

Zhejiang Jingsheng (300316 CH)

Riding on the wave of large wafers

We are increasingly positive on Jingsheng's growth outlook in FY21E-22E driven by robust demand for crystal growing furnaces as larger wafers are gaining market share more rapidly than expected and more new players are entering into the solar wafer manufacturing industry. Besides, progress in semiconductor equipment could drive up the Company's valuation. We revise up FY20E-22E earnings by 7%-12% and lift our TP to RMB 50.20, reflecting 50x FY21E P/E on the back of 38% EPS CAGR during FY20E-22E. Maintain **BUY**.

- **Prevailing larger wafer format spurs stronger equipment demand.** Strong downstream demand for larger wafers (M10/G12) and their price premium have sped up wafer makers' capacity expansion (Figure 1-3). We calculated that major solar wafer makers will add ~145GW new capacity in 2021E (20% higher than our prev. est.), mostly compatible for G12. Besides, we estimated that >1/3 of existing crystal growing furnaces cannot be upgraded to produce large wafers, which implies replacement demand in coming years.
- **Jingsheng to gain share driven by Zhonghuan and new players' expansion.** Jingsheng's core client, **Zhonghuan (002129 CH, NR)** announced a new 50GW G12 wafer facility in Feb and expected it to be completed by 2022, which will support Jingsheng's revenue growth into 2022E-23E. In addition, we believe, by leveraging its technological strength of crystal growing furnaces, Jingsheng will expand its market share through winning orders from new wafer manufacturers, such as **Shangji Automation (603185 CH, NR)**, **Tongwei (600438 CH, NR)** and **Gaojing**.
- **Progress in semiconductor equipment could serve as valuation driver.** Jingsheng announced on 8 Feb to inject RMB 50mn capital to its wholly-owned subsidiary **Qishi Semiconductor** in order to enhance its competitiveness in semiconductor equipment production. The Company is currently able to provide most equipment for 8' wafer production, crystal growing equipment for 12' wafers as well as crystal and epitaxy growth equipment for SiC wafers, enabling it to benefit from the localization of semiconductor industry in China. As of 3Q20, Jingsheng's semi equipment order value was RMB 410mn, 7% of its total order backlog. As A-share listed semiconductor equipment suppliers are trading at higher multiples (>100x FY21E P/E) than solar power equipment supplier (<50x FY21E P/E), progress in Jingsheng's semiconductor equipment business will boost its valuation, in our view.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	2,536	3,110	4,151	6,160	7,845
YoY growth (%)	30	23	33	48	27
Net income (RMB mn)	582	637	869	1,298	1,661
EPS (RMB)	0.52	0.50	0.68	1.01	1.29
YoY growth (%)	34	(5)	36	49	28
Consensus EPS (RMB)	N/A	N/A	0.65	0.90	1.15
P/E (x)	79.5	84.0	61.6	41.3	32.2
P/B (x)	13.2	11.8	10.7	8.7	6.9
Yield (%)	0.2	0.2	0.2	0.2	0.3
ROE (%)	15.3	14.8	18.2	23.2	23.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB 50.20**
 (Previous TP **RMB 40.20**)
 Up/Downside **+20.4%**
 Current Price **RMB 41.69**

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Stock Data

Mkt Cap (RMB mn) 53,600
 Avg 3 mths t/o (RMB mn) 990
 52w High/Low (RMB) 45.79/18.99
 Total Issued Shares (mn) 1,286
 Source: Bloomberg

Shareholding Structure

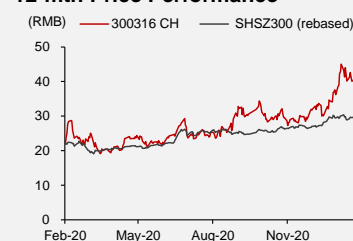
Shaoxing Shangyu Jingsheng
 Inv. Mgmt. and Consulting 48.32%
 QIU Minxiu 2.97%
 CAO Jianwei 2.77%
 Source: Company data

Share Performance

	Absolute	Relative
1-mth	15.2%	8.2%
3-mth	45.4%	22.7%
6-mth	64.9%	33.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

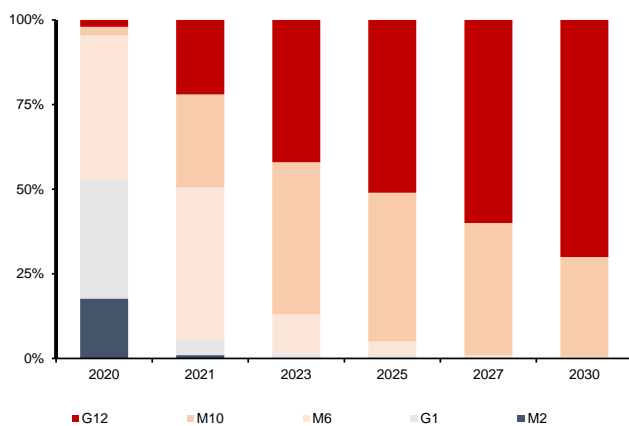
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- **Raise TP to RMB 50.20; Maintain BUY.** Jingsheng released a profit alert in Jan, expecting FY20E net profit to grow 25%-50% YoY to RMB 797mn-956mn. The midpoint (RMB 877mn) implies 4Q20E earnings of RMB 353mn, up 113% YoY. We believe the upside surprise on earnings likely came from better GPM recovery and higher revenue growth. We revise up Jingsheng's earning in FY20E-22E by 7%-12%, to reflect stronger order intakes and better margin trend. Our new target price is set at RMB 50.20, based on 1.3x PEG (vs. prev. 1.2x) on the back of 38% EPS CAGR over FY20E-22E, and reflects 50x FY21E P/E. **Maintain BUY.**
- **Risk: 1)** Weaker or slower-than-expected downstream capacity expansion; **2)** worse-than-expected GPM trend; **3)** Deterioration of clients' ability to pay.

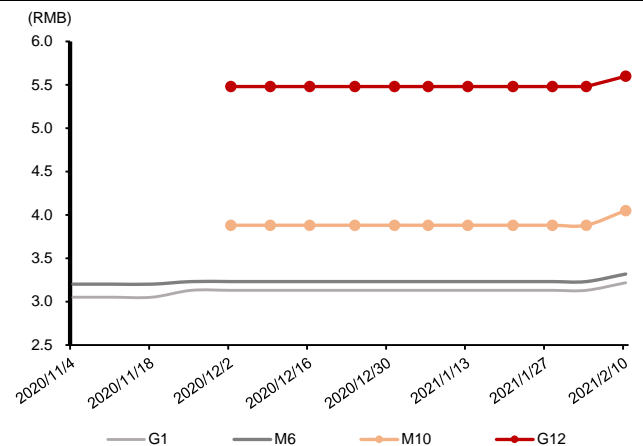
Figure 1: Announced capacity expansion plans by major wafer makers

Company	Capacity				Note
	2019	2020E	2021E	Addition in 2021	
LONGi	42	85	110	25	Most equipment compatible for M10&G12
Zhonghuan	33	48	85	37	To add another 50GW G12 capacity in Phase 6 facility by 2022
Jinko	11.5	20	30	10	>80% of 500+MW solar modules in M10 in 2021E
JA Solar	8.4	18	30	12	>50% solar modules in M10 in 2021E
Jingyuntong	2	6.5	30	23.5	Mostly G12
Shangji Automation	2.2	13	16	3	G12
Huantai	3	3	15	12	
Tongwei & Trina	-	-	7.5	7.5	To add another 7.5GW in 2022E; mostly G12
Gaojing Solar	-	-	15	15	Phase I 15GW facility began construction in Jan 2021; To add another 35GW by 2023E; mostly G12
Shuangliang Eco-energy	-	-	-	-	Announced on 8 Feb to establish a new subsidiary to engage in the production of large format solar wafers with registered capital of RMB 900mn
Total	102	194	339	145	

Source: Announcements, news report, CMBIS estimates

Figure 2: CPIA estimates large wafer format (M10/G12) will take 50% market share in 2021, from 2.5% in 2020


Source: CPIA, CMBIS

Figure 3: Large wafers (M10/G12) have clear price premium over smaller formats


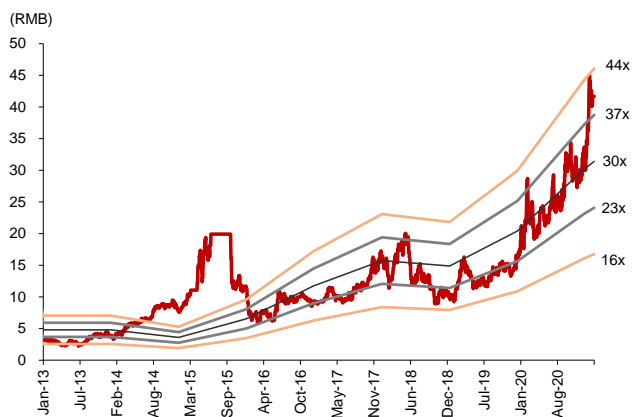
Source: EnergyTrend, CMBIS

Figure 4: Earnings revision

(RMB mn)	New			Old			Diff		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	4,151	6,160	7,845	3,936	5,560	7,197	5%	11%	9%
Crystal growing eqpt.	3,064	4,688	6,048	2,934	4,342	5,775	4%	8%	5%
Intelligent processing eqpt.	464	649	805	428	480	528	8%	35%	52%
Sapphire products	171	231	289	199	254	313	-14%	-9%	-8%
Eqpt. modification	248	347	410	171	240	288	45%	45%	42%
Others	203	244	293	203	244	293	0%	0%	0%
COGS	(2,663)	(3,921)	(4,978)	(2,566)	(3,560)	(4,562)	4%	10%	9%
Gross profit (mn)	1,488	2,240	2,867	1,370	2,000	2,634	9%	12%	9%
SG&A expenses	(232)	(333)	(408)	(224)	(320)	(414)	4%	4%	-1%
R&D expenses	(228)	(345)	(451)	(216)	(328)	(461)	6%	5%	-2%
Core operating profit	966	1,490	1,924	871	1,280	1,711	11%	16%	12%
Impairment losses	(98)	(111)	(120)	(57)	(51)	(46)	71%	117%	161%
Pre-tax profit	1,007	1,511	1,938	943	1,352	1,789	7%	12%	8%
Income tax	(151)	(227)	(291)	(146)	(209)	(277)	3%	8%	5%
Minority interest	13	13	13	13	13	13	0%	0%	0%
Net profit	869	1,298	1,661	810	1,155	1,525	7%	12%	9%
EPS (RMB)	0.68	1.01	1.29	0.63	0.90	1.16	7%	12%	11%
BVPS (RMB)	3.89	4.81	6.00	3.85	4.66	5.72	1%	3%	5%
ROE	18.2%	23.2%	23.9%	17.1%	21.2%	22.4%	1.1ppt	2.0ppt	1.5ppt

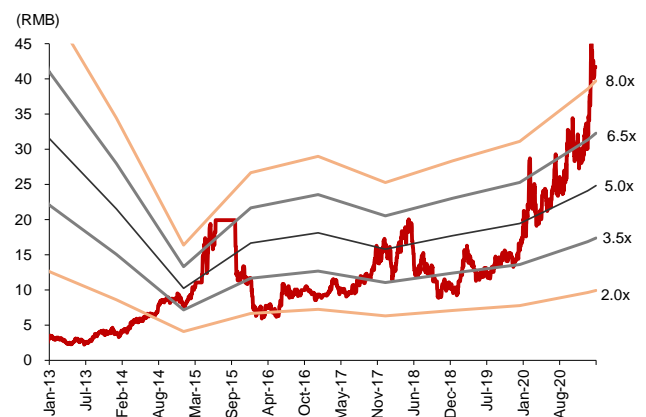
Source: CMBIS estimates

Figure 5: Jingsheng's historical forward P/E band



Source: Bloomberg, CMBIS estimates

Figure 6: Jingsheng's historical forward P/B band



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,536	3,110	4,151	6,160	7,845
Crystal growing eqpt.	1,940	2,173	3,064	4,688	6,048
Intelligent processing eqpt.	277	504	464	649	805
Eqpt. modification	-	165	248	347	410
Sapphire products	125	66	171	231	289
Others	194	201	203	244	293
COGS	(1,534)	(2,004)	(2,663)	(3,921)	(4,978)
Gross profit	1,002	1,105	1,488	2,240	2,867
S&M expenses	(46)	(46)	(66)	(92)	(110)
G&A expenses	(114)	(126)	(166)	(240)	(298)
R&D expenses	(183)	(186)	(228)	(345)	(451)
Other opex	(24)	(15)	(61)	(72)	(84)
Core operating profit	636	733	966	1,490	1,924
Impairment losses	(93)	(97)	(98)	(111)	(120)
Other expenses and incomes	82	70	77	60	50
Pre-tax profit	649	721	1,007	1,511	1,938
Income tax	(80)	(97)	(151)	(227)	(291)
Minority interest	14	13	13	13	13
Net profit	582	637	869	1,298	1,661

Cash flow

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
PAT	568	624	856	1,284	1,648
D&A	82	114	136	144	165
Change in working capital	(558)	(47)	(78)	(458)	(743)
Others	73	88	82	84	86
Operating cash flow	166	779	996	1,054	1,156
CAPEX	(235)	(95)	(188)	(194)	(208)
Others	(213)	(441)	(550)	(442)	(472)
Investing cash flow	(449)	(536)	(738)	(636)	(680)
Proceeds from fund raising	74	1	-	-	-
Changes in borrowings	4	(45)	(4)	(3)	3
Dividends paid	(108)	(135)	(128)	(128)	(130)
Others	(0)	5	-	-	-
Financing cash flow	(29)	(174)	(133)	(132)	(126)
Net change in cash	(312)	69	126	286	350
Cash at the beginning	790	476	545	671	957
Forex change, net	(1)	(0)	-	-	-
Less: restricted cash	80	37	29	43	43
Cash at the end	476	545	671	957	1,307

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	4,427	5,675	7,538	9,572	11,893
Cash and restricted cash	556	582	700	1,000	1,350
Trade receivables	1,583	2,865	3,736	4,620	5,648
Inventories	1,451	1,389	2,044	2,680	3,317
Other current assets	837	839	1,059	1,272	1,577
Non-current assets	1,908	2,187	2,644	2,868	3,030
Long-term equity investment	263	503	830	913	958
Fixed assets	980	1,147	1,145	1,269	1,379
Other non-current assets	665	537	670	686	693
Total assets	6,335	7,863	10,182	12,439	14,923
Current liabilities	2,038	3,085	4,938	6,002	6,938
ST borrowings	84	42	60	58	60
Trade payables	1,230	1,869	2,557	3,411	3,783
Contract liabilities	518	1,007	2,156	2,353	2,895
Other current liabilities	207	167	165	180	200
Non-current liabilities	66	61	63	64	67
LT borrowings	39	36	34	33	34
Other non-current liabilities	27	25	29	31	33
Total liabilities	2,104	3,146	5,001	6,066	7,005
Share capital	1,285	1,284	1,284	1,284	1,284
Reserves	1,415	1,448	1,545	1,668	1,814
Retained earnings	1,358	1,819	2,174	3,229	4,614
Shareholders' fund	4,058	4,551	5,003	6,181	7,712
Minority interest	173	165	179	192	205
Total equity	4,231	4,716	5,182	6,373	7,918

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix (%)					
Crystal growing eqpt.	76	70	74	76	77
Intelligent processing eqpt.	11	16	11	11	10
Eqpt. modification	-	5	6	6	5
Sapphire products	5	2	4	4	4
Others	8	6	5	4	4
YoY growth (%)					
Revenue	30	23	33	48	27
Gross profit	34	10	35	51	28
Net profit	51	9	36	49	28
Operating efficiency					
Gross margin	39.5	35.5	35.8	36.4	36.5
Core operating margin	25.1	23.6	23.3	24.2	24.5
Net profit margin	23.0	20.5	20.9	21.1	21.2
B/S ratios (%)					
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
Receivable turnover days	277	261	290	248	239
Inventory turnover days	180	167	151	140	139
Payable turnover days	273	282	303	278	264
Profitability (%)					
ROE	15.3	14.8	18.2	23.2	23.9
ROA	9.4	9.0	9.6	11.5	12.1
Per share data (RMB)					
EPS	0.52	0.50	0.68	1.01	1.29
DPS	0.10	0.10	0.10	0.10	0.13
BVPS	3.16	3.54	3.89	4.81	6.00

Source: Company data, CMBIS estimates

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