

Zhejiang Jingsheng (300316 CH)

Acquisition to help tap into solar cell equipment

Jingsheng announced last Friday that the Company will set up a JV with **Applied Materials (AMAT US)**. The JV will acquire from Applied Materials the screen printing equipment business in Italy, wafer inspection business in Singapore and the related business in China. This is an important move for Jingsheng to expand its product mix on wafer equipment. More importantly, the acquisition can help Jingsheng to tap into the solar cell equipment field immediately. We see strong synergies through combining the technology of Applied Materials and the manufacturing capability of Jingsheng. Reiterate **BUY**.

- Key highlights of the acquisition.** Jingsheng will set up a JV with Applied Materials Hong Kong (stake: Jingsheng: 65%; Applied Materials: 35%). The total registered capital will be US\$150mn (~RMB970mn). The JV will then acquire from Applied Materials the screen printing equipment business in Italy, wafer inspection business in Singapore and the related business in China, for a consideration of US\$120mn (~RMB775mn). This implies 5x P/B (equity at end-Jan 2021: US\$24.2mn). The board of the JV will include five members, including three representatives from Jingsheng and two from Applied Materials. The acquisition is subject to the approval by the authorities in both China and Italy.
- A major move to expand playing fields.** The inclusion of wafer inspection equipment will expand Jingsheng's product offerings (current focus: crystal growing and wafer slicing). On the other hand, screen printing equipment will become Jingsheng's first product in the field of solar cell equipment. At present, **Suzhou Maxwell (300751 CH, NR)** is the leading screen printer maker in China (see our note "*Leading screen printing equipment maker penetrating into HJT cell production equipment*" [\[link\]](#)). We believe, by leveraging Applied Materials technology and Jingsheng manufacturing capability, Jingsheng will be capable to challenge the incumbent.
- TP revised up.** We maintain our earnings forecast but lift our TP to RMB77.5 from RMB60.90, based on 67x FY21E P/E, equivalent to 1.4x PEG (previously 1.1x). Our higher target PEG is to reflect the additional growth potential from the latest acquisition and the recent breakthroughs in the 12-inch crystal growing furnace in semiconductor segment.
- Risk: 1)** Weaker or slower-than-expected solar power capacity expansion; **2)** lower-than-expected gross margin; **3)** unsuccessful acquisition.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,110	3,811	7,008	10,280	12,776
YoY growth (%)	23	23	84	47	24
Net income (RMB mn)	637	858	1,486	2,230	2,779
EPS (RMB)	0.50	0.67	1.16	1.73	2.16
YoY growth (%)	(5)	35	73	50	25
Consensus EPS (RMB)	N/A	N/A	1.16	1.64	1.95
P/E (x)	128.7	95.6	55.3	36.8	29.5
P/B (x)	18.0	15.7	12.5	9.7	7.6
Yield (%)	0.2	0.2	0.4	0.5	0.7
ROE (%)	14.8	17.5	25.2	29.7	28.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB 77.50
(Previous TP)	RMB 60.90)
Up/Downside	+21%
Current Price	RMB 63.86

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Stock Data

Mkt Cap (RMB mn)	82,096
Avg 3 mths t/o (RMB mn)	774
52w High/Low (RMB)	66.00/23.33
Total Issued Shares (mn)	1,286

Source: Bloomberg

Shareholding Structure

Shaoxing Shangyu Jingsheng	
Invst. Mgmt. and Consulting	48.32%
QIU Minxiu	2.97%
CAO Jianwei	2.77%

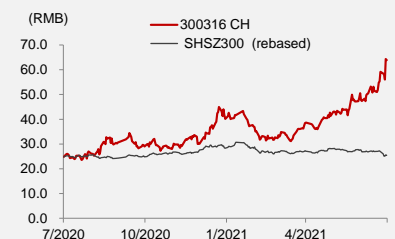
Source: Company data

Share Performance

	Absolute	Relative
1-mth	26.5%	37.3%
3-mth	65.1%	75.8%
6-mth	59.1%	77.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

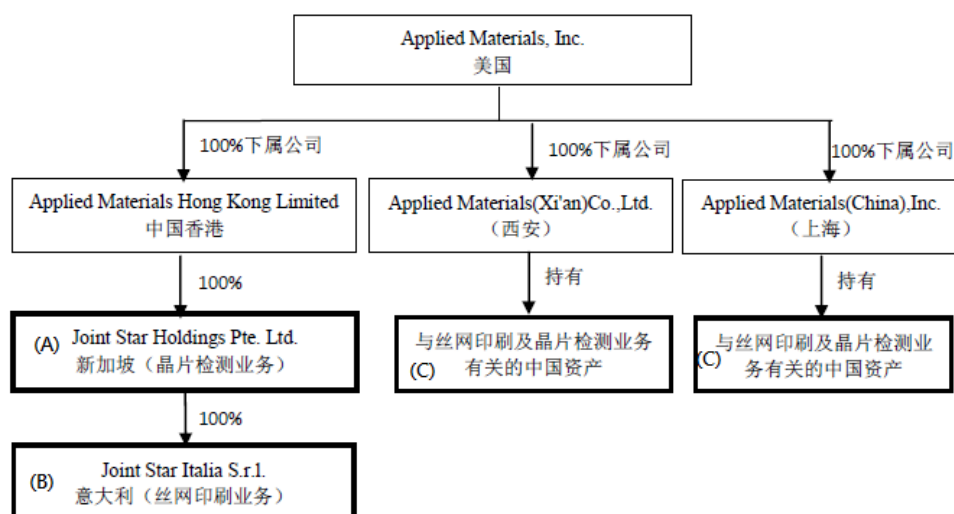
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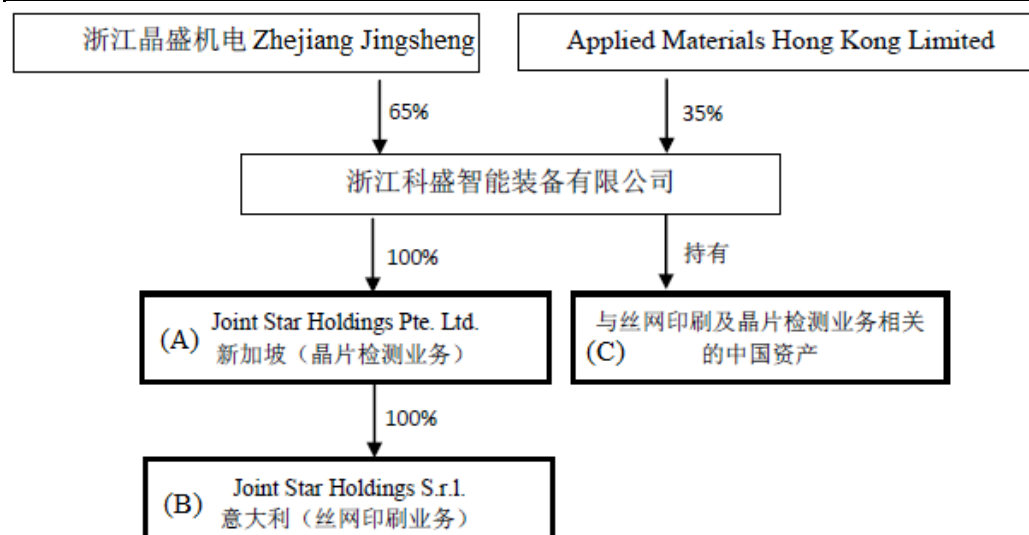
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Figure 1: Business structure before the set-up of JV

Note: A: Wafer inspection business in Singapore. B: Screen printing business in Italy. C: Screen printing and wafer inspection business in China.

Source: Company data, CMBIS

Figure 2: Business structure after the set-up of JV

Source: Company data, CMBIS

Figure 3: Key financials of the target business to be acquired by the JV

	FY20	1QFY21
(US\$ mn)		
Revenue	89.4	54.1
EBIT	0.8	9.8
EBIT margin	0.9%	18.2%
	Oct 2020	Jan 2021
(US\$ mn)		
Total assets	72.3	81.8
Net assets	20.7	24.2

Note: Financial year end in Oct

Source: Company data, CMBIS

Figure 4: Announced capacity expansion plans by major wafer makers in 1H21

Date of announcement	Company	Type	Capacity (GW)	Location	Commencement	Investment amount (RMB bn)	Capex/GW (RMB mn)
Jan-21	Gaojing Solar	Ingot pulling/wafer slicing	50	Wafer: Zhuhai, Guangdong; Ingot: Ningxia	Phase 1: 15GW (2021) Phase 2 & 3: 35GW (2023)	17.0	340
Feb-21	Zhonghuan	Ingot pulling/wafer slicing	50	Yinchuan, Ningxia	n/a	12.0	240
	JYT	Ingot pulling/wafer slicing	24	Leshan, Sichuan	Phase 1: 12GW	7.0	292
	Shangji	Ingot pulling/wafer slicing	10	Baotao, Inner Mongolia	2022	3.5	350
Mar-21	JA Solar	Ingot pulling/wafer slicing	20	Baotao, Inner Mongolia	2023	5.0	251
	Shuangliang	Ingot pulling/wafer slicing	20	Baotao, Inner Mongolia	n/a	7.0	350
Apr-21	Canadian Solar	Ingot pulling/wafer slicing	10	Xining, Qinghai	2022	3.0	300
	Total		184			54.5	296

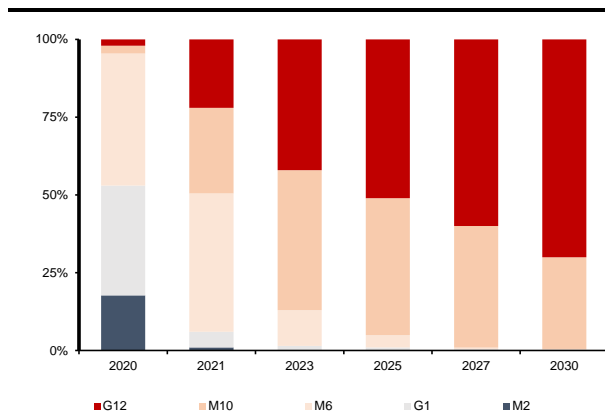
Source: Company data, news reports, CMBIS estimates

Figure 5: Capacity expansion by major wafer manufacturers

	2019	2020	2021E	2022E	2020	2021E	2022E
Wafer capacity (GW) (as at year end)					Additions		
LONGi	42	85	110	130	43	25	20
Zhonghuan	33	55	85	135	22	30	50
Jinko	15	26	33	35	11	8	2
JA Solar	8	18	32	40	10	14	8
JYT	2	7	17	32	5	10	15
Shangji Automation	2	13	30	35	11	17	5
Huantai (Meike)	3	3	15	15	0	12	0
Tongwei & Trina	0	0	8	15	0	8	8
Gaojing Solar	0	0	15	30	0	15	15
Solargiga	4	3	9	20	-0	5	12
Others	15	20	20	20	5	0	0
Total	124	230	373	507	106	143	134

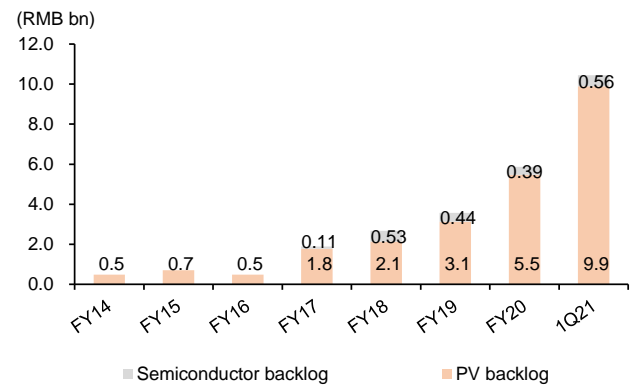
Source: Company data, news reports, CMBIS estimates

Figure 6: CPIA estimates large wafer (M10/G12) will account for 50% share in 2021, from 2.5% in 2020



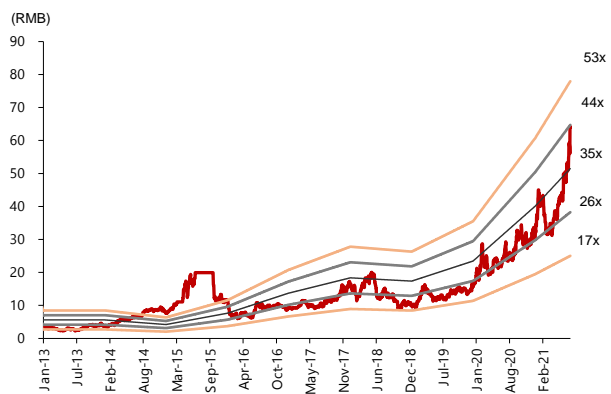
Source: CPIA, CMBIS

Figure 7: Jingsheng's total backlog reached RMB10.5bn (including RMB560mn from semiconductor) as at end-Mar 2021



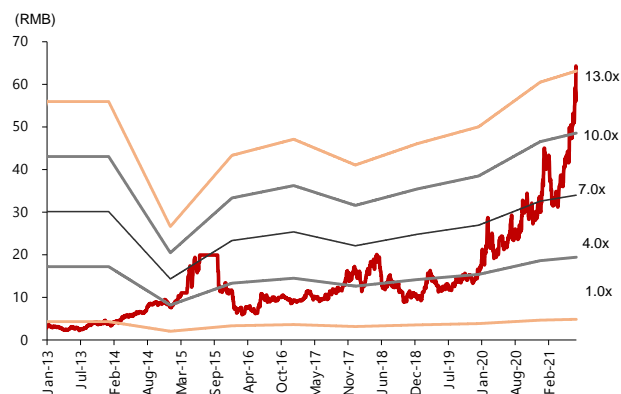
Source: Company data, CMBIS

Figure 8: Jingsheng's forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 9: Jingsheng's forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,110	3,811	7,008	10,280	12,776	PAT	624	852	1,483	2,228	2,777
Crystal growing eqpt.	2,173	2,623	5,115	7,672	9,590	D&A	114	136	137	153	172
Intelligent processing eqpt.	504	552	1,075	1,613	2,017	Change in working capital	(47)	(124)	(497)	(1,243)	(1,457)
Eqpt. modification	165	101	137	164	197	Others	88	90	(29)	(39)	(43)
Sapphire products	66	194	272	339	407	Operating cash flow	779	954	1,094	1,099	1,449
Others	201	341	409	491	565	CAPEX	(95)	(229)	(265)	(260)	(260)
COGS	(2,004)	(2,416)	(4,487)	(6,531)	(8,101)	Others	(441)	(54)	(88)	(84)	(82)
Gross profit	1,105	1,395	2,520	3,749	4,674	Investing cash flow	(536)	(283)	(353)	(344)	(342)
S&M expenses	(46)	(33)	(56)	(82)	(102)	Proceeds from fund raising	1	18	-	-	-
G&A expenses	(126)	(136)	(224)	(308)	(358)	Changes in borrowings	(45)	(44)	(10)	10	10
R&D expenses	(186)	(227)	(420)	(617)	(767)	Dividends paid	(135)	(132)	(174)	(297)	(446)
Other opex	(15)	(39)	(55)	(82)	(98)	Others	5	(209)	(2)	(2)	(2)
Core operating profit	733	959	1,764	2,660	3,349	Financing cash flow	(174)	(366)	(185)	(289)	(438)
Impairment losses	(97)	(137)	(159)	(197)	(252)	Net change in cash	69	305	556	467	668
Other expenses and incomes	70	129	66	49	37	Cash at the beginning	473	542	847	1,403	1,870
Pre-tax profit	721	992	1,727	2,593	3,233	Forex change, net	(0)	0	-	-	-
Income tax	(97)	(140)	(244)	(366)	(456)	Less: restricted cash	37	88	-	-	-
Minority interest	13	6	3	2	2	Cash at the end	542	847	1,403	1,870	2,538
Net profit	637	858	1,486	2,230	2,779						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	5,675	7,962	12,481	17,289	21,987	Revenue mix (%)					
Cash and restricted cash	582	938	1,494	1,961	2,629	Crystal growing eqpt.	70	69	73	75	75
Trade receivables	2,865	3,713	6,307	9,046	11,498	Intelligent processing eqpt.	16	14	15	16	16
Inventories	1,389	2,580	3,949	5,551	7,129	Eqpt. modification	5	3	2	2	2
Other current assets	839	731	731	731	731	Sapphire products	2	5	4	3	3
Non-current assets	2,187	2,536	2,783	3,014	3,229	Others	6	9	6	5	4
Long-term equity investment	503	824	943	1,067	1,194	YoY growth (%)					
Fixed assets	1,147	1,135	1,244	1,348	1,431	Revenue	23	23	84	47	24
Other non-current assets	537	577	596	598	604	Gross profit	10	26	81	49	25
Total assets	7,863	10,498	15,264	20,302	25,216	Net profit	9	35	73	50	25
Current liabilities	3,085	5,201	8,660	11,765	14,345	Operating efficiency					
ST borrowings	42	22	15	22	29	Gross margin	35.5	36.6	36.0	36.5	36.6
Trade payables	1,869	2,775	5,160	7,510	9,316	Core operating margin	23.6	25.2	25.2	25.9	26.2
Contract liabilities	1,007	2,003	3,084	3,833	4,599	Net profit margin	20.5	22.5	21.2	21.7	21.8
Other current liabilities	167	401	401	401	401	B/S ratios (%)					
Non-current liabilities	61	46	43	46	49	Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
LT borrowings	36	11	8	11	14	Receivable turnover days	261	303	254	273	293
Other non-current liabilities	25	35	35	35	35	Inventory turnover days	167	190	170	169	181
Total liabilities	3,146	5,247	8,703	11,811	14,394	Payable turnover days	282	351	323	354	379
Share capital	1,284	1,286	1,286	1,286	1,286	Profitability (%)					
Reserves	1,448	1,528	1,528	1,528	1,528	ROE	14.8	17.5	25.2	29.7	28.8
Retained earnings	1,819	2,426	3,738	5,671	8,004	ROA	9.0	9.3	11.5	12.5	12.2
Shareholders' fund	4,551	5,240	6,552	8,485	10,817	Per share data (RMB)					
Minority interest	165	12	9	7	5	EPS	0.50	0.67	1.16	1.73	2.16
Total equity	4,716	5,251	6,561	8,491	10,822	DPS	0.10	0.14	0.23	0.35	0.43
						BVPS	3.54	4.08	5.10	6.60	8.41

Source: Company data, CMBIS estimates

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