

Shengyi Technology (600183 CH)

CCL upcycle to continue; Maintain BUY

Shengyi Tech reported 1H21 results with revenue of RMB9.8bn (43% YoY) and net profit of RMB1.4bn (71% YoY), largely in-line with its preannounced earnings earlier. We believe Shengyi's solid results confirmed the upcycle for CCL segment. Although PCB business remains under pressure due to rising raw material costs which partially offset the growth from CCL, we remain positive on Shengyi Tech's outlook. We revised up FY21-23E EPS by 3-12% and raised TP to RMB31.90. Maintain BUY.

- Strong 2Q21 results driven by CCL upcycle; PCB business remains weak.** By segment, CCL/pregreg revenue/net profit grew 62%/171% YoY and PCB grew revenue/net profit declined 25%/66% YoY. CCL/pregreg GPM is flattish QoQ at 29.3% in 2Q21 (vs 29.3%/26.4% for 1Q21/2Q20), while PCB GPM continued to decline to 16.0% (vs. 21.6%/28.5% for 1Q21/2Q20). As global No.2 CCL supplier, we believe Shengyi Tech was able to transfer the material cost pressure to downstream PCB manufacturers. However, blended GPM decreased to 25.7% in 2Q21 (vs 27.9% in 1Q21) given 1) deteriorated margin from PCB business and 2) limited margin upside from CCL business as rising costs may curb downstream demand.
- Expect another strong quarter in 3Q and stable 4Q may have higher uncertainty.** Looking forward, we think the Company will deliver a strong 3Q21 given peak season and high order visibility. We believe 1) auto market will continue its momentum and remain as the key driver for CCL and 2) telecom equipment demand will pick up given that 5G deployment has resumed with stable GPM and ASP. Overall, we think 2H revenue growth will be similar to 1H given 1) limited room for CCL suppliers to increase ASP and 2) increasing demand uncertainty from downstream clients in 4Q due to high cost pressure.
- Maintain BUY with new TP of RMB31.90.** We slightly adjusted our TP to RMB31.90 based on higher earnings forecasts and lower 25.0x FY22/P/E (vs previous 30x due to limited CCL ASP upside and demand uncertainty). Trading at 23.2x/20.7x FY21/22E P/E, the stock remains attractive. Potential risks include less-than-expected transfer of material costs and less-than-expected market demand.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Turnover (RMB mn)	13,241	14,687	19,740	22,234	26,039
YoY growth (%)	10.5	10.9	34.4	12.6	17.1
Gross margin (%)	26.6	26.8	27.8	27.4	27.6
Net profit (RMB mn)	1,449	1,681	2,600	2,923	3,495
EPS (RMB)	0.66	0.74	1.13	1.28	1.53
YoY growth (%)	39.7	12.1	53.3	12.4	19.6
Consensus EPS (RMB)	NA	NA	1.12	1.28	1.48
PE (x)	39.9	35.6	23.2	20.7	17.3
PB (x)	6.8	6.1	4.7	4.3	3.8
Yield (%)	1.5	1.5	2.6	2.9	3.5
ROE (%)	16.4	17.0	20.4	20.7	22.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB 31.90
(Previous TP)	RMB 30.48)
Up/Downside	+21.0%
Current Price	RMB 26.35

China Technology Sector

Lily Yang
 (852) 3916 3716
 lilyyang@cmbi.com.hk

Alex Ng
 (852) 3900 0881
 alexng@cmbi.com.hk

Stock Data

Mkt. Cap. (RMB mn)	61,522
Avg. 3mths t/o (RMB mn)	771
52W High/Low (RMB)	30.46/21.20
Total Issued Shares (mn)	2,302.5

Source: Bloomberg

Shareholding Structure

Guangdong Guangxin Holdings	22.65%
Dongguan Guohong Invest.	14.94%
Weihua Electronics	14.17%

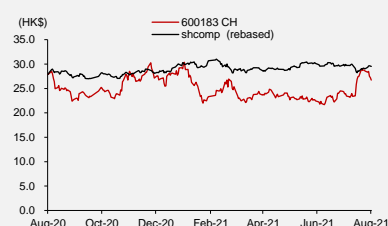
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	11.3%	12.1%
3-mth	16.3%	14.3%
6-mth	16.6%	20.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: GP CPAs

Please cast your valuable vote for CMBIS research team in the 2021 Asiamoney Brokers Poll:

<https://euromoney.com/brokers>

2Q21 Results Review

Figure 1: 2Q21 results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Revenue	3,072	3,807	3,811	3,997	4,505	5,326	18.2%	39.9%
Gross Profit	882	1,091	992	968	1,259	1,566	24.4%	43.6%
Operating Profit	432	602	575	482	675	1,009	49.4%	67.7%
Net profit	339	487	477	378	544	870	59.9%	78.9%
EPS (RMB)	0.15	0.21	0.21	0.16	0.24	0.38	58.3%	78.4%
Gross Margin	28.7%	28.6%	26.0%	24.2%	27.9%	29.4%	1.5 ppt	0.8 ppt
Operating Margin	14.0%	15.8%	15.1%	12.1%	15.0%	18.9%	3.9 ppt	3.1 ppt
Net Margin	11.0%	12.8%	12.5%	9.4%	12.1%	16.3%	4.3 ppt	3.6 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	19,740	22,234	26,039	18,976	22,591	25,237	4%	-2%	3%
Gross Profit	5,483	6,098	7,184	5,172	6,215	7,025	6%	-2%	2%
Operating Profit	3,200	3,597	4,276	2,915	3,539	4,065	10%	2%	5%
Net profit	2,600	2,923	3,437	2,327	2,826	3,246	12%	3%	6%
EPS (RMB)	1.13	1.28	1.50	1.02	1.23	1.42	12%	3%	6%
Gross Margin	27.8%	27.4%	27.6%	27.3%	27.5%	27.8%	0.5 ppt	-0.1 ppt	-0.2 ppt
Operating Margin	16.2%	16.2%	16.4%	15.4%	15.7%	16.1%	0.8 ppt	0.5 ppt	0.3 ppt
Net Margin	13.2%	13.1%	13.2%	12.3%	12.5%	12.9%	0.9 ppt	0.6 ppt	0.3 ppt

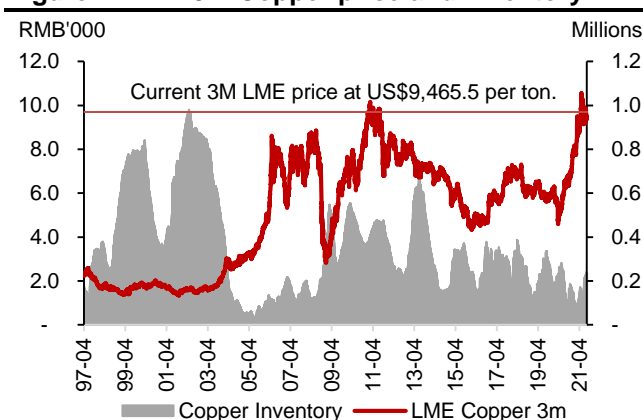
Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	19,740	22,234	26,039	19,510	22,444	25,454	1%	-1%	2%
Gross Profit	5,483	6,098	7,184	5,444	6,238	7,103	1%	-2%	1%
Operating Profit	3,200	3,597	4,276	3,222	3,702	4,374	-1%	-3%	-2%
Net profit	2,600	2,923	3,437	2,583	2,950	3,393	1%	-1%	1%
EPS (RMB)	1.13	1.28	1.50	1.12	1.28	1.48	1%	-1%	2%
Gross Margin	27.8%	27.4%	27.6%	27.9%	27.8%	27.9%	-0.1 ppt	-0.4 ppt	-0.3 ppt
Operating Margin	16.2%	16.2%	16.4%	16.5%	16.5%	17.2%	-0.3 ppt	-0.3 ppt	-0.8 ppt
Net Margin	13.2%	13.1%	13.2%	13.2%	13.1%	13.3%	-0.1 ppt	0 ppt	-0.1 ppt

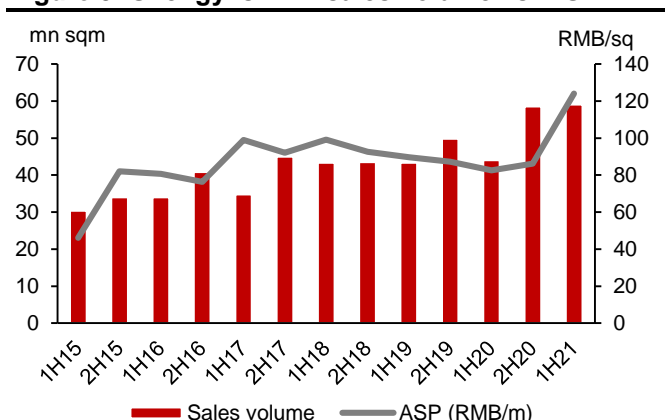
Source: Company data, CMBIS estimates

Figure 4: LME 3m Copper price and inventory



Source: Wind, CMBIS estimates

Figure 5: Shengyi's CCL sales volume vs. ASP



Source: Company data, CMBIS estimates

Figure 6: P&L forecasts

RMB mn	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,241	14,687	19,740	22,234	26,039
...YoY	11%	11%	34%	13%	17%
Cost of sales	(9,713)	(10,754)	(14,257)	(16,136)	(18,855)
Gross profit	3,528	3,933	5,483	6,098	7,184
GPM (%)	27%	27%	28%	27%	28%
...YoY	33%	11%	39%	11%	18%
SG&A	(932)	(899)	(1,138)	(1,237)	(1,422)
...% of rev	-7%	-6%	-6%	-6%	-5%
R&D	(605)	(711)	(888)	(956)	(1,120)
...% of rev	-5%	-5%	-5%	-4%	-4%
Operating profit	1,805	2,090	3,200	3,597	4,276
OPM (%)	14%	14%	16%	16%	16%
...YoY	47%	16%	53%	12%	19%
Net profit	1,449	1,681	2,600	2,923	3,437
NPM (%)	11%	11%	13%	13%	13%
...YoY	45%	16%	55%	12%	18%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new TP at RMB31.90 (21% upside)

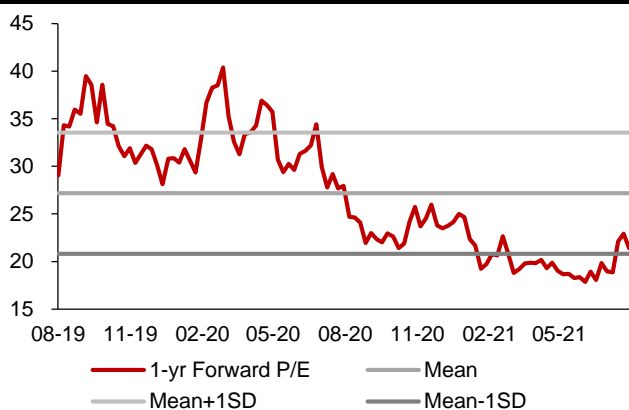
We maintain BUY rating with slightly adjusted TP of RMB31.90 based on lower 25x FY22E P/E. We believe the valuation is justified given that there is limited room for CCL ASP to increase and potential uncertainty in downstream demand due to material cost pressure. Trading at 23.2x/20.7x FY21/22E P/E, the stock remains attractive. Potential risks include less-than-expected transfer of material costs and less-than-expected market demand.

Figure 7: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY21E	P/E (x) FY22E	P/B (x) FY21E	P/B (x) FY22E	ROE (%) FY21E	ROE (%) FY22E
CCL												
Shengyi Tech	600183 CH	Buy	9,368	26.35	31.9	21%	23.2	20.7	4.8	4.2	20.4	20.7
Nanya	1303 TT	NR	24,467	85.90	NA	NA	10.4	12.9	1.7	1.7	17.4	13.3
ITEQ	6213 TT	NR	1,531	128.00	NA	NA	13.2	11.0	3.3	3.0	25.8	29.2
Kingboard	1888 HK	NR	5,780	14.42	NA	NA	7.1	7.2	2.6	2.3	38.2	32.8
Sumitomo	4203 JT	NR	2,194	4840.00	NA	NA	19.7	13.5	1.2	1.0	8.4	8.2
Rogers	ROG US	NR	3,771	201.32	NA	NA	27.4	24.0	3.3	2.9	12.0	12.0
Average							17.2	14.9	2.9	2.6	20.4	19.6
PCB												
Shengyi Tech	600183 CH	Buy	9,368	26.35	31.9	21%	23.2	20.7	4.8	4.2	20.4	20.7
Shennan Circuits	002916 CH	Hold	7,627	100.95	101.92	2%	36.6	29.7	5.9	5.2	16.2	17.4
WUS	002463 CH	NR	3,693	12.61	NA	NA	17.4	14.1	3.3	2.8	19.4	20.0
DSBJ	002384 CH	NR	5,328	20.18	NA	NA	18.1	14.3	2.4	2.1	13.4	14.7
Zhen Ding	4958 TT	NR	3,124	96.40	NA	NA	9.9	8.5	1.1	1.0	10.3	11.1
TTM	TTMI US	NR	1,518	14.08	NA	NA	11.0	9.4	1.0	0.9	8.5	8.5
UMTC	3037 TT	NR	7,377	136.50	NA	NA	22.2	16.3	3.7	3.3	16.8	20.5
Tripod	3044 TT	NR	2,095	111.00	NA	NA	9.2	8.3	1.5	1.4	16.7	16.8
Comped	2313 TT	NR	1,667	38.95	NA	NA	9.6	8.3	1.4	1.3	15.6	16.6
SEMCO	009150 KS	NR	11,498	179500.00	NA	NA	14.0	12.6	2.1	1.8	15.7	15.1
Average							16.6	13.6	2.6	2.3	15.7	16.6

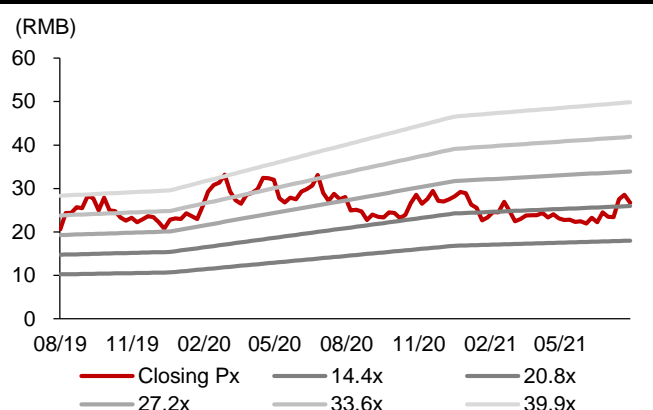
Source: Bloomberg, CMBIS estimates

Figure 8: 12M forward P/E chart



Source: Company data, CMBIS estimates

Figure 9: 12M forward P/E band



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,241	14,687	19,740	22,234	26,039
Cost of sales	9,713	10,754	14,257	16,136	18,855
Gross profit	3,528	3,933	5,483	6,098	7,184
Selling exp	288	179	230	259	303
Admin exp	644	720	908	978	1,120
R&D exp	605	711	888	956	1,120
Finance costs	142	114	144	173	199
Other operating exp.	44	119	113	135	167
Operating profit	1,805	2,090	3,200	3,597	4,276
Other non-oper exp.	0	(7)	-	-	0
Pre-tax profit	1,805	2,083	3,200	3,597	4,276
Income tax expense	242	283	434	488	580
Minority interests	115	120	166	187	259
Net profit to shareholders	1,449	1,681	2,600	2,923	3,437

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	1,563	1,800	2,766	3,109	3,696
Depreciation/amortization	409	531	465	541	630
Change in working capital	(479)	(832)	(1,287)	(277)	(1,003)
Others	198	258	(204)	173	199
Net cash from operating	1,692	1,758	1,739	3,547	3,522
Capex	(1,580)	(1,761)	(2,045)	(2,295)	(2,691)
Other	14	(72)	(2)	0	0
Net cash from investing	(1,566)	(1,833)	(2,047)	(2,295)	(2,691)
Share issuance	0	189	1,154	0	0
Dividend paid	(872)	(1,101)	(916)	(1,560)	(1,754)
Other	699	696	1,154	369	481
Net cash from financing	(173)	(215)	1,392	(1,191)	(1,272)
Net change in cash	(50)	(232)	1,084	61	(441)
Cash at beginning of the year	1,101	1,051	818	1,902	1,963
Exchange difference	(3)	58	0	0	0
Cash at the end of the year	1,051	818	1,902	1,963	1,522

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	8,712	9,716	12,940	13,369	15,095
Cash & equivalents	1,062	850	1,926	1,987	1,546
Account receivables	4,598	4,888	6,079	6,274	7,431
Inventory	2,100	2,519	3,421	3,594	4,604
Prepayment	11	20	33	33	33
Other current assets	941	1,439	1,481	1,481	1,481
Non-current assets	6,823	8,642	10,632	12,386	14,446
PPE	5,003	6,374	7,517	8,903	10,503
Deferred tax assets	76	120	157	157	157
Other non-current assets	1,744	2,148	2,959	3,327	3,787
Total assets	15,535	18,357	23,572	25,755	29,541
Current liabilities	5,257	6,804	8,231	8,985	10,682
ST borrowings	1,519	2,157	2,743	3,261	3,678
Account payables	2,656	2,903	3,679	3,770	4,935
Tax payable	116	125	161	161	161
Other current liabilities	965	1,619	1,647	1,792	1,907
Non-current liabilities	925	910	1,694	1,574	1,721
LT borrowings	732	605	968	1,151	1,298
Deferred tax liability	13	38	32	32	32
Other non-current	179	267	694	391	391
Total liabilities	6,181	7,714	9,925	10,558	12,402
Share capital	2,276	2,291	2,302	2,302	2,302
Reserve	2,505	2,795	3,938	3,938	3,938
Minority interest	520	754	920	1,107	1,365
Total equity	9,354	10,643	13,647	15,196	17,139
Total liabilities and equity	15,535	18,357	23,572	25,755	29,541

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix					
CCL	76	74	79	71	68
PCB	23	24	19	27	30
Others	1	2	2	2	2
Growth (%)					
Revenue	10.5	10.9	34.4	12.6	17.1
Gross profit	32.8	11.5	39.4	11.2	17.8
Operating profit	46.9	15.8	53.1	12.4	18.9
Net profit	39.7	12.1	53.3	12.4	17.6
Profit & loss ratio (%)					
Gross margin	26.6	26.8	27.8	27.4	27.6
Operating margin	13.6	14.2	16.2	16.2	16.4
Net profit margin	10.9	11.4	13.2	13.1	13.2
Balance sheet ratio					
Net debt/total equity (%)	12.7	18.0	13.1	16.0	20.0
Current ratio (x)	1.7	1.4	1.6	1.5	1.4
Receivable turnover days	116	118	101	101	96
Inventory turnover days	72	78	76	79	79
Payable turnover days	85	94	84	84	84
Profitability (%)					
ROE	16.4	17.0	20.4	20.7	21.8
ROA	9.3	9.2	11.0	11.3	11.6
Per share data (RMB)					
EPS	0.66	0.74	1.13	1.28	1.50
DPS	0.40	0.40	0.68	0.77	0.98
BPS	3.88	4.32	5.56	6.15	6.89

Source: Company data, CMBIS estimates

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.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

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

CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS 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.