

Shennan Circuit (002916 CH)

Soft 1H23 numbers suggest no immediate turnaround

The worldwide PCB market experienced a significant decline of 20% YoY in 1H23, mainly due to falling demand for electronics products under global macroeconomic pressure. This is in line with our previous prediction that “we expect the global PCB market will persistently encounter macroeconomic challenges due to weakened consumer demand and the ongoing destocking cycle among downstream industries.” ([link](#)) Shennan Circuit (002916 CH), a pure PCB manufacturer, is not immune to the market weakness. **Maintain HOLD, with lowered TP of RMB72.**

- **PCB segment (nearly 2/3 of total revenue) remains weak, with margin erosion in a declining market.** Segment revenue dropped by 12.4% YoY and 11.6% QoQ to RMB3.9bn in 1H23. The gross margin declined by 1.49ppts to 25.9% compared to 1H22. Weakening demand in domestic and overseas telecom markets and delay in upgrade for Eagle stream platform dragged the segment sales. The contribution of the Company's AI server related PCB products was not meaningful, suggesting Shennan is not yet a key beneficiary from the current AI boom. Auto PCB was the only spotlight, with 40% YoY growth in orders due to a low base.
- **Substrate segment was dealt a heavy blow with a significant 39.9% YoY drop in revenue, as downstream manufacturers continued destocking.** Although the Company actively ventured into new projects and cultivated new customer relationships, ASP erosion was particularly severe for package substrate. GPM was 18.8% in 1H23 vs. 30.3% and 23.1% in 1H22/2H22, affected by market down cycle and rising costs of new factories.
- The Company reported a 13.5% YoY decline in revenue to RMB6.0bn and a substantial 37.02% YoY drop in net profit to RMB474mn in 1H23. GPM was lowered to 22.9% vs. 26.5% and 24.6% in 1H22/2H22. The Company's 1H23 results were below our estimates, which were already lower than consensus. We cut FY23/24E revenue and NP by 14%/14% and 29%/24%, as we think the business will continue to be affected by industry downcycle and a near-term turnaround may not be imminent. **Maintain HOLD, with lowered TP of RMB72, based on 25x rollover 2024E P/E.** We keep the same P/E multiple of 25x, which is over 1SD below 5-year historical avg., as the market is waiting for a clear sign of demand recovery.

Earnings Summary

| (YE 31 Dec) | FY21A | FY22A | FY23E | FY24E | FY25E |
|----------------------|--------|--------|--------|--------|--------|
| Revenue (RMB mn) | 13,943 | 13,992 | 12,693 | 14,672 | 17,490 |
| YoY growth (%) | 20.2 | 0.4 | (9.3) | 15.6 | 19.2 |
| Gross margin (%) | 23.7 | 25.5 | 23.1 | 24.0 | 25.3 |
| Net profit (RMB mn) | 1,481 | 1,640 | 1,098 | 1,480 | 2,088 |
| YoY growth (%) | 3.5 | 10.7 | (33.0) | 34.8 | 41.0 |
| EPS (Reported) (RMB) | 3.02 | 3.22 | 2.13 | 2.88 | 4.06 |
| P/E (x) | 33.6 | 28.3 | 30.8 | 22.8 | 16.2 |
| ROE (%) | 18.6 | 15.8 | 8.8 | 11.1 | 14.2 |

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **RMB72.00**
 (Previous TP **RMB96.60**)
 Up/Downside **9.7%**
 Current Price **RMB65.66**

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) 33,677.0
 Avg 3 mths t/o (RMB mn) 216.0
 52w High/Low (RMB) 98.86/62.14
 Total Issued Shares (mn) 512.9
 Source: FactSet

Shareholding Structure

AVIC International Holdings Ltd 64.0%
 HKSCC 3.1%

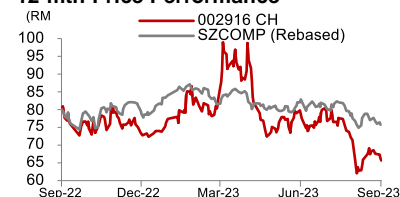
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -8.0% | -5.3% |
| 3-mth | -17.4% | -9.1% |
| 6-mth | -24.1% | -17.6% |

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 | 12,693 | 14,672 | 17,490 | 14,816 | 17,121 | 19,497 | -14% | -14% | -10% |
| Gross Profit | 2,930 | 3,521 | 4,419 | 3,546 | 4,234 | 4,905 | -17% | -17% | -10% |
| Operating Profit | 1,103 | 1,554 | 2,190 | 1,657 | 2,081 | 2,457 | -33% | -25% | -11% |
| Net profit | 1,098 | 1,480 | 2,088 | 1,540 | 1,940 | 2,267 | -29% | -24% | -8% |
| EPS (RMB) | 2.13 | 2.88 | 4.06 | 3.19 | 3.85 | 4.45 | -33% | -25% | -9% |
| Gross Margin | 23.1% | 24.0% | 25.3% | 23.9% | 24.7% | 25.2% | -0.8 ppt | -0.7 ppt | 0.1 ppt |
| Operating Margin | 8.7% | 10.6% | 12.5% | 11.2% | 12.2% | 12.6% | -2.5 ppt | -1.6 ppt | -0.1 ppt |
| Net Margin | 8.7% | 10.1% | 11.9% | 10.4% | 11.3% | 11.6% | -1.7 ppt | -1.2 ppt | 0.3 ppt |

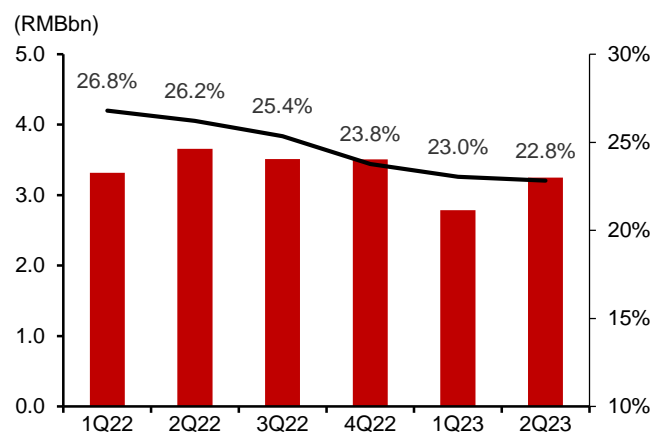
Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|-------------------------|--------|--------|--------|--------|--------|-------|----------|----------|-------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 12,693 | 14,672 | 17,490 | 15,108 | 17,475 | NA | -16% | -16% | NA |
| Gross Profit | 2,930 | 3,521 | 4,419 | 3,944 | 4,587 | NA | -26% | -23% | NA |
| Operating Profit | 1,103 | 1,554 | 2,190 | 1,879 | 2,195 | NA | -41% | -29% | NA |
| Net profit | 1,098 | 1,480 | 2,088 | 1,723 | 2,014 | NA | -36% | -26% | NA |
| EPS (RMB) | 2.13 | 2.88 | 4.06 | 3.52 | 4.12 | NA | -39% | -30% | NA |
| Gross Margin | 23.1% | 24.0% | 25.3% | 26.1% | 26.2% | NA | -3 ppt | -2.3 ppt | NA |
| Operating Margin | 8.7% | 10.6% | 12.5% | 12.4% | 12.6% | NA | -3.7 ppt | -2 ppt | NA |
| Net Margin | 8.7% | 10.1% | 11.9% | 11.4% | 11.5% | NA | -2.8 ppt | -1.4 ppt | NA |

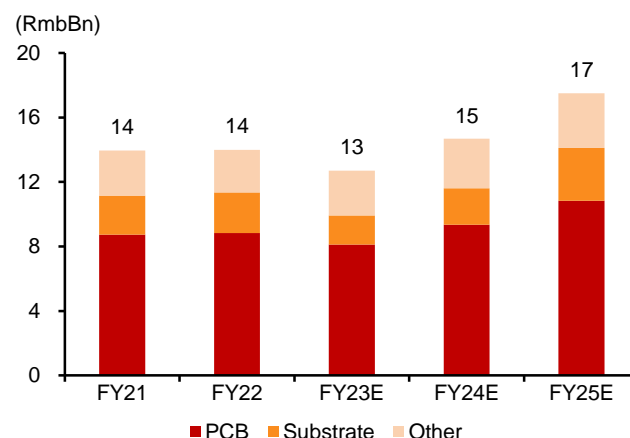
Source: Company data, CMBIGM estimates

Figure 3: Company's soft 1H23 results suggest no immediate turnaround (1Q22-2Q23)



Source: Company data, CMBIGM estimates

Figure 4: Company's revenue breakdown by segments



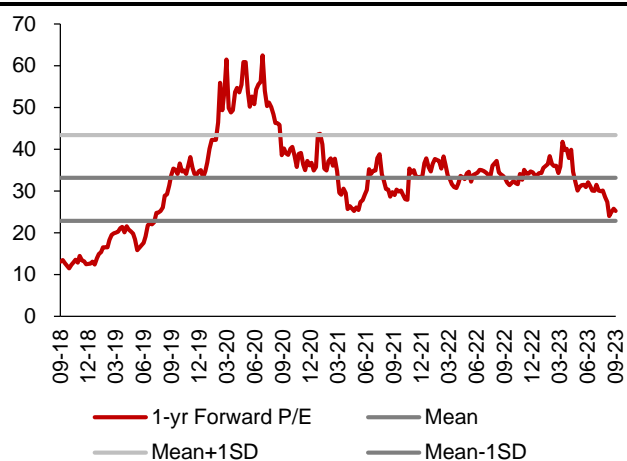
Source: Company data, CMBIGM estimates

Figure 5: Revenue forecast breakdown

| RMB mn | FY20E | FY21E | FY22E | 1H23 | 2H23E | FY23E | FY24E | FY25E |
|---------------|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|
| PCB | 8,311 | 8,737 | 8,825 | 3,882 | 4,244 | 8,125 | 9,352 | 10,844 |
| ...YoY | 7.6% | 5.1% | 1.0% | -12.4% | -3.4% | -7.9% | 15.1% | 16.0% |
| ...% | 72% | 63% | 63% | 64% | 64% | 64% | 64% | 62% |
| Substrate | 1,544 | 2,415 | 2,520 | 821 | 971 | 1,792 | 2,252 | 3,265 |
| ...YoY | 32.7% | 56.3% | 4.4% | -39.9% | -15.8% | -28.9% | 25.7% | 45.0% |
| ...% | 13% | 17% | 18% | 14% | 15% | 14% | 15% | 19% |
| PCBA | 1,160 | 1,940 | 1,744 | 850 | 931 | 1,782 | 1,975 | 2,177 |
| ...YoY | -4.2% | 67.2% | -10.1% | 20.3% | -10.2% | 2.1% | 10.8% | 10.3% |
| ...% | 10% | 14% | 12% | 14% | 14% | 14% | 13% | 12% |
| Other | 585 | 851 | 904 | 480 | 513 | 994 | 1,093 | 1,203 |
| ...YoY | 38.4% | 45.4% | 6.2% | 3.1% | 17.3% | 10.0% | 10.0% | 10.0% |
| ...% | 5% | 6% | 6% | 8% | 8% | 8% | 7% | 7% |
| Total | 11,600 | 13,943 | 13,992 | 6,034 | 6,660 | 12,693 | 14,672 | 17,490 |
| ...YoY | 10.2% | 20.2% | 0.4% | -11.1% | -3.7% | -9.3% | 15.6% | 19.2% |

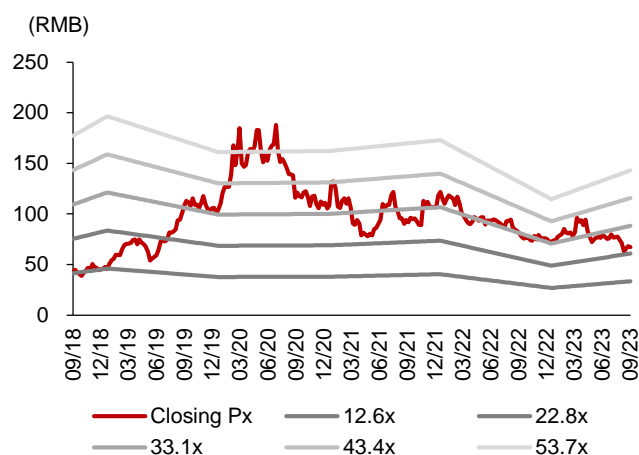
Source: Company data, CMBIGM estimates

Figure 6: 12M forward PE band



Source: Company data, CMBIGM estimates

Figure 7: 12M forward PE chart



Source: Company data, CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------------------------|---------|----------|----------|---------|----------|----------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 11,600 | 13,943 | 13,992 | 12,693 | 14,672 | 17,490 |
| Cost of goods sold | (8,530) | (10,637) | (10,422) | (9,763) | (11,152) | (13,070) |
| Gross profit | 3,071 | 3,306 | 3,571 | 2,930 | 3,521 | 4,419 |
| Operating expenses | (1,174) | (1,406) | (1,691) | (1,605) | (1,774) | (2,059) |
| Selling expense | (167) | (233) | (253) | (279) | (294) | (368) |
| Admin expense | (480) | (543) | (673) | (571) | (646) | (752) |
| Sales tax | (64) | (86) | (87) | (94) | (100) | (124) |
| R&D expense | (645) | (782) | (820) | (790) | (884) | (992) |
| Others | 182 | 238 | 142 | 129 | 149 | 177 |
| Operating profit | 1,897 | 1,899 | 1,880 | 1,325 | 1,746 | 2,361 |
| Other income | 8 | 4 | 4 | 6 | 6 | 8 |
| Other expense | (27) | (11) | (7) | (4) | (6) | (7) |
| Gain/loss on financial assets at FVTPL | 1 | 0 | 4 | (2) | (2) | (2) |
| Investment gain/(losses) | 6 | 10 | 22 | (3) | (3) | (3) |
| Other gain/(losses) | (112) | (186) | (188) | (231) | (205) | (194) |
| Share of (losses)/profits of associates/JV | (15) | 1 | (1) | (1) | 0 | 0 |
| Net Interest income/expense | (152) | (107) | 6 | 16 | 18 | 29 |
| Pre-tax profit | 1,606 | 1,609 | 1,720 | 1,105 | 1,553 | 2,191 |
| Income tax | (175) | (128) | (80) | (7) | (73) | (102) |
| After tax profit | 1,431 | 1,481 | 1,640 | 1,098 | 1,481 | 2,088 |
| Minority interest | 1 | 0 | 0 | 0 | 0 | 0 |
| Net profit | 1,430 | 1,481 | 1,640 | 1,098 | 1,480 | 2,088 |

| BALANCE SHEET | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 5,941 | 7,270 | 8,578 | 7,682 | 8,527 | 9,922 |
| Cash & equivalents | 507 | 620 | 1,913 | 676 | 910 | 1,464 |
| Account receivables | 2,053 | 2,732 | 2,770 | 3,003 | 3,268 | 3,728 |
| Inventories | 2,206 | 2,527 | 2,341 | 2,474 | 2,720 | 3,009 |
| Prepayment | 6 | 16 | 49 | 28 | 33 | 40 |
| Other current assets | 1,169 | 1,377 | 1,505 | 1,501 | 1,595 | 1,681 |
| Non-current assets | 8,067 | 9,522 | 12,149 | 13,271 | 14,328 | 15,231 |
| PP&E | 6,485 | 7,789 | 9,138 | 9,937 | 10,625 | 11,303 |
| Right-of-use assets | 0 | 44 | 37 | 30 | 24 | 18 |
| Deferred income tax | 72 | 91 | 208 | 272 | 297 | 326 |
| Intangibles | 322 | 407 | 557 | 537 | 518 | 500 |
| Goodwill | 0 | 0 | 0 | 0 | 0 | 0 |
| Other non-current assets | 1,188 | 1,191 | 2,209 | 2,496 | 2,864 | 3,084 |
| Total assets | 14,008 | 16,792 | 20,727 | 20,953 | 22,855 | 25,152 |
| Current liabilities | 4,932 | 5,948 | 6,708 | 5,836 | 6,389 | 6,857 |
| Short-term borrowings | 232 | 350 | 0 | 420 | 668 | 758 |
| Account payables | 1,515 | 1,881 | 1,638 | 2,000 | 2,033 | 2,264 |
| Tax payable | 22 | 78 | 31 | 86 | 94 | 104 |
| Other current liabilities | 2,724 | 3,141 | 4,484 | 2,890 | 3,121 | 3,194 |
| Contract liabilities | 97 | 70 | 93 | 98 | 100 | 127 |
| Accrued expenses | 342 | 428 | 462 | 342 | 373 | 411 |
| Non-current liabilities | 1,631 | 2,325 | 1,765 | 2,279 | 2,487 | 2,690 |
| Long-term borrowings | 1,059 | 1,368 | 1,175 | 1,720 | 1,877 | 2,018 |
| Bond payables | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred income | 6 | 7 | 209 | 171 | 187 | 206 |
| Other non-current liabilities | 566 | 950 | 382 | 388 | 423 | 466 |
| Total liabilities | 6,563 | 8,272 | 8,474 | 8,115 | 8,877 | 9,546 |
| Share capital | 489 | 489 | 513 | 511 | 511 | 511 |
| Retained earnings | 3,135 | 4,150 | 5,291 | 5,868 | 6,995 | 8,605 |
| Other reserves | 3,817 | 3,877 | 6,446 | 6,455 | 6,468 | 6,486 |
| Total shareholders equity | 7,441 | 8,517 | 12,249 | 12,835 | 13,974 | 15,602 |
| Minority interest | 3 | 3 | 3 | 4 | 4 | 4 |
| Total equity and liabilities | 14,008 | 16,792 | 20,727 | 20,953 | 22,855 | 25,152 |

| CASH FLOW | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 1,431 | 1,481 | 1,640 | 1,098 | 1,481 | 2,088 |
| Depreciation & amortization | 644 | 863 | 1,079 | 1,203 | 1,353 | 1,508 |
| Tax paid | 1 | (18) | 85 | (102) | (9) | (11) |
| Change in working capital | (558) | (344) | 95 | (209) | (217) | (318) |
| Others | 282 | 361 | 281 | 180 | (20) | (70) |
| Net cash from operations | 1,800 | 2,342 | 3,180 | 2,170 | 2,588 | 3,197 |
| Investing | | | | | | |
| Capital expenditure | (2,486) | (2,658) | (3,378) | (2,480) | (2,363) | (2,351) |
| Acquisition of subsidiaries/ investments | 6 | 2 | 6 | (414) | 19 | 19 |
| Net proceeds from disposal of short-term investments | 1,858 | 1,818 | 5,146 | (0) | 0 | (0) |
| Others | (2,013) | (1,642) | (5,388) | (0) | (1) | (1) |
| Net cash from investing | (2,635) | (2,481) | (3,614) | (2,893) | (2,345) | (2,332) |
| Financing | | | | | | |
| Dividend paid | (453) | (541) | (565) | (580) | (414) | (542) |
| Net borrowings | 87 | 536 | (242) | (169) | 405 | 231 |
| Proceeds from share issues | 0 | 0 | 2,530 | (3) | 0 | 0 |
| Others | (9) | (34) | (34) | 211 | (27) | (27) |
| Net cash from financing | (375) | (40) | 1,689 | (541) | (36) | (338) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 1,441 | 504 | 620 | 1,912 | 675 | 909 |
| Exchange difference | (31) | (7) | 30 | 30 | 30 | 30 |
| Others | (905) | 122 | 1,263 | (1,267) | 204 | 524 |
| Cash at the end of the year | 504 | 620 | 1,912 | 675 | 909 | 1,462 |

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CMB International Global Markets Limited

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

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