

Zhejiang Jingsheng (300316 CH)

Mega order intake to boost earnings in 2022E-23E; Raise earnings forecast and TP

Jingsheng announced last night that the Company won a contract of RMB6.08bn from Ningxia Zhonghuan (a subsidiary of **Zhonghuan [002129 CH, NR]**) to deliver automated crystal growing furnaces. We see this as a big positive to Jingsheng, given that the contract amount represents an addition of 53% on top of Jingsheng's backlog of RMB11.5bn (as at end-Jun 2021). The new contract reaffirms our confidence on the robust solar capex story. Given that Jingsheng will start the product delivery to Ningxia Zhonghuan in Nov 2021, we revise up our 2022E-23E earnings forecast by 17% for each year. We revise up our TP to RMB112. Reiterate **BUY** with conviction.

- Details of the contract.** On 31 Aug, Jingsheng signed a sales contract with Ningxia Zhonghuan. Jingsheng will deliver automated crystal growing furnace to Ningxia Zhonghuan. The contract value reaches RMB6.08bn (VAT-included). Product delivery will begin in Nov 2021 while the actual delivery schedule will be subject to Ningxia Zhonghuan's notice. Cash collection will be divided into five stages: (1) down-payment, (2) product delivery, (3) product acceptance, (4) testing, and (5) warranty.
- Jingsheng continues to be the major beneficiary of Zhonghuan's aggressive capex growth.** Zhonghuan has been Jingsheng's largest customer. According to Zhonghuan's latest share placement plan, Zhonghuan plans to raise a total of RMB9bn to finance the capex on 50GW of G12 mono-wafer capacity. Ningxia Zhonghuan will be the entity to execute the project. The construction lead time is expected to be 15 months. Therefore, we forecast the revenue contribution to Jingsheng will be in 2022E-23E.
- TP revised up.** We lift our TP to RMB112 from RMB77.5, as we roll over our valuation base to 2022E as the solid backlog offers good visibility to the earnings in 2022E-23E. Our new TP is based on 56x FY22E earnings on the back of 56% EPS CAGR in 2021E-23E (equivalent to 1x PEG).
- Risk: 1)** Weaker or slower-than-expected solar power capacity expansion; **2)** lower-than-expected gross margin; **3)** unsuccessful acquisition.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,110	3,811	7,008	11,868	14,761
YoY growth (%)	23	23	84	69	24
Net income (RMB mn)	637	858	1,484	2,598	3,238
EPS (RMB)	0.50	0.67	1.15	2.02	2.52
YoY growth (%)	(5)	35	73	75	25
Consensus EPS (RMB)	N/A	N/A	1.16	2.02	2.52
P/E (x)	156.5	116.3	67.3	38.4	30.8
P/B (x)	21.9	19.1	15.2	11.3	8.6
Yield (%)	0.1	0.2	0.3	0.5	0.6
ROE (%)	14.8	17.5	25.2	33.7	31.7
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	RMB112.00
(Previous TP)	RMB 77.50)
Up/Downside	+44%
Current Price	RMB 77.67

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Stock Data

Mkt Cap (RMB mn)	99,850
Avg 3 mths t/o (RMB mn)	968
52w High/Low (RMB)	79.74/24.70
Total Issued Shares (mn)	1,286

Source: Bloomberg

Shareholding Structure

Shaoxing Shangyu Jingsheng	
Invst. Mgmt. and Consulting	48.28%
QIU Minxiu	2.97%
CAO Jianwei	2.77%

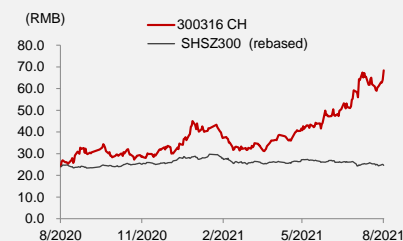
Source: Company data

Share Performance

	Absolute	Relative
1-mth	8.3%	12.5%
3-mth	54.0%	67.3%
6-mth	72.3%	92.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Pan-China CPA

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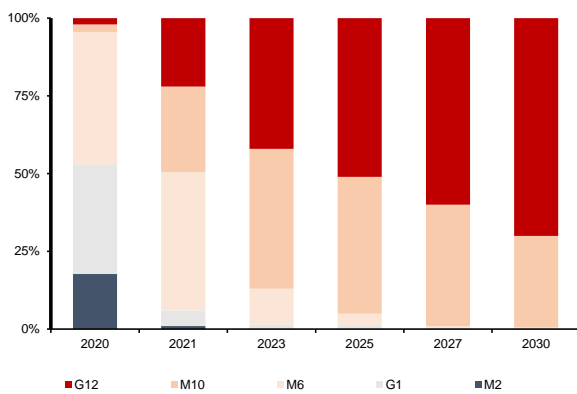
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Figure 1: Change in earnings forecast

(RMB mn)	New			Old			Diff		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,008	11,868	14,761	7,008	10,280	12,776	0%	15%	16%
Crystal growing eqpt.	5,115	9,207	11,508	5,115	7,672	9,590	0%	20%	20%
Intelligent processing eqpt.	1,075	1,667	2,084	1,075	1,613	2,017	0%	3%	3%
Sapphire products	272	339	407	272	339	407	0%	0%	0%
Eqpt. modification	137	164	197	137	164	197	0%	0%	0%
Others	409	491	565	409	491	565	0%	0%	0%
COGS	(4,487)	(7,498)	(9,311)	(4,487)	(6,531)	(8,101)	0%	15%	15%
Gross profit (mn)	2,520	4,370	5,450	2,520	3,749	4,674	0%	17%	17%
SG&A expenses	(280)	(451)	(531)	(280)	(391)	(460)	0%	15%	16%
R&D expenses	(420)	(712)	(886)	(420)	(617)	(767)	0%	15%	16%
Core operating profit	1,766	3,112	3,919	1,764	2,660	3,349	0%	17%	17%
Impairment losses	(162)	(220)	(287)	(159)	(197)	(252)	2%	12%	14%
Pre-tax profit	1,725	3,022	3,767	1,727	2,593	3,233	0%	17%	17%
Income tax	(243)	(426)	(531)	(244)	(366)	(456)	0%	17%	17%
Minority interest	3	2	2	3	2	2	0%	0%	0%
Net profit	1,484	2,598	3,238	1,486	2,230	2,779	0%	17%	17%
EPS (RMB)	1.15	2.02	2.52	1.16	1.73	2.16	0%	17%	17%
BVPS (RMB)	5.09	6.88	9.00	5.10	6.60	8.41	0%	4%	7%
ROE	25.2%	33.7%	31.7%	25.2%	29.7%	28.8%	0.0ppt	4.1ppt	2.9ppt

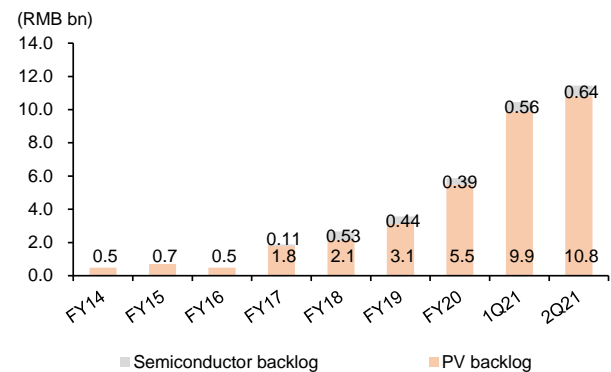
Source: Company data, CMBIS estimates

Figure 2: CPIA estimates large wafer (M10/G12) will account for 50% share in 2021, from 2.5% in 2020



Source: CPIA, CMBIS

Figure 3: Jingsheng's total backlog reached RMB11.5bn (including RMB644mn from semiconductor) as at end-Jun 2021



Source: Company data, CMBIS

Figure 4: Announced capacity expansion plans by major wafer makers in 1H21

Date of announcement	Company	Type	Capacity (GW)	Location	Commencement	Investment amount (RMB bn)	Capex/GW RMB mn
Jan-21	Gaojing Solar	Ingot pulling/wafer slicing	50	Wafer: Zhuhai, Guangdong; Ingot: Ningxia	Phase 1: 15GW (2021) Phase 2 & 3: 35GW (2023)	17.0	340
Feb-21	Zhonghuan	Ingot pulling/wafer slicing	50	Yinchuan, Ningxia	n/a	12.0	240
	JYT	Ingot pulling/wafer slicing	24	Leshan, Sichuan	Phase 1: 12GW	7.0	292
	Shangji	Ingot pulling/wafer slicing	10	Baotao, Inner Mongolia	2022	3.5	350
Mar-21	JA Solar	Ingot pulling/wafer slicing	20	Baotao, Inner Mongolia	2023	5.0	251
	Shuangliang	Ingot pulling/wafer slicing	20	Baotao, Inner Mongolia	n/a	7.0	350
Apr-21	Canadian Solar	Ingot pulling/wafer slicing	10	Xining, Qinghai	2022	3.0	300
	Total		184			54.5	296

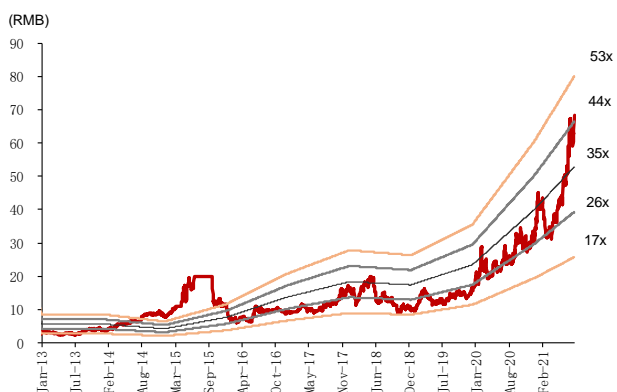
Source: Company data, news reports, CMBIS estimates

Figure 5: Capacity expansion by major wafer manufacturers

	2019	2020	2021E	2022E	2020	2021E	2022E
Wafer capacity (GW) (as at year end)					Additions		
LONGi	42	85	110	130	43	25	20
Zhonghuan	33	55	85	135	22	30	50
Jinko	15	26	33	35	11	8	2
JA Solar	8	18	32	40	10	14	8
JYT	2	7	17	32	5	10	15
Shangji Automation	2	13	30	35	11	17	5
Huantai (Meike)	3	3	15	15	0	12	0
Tongwei & Trina	0	0	8	15	0	8	8
Gaojing Solar	0	0	15	30	0	15	15
Solargiga	4	3	9	20	-0	5	12
Others	15	20	20	20	5	0	0
Total	124	230	373	507	106	143	134

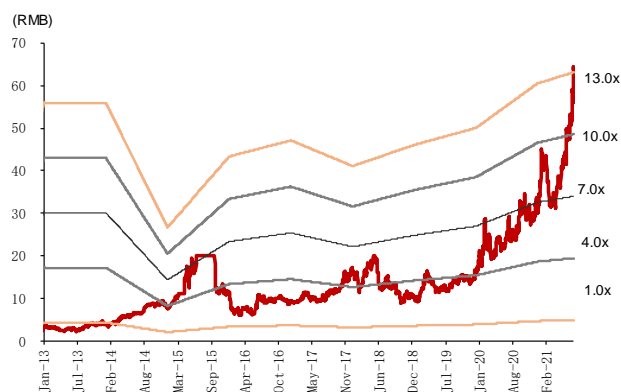
Source: Company data, news reports, CMBIS estimates

Figure 6: Jingsheng's forward P/E band



Source: Bloomberg, Company data, CMBIS estimates

Figure 7: Jingsheng's forward P/B band



Source: Bloomberg, Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,110	3,811	7,008	11,868	14,761
Crystal growing eqpt.	2,173	2,623	5,115	9,207	11,508
Intelligent processing eqpt.	504	552	1,075	1,667	2,084
Eqpt. modification	165	101	137	164	197
Sapphire products	66	194	272	339	407
Others	201	341	409	491	565
COGS	(2,004)	(2,416)	(4,487)	(7,498)	(9,311)
Gross profit	1,105	1,395	2,520	4,370	5,450
S&M expenses	(46)	(33)	(56)	(95)	(118)
G&A expenses	(126)	(136)	(224)	(356)	(413)
R&D expenses	(186)	(227)	(420)	(712)	(886)
Other opex	(15)	(39)	(54)	(94)	(114)
Core operating profit	733	959	1,766	3,112	3,919
Impairment losses	(97)	(137)	(162)	(220)	(287)
Other expenses and incomes	70	129	67	36	21
Pre-tax profit	721	992	1,725	3,022	3,767
Income tax	(97)	(140)	(243)	(426)	(531)
Minority interest	13	6	3	2	2
Net profit	637	858	1,484	2,598	3,238

Cash flow

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
PAT	624	852	1,481	2,596	3,236
D&A	114	136	137	153	172
Change in working capital	(47)	(124)	(370)	(1,375)	(1,902)
Others	88	90	(29)	(39)	(43)
Operating cash flow	779	954	1,218	1,336	1,463
CAPEX	(95)	(229)	(265)	(260)	(260)
Others	(441)	(54)	(88)	(84)	(82)
Investing cash flow	(536)	(283)	(353)	(344)	(342)
Proceeds from fund raising	1	18	-	-	-
Changes in borrowings	(45)	(44)	(10)	10	10
Dividends paid	(135)	(132)	(174)	(297)	(520)
Others	5	(209)	(2)	(2)	(2)
Financing cash flow	(174)	(366)	(185)	(289)	(512)
Net change in cash	69	305	680	703	609
Cash at the beginning	473	542	847	1,528	2,231
Forex change, net	(0)	0	-	-	-
Less: restricted cash	37	88	-	-	-
Cash at the end	542	847	1,528	2,231	2,840

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	5,675	7,962	12,956	19,364	24,845
Cash and restricted cash	582	938	1,619	2,322	2,931
Trade receivables	2,865	3,713	6,657	10,088	12,990
Inventories	1,389	2,580	3,949	6,224	8,194
Other current assets	839	731	731	731	731
Non-current assets	2,187	2,536	2,783	3,014	3,229
Long-term equity investment	503	824	943	1,067	1,194
Fixed assets	1,147	1,135	1,244	1,348	1,431
Other non-current assets	537	577	596	598	604
Total assets	7,863	10,498	15,738	22,378	28,074
Current liabilities	3,085	5,201	9,137	13,474	16,451
ST borrowings	42	22	15	22	29
Trade payables	1,869	2,775	5,160	8,623	10,708
Contract liabilities	1,007	2,003	3,560	4,428	5,314
Other current liabilities	167	401	401	401	401
Non-current liabilities	61	46	43	46	49
LT borrowings	36	11	8	11	14
Other non-current liabilities	25	35	35	35	35
Total liabilities	3,146	5,247	9,179	13,520	16,500
Share capital	1,284	1,286	1,286	1,286	1,286
Reserves	1,448	1,528	1,528	1,528	1,528
Retained earnings	1,819	2,426	3,737	6,038	8,755
Shareholders' fund	4,551	5,240	6,551	8,851	11,569
Minority interest	165	12	9	7	5
Total equity	4,716	5,251	6,559	8,858	11,574

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix (%)					
Crystal growing eqpt.	70	69	73	78	78
Intelligent processing eqpt.	16	14	15	14	14
Eqpt. modification	5	3	2	1	1
Sapphire products	2	5	4	3	3
Others	6	9	6	4	4
YoY growth (%)					
Revenue	23	23	84	69	24
Gross profit	10	26	81	73	25
Net profit	9	35	73	75	25
Operating efficiency					
Gross margin	35.5	36.6	36.0	36.8	36.9
Core operating margin	23.6	25.2	25.2	26.2	26.6
Net profit margin	20.5	22.5	21.2	21.9	21.9
B/S ratios (%)					
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
Receivable turnover days	261	303	263	257	285
Inventory turnover days	167	190	170	156	178
Payable turnover days	282	351	323	335	379
Profitability (%)					
ROE	14.8	17.5	25.2	33.7	31.7
ROA	9.0	9.3	11.3	13.6	12.8
Per share data (RMB)					
EPS	0.50	0.67	1.15	2.02	2.52
DPS	0.10	0.14	0.23	0.40	0.50
BVPS	3.54	4.08	5.09	6.88	9.00

Source: Company data, CMBIS estimates

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