

# Shengyi Tech (600183 CH)

## FY23 preliminary results review; expect gradual recovery in 2024

Shengyi Tech unveiled its FY23 earnings preview after Tuesday's market close. Full-year revenue was RMB16.6bn (-7.9% YoY) and net profit was RMB1.16bn (-24.0% YoY), which were 3%/13% and 3%/9% lower than our/consensus estimates, respectively. For 4Q23, revenue decreased 2.3% YoY and 5.1% QoQ to RMB4.2bn. Quarterly net profit dropped more sharply by 20.8% YoY and 23.1% QoQ to RMB264.6mn. The miss was mainly due to larger-than-expected declines in ASP in both CCL and PCB segments on weaker demand and intensified competition, which eroded GPM, although partially offset by growing shipments of CCL products. Looking forward, we think the business will gradually recover in 2H24 after bottoming in 1H. New CCL product, which has been certified by Nvidia and is expected to begin the next testing phase soon, should also contribute additional revenue in 2024. **Maintain BUY with TP adjusted to RMB19.69.**

- By segment, the company's PCB subsidiary Shengyi Electronics (688183 CH) posted 2023 revenue of RMB3.3bn, down 7.4% YoY, due to heightened market competition and falling telecom demand. Its revenue managed to grow 2.7% YoY and 9.1% QoQ in 4Q23, as the company reduced its prices to maintain its market share. However, GPM was significantly eroded. Meanwhile, Shengyi Electronics is ramping up its production at one of its facilities (Dong Cheng IV), which also put pressure on margin. For 2024, we expect PCB segment revenue to grow ~10% YoY considering 2023 had a low base, and expect a moderate recovery in 2H24.
- For the CCL segment, excluding Shengyi Electronics's PCB sales, revenue from CCL and other business was ~RMB13.3bn, down 8.0% YoY. Revenue decreased moderately in 4Q23 on weaker demand, which was partially offset by reduction in raw materials costs. We forecast CCL segment revenue to grow ~21% YoY, with additional contribution from AI demand. Shengyi Tech's latest ultralow (UL) loss CCL product has been certified by Nvidia and is expected to begin the next testing phase soon.
- We cut our 2024E revenue forecast by 4% and lower GPM by 0.7ppt to 22.1%, considering weaker-than-expected market demand and intensified competition. We expect the business will gradually recover in 2H24 with additional revenue contribution from new customers. **Maintain BUY with adjusted TP of RMB19.69, based on the same 22.5x 2024E P/E multiple, less than 10% lower than the stock's 5-year historical forward P/E of 24.1x.** Potential downside risks include: 1) worse-than-expected macro environment recovery, 2) continuous ASP pressure, and 3) increasing upstream material costs.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	20,274	18,014	16,587	19,570	23,952
YoY growth (%)	38.0	(11.1)	(7.9)	18.0	22.4
Gross margin (%)	26.8	22.0	19.3	22.1	23.0
Net profit (RMB mn)	2,830	1,531	1,162	2,034	2,706
YoY growth (%)	68.4	(45.9)	(24.1)	75.0	33.0
EPS (RMB)	1.23	0.66	0.50	0.88	1.16
Consensus EPS (RMB)	NA	NA	0.55	0.78	0.98
P/E (x)	13.9	26.0	34.3	19.6	14.7
ROE (%)	21.6%	11.3%	8.5%	13.7%	16.7%

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB19.69  
 (Previous TP) RMB20.39  
**Up/Downside** 15.1%  
**Current Price** RMB17.10

#### China Semi

**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)	40,181.6
Avg 3 mths t/o (RMB mn)	278.2
52w High/Low (RMB)	19.85/13.70
Total Issued Shares (mn)	2349.8

Source: FactSet

#### Shareholding Structure

Guangdong Guangxin Holdings Group	24.8%
Dongguan Guohong Investment	13.7%

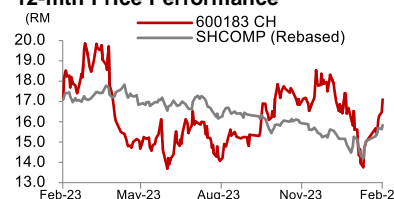
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	9.5%	5.7%
3-mth	0.4%	1.0%
6-mth	21.5%	23.5%

Source: FactSet

#### 12-mth Price Performance



Source: FactSet

**Figure 1: CMBIGM estimates vs. consensus**

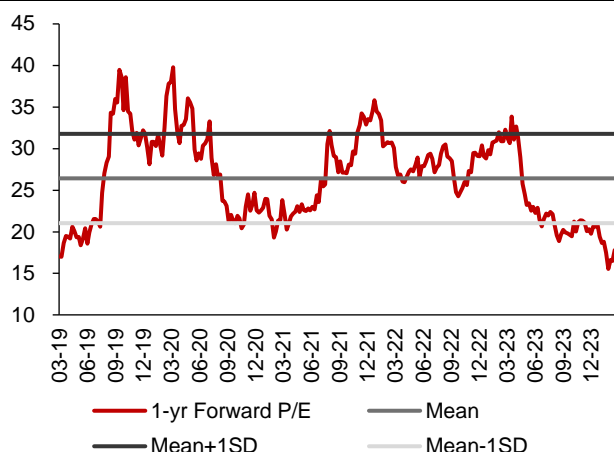
RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	16,587	19,570	23,952	17,062	19,395	21,937	-3%	1%	9%
Gross Profit	3,195	4,322	5,514	3,448	4,269	5,067	-7%	1%	9%
Net profit	1,162	2,034	2,706	1,275	1,826	2,323	-9%	11%	16%
EPS (RMB)	0.50	0.88	1.16	0.55	0.78	0.98	-9%	12%	19%
<b>Gross margin</b>	19.3%	22.1%	23.0%	20.2%	22.0%	23.1%	-1 ppt	0.1 ppt	-0.1 ppt
<b>Net margin</b>	7.0%	10.4%	11.3%	7.5%	9.4%	10.6%	-0.5 ppt	1 ppt	0.7 ppt

Source: Bloomberg consensus, CMBIGM estimates

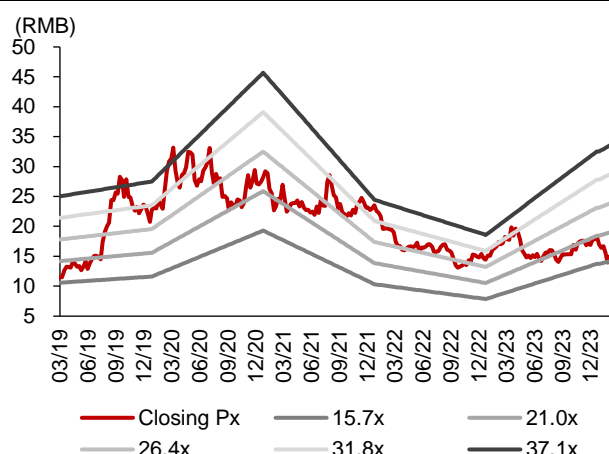
**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	16,587	19,570	23,952	17,138	20,422	24,036	-3%	-4%	0%
Gross Profit	3,195	4,322	5,514	3,461	4,647	5,875	-8%	-7%	-6%
Net profit	1,162	2,034	2,706	1,342	2,106	2,843	-13%	-3%	-5%
EPS (RMB)	0.50	0.88	1.16	0.58	0.91	1.22	-13%	-3%	-5%
<b>Gross margin</b>	19.3%	22.1%	23.0%	20.2%	22.8%	24.4%	-0.9 ppt	-0.7 ppt	-1.4 ppt
<b>Net margin</b>	7.0%	10.4%	11.3%	7.8%	10.3%	11.8%	-0.8 ppt	0.1 ppt	-0.5 ppt

Source: Company data, CMBIGM estimates

**Figure 3: 12M forward PE band**

Source: Company data, CMBIGM estimates

**Figure 4: 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	14,687	20,274	18,014	16,587	19,570	23,952
Cost of goods sold	(10,754)	(14,837)	(14,045)	(13,393)	(15,248)	(18,437)
Gross profit	3,933	5,437	3,969	3,195	4,322	5,514
Operating expenses	(1,773)	(2,254)	(2,105)	(1,885)	(2,068)	(2,486)
Selling expense	(284)	(351)	(341)	(359)	(384)	(446)
Admin expense	(720)	(910)	(797)	(696)	(783)	(958)
R&D expense	(711)	(964)	(943)	(832)	(910)	(1,114)
Others	(59)	(28)	(24)	1	9	32
Operating profit	2,090	3,316	1,785	1,261	2,201	2,927
Other income	5	6	2	2	2	3
Other expense	(12)	(11)	(14)	(13)	(15)	(19)
Gain/loss on financial assets at FVTPL	3	50	(23)	(9)	(7)	(5)
Other gains/(losses)	(150)	47	(82)	(65)	(71)	(121)
EBIT	2,083	3,310	1,773	1,250	2,188	2,911
Interest income	11	46	56	62	64	65
Interest expense	(121)	(139)	(171)	(155)	(153)	(152)
Pre-tax profit	2,083	3,310	1,773	1,250	2,188	2,911
Income tax	(283)	(385)	(141)	(99)	(174)	(232)
After tax profit	1,800	2,925	1,632	1,150	2,014	2,679
Minority interest	120	95	101	(12)	(20)	(27)
Net profit	1,681	2,830	1,531	1,162	2,034	2,706
Gross dividends	917	1,389	1,047	795	1,392	1,851

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,716	14,720	14,232	12,192	14,370	15,318
Cash & equivalents	818	2,105	3,095	3,336	3,311	3,494
Restricted cash	32	181	11	11	11	11
Account receivables	6,050	7,628	6,809	5,415	6,987	7,369
Inventories	2,519	4,520	4,084	3,255	3,847	4,235
Prepayment	20	24	24	20	25	30
Other current assets	278	260	210	156	188	179
Non-current assets	8,642	9,711	10,963	11,284	11,307	11,269
PP&E	6,374	7,071	7,866	8,332	8,546	8,591
Right-of-use assets	0	73	44	38	34	30
Deferred income tax	120	158	220	218	231	243
Investment in JVs & assos	358	622	671	663	676	682
Intangibles	1,678	1,431	2,128	2,026	1,838	1,753
Goodwill	97	19	0	0	0	0
Financial assets at FVTPL	0	20	25	(8)	(31)	(46)
Other non-current assets	14	317	10	16	14	17
Total assets	18,357	24,431	25,196	23,476	25,677	26,587
Current liabilities	6,804	7,253	7,377	6,033	6,690	5,945
Short-term borrowings	2,157	1,693	1,558	897	1,189	248
Account payables	3,264	4,291	3,984	3,064	3,295	3,517
Tax payable	125	173	50	63	60	66
Other current liabilities	728	335	1,237	1,684	1,684	1,684
Contract liabilities	32	28	20	23	27	33
Accrued expenses	498	733	529	302	435	396
Non-current liabilities	910	2,312	2,522	2,040	2,364	2,732
Long-term borrowings	605	1,590	1,175	990	1,285	1,621
Bond payables	0	300	800	500	500	500
Obligations under finance leases	0	66	39	34	38	39
Deferred income	267	35	108	118	120	129
Other non-current liabilities	38	321	400	398	421	443
Total liabilities	7,714	9,565	9,899	8,073	9,055	8,678
Share capital	2,291	2,312	2,327	2,324	2,324	2,324
Retained earnings	3,681	5,370	5,366	5,360	6,369	7,379
Other reserves	3,918	5,415	5,805	5,933	6,162	6,467
Total shareholders equity	9,889	13,096	13,498	13,617	14,856	16,170
Minority interest	754	1,770	1,798	1,787	1,766	1,740
Total equity and liabilities	18,357	24,431	25,196	23,476	25,677	26,587

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,800	2,925	1,632	1,151	2,014	2,679
Depreciation & amortization	531	673	726	798	870	937
Tax paid	(19)	(37)	4	(1)	11	10
Change in working capital	(812)	(1,898)	104	1,184	(1,746)	(376)
Others	258	113	354	102	52	(54)
<b>Net cash from operations</b>	<b>1,758</b>	<b>1,776</b>	<b>2,820</b>	<b>3,234</b>	<b>1,200</b>	<b>3,197</b>
<b>Investing</b>						
Capital expenditure	(1,761)	(1,787)	(1,534)	(1,565)	(1,326)	(1,375)
Acquisition of subsidiaries/ investments	21	45	377	435	459	505
Net proceeds from disposal of short-term investments	(76)	(134)	(36)	24	17	11
Others	(16)	(4)	(0)	8	(13)	(7)
<b>Net cash from investing</b>	<b>(1,833)</b>	<b>(1,880)</b>	<b>(1,193)</b>	<b>(1,097)</b>	<b>(863)</b>	<b>(865)</b>
<b>Financing</b>						
Dividend paid	(1,101)	(1,161)	(1,619)	(1,202)	(948)	(1,544)
Net borrowings	697	404	800	(697)	586	(605)
Proceeds from share issues	189	2,254	192	(6)	0	0
Others	(1)	(99)	(21)	6	(0)	(0)
<b>Net cash from financing</b>	<b>(215)</b>	<b>1,398</b>	<b>(648)</b>	<b>(1,900)</b>	<b>(361)</b>	<b>(2,149)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,051	818	2,105	3,095	3,336	3,311
Exchange difference	58	(6)	11	4	0	0
Others	(290)	1,293	979	237	(24)	183
<b>Cash at the end of the year</b>	<b>818</b>	<b>2,105</b>	<b>3,095</b>	<b>3,336</b>	<b>3,311</b>	<b>3,494</b>

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

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

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

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.