

Willsemi (603501 CH)

The next chapter beyond mobile CIS is coming

Willsemi released 1H21 results last night, with revenue/NP growth of 55%/127% YoY, in line with previous announcement. 1H21 revenue/NP accounted for 43%/46% and 45%/48% of our/consensus FY21E estimates. The GPM improved to 33.7% from 29.9% in FY20 due to favorable product mix. Looking forward, we are **positive on the Company's expansion driven by high growth in non-mobile CIS segments and GPM improvement**. We reiterate **BUY** rating on Willsemi, an established player with diversified product portfolio, with unchanged TP of RMB 370.75.

- Solid growth in mobile CIS and greater-than-expected contribution from non-mobile CIS.** Although there are mixed views on smartphone camera spec, we believe mobile CIS will continue to deliver solid results on smartphone updates. Meanwhile, the Company's mgmt. emphasizes greater potentials beyond mobile market, which has stronger demand and higher GPM. We believe earnings contribution from non-mobile CIS will surpass mobile CIS in FY22E thanks to rapid growth in automobile, security, AR/VR and medical.
- Recent price increase from foundries due to semi shortage has limited impact on the Company.** First, Willsemi's capacity is well protected by the agreement with the foundries. Its two main wafer suppliers, SMIC and HLMC, will expand its capacity by next year, which will support production for the Company. Second, we believe semi shortage is a global event that affects all players. Backed by strong demand, we think the Company is able to transfer the cost pressure to clients and deliver higher GPM.
- Reiterate BUY rating with unchanged TP of RMB370.75.** We derive our TP of RMB370.75 by applying 50x FY22E P/E. We believe this valuation is justified given 1) its leading position in CIS market with global presence and 2) its integrated semiconductor platform with diversified product portfolio. We view recent correction as an attractive opportunity for investors to gain exposure to quality Chinese semi fables names that can ride strategic trends. Willsemi is currently trading 1-sd below historical P/E, which is very attractive.
- Potential risks** include 1) slower market growth, 2) intensified competition, 3) worse-than-expected semi shortage and 4) new disruptive technology.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	13,632	19,824	29,203	36,723	45,061
YoY growth (%)	-	45.4%	47.3%	25.7%	22.7%
Gross profit (RMB mn)	3,734	5,930	9,482	12,176	14,987
Gross profit margin %	27.4%	29.9%	32.5%	33.2%	33.3%
Net profit (RMB mn)	466	2,706	4,838	6,487	7,904
Net profit margin %	3.4%	13.7%	16.6%	17.7%	17.5%
EPS (RMB)	0.76	3.21	5.58	7.48	9.11
YoY growth (%)	-	322.4%	73.7%	34.1%	21.8%
Consensus EPS (RMB)	-	3.21	5.30	6.78	8.58
P/E (x)	339.9	80.5	46.3	34.5	28.4
P/B (x)	20.0	19.4	13.5	9.8	7.4
ROE (%)	5.9%	23.5%	28.5%	27.8%	25.4%
Net gearing (%)	23.5%	6.7%	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **RMB 370.75**
(Previous TP **RMB 370.75**)
Up/Downside **+44%**
Current Price **RMB 258.30**

China Technology Sector

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Stock Data

Mkt Cap (RMBmn)	224,354
Avg 3 mths t/o (RMBmn)	2,588
52w High/Low (RMB)	345/165.08
Total Issued Shares (mn)	868.6

Source: Bloomberg

Shareholding Structure

Yu Renrong	31.48%
SX Weihao Equity Invest. FD	9.31%
HKSCC	5.18%

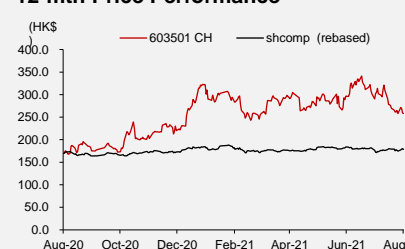
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-14.2%	-14.0%
3-mth	-12.2%	-11.2%
6-mth	-9.2%	-8.1%

Source: Bloomberg

12-mth Price Performance



Auditor: BDO

Recent report:

China CIS market: Beginning of multi-year growth cycle; Initiate BUY on Willsemi and GalaxyCore – 24 Aug 2021

1H21 Results Review

Figure 1: 1H21 results review

US\$mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	QoQ	YoY
Revenue	3,817	4,226	5,926	5,855	6,212	6,236	0.4%	47.6%
EBITDA	1,230	1,371	1,653	1,675	2,014	2,105	4.5%	53.5%
Operating profit	489	559	797	1,110	1,175	1,358	15.6%	142.8%
Net profit	445	545	736	980	1,041	1,203	15.6%	120.7%
EPS (RMB)	0.530	0.670	0.640	1.370	1.200	1.390	15.8%	107.5%
EBITDA Margin	32.2%	32.4%	27.9%	28.6%	32.4%	33.7%	1.3 ppt	1.3 ppt
Net Margin	12.8%	13.2%	13.5%	19.0%	18.9%	21.8%	2.9 ppt	8.5 ppt

Source: Bloomberg, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

US\$mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	29,203	36,723	45,061	27,633	34,821	42,117	6%	5%	7%
Gross Profit	9,482	12,176	14,987	8,953	11,354	13,979	6%	7%	7%
EBITDA	5,429	7,320	8,918	5,220	6,717	8,472	4%	9%	5%
Net profit	4,838	6,487	7,904	4,636	5,986	7,589	4%	8%	4%
EPS (RMB)	5.576	7.477	9.110	5.298	6.785	8.577	5%	10%	6%
Gross Margin	32.5%	33.2%	33.3%	32.4%	32.6%	33.2%	0.1 ppt	0.5 ppt	0.1 ppt
EBITDA Margin	18.6%	19.9%	19.8%	18.9%	19.3%	20.1%	-0.3 ppt	0.6 ppt	-0.3 ppt
Net Margin	16.6%	17.7%	17.5%	16.8%	17.2%	18.0%	-0.2 ppt	0.5 ppt	-0.5 ppt

Source: Bloomberg, CMBIS estimates

Figure 3: P&L forecast

RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	13,632	19,824	29,203	36,723	45,514
...YoY	-	45.4%	47.3%	25.7%	22.8%
Gross profit	3,734	5,930	9,482	12,176	15,059
GPM (%)	27.4%	29.9%	32.5%	33.2%	33.1%
SG&A	(1,132)	(1,147)	(1,501)	(1,856)	(2,185)
...% of rev	-8.3%	-5.8%	-5.1%	-5.1%	-4.8%
R&D	(1,282)	(1,727)	(2,190)	(2,754)	(3,414)
...% of rev	-9.4%	-8.7%	-7.5%	-7.5%	-7.5%
Operating profit	785	2,956	5,429	7,320	8,922
OPM (%)	5.8%	14.9%	18.6%	19.9%	19.6%
...YoY	-	276.5%	83.7%	34.8%	21.8%
Net profit	466	2,706	4,838	6,487	7,907
NPM (%)	3.4%	13.7%	16.6%	17.7%	17.4%
...YoY	-	481.2%	78.8%	34.1%	21.8%

Source: Company data, CMBIS estimates

Valuation

Reiterate BUY with unchanged TP of RMB370.75 (44% upside)

We reiterate BUY rating with TP of RMB370.75, as we think Willsemi is an established player with diversified product portfolio. We derive our TP by applying 50x FY22E P/E, 1 SD above the 2-year historical forward P/E. We believe this valuation is justified given 1) its leading position in CIS market with a global presence, 2) its integrated semiconductor platform with diversified product portfolio and 3) expected share gain due to business expansion and advances in technology.

We take the recent volatility as an attractive opportunity for investors to gain exposure to quality Chinese semi fabless names that can ride strategic trends. The stock is now trading at 34.5x 2022E P/E vs. 53.4x of its peers.

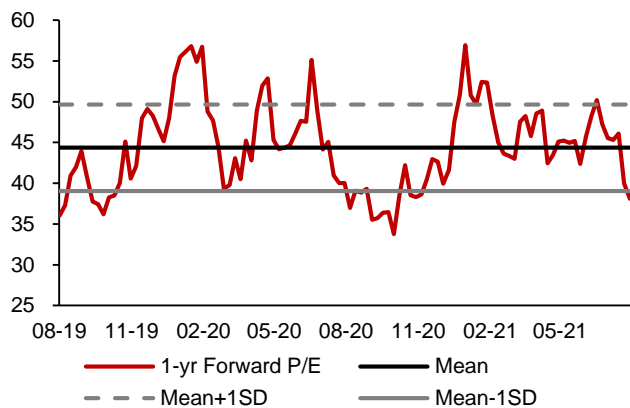
Potential risks include 1) less-than-expected market growth, 2) intensified competition, 3) worse-than-expected semi shortage and 4) new disruptive technology.

Figure 4: Peers valuation

Company	Ticker	Mkt Cap US\$(mn)	Price (LC)	P/E (x)		P/B (x)		ROE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Global CIS peers									
Willsemi	603501 CH	34,606	258.30	46.3	34.5	13.5	9.8	28.5	27.8
GalaxyCore	688728 CH	14,030	36.40	62.0	37.4	14.5	10.3	23.4	27.6
Sony	SONY US	129,523	102.71	12.3	17.2	2.7	2.3	23.4	16.6
Samsung	005930 KS	380,803	74,600.00	12.5	10.4	1.7	1.5	14.0	15.2
STMicroelectronics	STM FP	39,354	36.71	22.6	19.9	4.1	3.5	19.4	18.9
ON Semi	ON US	19,163	44.53	17.9	16.0	4.7	3.8	22.2	22.1
Peers Avg.				28.9	22.6	6.9	5.2	21.8	21.4
Peers Median				20.2	18.6	4.4	3.6	22.8	20.5
China fabless peers									
Willsemi	603501 CH	34,606	258.30	46.3	34.5	13.5	9.8	28.5	27.8
GalaxyCore	688728 CH	14,030	36.40	62.0	37.4	14.5	10.3	23.4	27.6
Gigadevice	603986 CH	17,215	168.00	72.7	54.5	9.0	7.9	12.7	15.0
Maxscend	300782 CH	21,135	410.78	63.1	46.9	24.8	16.7	46.6	39.6
Goodix	603160 CH	7,352	104.17	37.5	28.5	5.3	4.6	15.4	17.3
SG Miceo	300661 CH	11,324	312.76	162.0	118.5	39.3	31.0	24.7	26.0
Peers Avg.				73.9	53.4	17.7	13.4	25.2	25.5
Peers Median				62.6	42.1	14.0	10.1	24.0	26.8

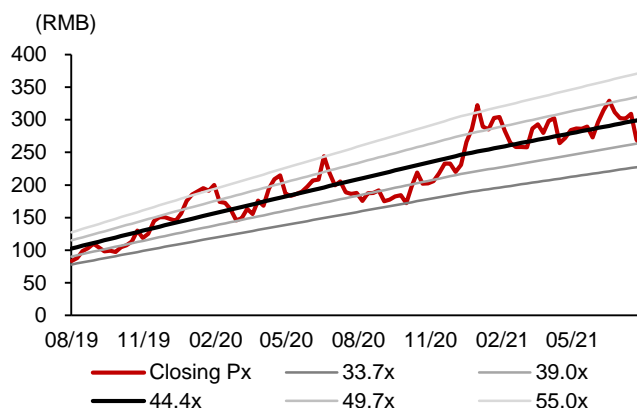
Source: Bloomberg and CMBIS, as of 26 Aug 2021.

Figure 5: 12M forward P/E chart



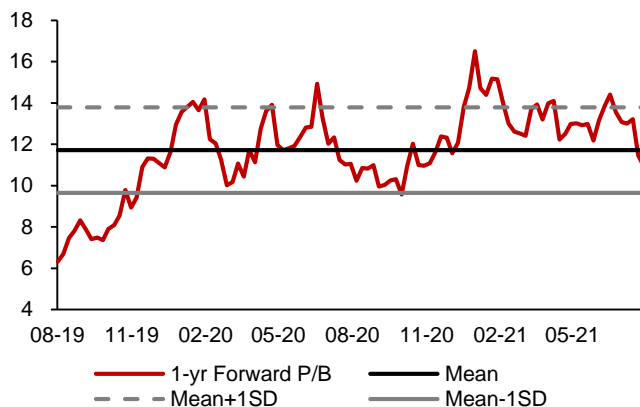
Source: Company data, CMBIS estimates

Figure 6: 12M forward P/E band



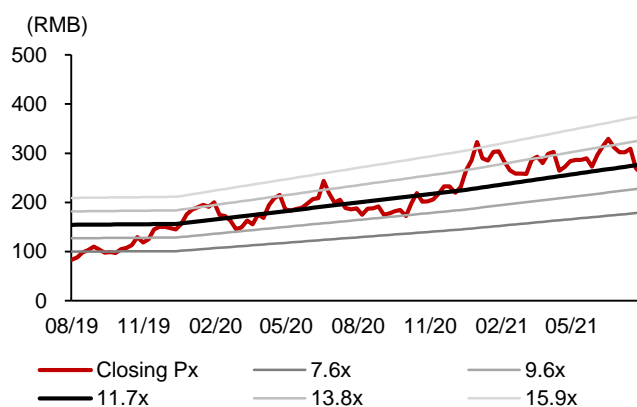
Source: Company data, CMBIS estimates

Figure 7: 12M forward P/B chart



Source: Company data, CMBIS estimates

Figure 8: 12M forward P/B band



Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	13,632	19,824	29,203	36,723	45,061	Pretax profit	705	2,683	4,912	6,620	8,065
COGS	-9,898	-13,894	-19,721	-24,547	-30,074	D&A	578	765	889	1,091	1,295
Gross Profit	3,734	5,930	9,482	12,176	14,987	Change in working capital	-1,037	-221	-2,371	-2,259	-813
SG&A	-1,132	-1,147	-1,501	-1,856	-2,163	Others	560	117	383	285	592
R&D exp.	-1,282	-1,727	-2,190	-2,754	-3,380	Net cash from operating	805	3,345	3,812	5,737	9,139
Financing exp.	-274	-275	-296	-245	-328	Capex	-743	-1,133	-1,444	-1,864	-2,401
Other opex	-260	176	-66	-0	-199	Purchase/sale of	-93	-373	-46	0	0
Operating profit	785	2,956	5,429	7,320	8,918	Purchase/sale of subs	-805	-1,163	-489	0	0
Non-operating income	6	44	35	44	55	Other	-87	38	383	318	339
Non-operating exp.	-6	-9	-7	-9	-11	Net cash from investing	-1,728	-2,631	-1,596	-1,546	-2,062
Pre-tax profit	784	2,991	5,457	7,355	8,961	Change in shares	380	683	577	500	679
Income tax expenses	-79	-308	-546	-736	-896	Change in debt	1,017	1,567	1,676	1,354	961
Net profit	705	2,683	4,912	6,620	8,065	Dividend/interests paid	-319	-413	-583	-1,074	-1,339
Non-controlling interests	240	-23	74	132	161	Other	41	-3	239	0	0
Net profit to shareholders	466	2,706	4,838	6,487	7,904	Net cash from financing	1,120	1,835	1,909	781	301
Adj. EBITDA	1,363	3,722	6,319	8,412	10,213	Net change in cash	198	2,548	4,125	4,971	7,377
						Cash, beginning	2,921	3,116	5,423	9,548	14,519
						Exchange difference	-2	-241	0	0	0
						Cash, end	3,116	5,423	9,548	14,519	21,896

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	10,881	13,913	21,788	28,138	39,040	Revenue by segment					
Cash & equivalents	3,161	5,456	9,574	14,546	21,923	CMOS	9,779	14,697	20,734	27,175	33,345
Trade & other receivables	2,577	2,583	3,505	4,196	5,186	TDDI	0	744	1,547	2,274	2,917
Inventories	4,366	5,274	7,979	8,525	10,968	Others	3,853	4,383	6,922	7,274	8,799
Other current assets	777	600	730	871	964	Total	13,632	19,824	29,203	36,723	45,061
						CMOS %	71.7%	74.1%	71.0%	74.0%	74.0%
Non-current assets	6,596	8,735	10,212	10,990	12,097	Growth (%)					
PPE	1,588	1,871	2,379	3,020	3,870	Revenue	40.5%	45.4%	47.3%	25.7%	22.7%
Intangibles	1,334	1,509	1,449	1,102	757	Adj. EBITDA	92.4%	173.1%	69.8%	33.1%	21.4%
Goodwill	2,249	2,800	3,050	3,050	3,050	Net profit	221.1%	481.2%	78.8%	34.1%	21.8%
Other non-current assets	1,425	2,556	3,334	3,818	4,421	Profit & loss ratio (%)					
Total assets	17,476	22,648	32,000	39,128	51,137	Gross margin	27.4%	29.9%	32.5%	33.2%	33.3%
Current liabilities	7,606	6,845	8,487	8,223	11,523	EBITDA margin	10.0%	18.8%	21.6%	22.9%	22.7%
ST debt & LT debt to	4,101	3,041	2,485	2,769	2,808	Net profit margin	3.4%	13.7%	16.6%	17.7%	17.5%
Trade & other payables	3,027	2,544	5,344	4,743	7,945	Balance sheet ratio					
Other current liabilities	478	1,260	658	711	769	Net debt/total equity (%)	23.5%	6.7%	net cash	net cash	net cash
Non-current liabilities	1,915	4,278	6,534	7,604	8,526	Debt/EBITDA	3.7	1.7	1.3	1.1	1.0
LT debt	928	3,182	3,232	4,303	5,224	Interest coverage	4.8	12.5	20.4	30.5	26.7
Bonds payables	0	0	2,181	2,181	2,181	Cash conversion cycle (days)	130.9	123.1	108.5	106.8	99.5
Other non-current liabilities	987	1,096	1,121	1,121	1,121	Profitability (%)					
Total liabilities	9,521	11,123	15,021	15,827	20,049	ROE	5.9%	23.5%	28.5%	27.8%	25.4%
Total equity	7,955	11,525	16,979	23,301	31,088	ROA	2.7%	11.9%	15.1%	16.6%	15.5%
Share capital	864	868	868	868	868	Per share data (RMB)					
Reserves	6,650	7,248	7,748	8,248	8,748	EPS	0.76	3.21	5.58	7.48	9.11
Retained earnings	1,002	3,895	7,976	13,016	19,173	BVPS	12.94	13.33	19.16	26.29	35.08
Other equities	-589	-772	28	677	1,646						
Minority interests	29	286	360	492	654						
Total liabilities and equity	17,476	22,648	32,000	39,128	51,137						

Source: Company data, CMBIS estimates

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