GPM was up 8.6ppts from 3Q23). NP was RMB1.0bn (up 368.3% YoY/24.6% QoQ), in line with our estimate and 2% higher than consensus. The growth was mainly due to 1) a low base in 3Q23 (RMB0.2bn), 2) favourable product mix and 3) cost control. NPM steadily improved to 14.8% in 3Q24 vs. 3.5%/12.6% in 3Q24/2Q24. **Maintain BUY, with adjusted TP to RMB130, corresponding to 32x 2025E P/E (vs. prev. 40.7x).**

- **Auto CIS will be the key growth driver.** Mgmt. highlighted the growing opportunities in auto CIS market from 1) increasing number of cameras per vehicle (~11 cameras for EVs of RMB100k-150k vs. 4-5 previously) and 2) upgrades to higher resolution cameras (3M-8M vs. 1M previously). Benefiting from growing demand and higher ASP (3M/8M vs. 1M: ~1.4x/2x), Willsemi is well-positioned to ride the industry tailwind (a top two leader) as more EVs integrate multiple higher resolution cameras for ADAS and in-cabin functions supporting autonomous driving. **We lift our forecasts for Willsemi's auto CIS sales growth for 2025/26E to 35%/25% vs. 20%/14%.**
- **Smartphone CIS to grow on share gains.** The company will have a series of new product offerings in 2H25, such as 200M/0.6μm pixel, 50MP/1.0μm pixel and 50MP/1.6μm pixel products. We believe the broader product offering should enhance Willsemi's competitiveness in smartphone CIS market and therefore increase its market share. Mgmt. emphasized their strength in high-end products and the advantage with a broad set of self-design abilities.
- **Improvement of Touch/Display business to lift future margins.** Mgmt. said their TDDI product offering has expanded to 4-5 categories vs. previous single category. Mgmt. expects the segment profitability to improve in the following years, with continuous cost control and IP accumulations.
- **Maintain BUY with TP adjusted to RMB130, based on ~32x 2025E P/E, which is close to historical 1-year forward P/E.** We maintain our forecasts for 2024 EPS and revise up 2025/26E estimates by 4%/5% on higher auto CIS sales projections. Key risks include weaker-than-expected demand recovery, intensified competition and heightened China-U.S. trade tensions.

### 2Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	20,078	21,021	26,295	32,356	38,349
YoY growth (%)	(16.7)	4.7	25.1	23.0	18.5
Gross margin (%)	30.8	21.8	29.8	30.9	31.7
Operating profit (RMB mn)	2,455.9	1,276.9	3,864.5	5,800.4	7,521.8
YoY growth (%)	(51.1)	(48.0)	202.6	50.1	29.7
Net profit (RMB mn)	990.1	555.6	3,368.4	4,886.6	6,389.4
YoY growth (%)	(77.9)	(43.9)	506.2	45.1	30.8
EPS (Reported) (RMB)	0.84	0.47	2.83	4.11	5.37
P/E (x)	133.1	237.8	39.5	27.2	20.8
ROE (%)	5.8	2.8	15.0	18.9	20.4

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** RMB130.00  
(Previous TP RMB115.39)  
**Up/Downside** 16.3%  
**Current Price** RMB111.78

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### Stock Data

Mkt Cap (RMB mn) 133,021.7  
Avg 3 mths t/o (RMB mn) 1,574.0  
52w High/Low (RMB) 117.92/79.22  
Total Issued Shares (mn) 1190.0  
Source: FactSet

### Shareholding Structure

Yu Renrong 27.5%  
SX WEIHAO EQU INVEST 6.1%  
FUND

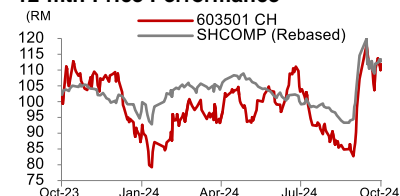
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	28.6%	12.9%
3-mth	8.5%	-5.1%
6-mth	19.1%	10.2%

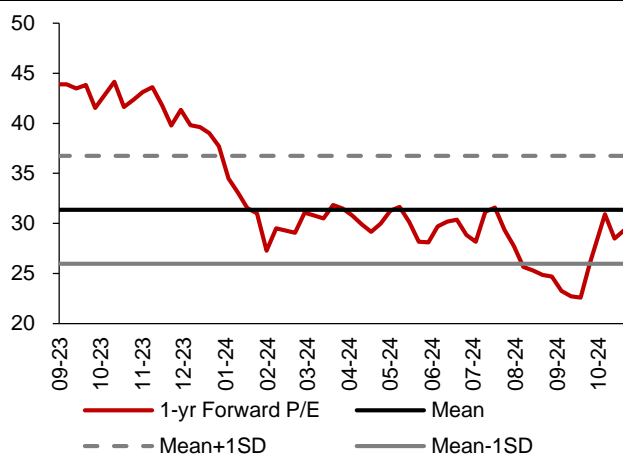
Source: FactSet

### 12-mth Price Performance



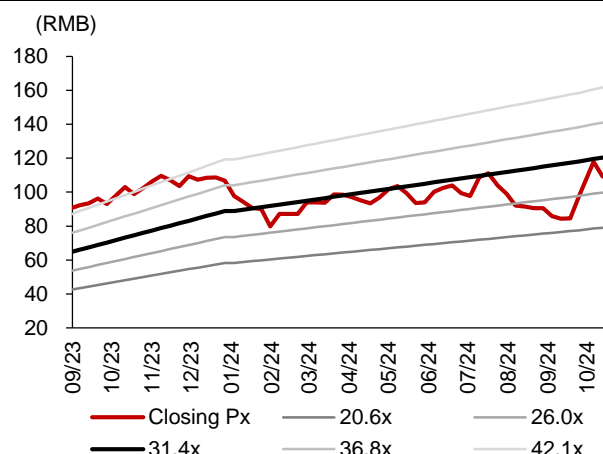
Source: FactSet

Figure 1: 1-yr forward PE band



Source: Company data, Bloomberg

Figure 2: PE chart



Source: Company data, Bloomberg

Figure 3: Earnings revisions

US\$m	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	26,295	32,356	38,349	26,563	31,609	36,717	-1%	2%	4%
Gross profit	7,832	10,008	12,164	7,881	9,866	11,886	-1%	1%	2%
Net profit	3,368	4,887	6,389	3,250	4,669	5,894	4%	5%	8%
EPS (RMB)	2.83	4.11	5.37	2.69	3.83	4.81	5%	7%	12%
Gross margin	29.8%	30.9%	31.7%	29.7%	31.2%	32.4%	0.1 ppt	-0.3 ppt	-0.7 ppt
Net margin	12.8%	15.1%	16.7%	12.2%	14.8%	16.1%	0.6 ppt	0.3 ppt	0.6 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

US\$m	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	26,295	32,356	38,349	26,119	31,213	36,145	1%	4%	6%
Gross profit	7,832	10,008	12,164	7,762	9,551	11,424	1%	5%	6%
Net profit	3,368	4,887	6,389	3,374	4,706	6,075	0%	4%	5%
EPS (RMB)	2.83	4.11	5.37	2.84	3.95	5.11	0%	4%	5%
Gross margin	29.8%	30.9%	31.7%	29.7%	30.6%	31.6%	0.1 ppt	0.3 ppt	0.1 ppt
Net margin	12.8%	15.1%	16.7%	12.9%	15.1%	16.8%	-0.1 ppt	0 ppt	-0.1 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	24,104	20,078	21,021	26,295	32,356	38,349
Cost of goods sold	(15,790)	(13,903)	(16,446)	(18,463)	(22,348)	(26,185)
Gross profit	8,314	6,175	4,574	7,832	10,008	12,164
Operating expenses	(3,292)	(3,719)	(3,297)	(3,968)	(4,208)	(4,642)
Selling expense	(515)	(516)	(467)	(565)	(679)	(767)
Admin expense	(23)	(25)	(33)	(41)	(50)	(59)
SG&A expense	(685)	(765)	(623)	(736)	(809)	(959)
R&D expense	(2,110)	(2,496)	(2,234)	(2,691)	(2,750)	(2,953)
Others	42	82	60	66	81	96
Operating profit	5,022	2,456	1,277	3,865	5,800	7,522
Other income	5	5	26	53	81	86
Other expense	(3)	(2)	(2)	(3)	(3)	(4)
Gain/loss on financial assets at FVTPL	(178)	(1,425)	(367)	(275)	(296)	(306)
Investment gain/loss	614	1,047	73	84	86	87
Other gains/(losses)	(103)	(186)	140	(18)	(21)	(24)
EBIT	5,358	1,895	1,148	3,706	5,648	7,361
Interest income	25	27	96	340	389	426
Interest expense	(410)	(494)	(534)	(321)	(316)	(308)
Net Interest income/(expense)	(385)	(467)	(438)	18	73	118
Other income/expense	29	(127)	(19)	0	0	0
Pre-tax profit	5,002	1,301	691	3,724	5,720	7,480
Income tax	(456)	(343)	(148)	(372)	(858)	(1,122)
After tax profit	4,546	958	544	3,352	4,862	6,358
Minority interest	70	(32)	(12)	(17)	(24)	(32)
Net profit	4,476	990	556	3,368	4,887	6,389

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	20,296	19,613	20,264	22,320	27,079	33,551
Cash & equivalents	7,671	4,026	9,086	9,841	13,108	18,520
Account receivables	2,878	2,502	4,031	4,543	5,413	6,053
Inventories	8,781	12,356	6,322	6,881	7,393	7,655
Prepayment	220	236	221	526	582	690
Financial assets at FVTPL	15	14	133	12	12	12
Other current assets	730	479	472	517	570	621
Non-current assets	11,784	15,577	17,479	17,820	18,001	18,270
PP&E	1,863	2,047	2,586	3,079	3,162	3,141
Right-of-use assets	236	209	176	159	151	149
Intangibles	1,604	2,018	2,305	2,211	2,127	2,037
Goodwill	2,998	3,169	3,861	3,864	3,864	3,864
Other non-current assets	5,084	8,134	8,551	8,507	8,696	9,079
Total assets	32,080	35,190	37,743	40,139	45,080	51,821
Current liabilities	8,700	10,373	9,069	9,021	8,294	8,521
Short-term borrowings	2,387	3,632	2,671	2,153	890	685
Account payables	2,574	1,128	1,663	2,384	2,515	2,651
Tax payable	589	145	229	189	243	262
Other current liabilities	2,746	5,079	4,055	3,824	4,075	4,267
Contract liabilities	149	125	187	224	275	326
Accrued expenses	255	263	264	247	296	330
Non-current liabilities	7,076	6,717	7,180	7,517	8,523	8,973
Long-term borrowings	3,448	2,750	2,977	3,134	3,915	4,046
Bond payables	2,250	2,347	2,444	2,503	2,503	2,503
Obligations under finance leases	179	145	122	123	142	161
Deferred income	34	24	25	30	32	37
Other non-current liabilities	1,166	1,451	1,611	1,727	1,932	2,225
Total liabilities	15,776	17,090	16,248	16,537	16,817	17,494
Share capital	876	1,185	1,216	1,216	1,216	1,216
Retained earnings	8,049	8,572	9,008	12,175	16,810	22,843
Other reserves	7,274	8,261	11,227	10,185	10,234	10,297
Total shareholders equity	16,198	18,018	21,451	23,575	28,260	34,356
Minority interest	106	82	44	27	3	(29)
Total equity and liabilities	32,080	35,190	37,743	40,139	45,080	51,821

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	4,546	958	544	3,352	4,862	6,358
Depreciation & amortization	927	1,045	1,166	1,190	1,317	1,470
Change in working capital	(3,564)	(5,300)	5,175	(347)	(926)	(526)
Others	284	1,303	651	(137)	375	290
<b>Net cash from operations</b>	<b>2,192</b>	<b>(1,993)</b>	<b>7,537</b>	<b>4,057</b>	<b>5,629</b>	<b>7,591</b>
<b>Investing</b>						
Capital expenditure	(1,122)	(2,259)	(1,048)	(1,213)	(1,357)	(1,493)
Net proceeds from disposal of short-term investments	3	7	7	32	40	44
Others	(1,780)	(1,765)	(1,422)	0	(19)	(32)
<b>Net cash from investing</b>	<b>(2,899)</b>	<b>(4,017)</b>	<b>(2,464)</b>	<b>(1,180)</b>	<b>(1,337)</b>	<b>(1,481)</b>
<b>Financing</b>						
Dividend paid	(569)	(822)	(574)	(489)	(518)	(601)
Net borrowings	3,066	3,242	(2,009)	(529)	(482)	(73)
Proceeds from share issues	1,203	273	3,394	(862)	0	0
Others	(767)	(438)	(875)	(170)	(24)	(24)
<b>Net cash from financing</b>	<b>2,932</b>	<b>2,255</b>	<b>(64)</b>	<b>(2,050)</b>	<b>(1,025)</b>	<b>(699)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	5,423	7,630	3,995	9,055	9,813	13,081
Exchange difference	(18)	120	51	(69)	0	0
Others	2,226	(3,755)	5,009	827	3,267	5,412
<b>Cash at the end of the year</b>	<b>7,630</b>	<b>3,995</b>	<b>9,055</b>	<b>9,813</b>	<b>13,081</b>	<b>18,493</b>
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Revenue	21.6%	(16.7%)	4.7%	25.1%	23.0%	18.5%
Gross profit	40.2%	(25.7%)	(25.9%)	71.2%	27.8%	21.5%
Operating profit	63.9%	(51.1%)	(48.0%)	202.6%	50.1%	29.7%
EBIT	64.0%	(64.6%)	(39.4%)	222.7%	52.4%	30.3%
Net profit	65.4%	(77.9%)	(43.9%)	506.2%	45.1%	30.8%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Gross profit margin	34.5%	30.8%	21.8%	29.8%	30.9%	31.7%
Operating margin	20.8%	12.2%	6.1%	14.7%	17.9%	19.6%
Return on equity (ROE)	32.6%	5.8%	2.8%	15.0%	18.9%	20.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
Current ratio (x)	2.3	1.9	2.2	2.5	3.3	3.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec</b>						
P/E	29.2	133.1	237.8	39.5	27.2	20.8
P/E (diluted)	29.2	133.1	237.8	39.5	27.2	20.8

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

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