

# Hua Hong Semi (1347 HK)

## Slowly but surely, gradual recovery is in play

Hua Hong Semi announced 2Q24 results. Revenue was down 24.2% YoY but up 4.0% QoQ to US\$479mn, slightly missing Bloomberg consensus by 2.0% and our estimates by 1.6%. The moderate sequential growth was a result of growing wafer shipments (+8.4% QoQ) partially offset by continued downward ASP (-3.5% QoQ). GPM increased QoQ to 10.5% (vs. 6.4%/27.7% in 1Q24/2Q23) on higher utilization (98% in Q2 vs. 92% in Q1). 2Q GPM beat both consensus (8.7%) and our estimate (9.0%). Net profit was US\$6.7mn in 2Q24 (-91% YoY/-79% QoQ), missing consensus estimate (US\$20mn) but beating our estimate (US\$2mn). 3Q revenue guidance (mid-point) is US\$510mn, implying a 10.3% YoY decline and 6.6% QoQ growth. GPM guidance is 10% to 12%. 2Q results and 3Q guidance suggest the end market is still challenging but some demand is gradually improving (e.g., consumer electronics), which is in-line with our expectation. Looking forward, we think Hua Hong remains a key beneficiary of semiconductor localization in China. **Maintain BUY with unchanged TP at HK\$24 on the same 0.8x P/B.**

■ **Consumer electronics sales grew sequentially from a low base since 4Q23, while demand in other markets is still weak.** Consumer electronics (62% revenue contribution in 2Q) grew 14.0%/3.6% QoQ in 1Q/2Q, showing signs of recovery. SMIC (981 HK, NR) reported a similar trend with a rising revenue contribution from smartphone and consumer electronics segments. SMIC mgmt. attributed this to rush orders and inventory restocking. We believe demand will continue recovering at a moderate pace and revenue will grow by a single digit sequentially in Q3 and Q4.

■ **Mgmt. forecasts utilization to stay at a high level (98% in Q2 vs. 84%/92% in 4Q23/1Q24), and ASP to rise in 2H despite a challenging 1H.** The company achieved utilization rates of 107.6% for its 8-inch fabs and 89.3% for its 12-inch fabs. Wafer shipments (8-inch equivalent) was up by 3% YoY/7.8% QoQ. We project the overall utilization will stay above 95% during 2H with recovering demand driving continuous improvement of utilization rate at Hua Hong's 12-inch fabs. The growth in utilization/wafer shipments was partially eroded by a declining ASP (down for six consecutive quarters). This coincided with our previous expectations that "ASP is likely to face challenges", but the company "is capable of managing the impacts, given its strong collaborations with clients" ([report](#)). Looking forward, We believe the priority for Hua Hong is still keeping utilization rate at close to 100% level, while balancing ASP and utilization rate to maximize total revenue.

■ **Maintain BUY with unchanged TP at HK\$24.** We slightly trim our revenue forecasts for 2024/25E by 3%/4% on lower ASP, and revise up GPM by 0.5ppt on better-than-projected improvement in margin. With the expectation of production ramp-up at its new 12-inch fab, we think Hua Hong is well positioned as end-market demand is gradually coming back and the semiconductor localization trend remains intact. Our TP is HK\$24 on the same 0.8x P/B, ~10% higher than 2-year historical avg. forward P/B as we believe the cycle trough has passed. We expect broad end-market demand to gradually recover to a normal growth trajectory with Hua Hong's revenue projected to grow by a single digit QoQ in the next two quarters.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	2,475	2,286	1,983	2,486	3,049
YoY growth (%)	51.8	(7.7)	(13.3)	25.4	22.7
Gross margin (%)	34.1	21.3	11.4	17.3	19.3
Net profit (US\$ mn)	449.9	280.0	134.7	244.0	344.3
YoY growth (%)	112.1	(37.8)	(51.9)	81.1	41.1
EPS (Reported) (US\$)	0.35	0.19	0.08	0.14	0.20
P/E (x)	6.7	12.2	29.5	16.3	11.6

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** HK\$24.00  
**Up/Downside** 32.7%  
**Current Price** HK\$18.08

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### Stock Data

Mkt Cap (HK\$ mn)	23,666.7
Avg 3 mths t/o (HK\$ mn)	347.3
52w High/Low (HK\$)	24.60/13.86
Total Issued Shares (mn)	1309.0

Source: FactSet

### Shareholding Structure

Shanghai Hua Hong International	26.6%
XINXIN HK Capital	13.7%

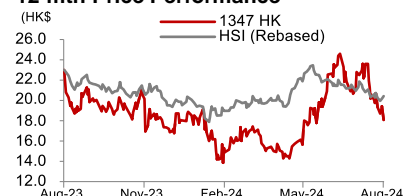
Source: HKEx

### Share Performance

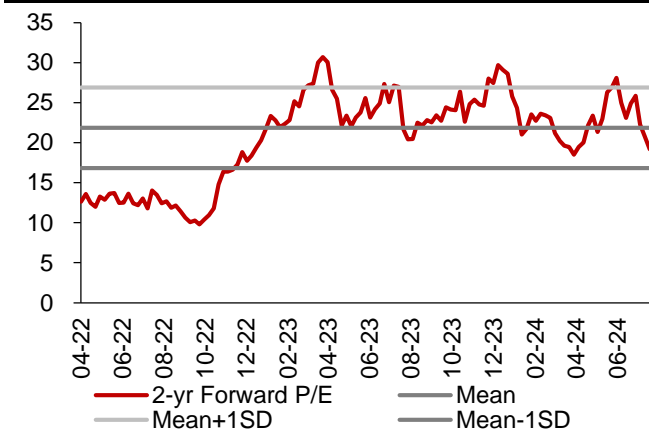
	Absolute	Relative
1-mth	-20.7%	-18.7%
3-mth	6.1%	15.1%
6-mth	21.3%	11.8%

Source: FactSet

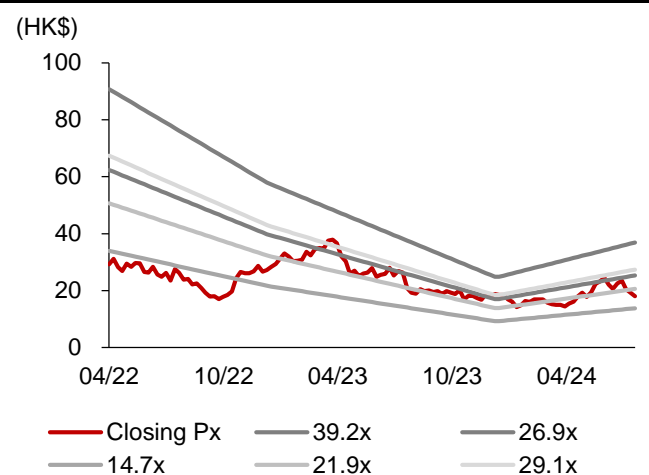
### 12-mth Price Performance



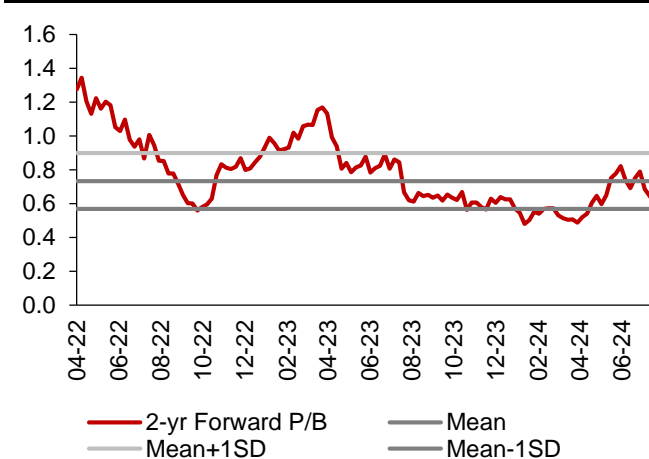
Source: FactSet

**Figure 1: 2-yr forward PE band**

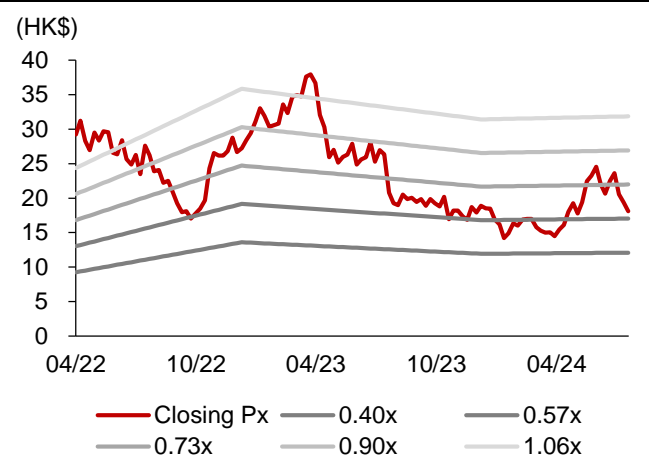
Source: Company data, Bloomberg

**Figure 2: PE chart**

Source: Company data, Bloomberg

**Figure 3: 2-yr forward PB band**

Source: Company data, Bloomberg

**Figure 4: PB chart**

Source: Company data, Bloomberg

**Figure 5: Earnings revisions**

US\$m	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,983	2,486	3,049	2,040	2,595	3,203	-3%	-4%	-5%
Gross profit	226	430	588	222	436	601	2%	-1%	-2%
Net profit	135	244	344	135	243	344	0%	1%	0%
EPS (RMB)	0.08	0.14	0.20	0.08	0.14	0.20	0%	1%	0%
Gross margin	11.4%	17.3%	19.3%	10.9%	16.8%	18.8%	0.5 ppt	0.5 ppt	0.5 ppt
Net margin	6.8%	9.8%	11.3%	6.6%	9.3%	10.7%	0.2 ppt	0.5 ppt	0.5 ppt

Source: Company data, CMBIGM estimates

**Figure 6: CMBIGM estimates vs. Bloomberg consensus**

US\$m	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,983	2,486	3,049	2,055	2,571	3,048	-4%	-3%	0%
Gross profit	226	430	588	241	473	606	-6%	-9%	-3%
Net profit	135	244	344	119	238	300	13%	2%	15%
EPS (RMB)	0.08	0.14	0.20	0.07	0.14	0.17	14%	4%	15%
Gross margin	11.4%	17.3%	19.3%	12.0%	17.5%	18.7%	-0.6 ppt	-0.2 ppt	0.6 ppt
Net margin	6.8%	9.8%	11.3%	5.8%	9.3%	9.8%	1 ppt	0.5 ppt	1.4 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	1,631	2,475	2,286	1,983	2,486	3,049
Cost of goods sold	(1,196)	(1,632)	(1,799)	(1,757)	(2,056)	(2,461)
<b>Gross profit</b>	<b>435</b>	<b>844</b>	<b>487</b>	<b>226</b>	<b>430</b>	<b>588</b>
Selling expense	(11)	(12)	(10)	(11)	(14)	(18)
Admin expense	(245)	(267)	(323)	(334)	(351)	(370)
Others	(6)	(28)	(91)	(95)	(91)	(85)
<b>Operating profit</b>	<b>172</b>	<b>536</b>	<b>63</b>	<b>(214)</b>	<b>(27)</b>	<b>115</b>
Other income	64	100	188	215	238	237
Other expense	(4)	(141)	(77)	(31)	(41)	(50)
<b>Pre-tax profit</b>	<b>233</b>	<b>496</b>	<b>174</b>	<b>(30)</b>	<b>169</b>	<b>302</b>
Income tax	(51)	(89)	(47)	(8)	(25)	(45)
<b>After tax profit</b>	<b>182</b>	<b>407</b>	<b>126</b>	<b>(38)</b>	<b>144</b>	<b>256</b>
Minority interest	(30)	(43)	(154)	(173)	(100)	(88)
<b>Net profit</b>	<b>212</b>	<b>450</b>	<b>280</b>	<b>135</b>	<b>244</b>	<b>344</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
<b>Current assets</b>	<b>2,391</b>	<b>3,076</b>	<b>6,570</b>	<b>5,039</b>	<b>3,645</b>	<b>2,626</b>
Cash & equivalents	1,610	2,009	5,585	4,056	2,599	1,578
Restricted cash	2	1	32	35	35	35
Account receivables	181	292	279	265	294	291
Inventories	433	578	450	417	451	453
Prepayment	43	48	34	68	67	68
Other current assets	121	148	190	199	198	201
<b>Non-current assets</b>	<b>3,811</b>	<b>3,980</b>	<b>4,374</b>	<b>5,774</b>	<b>7,120</b>	<b>8,265</b>
PP&E	3,117	3,368	3,519	4,978	6,307	7,565
Right-of-use assets	75	78	79	79	81	85
Intangibles	35	33	50	62	80	105
Other non-current assets	584	501	726	654	652	510
<b>Total assets</b>	<b>6,202</b>	<b>7,055</b>	<b>10,943</b>	<b>10,812</b>	<b>10,765</b>	<b>10,891</b>
<b>Current liabilities</b>	<b>1,080</b>	<b>1,382</b>	<b>972</b>	<b>1,015</b>	<b>964</b>	<b>957</b>
Short-term borrowings	195	427	193	272	236	243
Account payables	194	237	235	227	235	237
Other current liabilities	689	714	541	512	488	472
Lease liabilities	2	5	3	5	5	5
<b>Non-current liabilities</b>	<b>1,437</b>	<b>1,537</b>	<b>1,956</b>	<b>1,991</b>	<b>1,951</b>	<b>1,915</b>
Long-term borrowings	1,395	1,482	1,907	1,965	1,924	1,889
Other non-current liabilities	42	56	50	26	26	26
<b>Total liabilities</b>	<b>2,518</b>	<b>2,920</b>	<b>2,929</b>	<b>3,006</b>	<b>2,915</b>	<b>2,873</b>
Share capital	1,986	1,994	4,934	4,935	4,935	4,935
Other reserves	884	1,036	1,367	1,330	1,474	1,730
<b>Total shareholders equity</b>	<b>2,870</b>	<b>3,030</b>	<b>6,301</b>	<b>6,265</b>	<b>6,409</b>	<b>6,665</b>
Minority interest	814	1,105	1,714	1,541	1,441	1,353
<b>Total equity and liabilities</b>	<b>6,202</b>	<b>7,055</b>	<b>10,943</b>	<b>10,812</b>	<b>10,765</b>	<b>10,891</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>296</b>	<b>496</b>	<b>174</b>	<b>(30)</b>	<b>169</b>	<b>302</b>
Depreciation & amortization	318	457	500	575	705	778
Tax paid	(20)	(51)	(72)	(8)	(25)	(45)
Change in working capital	(76)	(116)	(69)	44	(86)	(25)
Others	1	(35)	108	111	170	312
<b>Net cash from operations</b>	<b>518</b>	<b>751</b>	<b>642</b>	<b>692</b>	<b>933</b>	<b>1,321</b>
<b>Investing</b>						
Capital expenditure	(939)	(996)	(907)	(2,033)	(2,041)	(2,050)
Others	76	66	73	15	1	(3)
<b>Net cash from investing</b>	<b>(863)</b>	<b>(930)</b>	<b>(833)</b>	<b>(2,017)</b>	<b>(2,040)</b>	<b>(2,053)</b>
<b>Financing</b>						
Net borrowings	1,023	315	193	141	(76)	(28)
Proceeds from share issues	7	6	2,942	2	0	0
Others	(16)	351	647	(277)	(203)	(188)
<b>Net cash from financing</b>	<b>1,015</b>	<b>672</b>	<b>3,782</b>	<b>(134)</b>	<b>(280)</b>	<b>(216)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	923	1,610	2,009	5,585	4,056	2,599
Exchange difference	17	(94)	(14)	(71)	(70)	(73)
Others	670	493	3,590	(1,459)	(1,386)	(948)
<b>Cash at the end of the year</b>	<b>1,610</b>	<b>2,009</b>	<b>5,585</b>	<b>4,056</b>	<b>2,599</b>	<b>1,578</b>

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

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