

Shengyi Tech (600183 CH)

Headwinds to persist into 1H22; Maintain HOLD

Shengyi Tech reported FY21 results with 38%/68% YoY growth in revenue/NP, which reached RMB20.3bn/RMB2.8bn respectively. Full-year GPM remained flat, but 4Q21 GPM contracted to 23.7% vs. 26.2% in 3Q21. We believe the Company's top and bottom lines will continue to face headwinds given weak domestic consumption and elevated material costs. The Company's operation also faces challenges amid partial lockdown led by the resurgence of COVID cases in mainland China. Maintain Hold, with reduced TP of RMB19.0.

- Weaker in 2H21 after a strong performance in 1H21.** 4Q21 revenue declined by 11.7% QoQ. Domestic consumption had been strong since 2H20 during the pandemic but became weaker in 2H21, while overseas demand was affected largely by disruption in logistics. GPM further contracted to 23.7% in 4Q21 vs. 29.4%/26.2% in 2Q21/3Q21, caused by high material costs and Company's difficulty in raising ASP. 4Q21 NPM also lowered but full-year NPM reached 14.0% from 11.4% in 2020, as a result of improvement in operation.
- Headwinds to persist into 1H22.** The Company is leading in CCL industry, however, we are cautious about the industry amid softening demand and tough macro situations. We think domestic consumption will remain soft in 1H22. Telecom demand will remain flat as the number of newly added 5G BTS is projected to be similar over the next few years. We are positive on auto/server demands, which could be the growth drivers. We estimate FY22 revenue to grow at 10% YoY.
- Peers' capacity expansion to put further pressure on the industry.** CCL's market was in upcycle since 2H20. We see peers also expanded capacities to ride on the tailwind. However, this could further put pressure on the industry considering that the tough macro environment, pandemic and geopolitical issues may keep material and freight prices at high level, thus negatively impacting GPM.
- Maintain HOLD, TP adjusted to RMB19.0.** We cut Shengyi's FY22-23E GPM amid lingering headwinds. We trimmed target P/E multiple to 16.6x, ~ avg. 1-yr forward P/E, and reduced TP to RMB19.0. We think Shengyi should be able to outperform its peers given its mgmt team's good track record.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Turnover (RMB mn)	14,687	20,274	22,367	25,142	27,650
YoY growth (%)	10.9%	38.0%	10.3%	12.4%	10.0%
Gross margin (%)	26.8%	26.8%	25.0%	25.3%	25.5%
Net profit (RMB mn)	1,681	2,830	2,570	3,016	3,431
EPS (RMB)	0.74	1.23	1.11	1.30	1.48
YoY growth (%)	12.1%	66.2%	-9.6%	17.4%	13.8%
Consensus EPS (RMB)	NA	NA	1.23	1.43	0.00
PE (x)	22.4	13.5	14.9	12.7	11.2
Yield (%)	0.0%	3.6%	3.3%	3.9%	4.4%
ROE (%)	17.0%	21.6%	18.0%	18.8%	19.1%
Gearing Ratio (%)	18.0%	6.7%	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **RMB 19.00**
 (Previous TP **RMB 23.50**)
 Up/Downside **+14.5%**
 Current Price **RMB 16.59**

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	38,349
Avg. 3mths t/o (RMB mn)	357
52W High/Low (RMB)	29.85/15.53
Total Issued Shares (mn)	2,311.6

Source: Bloomberg

Shareholding Structure

Guangdong Guangxin Holdings	24.76%
Dongguan Guohong Invest.	13.89%
Weihua Electronics	12.76%

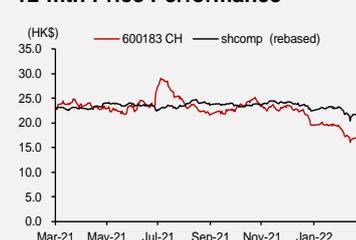
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-15.9%	-9.1%
3-mth	-24.2%	-20.6%
6-mth	-29.7%	-16.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: GP CPAs

Recent Reports:

- Weaker 4Q21 with limited pricing upside in 2022; D/G to HOLD – 27 Jan 2022 ([Link](#))
- Solid 3Q21; Cost pressure ahead – 28 Oct 2021 ([Link](#))

Earnings revision

Figure 1: 4Q21 results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	QoQ	YoY
Revenue	3,072	3,807	3,811	3,997	4,505	5,326	5,547	4,896	-11.7%	22.5%
Gross Profit	882	1,091	992	968	1,259	1,566	1,454	1,158	-20.3%	19.6%
Operating Profit	432	602	575	482	675	1,009	1,111	521	-53.1%	8.0%
Net profit	339	487	477	378	544	870	925	490	-47.0%	29.8%
EPS (RMB)	0.15	0.21	0.21	0.17	0.24	0.38	0.40	0.21	-47.5%	23.8%
Gross Margin	28.7%	28.6%	26.0%	24.2%	27.9%	29.4%	26.2%	23.7%	-2.5 ppt	-0.6 ppt
Operating Margin	14.0%	15.8%	15.1%	12.1%	15.0%	18.9%	20.0%	10.6%	-9.4 ppt	-1.4 ppt
Net Margin	11.0%	12.8%	12.5%	9.4%	12.1%	16.3%	16.7%	10.0%	-6.7 ppt	0.6 ppt

Source: Company data, CMBIGM estimates

Figure 2: FY21 results review

RMB mn	FY18	FY19	FY20	FY21	YoY
Revenue	11,981	13,241	14,687	20,274	38%
Gross Profit	2,657	3,528	3,933	5,437	38%
Operating Profit	1,229	1,805	2,090	3,316	59%
Net profit	1,000	1,449	1,681	2,830	68%
EPS (RMB)	0.47	0.66	0.74	1.23	66%
Gross Margin	22.2%	26.6%	26.8%	26.8%	0 ppt
Operating Margin	10.3%	13.6%	14.2%	16.4%	2.1 ppt
Net Margin	8.4%	10.9%	11.4%	14.0%	2.5 ppt

Source: Company data, CMBIGM estimates

Figure 3: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	22,367	25,142	27,650	21,799	24,231	na	3%	4%	na
Gross Profit	5,593	6,353	7,048	5,772	6,385	na	-3%	0%	na
Operating Profit	3,015	3,536	4,024	3,432	3,859	na	-12%	-8%	na
Net profit	2,570	3,016	3,431	2,878	3,236	na	-11%	-7%	na
EPS (US\$ cents)	1.11	1.30	1.48	1.23	1.38	na	-9%	-5%	na
Gross Margin	25.0%	25.3%	25.5%	26.5%	26.4%	na	-1.5 ppt	-1.1 ppt	na
Operating Margin	13.5%	14.1%	14.6%	15.7%	15.9%	na	-2.3 ppt	-1.9 ppt	na
Net Margin	11.5%	12.0%	12.4%	13.2%	13.4%	na	-1.7 ppt	-1.4 ppt	na

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

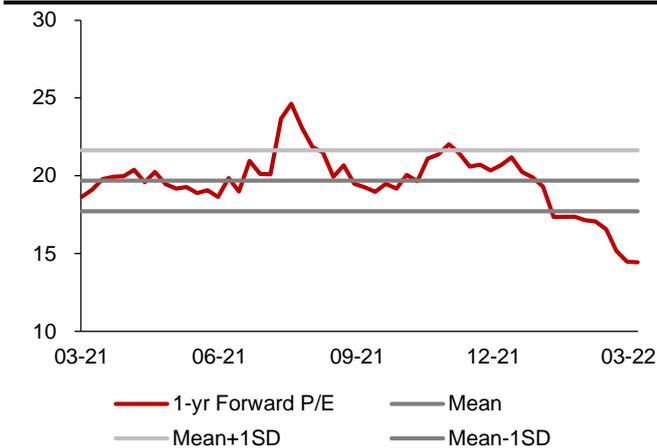
US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	22,367	25,142	27,650	22,363	25,382	29,136	0%	-1%	-5%
Gross Profit	5,593	6,353	7,048	5,891	6,717	7,750	-5%	-5%	-9%
Operating Profit	3,015	3,536	4,024	3,487	3,971	4,501	-14%	-11%	-11%
Net profit	2,570	3,016	3,431	2,827	3,273	3,758	-9%	-8%	-9%
EPS (US\$ cents)	1.11	1.30	1.48	1.23	1.43	1.63	-10%	-9%	-9%
Gross Margin	25.0%	25.3%	25.5%	26.3%	26.5%	26.6%	-1.3 ppt	-1.2 ppt	-1.1 ppt
Operating Margin	13.5%	14.1%	14.6%	15.6%	15.6%	15.4%	-2.1 ppt	-1.6 ppt	-0.9 ppt
Net Margin	11.5%	12.0%	12.4%	12.6%	12.9%	12.9%	-1.2 ppt	-0.9 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

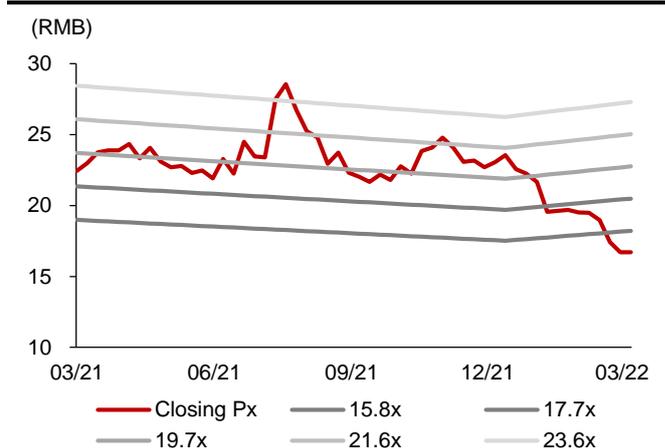
Figure 5: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Upside/Downside	Mkt. Cap (US\$ mn)	P/E (x)		ROE (%)	
							FY19E	FY20E	FY19E	FY20E
CCL										
Shengyi Tech	600183 CH	Hold	19.00	16.59	14.5%	6,038	14.6	12.7	18.0	18.8
Nanya	1303 TT	NR	NA	93.50	NA	25,969	12.5	13.6	15.7	14.4
ITEQ	6213 TT	NR	NA	121.00	NA	1,623	13.2	10.0	21.1	24.2
Kingboard	148 HK	NR	NA	38.15	NA	5,404	4.4	4.2	14.5	13.8
Sumitomo	4203 JT	NR	NA	5040.00	NA	2,051	12.2	10.8	9.4	10.0
Average							11.4	10.3	15.7	16.2
PCB										
Shengyi Tech	600183 CH	Hold	19.00	16.59	14.5%	6,038	14.9	12.7	18.0	8.8
Shennan	002916 CH	Hold	110.75	92.38	19.9%	7,460	23.5	19.1	19.3	20.3
WUS	002463 CH	NR	NA	13.43	NA	4,010	17.5	14.0	18.4	18.7
Kinwon	603228 CH	NR	NA	24.30	NA	3,258	15.9	13.1	15.8	16.7
DSBJ	002384 CH	NR	NA	19.40	NA	5,223	14.0	11.9	14.4	14.9
Zhen Ding	4958 TT	NR	NA	109.50	NA	3,632	9.7	8.5	11.2	12.2
TTM	TTMI US	NR	NA	14.94	NA	1,518	11.9	10.1	-	-
UMTC	3037 TT	NR	NA	248.50	NA	12,838	18.2	13.8	29.2	31.4
Tripod	3044 TT	NR	NA	134.50	NA	2,476	10.9	9.7	16.0	16.7
Comped	2313 TT	NR	NA	49.50	NA	2,066	10.4	9.3	16.9	16.2
SEMCO	009150 KS	NR	NA	166500.00	NA	10,276	10.4	9.2	16.7	16.1
Average							14.3	12.0	17.6	18.2

Source: Bloomberg, CMBIGM estimates

Figure 6: 12M forward P/E chart

Source: Company data, CMBIGM estimates

Figure 7: 12M forward P/E band

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	14,687	20,274	22,367	25,142	27,650
Cost of sales	(10,754)	(14,837)	(16,774)	(18,789)	(20,603)
Gross profit	3,933	5,437	5,593	6,353	7,048
Selling exp	(179)	(231)	(233)	(274)	(295)
Admin exp	(720)	(910)	(982)	(1,079)	(1,186)
R&D exp	(711)	(964)	(1,064)	(1,196)	(1,315)
Finance costs	(114)	(102)	(153)	(109)	(91)
Other operating exp.	3,567	4,329	5,011	5,475	5,911
Operating profit	2,090	3,316	3,015	3,536	4,024
Other non-oper exp.	(7)	(6)	(9)	(8)	(10)
Pre-tax profit	2,083	3,310	3,006	3,528	4,014
Income tax expense	(283)	(385)	(350)	(411)	(467)
Minority interests	120	95	86	101	115
Net profit to shareholders	1,681	2,830	2,570	3,016	3,431

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	1,800	2,925	2,656	3,117	3,546
Depreciation/amortization	513	633	695	773	845
Change in working capital	(832)	(1,935)	968	(967)	(302)
Others	277	153	88	389	(58)
Net cash from operating	1,758	1,776	4,407	3,311	4,031
Capex	(1,761)	(1,787)	(1,464)	(1,611)	(1,762)
Other	(72)	(93)	125	136	142
Net cash from investing	(1,833)	(1,880)	(1,340)	(1,475)	(1,620)
Share issuance	189	189	0	0	0
Dividend paid	(1,101)	(1,101)	(1,615)	(1,459)	(1,676)
Other	696	2,309	(917)	46	(98)
Net cash from financing	(215)	1,398	(2,532)	(1,413)	(1,774)
Net change in cash	(290)	1,293	535	423	637
Cash at beginning of the year	1,051	818	2,105	2,640	3,063
Exchange difference	58	(6)	0	0	0
Cash at the end of the year	818	2,105	2,640	3,063	3,700

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	9,716	14,720	15,044	16,826	18,612
Cash & equivalents	850	2,287	2,822	3,245	3,882
Account receivables	4,888	6,120	6,014	6,798	7,292
Inventory	2,519	4,520	4,487	4,779	5,381
Prepayment	20	24	24	27	30
Other current assets	1,439	1,769	1,698	1,977	2,028
Non-current assets	8,642	9,711	10,335	11,068	11,906
PPE	6,374	7,071	7,917	8,623	9,380
Deferred tax assets	120	158	165	181	198
Other non-current assets	2,148	2,482	2,253	2,265	2,327
Total assets	18,357	24,431	25,378	27,894	30,518
Current liabilities	6,804	7,253	6,631	7,162	7,666
ST borrowings	2,157	1,693	491	454	349
Account payables	2,903	3,296	3,712	4,138	4,470
Tax payable	125	173	180	198	217
Other current liabilities	1,619	2,091	2,247	2,373	2,631
Non-current liabilities	910	2,312	2,613	2,739	2,791
LT borrowings	605	1,590	1,875	1,958	1,965
Deferred tax liability	16	32	34	37	40
Other non-current	289	689	704	745	786
Total liabilities	7,714	9,565	9,243	9,901	10,457
Share capital	2,291	2,312	2,312	2,312	2,312
Reserve	2,795	4,078	4,078	4,078	4,078
Retained earnings	3,690	5,386	6,373	7,900	9,591
Other	1,113	1,322	1,517	1,747	2,008
Minority interest	754	1,770	1,856	1,957	2,072
Total equity	10,643	14,866	16,135	17,993	20,061
Total liabilities and equity	18,357	24,431	25,378	27,894	30,518

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
CCL	10,849	16,190	16,555	18,170	19,784
PCB	3,558	3,508	5,235	6,395	7,289
Others	280	577	577	577	577
Growth (%)					
Revenue	10.9%	38.0%	10.3%	12.4%	10.0%
Gross profit	11.5%	38.2%	2.9%	13.6%	10.9%
Operating profit	15.8%	58.6%	-9.1%	17.3%	13.8%
Net profit	16.0%	68.4%	-9.2%	17.4%	13.8%
Profit & loss ratio (%)					
Gross margin	26.8%	26.8%	25.0%	25.3%	25.5%
Operating margin	14.2%	16.4%	13.5%	14.1%	14.6%
Net profit margin	11.4%	14.0%	11.5%	12.0%	12.4%
Balance sheet ratio					
Net debt/total equity (%)	18.0%	6.7%	Net	Net	Net
Current ratio (x)	1.4	2.0	2.3	2.3	2.4
Receivable turnover days	118	99	99	93	93
Inventory turnover days	(78)	(87)	(98)	(90)	(90)
Payable turnover days	(94)	(76)	(76)	(76)	(76)
Profitability (%)					
ROE	17.0%	21.6%	18.0%	18.8%	19.1%
ROA	9.2%	11.6%	10.1%	10.8%	11.2%
Per share data (RMB)					
EPS	0.74	1.23	1.11	1.30	1.48
DPS	0.00	0.60	0.54	0.64	0.73
BPS	4.35	5.67	6.18	6.94	7.78

Source: Company data, CMBIGM estimates

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