

# Hikvision (002415 CH)

## Resilient 3Q21 with high inventory buffer

Hikvision reported in-line FY3Q21 with revenue/ operating profit growth of +22%/24% YoY respectively. Innovative business growth remained strong at +53% YoY with revenue contribution reaching 17%. Although power cut impact is limited as Hikvision has high inventory on hand (FY3Q21 inventory +26% QoQ), weakening macro environment could weigh on FY22E growth outlook. Maintain BUY with lowered target price of RMB76.25 (prior RMB79.62).

- Resilient FY3Q21.** Hikvision reported in-line FY3Q21. Revenue was at RMB21.7bn (+22% YoY) and net profit was at RMB4.5bn (+18% YoY). Excluding the time-lag of tax credit impact (recorded earlier in 2Q this year), operating profit grew at +24% YoY on higher GPM (+1.5 pct pts YoY to 46.4%).
- Demand: Innovative business remained strong, property sector weakness to be reflected in FY2H22.** Hikvision products cover 70 industries now as camera applications expanded by embedding AI/ sensor technology. Innovative businesses (smart home products/ robotics/ industrial cameras, etc.) continued to gain shape with revenue growth of +53% YoY to RMB3.7bn in FY3Q21, contributing 17% of revenue. Regarding weakening macro environment, as it is turning more difficult to acquire new land and newly started construction area has been declining in China, EBG business could be negatively affected in FY2H22.
- Supply: Record-high inventory level to minimize power cut risk.** As we [flagged](#) before, there is no direct impact from power cut to Hikvision production plants although some upstream component suppliers were being affected. Hikvision maintained a high-inventory level strategy and expanded the supplier list to minimize the potential risk. In FY3Q21, Hikvision inventory level came to a record high of RMB19.1bn (+71% YoY, +26% QoQ). Inventory as % of sales was at 0.88, still lower than the level in 1Q20 at 1.32 (Hikvision being added to entity list in Oct 2019).
- Maintain BUY.** We cut FY21-23E net profit by 2-5% to reflect lower sales (macro to affect SMBG business) and lower margin on higher logistics cost and R&D. Maintain BUY with new target price of RMB76.25 (prior RMB79.62), based on unchanged 36x FY22 P/E. Key downside risks include raw material shortage that could last for longer time, higher logistic cost and weaker than expected demand.

### Earnings Summary

| (YE 31 Dec)         | FY19     | FY20     | FY21E    | FY22E    | FY23E    |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn)    | 57,658   | 63,503   | 80,796   | 94,686   | 108,649  |
| YoY growth (%)      | 16%      | 10%      | 27%      | 17%      | 15%      |
| Net profit (RMB mn) | 12,415   | 13,386   | 16,454   | 19,775   | 22,833   |
| EPS (RMB)           | 1.33     | 1.43     | 1.76     | 2.12     | 2.45     |
| YoY growth (%)      | 8%       | 8%       | 23%      | 20%      | 15%      |
| Consensus EPS (RMB) | 1.33     | 1.43     | 1.81     | 2.26     | 2.70     |
| PE (x)              | 41.7     | 38.7     | 31.5     | 26.2     | 22.7     |
| PB (x)              | 11.5     | 9.6      | 8.2      | 8.0      | 7.9      |
| Dividend Yield (%)  | 0.01     | 0.01     | 0.03     | 0.04     | 0.04     |
| ROE (%)             | 30%      | 27%      | 28%      | 31%      | 35%      |
| Net debt to equity  | net cash | net cash | net cash | net cash | net cash |

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

|               |           |
|---------------|-----------|
| Target Price  | RMB76.25  |
| (Previous TP) | RMB79.62) |
| Up/Downside   | +37.5%    |
| Current Price | RMB55.44  |

### China Software & IT Services

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#### Stock Data

|                          |              |
|--------------------------|--------------|
| Mkt Cap (RMB mn)         | 517,577      |
| Avg 3 mths t/o (RMB mn)  | 2,165.40     |
| 52w High/Low (RMB)       | 70.48/ 38.92 |
| Total Issued Shares (mn) | 9,336        |

Source: Bloomberg

#### Shareholding Structure

|                         |       |
|-------------------------|-------|
| CETC                    | 38.9% |
| Kung Hong Ka - Chairman | 10.3% |

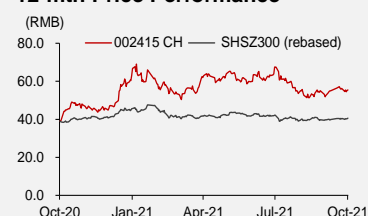
Source: Bloomberg

#### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 0.3%     | -1.2%    |
| 3-mth | -18.1%   | -14.5%   |
| 6-mth | -10.9%   | -7.8%    |

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

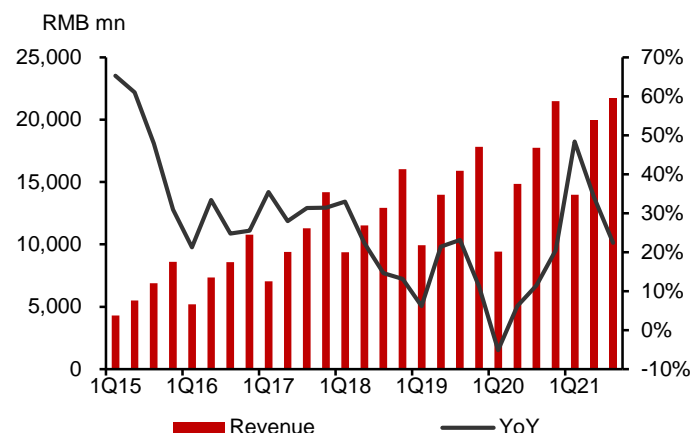
#### Auditor: Deloitte

#### Related Reports

- China AI surveillance – Gov't projects picking up, power cuts impact limited - 12 Oct 2021
- Hikvision (002415 CH) – Innovative business gaining momentum - 26 Jul 2021

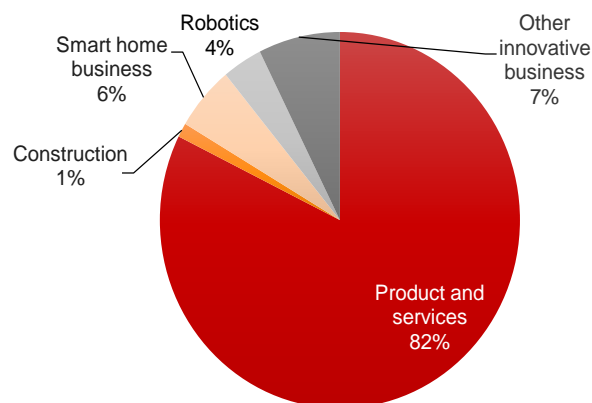
## Focus Charts

**Figure 1: Quarterly revenue and YoY growth**



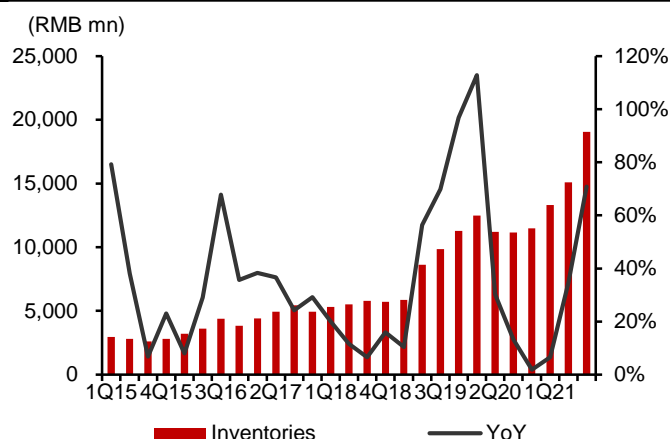
Source: Company data, CMBIS

**Figure 2: Revenue breakdown (1H21)**



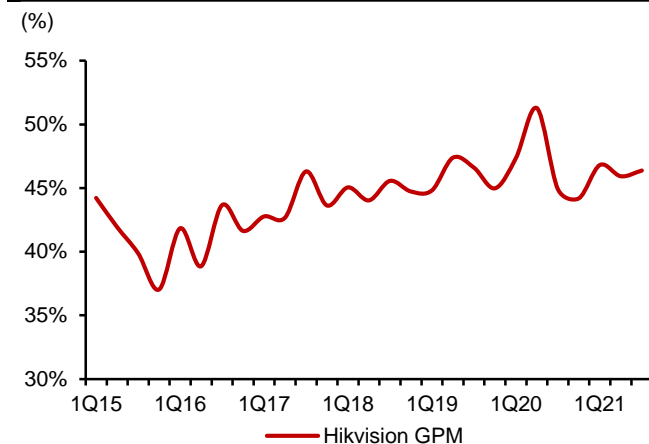
Source: Company data, CMBIS

**Figure 3: Quarterly inventory and YoY growth**



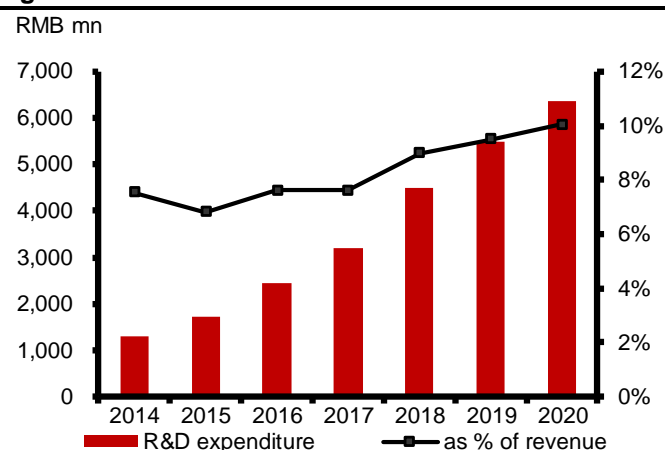
Source: Company data, CMBIS

**Figure 4: Gross margin trend**



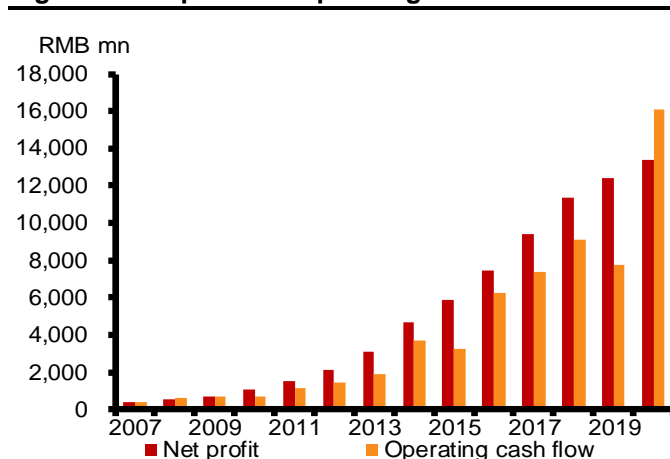
Source: Company data, CMBIS

**Figure 5: R&D**



Source: Company data

**Figure 6: Net profit vs. operating cash flow**



Source: Company data

## FY3Q21 results review

- **Revenue** was at RMB21,727mn (+22% YoY, +9% QoQ), in-line with our and consensus estimates.
- **Gross profit** was at RMB10,078mn (+26% YoY, +10% QoQ), beat our estimate by 2% and consensus by 5%.
- **Gross margin** was at 46.4%, (+1.5 pct pts YoY, +0.4 pct pts QoQ), beat our estimate by 0.6 pct pts and consensus by 1.9 pct pts.
- **Operating profit** was at RMB4,826mn (+24% YoY, +24% QoQ), beat our estimate by 4%.
- **Operating margin** was at 22.2% (+0.3 pct pts YoY, +2.6 pct pts QoQ), above our estimate by 0.7 pct pts.
- **Net profit** was at RMB4,484mn (+18% YoY, +4% QoQ), beat our estimate by 2% and consensus by 2%
- **EPS** was at RMB0.48 (+18% YoY, +4% QoQ), above our estimate by 2% and consensus by 10%.

Figure 7: FY3Q21 results review

|                             | Sep-20<br>3Q20 | Jun-21<br>2Q21 | Sep-21<br>3Q21 |             |             | Sep-21<br>3Q21 | versus      | Sep-21<br>3Q21 | versus      |
|-----------------------------|----------------|----------------|----------------|-------------|-------------|----------------|-------------|----------------|-------------|
| RMB mn                      | actual         | actual         | actual         | YoY         | QoQ         | CMBI           | CMBI        | consensus      | consensus   |
| Revenue                     | 17,750         | 19,914         | 21,727         | 22%         | 9%          | 21,519         | 1%          | 21,506         | 1%          |
| Gross profit                | 7,973          | 9,148          | 10,078         | 26%         | 10%         | 9,857          | 2%          | 9,556          | 5%          |
| Gross margin                | 44.9%          | 45.9%          | 46.4%          | 1.5 pct pts | 0.4 pct pts | 45.8%          | 0.6 pct pts | 44.4%          | 1.9 pct pts |
| Operating profit (adjusted) | 3,896          | 3,899          | 4,826          | 24%         | 24%         | 4,628          | 4%          | 4,190          | 15%         |
| Operating margin (adjusted) | 21.9%          | 19.6%          | 22.2%          | 0.3 pct pts | 2.6 pct pts | 21.5%          | 0.7 pct pts | 19.5%          | 2.7 pct pts |
| Net non-op                  | 211            | 474            | 604            |             |             | 866            |             | 1,109          |             |
| PBT                         | 4,107          | 4,372          | 5,430          | 32%         | 24%         | 5,494          | -1%         | 5,299          | 2%          |
| Tax                         | -197           | 48             | -788           |             |             | -989           |             | -915           |             |
| Minorities                  | -95            | -108           | -158           |             |             | -112           |             |                |             |
| Net income                  | 3,815          | 4,312          | 4,484          | 18%         | 4%          | 4,393          | 2%          | 4,384          | 2%          |
| EPS RMB                     | 0.41           | 0.46           | 0.48           | 18%         | 4%          | 0.47           | 2%          | 0.44           | 10%         |

Source: Company data, CMBIS

## Earnings revision

Figure 8: Hikvision earnings revision

| RMB mn         | 2021E  |        |         | 2022E  |        |         | 2023E   |         |          |
|----------------|--------|--------|---------|--------|--------|---------|---------|---------|----------|
|                | New    | Old    | %Diff   | New    | Old    | %Diff   | New     | Old     | %Diff    |
| Sales          | 80,796 | 80,448 | 0%      | 94,686 | 95,131 | -0%     | 108,649 | 108,819 | 0%       |
| Gross profit   | 37,354 | 37,033 | 1%      | 43,861 | 44,107 | -1%     | 50,844  | 50,899  | -0%      |
| OP Profit      | 16,833 | 17,119 | -2%     | 20,491 | 21,247 | -4%     | 24,361  | 25,060  | -3%      |
| PBT            | 18,867 | 19,421 | -3%     | 22,560 | 23,519 | -4%     | 26,354  | 27,687  | -5%      |
| Net profit     | 16,454 | 16,800 | -2%     | 19,775 | 20,647 | -4%     | 22,833  | 24,048  | -5%      |
| EPS            | 1.76   | 1.80   | -2%     | 2.12   | 2.21   | -4%     | 2.45    | 2.58    | -5%      |
| <b>Margins</b> |        |        |         |        |        |         |         |         |          |
| GM             | 46.2%  | 46.0%  | 20 bps  | 46.3%  | 46.4%  | -4 bps  | 46.8%   | 46.8%   | 2 bps    |
| OPM            | 20.8%  | 21.3%  | -45 bps | 21.6%  | 22.3%  | -69 bps | 22.4%   | 23.0%   | -61 bps  |
| PBT margin     | 23.4%  | 24.1%  | -79 bps | 23.8%  | 24.7%  | -90 bps | 24.3%   | 25.4%   | -119 bps |
| Net margin     | 20.4%  | 20.9%  | -52 bps | 20.9%  | 21.7%  | -82 bps | 21.0%   | 22.1%   | -108 bps |

Source: Company data, CMBIS

Figure 9: Hikvision CMBI estimates vs. consensus

| RMB mn         | 2021   |        |          | 2022   |        |          | 2023    |         |          |
|----------------|--------|--------|----------|--------|--------|----------|---------|---------|----------|
|                | CMBI   | Street | Diff     | CMBI   | Street | Diff     | CMBI    | Street  | Diff     |
| Sales          | 80,796 | 79,850 | 1%       | 94,686 | 95,640 | -1%      | 108,649 | 113,685 | -4%      |
| Gross profit   | 37,354 | 36,590 | 2%       | 43,861 | 44,035 | -0%      | 50,844  | 52,486  | -3%      |
| OP Profit      | 16,833 | 19,026 | -12%     | 20,491 | 23,434 | -13%     | 24,361  | 28,156  | -13%     |
| PBT            | 18,867 | 19,196 | -2%      | 22,560 | 23,688 | -5%      | 26,354  | 28,203  | -7%      |
| Net profit     | 16,454 | 16,789 | -2%      | 19,775 | 20,766 | -5%      | 22,833  | 24,768  | -8%      |
| EPS            | 1.76   | 1.80   | -2%      | 2.12   | 2.20   | -4%      | 2.45    | 2.62    | -7%      |
| <b>Margins</b> |        |        |          |        |        |          |         |         |          |
| GM             | 46.2%  | 45.8%  | 41 bps   | 46.3%  | 46.0%  | 28 bps   | 46.8%   | 46.2%   | 63 bps   |
| OPM            | 20.8%  | 23.8%  | -299 bps | 21.6%  | 24.5%  | -286 bps | 22.4%   | 24.8%   | -234 bps |
| PBT margin     | 23.4%  | 24.0%  | -69 bps  | 23.8%  | 24.8%  | -94 bps  | 24.3%   | 24.8%   | -55 bps  |
| Net margin     | 20.4%  | 21.0%  | -66 bps  | 20.9%  | 21.7%  | -83 bps  | 21.0%   | 21.8%   | -77 bps  |

Source: Company data, CMBIS, Bloomberg

## Operating model

Figure 10: Operating model

| RMB mn                        | 2019         | 2020         | 2021E        | 2022E        | 2023E        |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenues                      | 57,658       | 63,503       | 80,796       | 94,686       | 108,649      |
| Cost of sales                 | (31,140)     | (33,958)     | (43,441)     | (50,825)     | (57,805)     |
| Gross Profit                  | 26,518       | 29,546       | 37,354       | 43,861       | 50,844       |
| <i>Gross margin</i>           | <i>46.0%</i> | <i>46.5%</i> | <i>46.2%</i> | <i>46.3%</i> | <i>46.8%</i> |
| R&D                           | (5,484)      | (6,379)      | (8,756)      | (9,921)      | (11,345)     |
| SG&A                          | (9,079)      | (9,168)      | (11,160)     | (12,791)     | (14,360)     |
| Operating Income              | 11,538       | 13,583       | 16,833       | 20,491       | 24,361       |
| <i>Operating margin</i>       | <i>20.0%</i> | <i>21.4%</i> | <i>20.8%</i> | <i>21.6%</i> | <i>22.4%</i> |
| Non-Operating Income          | 2,218        | 1,690        | 2,034        | 2,069        | 1,992        |
| Profit Before Tax             | 13,755       | 15,273       | 18,867       | 22,560       | 26,354       |
| Income tax (expense) gain     | (1,290)      | (1,595)      | (1,800)      | (2,143)      | (2,635)      |
| Minorities                    | (51)         | (293)        | (613)        | (643)        | (885)        |
| Net Income to Shareholders    | 12,415       | 13,386       | 16,454       | 19,775       | 22,833       |
| <i>Net margin</i>             | <i>21.5%</i> | <i>21.1%</i> | <i>20.4%</i> | <i>20.9%</i> | <i>21.0%</i> |
| EPS (RMB)                     | 1.33         | 1.43         | 1.76         | 2.12         | 2.45         |
| DPS (RMB)                     | 0.60         | 0.70         | 1.60         | 1.97         | 2.36         |
| <b>Revenue breakdown</b>      |              |              |              |              |              |
| Core camera solution          | 52,130       | 55,721       | 66,335       | 74,235       | 83,143       |
| Construction                  | 1,091        | 1,614        | 1,670        | 1,837        | 2,021        |
| Smart home business           | 2,592        | 2,919        | 4,337        | 5,763        | 7,203        |
| Robotics                      | 814          | 1,359        | 2,825        | 4,359        | 5,666        |
| Other innovative business     | 1,030        | 1,891        | 5,628        | 8,493        | 10,616       |
| PBG                           | 15,586       | 16,304       |              |              |              |
| EBG                           | 12,591       | 15,180       |              |              |              |
| SMBG                          | 9,356        | 9,683        |              |              |              |
| Domestic                      | 41,420       | 45,807       |              |              |              |
| Export                        | 16,239       | 17,697       |              |              |              |
| <b>Gross margin breakdown</b> |              |              |              |              |              |
| Core camera solution          | 47.3%        | 48.4%        | 47.6%        | 48.0%        | 48.2%        |
| Construction                  | 22.7%        | 16.2%        | 24.7%        | 20.8%        | 21.7%        |
| Innovative business           | 36.7%        | 37.3%        | 41.5%        | 42.2%        | 44.0%        |
| Domestic                      | 46.0%        | 44.9%        |              |              |              |
| Export                        | 45.9%        | 50.7%        |              |              |              |
| <b>Growth YoY</b>             |              |              |              |              |              |
| Revenues                      | 16%          | 10%          | 27%          | 17%          | 15%          |
| Gross profit                  | 19%          | 11%          | 26%          | 17%          | 16%          |

Source: Company data, CMBIS

**Figure 11: Quarterly operating model**

| RMB mn              | 1Q20  | 2Q20   | 3Q20   | 4Q20   | 1Q21   | 2Q21   | 3Q21   | 4Q21E  |
|---------------------|-------|--------|--------|--------|--------|--------|--------|--------|
| Revenues            | 9,429 | 14,842 | 17,750 | 21,482 | 13,988 | 19,914 | 21,727 | 25,166 |
| Gross Profit        | 4,466 | 7,612  | 7,973  | 9,495  | 6,549  | 9,148  | 10,078 | 11,579 |
| Operating profit    | 1,472 | 3,088  | 3,896  | 5,126  | 2,569  | 3,899  | 4,826  | 5,539  |
| Net profit (loss)   | 1,496 | 3,128  | 3,815  | 4,947  | 2,169  | 4,312  | 4,484  | 5,488  |
| EPS (RMB)           | 0.16  | 0.33   | 0.41   | 0.53   | 0.23   | 0.46   | 0.48   | 0.59   |
| <b>Margins</b>      |       |        |        |        |        |        |        |        |
| Gross margin        | 47.4% | 51.3%  | 44.9%  | 44.2%  | 46.8%  | 45.9%  | 46.4%  | 46.0%  |
| Operating margin    | 15.6% | 20.8%  | 21.9%  | 23.9%  | 18.4%  | 19.6%  | 22.2%  | 22.0%  |
| Net margin          | 15.9% | 21.1%  | 21.5%  | 23.0%  | 15.5%  | 21.7%  | 20.6%  | 21.8%  |
| <b>Growth (QoQ)</b> |       |        |        |        |        |        |        |        |
| Revenues            | -47%  | 57%    | 20%    | 21%    | -35%   | 42%    | 9%     | 16%    |
| Gross Profit        | -44%  | 70%    | 5%     | 19%    | -31%   | 40%    | 10%    | 15%    |
| Operating profit    | -60%  | 110%   | 26%    | 32%    | -50%   | 52%    | 24%    | 15%    |
| Net profit (loss)   | -66%  | 109%   | 22%    | 30%    | -56%   | 99%    | 4%     | 22%    |
| <b>Growth (YoY)</b> |       |        |        |        |        |        |        |        |
| Revenues            | -5%   | 6%     | 12%    | 21%    | 48%    | 34%    | 22%    | 17%    |
| Gross Profit        | 0%    | 15%    | 7%     | 18%    | 47%    | 20%    | 26%    | 22%    |
| Operating profit    | -11%  | 10%    | 13%    | 41%    | 74%    | 26%    | 24%    | 8%     |
| Net profit (loss)   | -3%   | 17%    | 0%     | 13%    | 45%    | 38%    | 18%    | 11%    |

Source: Company data, CMBIS

## Valuation

### Hikvision (002415 CH, BUY, TP RMB76.25)

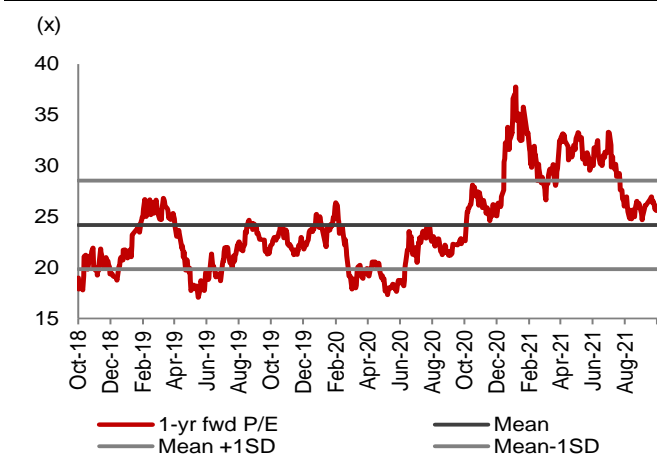
We cut target price to RMB76.25 (prior RMB79.62), based on unchanged 36x FY22 P/E, 50% above its 3-year mean. We believe Hikvision deserves re-rating as supply chain risk is mitigated after two years of product re-design, new growth drivers (AI) in enterprise segment is emerging and gross margin continues to expand. Also, Hikvision announced plan to spin-off its smart home business (Ezviz Network) on STAR board. We believe the spin-off could provide new financing channel to support IoT/ AI R&D.

Figure 12: Peers' valuation

| Company         | Ticker    | Rating | Mkt Cap (US\$ mn) | Price (LC) | TP (LC)       | P/E         |             | ROE         |             | Sales CAGR FY20-23 | EPS CAGR FY20-23 |
|-----------------|-----------|--------|-------------------|------------|---------------|-------------|-------------|-------------|-------------|--------------------|------------------|
|                 |           |        |                   |            |               | FY21E       | FY22E       | FY21E       | FY22E       |                    |                  |
| Hikvision       | 002415 CH | BUY    | 81,042            | 55.44      | 76.25         | 31.5        | 26.2        | 28.2        | 31.0        | 20%                | 19%              |
| Dahua           | 002236 CH | HOLD   | 10,605            | 22.61      | 24.37         | 15.8        | 13.1        | 19.1        | 19.3        | 19%                | 16%              |
| China Transinfo | 002373 CH | NR     | 3,473             | 14.03      | N/A           | 17.4        | 14.1        | 9.7         | 10.9        | 16%                | 18%              |
| iFlytek         | 002230 CH | NR     | 19,358            | 53.74      | N/A           | 69.6        | 52.8        | 12.0        | 14.2        | 33%                | 34%              |
| Cambricon Tech  | 688256 CH | NR     | 4,747             | 75.78      | N/A           | N/A         | N/A         | -13.3       | -17.0       | 30%                | 2%               |
|                 |           |        |                   |            | <b>Mean</b>   | <b>33.4</b> | <b>26.2</b> | <b>11.1</b> | <b>11.3</b> | <b>24%</b>         | <b>18%</b>       |
|                 |           |        |                   |            | <b>Median</b> | <b>24.1</b> | <b>19.4</b> | <b>12.0</b> | <b>14.2</b> | <b>22%</b>         | <b>18%</b>       |

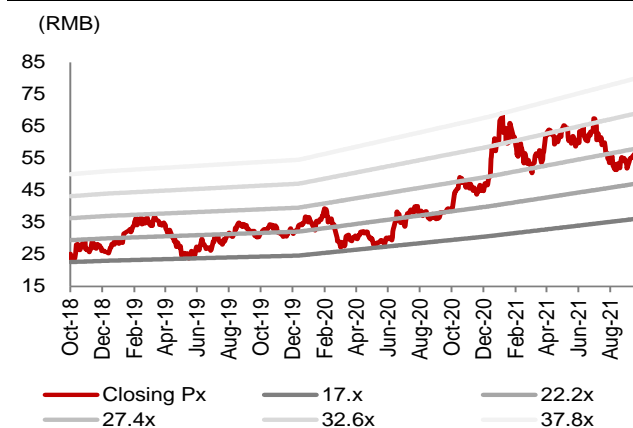
Source: Bloomberg, CMBIS

Figure 13: Hikvision 12M forward P/E chart



Source: Bloomberg, CMBIS

Figure 14: Hikvision 12M forward P/E band



Source: Bloomberg, CMBIS

## Financial Summary

### Income statement

| YE 31 Dec (RMB mn)       | FY19          | FY20          | FY21E         | FY22E         | FY23E          |
|--------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>Revenue</b>           | <b>57,658</b> | <b>63,503</b> | <b>80,796</b> | <b>94,686</b> | <b>108,649</b> |
| Cost of sales            | (31,140)      | (33,958)      | (43,441)      | (50,825)      | (57,805)       |
| <b>Gross profit</b>      | <b>26,518</b> | <b>29,546</b> | <b>37,354</b> | <b>43,861</b> | <b>50,844</b>  |
| Selling exp              | (7,257)       | (7,378)       | (9,075)       | (10,341)      | (11,552)       |
| Admin exp                | (1,822)       | (1,790)       | (2,085)       | (2,450)       | (2,809)        |
| R&D exp                  | (5,484)       | (6,379)       | (8,756)       | (9,921)       | (11,345)       |
| Other operating exp.     | (417)         | (416)         | (605)         | (658)         | (777)          |
| <b>Operating profit</b>  | <b>11,538</b> | <b>13,583</b> | <b>16,833</b> | <b>20,491</b> | <b>24,361</b>  |
| Finance costs            | 640           | (396)         | 225           | 257           | 269            |
| Other non-oper exp.      | 1,578         | 2,086         | 1,809         | 1,812         | 1,723          |
| <b>Pre-tax profit</b>    | <b>13,755</b> | <b>15,273</b> | <b>18,867</b> | <b>22,560</b> | <b>26,354</b>  |
| Income tax expense       | (1,290)       | (1,595)       | (1,800)       | (2,143)       | (2,635)        |
| Minority interests       | (51)          | (293)         | (613)         | (643)         | (885)          |
| <b>Net profit to S/H</b> | <b>12,415</b> | <b>13,386</b> | <b>16,454</b> | <b>19,775</b> | <b>22,833</b>  |

### Cash flow summary

| YE 31 Dec (RMB mn)                 | FY19           | FY20           | FY21E          | FY22E           | FY23E           |
|------------------------------------|----------------|----------------|----------------|-----------------|-----------------|
| <b>Net profit</b>                  | <b>12,415</b>  | <b>13,386</b>  | <b>16,454</b>  | <b>19,775</b>   | <b>22,833</b>   |
| Depreciation/amortization          | 699            | 845            | 1,134          | 1,327           | 1,472           |
| Change in working capital          | (7,153)        | 597            | (12,917)       | (44)            | 9,799           |
| Others                             | 1,807          | 1,260          | 1,358          | 643             | 885             |
| <b>Net cash from operating</b>     | <b>7,768</b>   | <b>16,088</b>  | <b>6,029</b>   | <b>21,701</b>   | <b>34,988</b>   |
| Capex                              | (1,927)        | (2,004)        | (2,724)        | (2,361)         | (2,519)         |
| Other                              | 4              | (551)          | (177)          | 0               | 0               |
| <b>Net cash from investing</b>     | <b>(1,923)</b> | <b>(2,555)</b> | <b>(2,900)</b> | <b>(2,361)</b>  | <b>(2,519)</b>  |
| Net borrowings                     | 187            | 2,049          | 850            | 341             | (2,384)         |
| Dividend paid                      | (5,609)        | (6,542)        | (14,943)       | (18,369)        | (22,076)        |
| Other                              | (14)           | (189)          | 7,148          | (643)           | (885)           |
| <b>Net cash from financing</b>     | <b>(5,436)</b> | <b>(4,681)</b> | <b>(6,946)</b> | <b>(18,670)</b> | <b>(25,345)</b> |
| <b>Net change in cash</b>          | <b>408</b>     | <b>8,852</b>   | <b>(3,817)</b> | <b>669</b>      | <b>7,124</b>    |
| Cash at beginning of the year      | 26,552         | 27,072         | 35,460         | 31,547          | 32,216          |
| Exchange difference                | 111            | (464)          | (96)           | 0               | 0               |
| <b>Cash at the end of the year</b> | <b>27,072</b>  | <b>35,460</b>  | <b>31,547</b>  | <b>32,216</b>   | <b>39,341</b>   |

### Balance sheet

| YE 31 Dec (RMB mn)                  | FY19          | FY20          | FY21E         | FY22E          | FY23E          |
|-------------------------------------|---------------|---------------|---------------|----------------|----------------|
| <b>Current assets</b>               | <b>64,026</b> | <b>74,763</b> | <b>80,645</b> | <b>89,442</b>  | <b>103,648</b> |
| Cash & equivalents                  | 27,072        | 35,460        | 31,547        | 32,216         | 39,341         |
| Account receivables                 | 23,146        | 24,098        | 32,544        | 36,717         | 41,225         |
| Inventory                           | 11,268        | 11,478        | 12,411        | 15,820         | 17,491         |
| Other current assets                | 2,540         | 3,727         | 4,144         | 4,689          | 5,591          |
| <b>Non-current assets</b>           | <b>11,332</b> | <b>13,939</b> | <b>16,356</b> | <b>17,390</b>  | <b>18,437</b>  |
| PPE                                 | 6,423         | 7,301         | 8,783         | 9,817          | 10,864         |
| Intangible assets                   | 1,407         | 1,634         | 1,697         | 1,697          | 1,697          |
| Other non-current assets            | 3,502         | 5,003         | 5,876         | 5,876          | 5,876          |
| <b>Total assets</b>                 | <b>75,358</b> | <b>88,702</b> | <b>97,001</b> | <b>106,832</b> | <b>122,085</b> |
| <b>Current liabilities</b>          | <b>23,521</b> | <b>31,225</b> | <b>28,910</b> | <b>37,220</b>  | <b>52,237</b>  |
| ST borrowings                       | 2,726         | 7,507         | 8,298         | 8,524          | 6,661          |
| Account payables                    | 13,940        | 14,631        | 9,678         | 16,293         | 31,122         |
| Accrued expense                     | 5,941         | 6,173         | 8,274         | 8,583          | 9,636          |
| Other current liabilities           | 914           | 2,914         | 2,660         | 3,820          | 4,817          |
| <b>Non-current liabilities</b>      | <b>6,364</b>  | <b>2,997</b>  | <b>3,557</b>  | <b>3,672</b>   | <b>3,151</b>   |
| LT borrowings                       | 4,604         | 1,961         | 2,314         | 2,430          | 1,908          |
| Other non-current liabilities       | 1,760         | 1,036         | 1,243         | 1,243          | 1,243          |
| <b>Total liabilities</b>            | <b>29,885</b> | <b>34,222</b> | <b>32,467</b> | <b>40,892</b>  | <b>55,388</b>  |
| Share capital                       | 9,345         | 9,343         | 9,336         | 9,336          | 9,336          |
| Capital surplus                     | 4,127         | 5,179         | 5,337         | 5,337          | 5,337          |
| Retained earnings                   | 33,634        | 40,479        | 49,475        | 50,881         | 51,638         |
| Other reserves                      | (2,202)       | (1,207)       | (1,128)       | (1,128)        | (1,128)        |
| <b>Minority interest</b>            | <b>569</b>    | <b>685</b>    | <b>1,515</b>  | <b>1,515</b>   | <b>1,515</b>   |
| <b>Total equity</b>                 | <b>44,904</b> | <b>53,794</b> | <b>63,019</b> | <b>64,425</b>  | <b>65,182</b>  |
| <b>Total liabilities and equity</b> | <b>74,789</b> | <b>88,016</b> | <b>95,486</b> | <b>105,317</b> | <b>120,570</b> |

### Key ratios

| YE 31 Dec                          | FY19     | FY20     | FY21E    | FY22E    | FY23E    |
|------------------------------------|----------|----------|----------|----------|----------|
| <b>Revenue mix</b>                 |          |          |          |          |          |
| Core camera solution               | 90%      | 88%      | 82%      | 78%      | 77%      |
| Construction                       | 2%       | 3%       | 2%       | 2%       | 2%       |
| Smart home business                | 4%       | 5%       | 5%       | 6%       | 7%       |
| Robotics                           | 1%       | 2%       | 3%       | 5%       | 5%       |
| Other innovative business          | 2%       | 3%       | 7%       | 9%       | 10%      |
| <b>Growth (%)</b>                  |          |          |          |          |          |
| Revenue                            | 16%      | 10%      | 27%      | 17%      | 15%      |
| Operating profit                   | 13%      | 18%      | 24%      | 22%      | 19%      |
| EPS                                | 8%       | 8%       | 23%      | 20%      | 15%      |
| <b>Profit &amp; loss ratio (%)</b> |          |          |          |          |          |
| Gross margin                       | 46.0%    | 46.5%    | 46.2%    | 46.3%    | 46.8%    |
| Operating margin                   | 20.0%    | 21.4%    | 20.8%    | 21.6%    | 22.4%    |
| Net profit margin                  | 21.5%    | 21.1%    | 20.4%    | 20.9%    | 21.0%    |
| <b>Balance sheet ratio</b>         |          |          |          |          |          |
| Current ratio (x)                  | 2.72     | 2.39     | 2.79     | 2.40     | 1.98     |
| Receivable turnover days           | 137      | 136      | 128      | 133      | 131      |
| Inventory turnover days            | 54       | 65       | 54       | 54       | 56       |
| Payable turnover days              | 163      | 157      | 81       | 117      | 105      |
| Net debt to equity                 | net cash | net cash | net cash | net cash | net cash |
| <b>Profitability (%)</b>           |          |          |          |          |          |
| ROE                                | 30.1%    | 27.1%    | 28.2%    | 31.0%    | 35.2%    |
| ROIC                               | 45.1%    | 42.7%    | 41.0%    | 40.9%    | 52.8%    |
| <b>Per share data (RMB)</b>        |          |          |          |          |          |
| EPS (RMB)                          | 1.33     | 1.43     | 1.76     | 2.12     | 2.45     |
| DPS (RMB)                          | 0.60     | 0.70     | 1.60     | 1.97     | 2.36     |
| BVPS (RMB)                         | 4.81     | 5.76     | 6.75     | 6.90     | 6.98     |

Source: Company data, CMBIS estimates



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