

Shengyi Tech (600183 CH)

Embracing AI and moving on to a new growth trajectory

Shengyi Tech released its preliminary FY24 earnings. The company expects its NP to rise by 46.0-54.6% YoY to RMB1.7bn-1.8bn. Mid-point NP of RMB1.75bn (+50.3% YoY) is lower than Bloomberg consensus/our estimate by 6.1%/3.3%. Our forecast of RMB1.8bn is at the high-end of the range. We are optimistic about Shengyi Tech, as the company benefits from growing AI-related demand, particularly through its ultra-low-loss CCL products used in AI supply chain. **Maintain BUY with TP adjusted to RMB34.5, corresponding to 30.6x 2025E P/E (prev. TP: RMB28.75) as we think the sector is 1) embarking upon an upcycle, and 2) the company's CCL products are expected to be used in Nvidia's upcoming AI accelerators in 2025.**

■ **Shengyi Tech has climbed out of the trough with revenue improvement** (from both CCL and PCB, with higher growth from PCB) **and net margin expansion** (up +1.8ppts) in 2024. By segment, in the preliminary results, 1) CCL/Pregreg's NP is estimated to be RMB1,421mn, up 19.5% YoY, driven by higher production and sales volume, favourable product mix, as well as better GPM. 2) **PCB's** (~20% rev. contribution) NP is estimated to be RMB329mn (mid-point of Shengyi Electronics' revenue estimate), vs. net loss of RMB25mn in 2023. The turnaround in bottom-line is driven by increasing demand for multilayer PCB.

■ **Despite sequential net profit decline in 4Q24, we think Shengyi Tech is well-positioned to enjoy the significant upside as dollar value of PCB used in upgraded datacenter (new GPUs, cooling tech, high-density interconnect, etc) has increased substantially.** Mid-point 4Q24 NP is estimated to be RMB378mn, up 43% YoY and down 14% QoQ. NPM is estimated to be ~7.4% vs. 8.6%/6.3% in 3Q24/4Q23. By segment, 1) CCL/Pregreg's NP is estimated to be ~RMB235mn, down 14% YoY and down 33% QoQ. We believe it is likely due to weaker-than-expected demand in non-AI market (e.g., consumer electronics), which has suppressed ASP recovery. Meanwhile, copper price remained at its highs (avg. price in 3Q24: ~US\$9.9k/t). 2) PCB's NP is estimated to be RMB142mn, up 57% QoQ (vs. 4Q23 was net loss of RMB7mn). We think it is a continuation of 9M24 growth momentum driven by rising contribution (20.9% YoY in 9M24) from server revenue (42.5% of PCB sales). ([report](#))

■ **Maintain BUY. We like Shengyi Tech given 1) products adopted in AI market** (Ultra Low-loss and Extreme Low-loss CCL products), 2) leading market position (No.2 with 12% market share of the global CCL market in 2023 per Prismark). We maintain our NP growth forecast for 2025 at 51% YoY. We believe the sector is on the way of an upcycle plus AI theme. **New TP is RMB34.5, based on 1SD above 5-year hist. avg, corresponding to 30.6x 2025E P/E.** Potential risks include US-China tariff escalation, rising US interest rates, exchange rates fluctuation, etc.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	18,014	16,586	19,839	22,928	25,080
YoY growth (%)	(11.1)	(7.9)	19.6	15.6	9.4
Gross margin (%)	22.0	19.2	22.1	23.6	24.9
Net profit (RMB mn)	1,530.8	1,164.0	1,808.6	2,738.8	3,533.9
YoY growth (%)	(45.9)	(24.0)	55.4	51.4	29.0
EPS (Reported) (RMB)	0.66	0.50	0.74	1.13	1.45
YoY growth (%)	(46.3)	(24.2)	48.9	51.4	29.0
P/E (x)	45.4	59.9	40.2	26.6	20.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB34.50**
 (Previous TP) RMB28.75)
Up/Downside **15.2%**
Current Price **RMB29.96**

China Semiconductors

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)	70,400.0
Avg 3 mths t/o (RMB mn)	830.5
52w High/Low (RMB)	30.80/13.75
Total Issued Shares (mn)	2349.8

Source: FactSet

Shareholding Structure

Guangdong Guangxin Holdings Group	24.4%
Dongguan Guohong Investment	13.3%

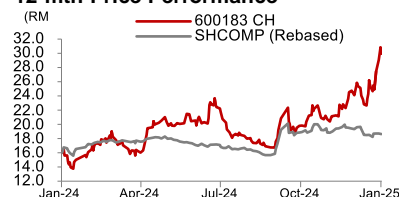
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	24.3%	29.0%
3-mth	49.9%	53.2%
6-mth	38.1%	24.6%

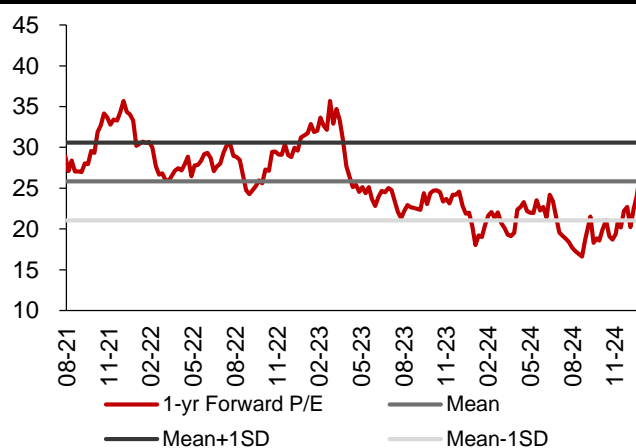
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12-mth Price Performance



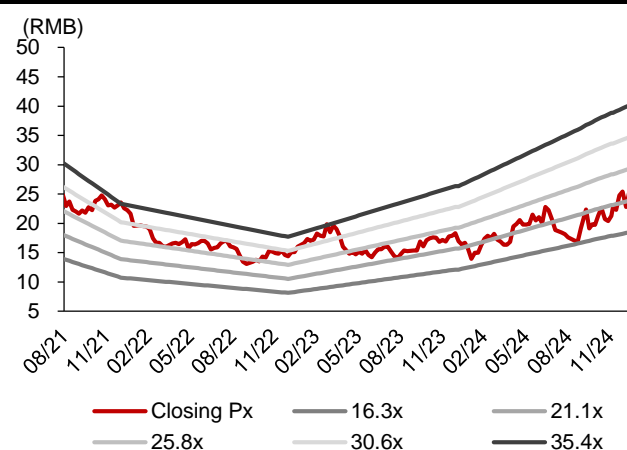
Source: FactSet

Figure 1: P/E Band



Source: Company data, CMBIGM estimates

Figure 2: P/E chart



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	20,274	18,014	16,586	19,839	22,928	25,080
Cost of goods sold	(14,837)	(14,045)	(13,395)	(15,463)	(17,513)	(18,829)
Gross profit	5,437	3,969	3,191	4,376	5,415	6,251
Operating expenses	(2,254)	(2,105)	(1,821)	(2,299)	(2,276)	(2,285)
Selling expense	(351)	(341)	(358)	(467)	(469)	(456)
Admin expense	(910)	(797)	(701)	(819)	(809)	(810)
R&D expense	(964)	(943)	(841)	(1,125)	(1,116)	(1,133)
Others	(28)	(24)	79	112	119	114
Operating profit	3,316	1,785	1,273	2,117	3,139	4,009
Other income	6	2	2	2	3	3
Other expense	(11)	(14)	(3)	(4)	(4)	(5)
Gain/loss on financial assets at FVTPL	50	(23)	(3)	20	11	12
Other gains/(losses)	47	(82)	(131)	(29)	(61)	(20)
EBIT	3,310	1,773	1,271	2,115	3,137	4,007
Interest income	46	56	49	29	36	40
Interest expense	(139)	(171)	(162)	(115)	(112)	(114)
Pre-tax profit	3,310	1,773	1,271	2,115	3,137	4,007
Income tax	(385)	(141)	(123)	(212)	(314)	(401)
After tax profit	2,925	1,632	1,149	1,904	2,824	3,606
Minority interest	95	101	(15)	95	85	72
Net profit	2,830	1,531	1,164	1,809	2,739	3,534

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	14,720	14,232	13,999	15,545	17,339	18,159
Cash & equivalents	2,105	3,095	2,756	3,071	4,095	5,870
Restricted cash	181	11	19	6	6	6
Account receivables	7,628	6,809	6,669	7,865	8,107	7,770
Inventories	4,520	4,084	4,271	4,371	4,841	4,238
Prepayment	24	24	33	40	43	49
Other current assets	260	210	251	192	247	226
Non-current assets	9,711	10,963	10,958	10,748	10,668	10,542
PP&E	7,071	7,866	9,064	8,511	7,937	7,430
Right-of-use assets	73	44	22	37	56	75
Deferred income tax	158	220	269	265	292	294
Investment in JVs & assos	622	671	783	798	815	815
Intangibles	1,431	2,128	666	1,048	1,432	1,801
Goodwill	19	0	0	0	0	0
Financial assets at FVTPL	0	25	30	25	32	39
Other non-current assets	337	10	124	64	104	88
Total assets	24,431	25,196	24,957	26,293	28,006	28,701
Current liabilities	7,253	7,377	7,297	8,343	8,843	8,365
Short-term borrowings	1,693	1,558	1,465	1,583	1,828	1,642
Account payables	4,292	3,984	4,152	4,830	5,093	4,738
Tax payable	173	50	82	121	111	123
Other current liabilities	334	1,237	1,072	1,201	1,199	1,200
Contract liabilities	28	20	92	144	122	158
Accrued expenses	733	529	435	464	491	505
Non-current liabilities	2,312	2,522	1,959	1,348	1,383	1,443
Long-term borrowings	1,590	1,175	806	603	620	646
Bond payables	300	800	500	0	0	0
Obligations under finance leases	66	39	21	34	29	33
Deferred income	321	108	118	116	128	129
Other non-current liabilities	35	400	515	595	606	635
Total liabilities	9,565	9,899	9,256	9,691	10,227	9,809
Share capital	2,312	2,327	2,355	2,429	2,429	2,429
Retained earnings	5,370	5,366	5,357	6,113	7,205	8,246
Other reserves	5,415	5,805	6,272	6,248	6,248	6,248
Total shareholders equity	13,096	13,498	13,983	14,790	15,883	16,924
Minority interest	1,770	1,798	1,717	1,812	1,897	1,969
Total equity and liabilities	24,431	25,196	24,957	26,293	28,006	28,701

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,925	1,632	1,149	1,904	2,824	3,606
Depreciation & amortization	673	726	835	853	921	930
Tax paid	(37)	4	(34)	84	(16)	27
Change in working capital	(1,898)	104	494	(72)	(820)	1,103
Others	113	354	300	(231)	323	(369)
Net cash from operations	1,776	2,820	2,743	2,538	3,232	5,297
Investing						
Capital expenditure	(1,787)	(1,534)	(1,109)	(771)	(850)	(894)
Acquisition of subsidiaries/ investments	45	377	64	115	150	135
Net proceeds from disposal of short-term investments	(134)	(36)	(116)	(16)	5	5
Others	(4)	(0)	(2)	5	(17)	(1)
Net cash from investing	(1,880)	(1,193)	(1,162)	(667)	(712)	(755)
Financing						
Dividend paid	(1,161)	(1,619)	(1,287)	(1,175)	(1,758)	(2,607)
Net borrowings	404	800	(935)	(460)	262	(161)
Proceeds from share issues	2,254	192	318	58	0	0
Others	(99)	(21)	(15)	22	0	0
Net cash from financing	1,398	(648)	(1,919)	(1,555)	(1,496)	(2,768)
Net change in cash						
Cash at the beginning of the year	818	2,105	3,095	2,756	3,071	4,095
Exchange difference	(6)	11	(1)	0	0	0
Others	1,293	979	(338)	316	1,024	1,774
Cash at the end of the year	2,105	3,095	2,756	3,071	4,095	5,870
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.0%	(11.1%)	(7.9%)	19.6%	15.6%	9.4%
Gross profit	38.2%	(27.0%)	(19.6%)	37.1%	23.7%	15.4%
Operating profit	58.6%	(46.2%)	(28.7%)	66.4%	48.3%	27.7%
EBIT	58.9%	(46.4%)	(28.3%)	66.4%	48.3%	27.7%
Net profit	68.4%	(45.9%)	(24.0%)	55.4%	51.4%	29.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	26.8%	22.0%	19.2%	22.1%	23.6%	24.9%
Operating margin	16.4%	9.9%	7.7%	10.7%	13.7%	16.0%
Return on equity (ROE)	24.6%	11.5%	8.5%	12.6%	17.9%	21.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.5)	(0.5)	(0.4)	(0.4)	(0.2)
Current ratio (x)	2.0	1.9	1.9	1.9	2.0	2.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	24.4	45.4	59.9	40.2	26.6	20.6
P/E (diluted)	24.8	46.1	61.1	40.2	26.6	20.6

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

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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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