

# Shengyi Technology (600183 CH)

## Solid 3Q21; Cost pressure ahead

Shengyi Tech released 3Q21 results with revenue of RMB5.5bn (45.5% YoY) and net profit of RMB925mn (93.9% YoY), largely in-line with its preannounced earnings earlier. We believe Shengyi's solid results confirmed the strong demand for both CCL (56.6% YoY) and PCB (26.8% QoQ). However, 3Q gross margin was down vs 1H21, suggesting difficulty in further transferring the material cost pressure to downstream clients. We revised up FY21-22E EPS by 6-16% but slightly adjusted TP to RMB30.50 with lower target multiple (22.5x vs. previous 25x FY22E P/E). **Maintain BUY.**

- Positive outlook for FY21E-22E CCL sales supported by strong demand; cost pressure may challenge GPM ahead.** Due to pent-up demand for CCL from several end markets (auto, consumer, etc.), Shengyi reported strong sales during 9M21. Revenue grew at 59.8% YoY, however, GPM reduced to ~26% in 3Q21 (vs. 29.3% in 1H21). The results are largely in line with our previous view of "another strong quarter in Q3" but uncertainty is rising given "limited room for CCL suppliers to increase ASP" ([Link](#)). We think the Company had less ASP adjustment in Q3 although material cost continued to rise (LME 3M copper price rebounded to US\$10k/ton last week). Looking forward, we believe momentum for CCL will continue on strong demand. However, short-term uncertainty still exists, such as cost pressure and further power shortage.
- PCB segment started to recover with improved GPM.** We saw its PCB segment recovered in 3Q21, with 26.8% QoQ revenue growth. Major reasons include 1) 5G deployment resumed in 3Q21 and 2) contribution from new capacity in Ji'an factory (37k sq m/month). PCB GPM has also increased to 21.3% (vs. 16.0% in Q2) but still negatively affected by high material price pressure, compared to GPM of 29.6% in 3Q20. We believe PCB business will continue to recover but high cost pressure will remain as an overhang.
- Maintain BUY and slightly adjusted TP to RMB30.50.** Our new TP of RMB30.50 is based on lowered 22.5x FY22 P/E (vs previous 25x due to limited CCL ASP upside). Although GPM may face continuous challenge, we saw net margin was steadily improving. Trading at 16.6x FY22E 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	20,758	23,379	26,276
YoY growth (%)	10.5%	10.9%	41.3%	12.6%	12.4%
Gross margin (%)	26.6%	26.8%	27.5%	26.9%	26.4%
Net profit (RMB mn)	1,449	1,681	3,038	3,175	3,525
EPS (RMB)	0.66	0.74	1.31	1.35	1.50
YoY growth (%)	40.4%	12.1%	77.3%	3.1%	11.0%
Consensus EPS (RMB)	NA	NA	1.21	1.35	1.56
PE (x)	34.0	30.3	17.1	16.6	14.9
PB (x)	5.8	5.2	3.9	3.4	3.0
Yield (%)	1.8%	1.8%	3.5%	3.6%	4.0%
ROE (%)	16.4%	17.0%	22.6%	20.7%	20.2%

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **RMB 30.50**  
 (Previous TP **RMB 31.90**)  
 Up/Downside **+36.1%**  
 Current Price **RMB 22.41**

### China Technology Sector

**Lily Yang, Ph.D.**

(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%

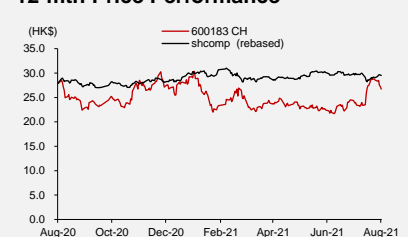
Source: Bloomberg

### 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**

### Recent Reports:

- CCL upcycle to continue; Maintain BUY – 17 Aug 2021 ([Link](#))
- Positive outlook for PCB/CCL sector amid cost pressure – 31 May 2021 ([Link](#))

## 3Q21 Results Review

Figure 1: 3Q21 results review

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ	YoY
Revenue	3,072	3,807	3,811	3,997	4,505	5,326	5,547	4.1%	45.5%
Gross Profit	882	1,091	992	968	1,259	1,566	1,454	-7.2%	46.5%
Operating Profit	432	602	575	482	675	1,009	1,111	10.1%	93.3%
Net profit	339	487	477	378	544	870	925	6.3%	93.9%
EPS (RMB)	0.15	0.21	0.21	0.16	0.24	0.38	0.40	5.3%	92.0%
Gross Margin	28.7%	28.6%	26.0%	24.2%	27.9%	29.4%	26.2%	-3.2 ppt	0.2 ppt
Operating Margin	14.0%	15.8%	15.1%	12.1%	15.0%	18.9%	20.0%	1.1 ppt	5.0 ppt
Net Margin	11.0%	12.8%	12.5%	9.4%	12.1%	16.3%	16.7%	0.3 ppt	4.2 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	20,758	23,379	26,276	19,740	22,234	26,039	5%	5%	1%
Gross Profit	5,714	6,284	6,940	5,483	6,098	7,184	4%	3%	-3%
Operating Profit	3,613	3,776	4,193	3,200	3,597	4,276	13%	5%	-2%
Net profit	3,038	3,175	3,525	2,600	2,923	3,437	17%	9%	3%
EPS (RMB)	1.31	1.35	1.50	1.13	1.28	1.50	16%	6%	0%
Gross Margin	27.5%	26.9%	26.4%	27.8%	27.4%	27.6%	-0.3 ppt	-0.5 ppt	-1.2 ppt
Operating Margin	17.4%	16.2%	16.0%	16.2%	16.2%	16.4%	1.2 ppt	0 ppt	-0.5 ppt
Net Margin	14.6%	13.6%	13.4%	13.2%	13.1%	13.2%	1.5 ppt	0.4 ppt	0.2 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	20,758	23,379	26,276	20,539	23,425	26,264	1%	0%	0%
Gross Profit	5,714	6,284	6,940	5,801	6,611	7,529	-1%	-5%	-8%
Operating Profit	3,613	3,776	4,193	3,411	3,832	4,423	6%	-1%	-5%
Net profit	3,038	3,175	3,525	2,713	3,095	3,595	12%	3%	-2%
EPS (RMB)	1.31	1.35	1.50	1.21	1.35	1.56	9%	0%	-4%
Gross Margin	27.5%	26.9%	26.4%	28.2%	28.2%	28.7%	-0.7 ppt	-1.3 ppt	-2.3 ppt
Operating Margin	17.4%	16.2%	16.0%	16.6%	16.4%	16.8%	0.8 ppt	-0.2 ppt	-0.9 ppt
Net Margin	14.6%	13.6%	13.4%	13.2%	13.2%	13.7%	1.4 ppt	0.4 ppt	-0.3 ppt

Source: Company data, CMBIS estimates

Figure 4: CCLPCB players revenue growth

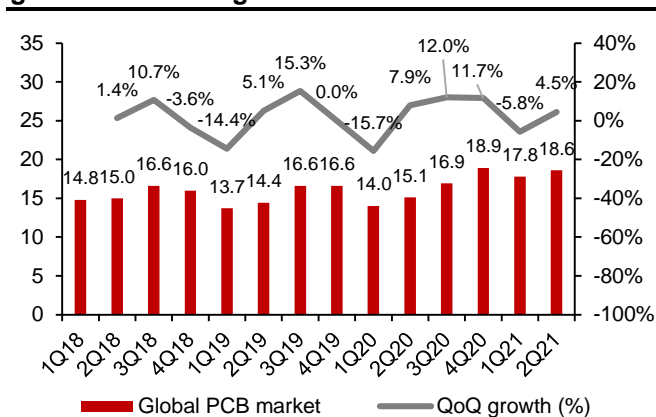
RMB mn	Ticker	2020	1H21	2H21E	2021E	2022E	2021E Rev YoY	2022E Rev YoY
<b>CCL</b>								
Shengyi	600183 CH	14,687	9,832	10,927	20,758	23,379	41.3%	12.6%
Nanya	1303 TT	63,994	44,707	43,889	88,596	85,737	38.4%	-3.2%
ITEQ	6213 TT	5,951	3,592	4,096	7,689	8,788	29.2%	14.3%
Rogers	ROG US	5,536	3,003	3,086	6,089	6,679	10.0%	9.7%
<b>Average</b>							<b>26.4%</b>	<b>7.5%</b>
<b>PCB</b>								
Shengyi Electronics	688183 CH	3,634	1,624	2,021	3,646	6,087	0.3%	67.0%
Shengnan	002916 CH	11,600	5,881	7,439	13,320	15,141	11.4%	19.7%
Dongshan	002384 CH	28,093	14,005	17,905	31,910	35,533	13.6%	11.4%
WUS	002463 CH	7,460	3,542	4,474	8,016	9,696	7.5%	21.0%
Fastp	002436 CH	4,035	2,371	2,625	4,995	6,077	23.8%	21.7%
Bomin	603936 CH	2,786	1,646	1,963	3,609	5,263	29.6%	45.8%
<b>Average</b>							<b>14.4%</b>	<b>31.1%</b>

Source: Company data, CMBIS estimates

## Sector outlook remains positive despite short-term power shortage

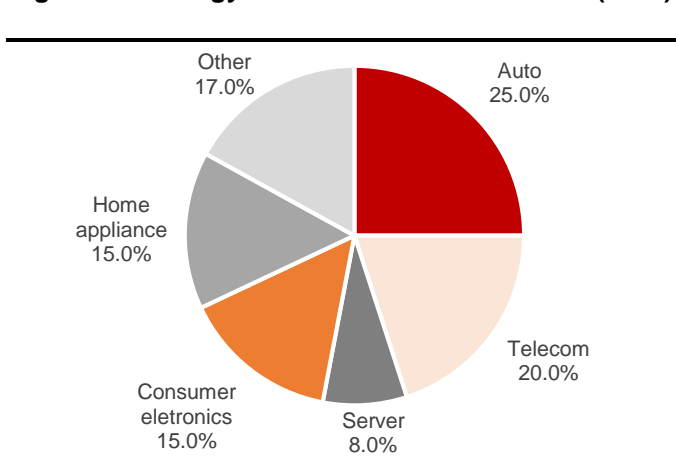
Prismark raised 2021E full-year growth forecast for PCB industry again to 18.2% (8.6%/14.0% in 4Q20/1Q21), driven by the widespread economic recovery as the pandemic is controlled and there is strong consumer demand. They believe Japan and China will outperform their global peers.

**Figure 5: Prismark raised 2021E PCB industry growth forecast again to 18.2%**



Source: Prismark, CMBIS estimates

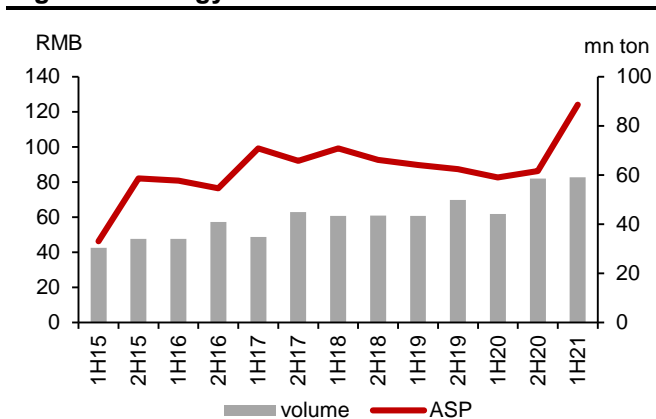
**Figure 6: Shengyi Tech clients breakdown (2020)**



Source: CMBIS estimates

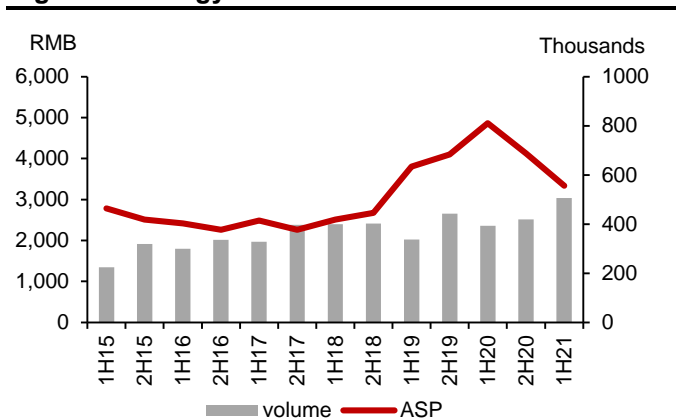
In 1H21, Shengyi Tech has experienced fast growth in its CCL business (a key material of PCB) due to the pent-up demand from consumer and auto market. Meanwhile, given that material prices (especially the copper) remain at their highs, the ASP of Shengyi's CCL products has increased ~30% in 1H21, successfully transferred the material price to downstream PCB manufacturer. However, its PCB segment has a much weaker performance due to the delayed 5G deployment this year. The ASP has dropped as the telecom products have a higher average price.

**Figure 7: Shengyi's CCL sales volume vs. ASP**



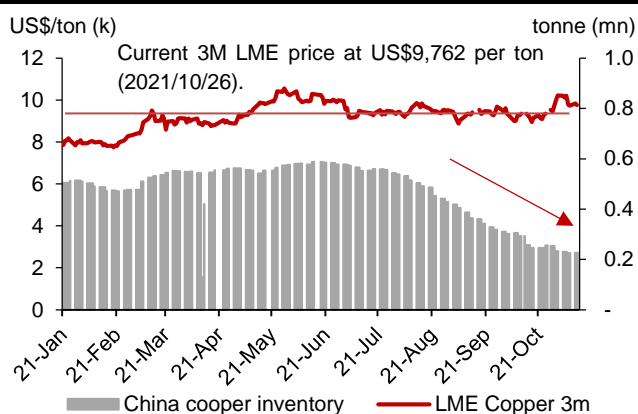
Source: Company data, CMBIS estimates

**Figure 8: Shengyi's PCB sales volume vs. ASP**

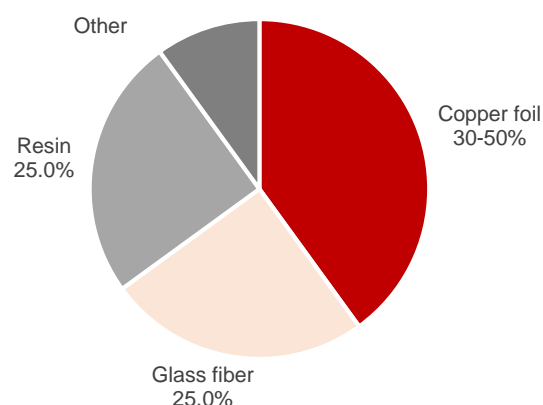


Source: Company data, CMBIS estimates

We expect material prices to remain at their highs in near-term given that 1) recovery of global economy will continue; 2) low copper inventory in China and 3) government intervention (suppressing market price from its equilibrium) which increases buyer's intention to stock up material inventories but curbs suppliers' willingness to sell.

**Figure 9: Copper: price is high while inventory is low (China)**


Source: Wind, CMBIS estimates

**Figure 10: Copper foil accounts for the largest part of CCL cost (2020)**


Source: Shengyi Electronics, CMBIS estimates

There were several waves of material price increase in 1H21 to reflect the rising costs. Shengyi's CCL price has increased ~30% in 1H21. The room for further price rise will be less. For 2H21, the market is conservative, given concerns of 1) sluggish consumer growth, 2) uncertainty in macroeconomic environment, 3) reducing demand in low margin market suppressed by high material price and 4) potential impact from power shortage starting from late 3Q21.

Currently, Shengyi's CCL capacity is about 680-700w sq m per month. Due to the high order volume in 1H21, the capacity utilization is very full in certain months. The auto market has the longest order visibility (60-90 days). New CCL capacity includes 1) 11mn sq m in Changsu, Jiangsu (expected to begin production in Sept./Oct. 2022), 2) 2.6mn sq m in Dongguan, Guangdong (expected to begin production in Sept./Oct. 2022) and 3) 7.4mn sq m in Shanxi (expected to begin production in 1Q22). New PCB capacity includes 35w sq m in Dongguan, Guangdong (expected to begin production in 2H22).

**Figure 11: Capacity Schedule**

Capacity Schedule	FY20	FY21E	FY22E	FY23E
<b>CCL</b>				
<b>RCCL</b>				
Dongguan, Guangdong (CCL: 45mn sqm, pregreg: 70mn m, FCCL: 9.6mn sqm)				
Nantong, Jiangsu (High frequency substrate 1.5mn sqm, pregreg: 0.5mn m)				
Changshu, Jiangsu (CCL: 11mn sqm, pregreg: 24mn m)				
Suzhou, Jiangsu (CCL: 10mn sqm, pregreg: 17mn m)				
Xianyang, Shanxi (CCL: 23mn sqm, pregreg: 25mn m)				
Jiujiang, Jiangxi (CCL: 12mn sqm, pregreg: 22mn m)				
<b>New</b> Changshu, Jiangsu (11mn sqm)				
<b>New</b> Dongguan, Guangdong (2.6mn sqm)				
<b>New</b> Shanxi (7.4mn sqm)				
<b>New</b> Jiangxi (18mn sqm)				
<b>FCCL</b>				
Dongguan, Guangdong (CCL: 45mn sqm, pregreg: 70mn m, FCCL: 9.6mn sqm)				
<b>PCB</b>				
Dongguan, Guangdong (PCB: 50w sqm)				
Ji'an, Jiangxi 70w sqm				
Dongguan, Guangdong (PCB: 33.44w sqm)				
<b>New</b> Ji'an, Jiangxi (PCB: 53.5w sqm)				
<b>New</b> Dongguan, Guangdong (PCB: 34.8w sqm)				

Source: Company data, CMBIS estimates

Figure 12: Segment breakdown

RMB mn	FY19	FY20	1H21	2H21E	FY21E	FY22E	FY23E
<b>Revenue</b>							
CCL & Prepreg	10,002	10,849	7,937	8,616	16,553	16,731	17,325
...YoY	2%	8%	62%	45%	53%	1%	4%
PCB	3,042	3,558	1,624	2,021	3,646	6,087	8,391
...YoY	49%	17%	-13%	20%	2%	67%	38%
Others	197	280	270	290	560	560	560
...YoY	11%	42%	192%	55%	100%	0%	0%
<b>Total</b>	<b>13,241</b>	<b>14,687</b>	<b>9,832</b>	<b>10,927</b>	<b>20,758</b>	<b>23,379</b>	<b>26,276</b>
...YoY	11%	11%	43%	40%	41%	13%	12%
<b>Volume</b>							
CCL (mn sq m)	93	103	59	49	109	111	131
PCB (k sq m)	780	811	506	481	1,017	1,618	2,124
<b>ASP</b>							
CCL (RMB/sq m)	89.3	85.5	124.0	163.1	141.1	136.8	120.4
PCB (RMB/sq m)	3,971.0	4,479.2	3,338.1	4,066.6	3,583.3	3,762.5	3,950.6
<b>Gross margin</b>							
CCL & Prepreg	24.8%	25.5%	29.3%	26.2%	27.7%	27.3%	25.8%
PCB	28.9%	26.0%	18.8%	22.5%	20.8%	22.7%	25.5%
<b>Total</b>	<b>26.6%</b>	<b>26.8%</b>	<b>28.7%</b>	<b>26.4%</b>	<b>27.5%</b>	<b>26.9%</b>	<b>26.4%</b>

Source: Company data, CMBIS estimates

Figure 13: P&amp;L forecasts

RMB mn	FY19	FY20	1Q21	2Q21	3Q21	4Q21E	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>13,241</b>	<b>14,687</b>	<b>4,505</b>	<b>5,326</b>	<b>5,547</b>	<b>5,380</b>	<b>20,758</b>	<b>23,379</b>	<b>26,276</b>
...YoY	10.5%	10.9%	47%	40%	46%	35%	41.3%	12.6%	12.4%
Cost of sales	9,713	10,754	3,246	3,760	4,093	3,945	15,044	17,094	19,336
<b>Gross profit</b>	<b>3,528</b>	<b>3,933</b>	<b>1,259</b>	<b>1,566</b>	<b>1,454</b>	<b>1,435</b>	<b>5,714</b>	<b>6,284</b>	<b>6,940</b>
...YoY	32.8%	11.5%	43%	44%	47%	48%	45.3%	10.0%	10.4%
GPM (%)	26.6%	26.8%	28%	29%	26%	27%	27.5%	26.9%	26.4%
SG&A	932	899	277	277	285	302	1,141	1,285	1,445
...% of rev	7.0%	6.1%	6%	5%	5%	6%	5.5%	5.5%	5.5%
R&D	605	711	193	240	246	236	915	1,031	1,159
...% of rev	4.6%	4.8%	4%	5%	4%	4%	4.4%	4.4%	4.4%
<b>Operating profit</b>	<b>1,805</b>	<b>2,090</b>	<b>675</b>	<b>1,009</b>	<b>1,111</b>	<b>818</b>	<b>3,613</b>	<b>3,776</b>	<b>4,193</b>
...YoY	46.9%	15.8%	56.5%	67.7%	93.3%	69.6%	72.9%	4.5%	11.0%
OPM (%)	13.6%	14.2%	15%	19%	20%	15%	17.4%	16.2%	16.0%
<b>Net profit</b>	<b>1,449</b>	<b>1,681</b>	<b>544</b>	<b>870</b>	<b>925</b>	<b>699</b>	<b>3,038</b>	<b>3,175</b>	<b>3,525</b>
...YoY	44.8%	16.0%	60.4%	78.9%	93.9%	85.1%	80.8%	4.5%	11.0%
NPM (%)	10.9%	11.4%	12.1%	16.3%	16.7%	13.0%	14.6%	13.6%	13.4%

Source: Company data, CMBIS estimates

Overall, we are still positive in Shengyi's future performance. As the second largest CCL provider in the world, we believe the Company is capable to adjust its product structure to 1) transfer the material cost better than its peers and 2) maintain its capacity utilization at high level.

However, near-term uncertainty still exists. Currently the power shortage has limited impact on the Company, but the situation may get worse as cold weather has come. Meanwhile, as material prices are still at their highs, continuous cost pressure may challenge the Company's GPM ahead.

## Valuation

### Maintain BUY with new TP at RMB30.50 (36% upside)

We maintain BUY rating with TP of RMB30.50 based on the trimmed 22.5x FY22E P/E. We lowered the valuation given that the transfer of cost pressure slowed down in 3Q21 but material prices, especially copper, are still at their highs. We expect the momentum will continue and PCB business will steadily recover, but near-term cost pressure will remain as the biggest overhang.

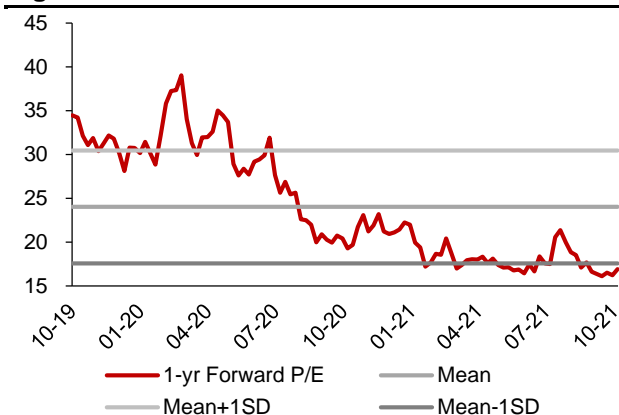
Potential risks include less-than-expected transfer of material costs and less-than-expected market demand.

Figure 14: 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
<b>CCL</b>												
Shengyi Tech	600183 CH	Buy	8,096	22.41	30.5	36%	17.1	16.6	3.9	3.4	0.2	20.7%
Nanya	1303 TT	NR	25,076	87.90	NA	NA	9.6	12.3	1.8	1.8	20.3	14.9
ITEQ	6213 TT	NR	1,763	128.00	NA	NA	13.6	11.1	3.0	2.9	23.8	26.2
Kingboard	1888 HK	NR	4,868	34.15	NA	NA	4.1	4.0	-	-	-	-
Sumitomo	4203 JT	NR	2,157	4,950.00	NA	NA	20.2	13.3	1.2	1.1	8.4	8.4
Rogers	ROG US	NR	3,639	194.32	NA	NA	26.8	23.5	-	-	-	-
<b>Average</b>							<b>15.2</b>	<b>13.5</b>	<b>2.5</b>	<b>2.3</b>	<b>13.2</b>	<b>12.4</b>
<b>PCB</b>												
Shengyi Tech	600183 CH	Buy	8,096	22.41	30.5	36%	17.1	16.6	3.9	3.4	0.2	20.7%
Shennan Circuits	002916 CH	Hold	6,746	88.15	101.9	16%	31.9	25.9	5.2	4.5	0.2	17.0%
WUS	002463 CH	NR	3,020	10.18	NA	NA	14.1	11.3	2.7	2.3	17.8	19.5
Kinwon	603228 CH	NR	3,194	23.97	NA	NA	19.3	15.9	2.8	2.5	14.7	15.8
DSBJ	002384 CH	NR	5,589	20.90	NA	NA	18.5	14.8	2.4	2.1	13.6	14.8
Zhen Ding	4958 TT	NR	3,103	95.60	NA	NA	10.4	8.7	1.1	1.0	10.1	11.4
TTM	TTMI US	NR	1,476	13.69	NA	NA	10.6	9.1	1.0	0.9	-	-
UMTC	3037 TT	NR	9,283	171.50	NA	NA	25.0	19.0	4.6	3.9	19.1	21.6
Tripod	3044 TT	NR	2,222	117.50	NA	NA	9.9	9.0	1.6	1.5	16.3	16.8
Comped	2313 TT	NR	1,698	39.60	NA	NA	10.3	9.2	1.5	1.4	15.2	15.8
SEMCO	009150 KS	NR	10,132	159,000.00	NA	NA	11.8	10.6	1.8	1.6	16.4	15.7
<b>Average</b>							<b>16.3</b>	<b>13.6</b>	<b>2.6</b>	<b>2.3</b>	<b>12.4</b>	<b>13.2</b>

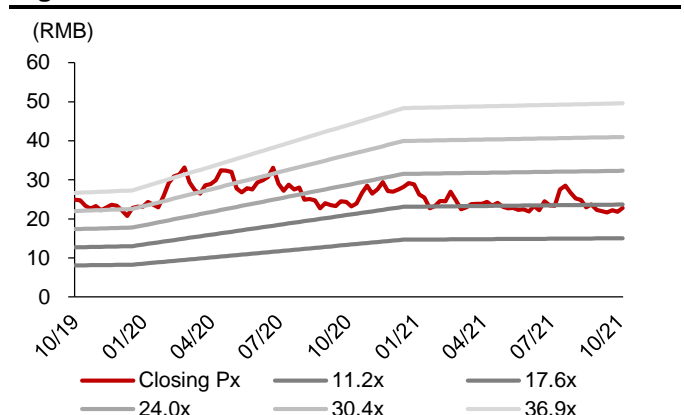
Source: Bloomberg, CMBIS estimates

Figure 15: 12M forward P/E chart



Source: Company data, CMBIS estimates

Figure 16: 12M forward P/E band



Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>13,241</b>	<b>14,687</b>	<b>20,758</b>	<b>23,379</b>	<b>26,276</b>
Cost of sales	(9,713)	(10,754)	(15,044)	(17,094)	(19,336)
<b>Gross profit</b>	<b>3,528</b>	<b>3,933</b>	<b>5,714</b>	<b>6,284</b>	<b>6,940</b>
Selling exp	(288)	(179)	(245)	(276)	(310)
Admin exp	(644)	(720)	(897)	(1,010)	(1,135)
R&D exp	(605)	(711)	(915)	(1,031)	(1,159)
Finance costs	(142)	(114)	(135)	(156)	(174)
Other operating exp.	3,403	3,567	4,293	4,981	5,525
<b>Operating profit</b>	<b>1,805</b>	<b>2,090</b>	<b>3,613</b>	<b>3,776</b>	<b>4,193</b>
Other non-oper exp.	0	(7)	(5)	(6)	(7)
<b>Pre-tax profit</b>	<b>1,805</b>	<b>2,083</b>	<b>3,608</b>	<b>3,770</b>	<b>4,186</b>
Income tax expense	(242)	(283)	(469)	(490)	(544)
Minority interests	115	120	100	105	117
<b>Net profit to shareholders</b>	<b>1,449</b>	<b>1,681</b>	<b>3,038</b>	<b>3,175</b>	<b>3,525</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net profit</b>	1,563	1,800	3,139	3,280	3,642
Depreciation/amortization	409	531	463	536	622
Change in working capital	(479)	(832)	(1,806)	(827)	(1,628)
Others	198	258	(888)	46	(503)
<b>Net cash from operating</b>	<b>1,692</b>	<b>1,758</b>	<b>907</b>	<b>3,034</b>	<b>2,133</b>
Capex	(1,580)	(1,761)	(2,264)	(2,539)	(2,840)
Other	14	(72)	283	378	354
<b>Net cash from investing</b>	<b>(1,566)</b>	<b>(1,833)</b>	<b>(1,981)</b>	<b>(2,161)</b>	<b>(2,486)</b>
Share issuance	0	189	1,431	515	499
Dividend paid	(872)	(1,101)	(916)	(1,823)	(1,905)
Other	699	696	1,375	319	475
<b>Net cash from financing</b>	<b>(173)</b>	<b>(215)</b>	<b>1,890</b>	<b>(989)</b>	<b>(931)</b>
<b>Net change in cash</b>	<b>(50)</b>	<b>(232)</b>	<b>816</b>	<b>(116)</b>	<b>(1,284)</b>
Cash at beginning of the year	1,101	1,051	818	1,634	1,518
Exchange difference	(3)	58	0	0	0
<b>Cash at the end of the year</b>	<b>1,051</b>	<b>818</b>	<b>1,634</b>	<b>1,518</b>	<b>234</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>8,712</b>	<b>9,716</b>	<b>13,906</b>	<b>14,122</b>	<b>14,872</b>
Cash & equivalents	1,062	850	1,658	1,542	258
Account receivables	4,598	4,888	6,645	7,107	7,907
Inventory	2,100	2,519	3,750	3,848	4,746
Prepayment	11	20	32	32	38
Other current assets	941	1,439	1,821	1,593	1,924
<b>Non-current assets</b>	<b>6,823</b>	<b>8,642</b>	<b>10,822</b>	<b>12,817</b>	<b>15,199</b>
PPE	5,003	6,374	7,562	9,047	10,715
Deferred tax assets	76	120	156	173	191
Other non-current assets	1,744	2,148	3,104	3,597	4,294
<b>Total assets</b>	<b>15,535</b>	<b>18,357</b>	<b>24,728</b>	<b>26,939</b>	<b>30,072</b>
<b>Current liabilities</b>	<b>5,257</b>	<b>6,804</b>	<b>8,718</b>	<b>9,142</b>	<b>9,906</b>
ST borrowings	1,519	2,157	2,707	2,993	3,177
Account payables	2,656	2,903	4,043	3,908	4,320
Tax payable	116	125	183	192	219
Other current liabilities	965	1,619	1,784	2,050	2,190
<b>Non-current liabilities</b>	<b>925</b>	<b>910</b>	<b>1,713</b>	<b>1,528</b>	<b>1,661</b>
LT borrowings	732	605	955	1,056	1,121
Deferred tax liability	13	38	135	102	139
Other non-current	179	267	622	370	401
<b>Total liabilities</b>	<b>6,181</b>	<b>7,714</b>	<b>10,431</b>	<b>10,670</b>	<b>11,567</b>
Share capital	2,276	2,291	2,316	2,347	2,377
Reserve	2,505	2,795	4,201	4,685	5,154
Minority interest	520	754	855	960	1,076
<b>Total equity</b>	<b>9,354</b>	<b>10,643</b>	<b>14,297</b>	<b>16,269</b>	<b>18,505</b>
<b>Total liabilities and equity</b>	<b>15,535</b>	<b>18,357</b>	<b>24,728</b>	<b>26,939</b>	<b>30,072</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue mix</b>					
CCL	76	74	80	72	66
PCB	23	24	18	26	32
Others	1	2	3	2	2
<b>Growth (%)</b>					
Revenue	10.5%	10.9%	41.3%	12.6%	12.4%
Gross profit	32.8%	11.5%	45.3%	10.0%	10.4%
Operating profit	46.9%	15.8%	72.9%	4.5%	11.0%
Net profit	44.8%	16.0%	80.8%	4.5%	11.0%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	26.6%	26.8%	27.5%	26.9%	26.4%
Operating margin	13.6%	14.2%	17.4%	16.2%	16.0%
Net profit margin	10.9%	11.4%	14.6%	13.6%	13.4%
<b>Balance sheet ratio</b>					
Net debt/total equity (%)	12.7%	18.0%	14.0%	15.4%	21.8%
Current ratio (x)	1.7	1.4	1.6	1.5	1.5
Receivable turnover days	116	118	101	107	104
Inventory turnover days	(72)	(78)	76	81	81
Payable turnover days	(85)	(94)	(84)	(85)	(78)
<b>Profitability (%)</b>					
ROE	16.4%	17.0%	22.6%	20.7%	20.2%
ROA	9.3%	9.2%	12.3%	11.8%	11.7%
<b>Per share data (RMB)</b>					
EPS	0.66	0.74	1.31	1.35	1.50
DPS	0.40	0.40	0.79	0.81	0.90
BPS	3.88	4.32	5.80	6.52	7.43

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.