

Zhejiang Jingsheng (300316 CH)

Solid growth of solar equipment; SiC gaining traction

While the recent expansion of solar wafer capacity in China will likely take the nameplate capacity to >500GW by end-2022E, we expect major wafer makers' continuous transformation to large-size wafer will boost the replacement demand, which offers further growth opportunity for Jingsheng. Besides, the war in Ukraine will likely trigger more EU countries to reduce the reliance on Russian gas and switch to other energy source such as solar, which will offer potential upside for Chinese solar product export. On the other hand, the breakthrough on SiC will serve as new growth engine for Jingsheng starting this year. We slightly revise up our 2022E-23E earnings forecast by 2%. That said, we lower our TP to RMB93, due to a discount to reflect the dilution from the upcoming placement.

- Transformation to large-size wafer underway.** According to PvInfoLink, the percentage of large-size wafer output (210 & 180mm) increased from only 5% in 2020 to 43% in 2021E (the industry as a whole). The percentage is expected to further increase to 80% in 2022E and further to >90% in 2023E. We estimate >100GW of old capacity will be potentially phased out during this transformation period, suggesting a lower effective capacity (versus the nameplate capacity of 500GW by end-2022E). We expect Jingsheng's major clients, such as **Zhonghuan (002129 CH)**, **JA Solar (002459 CH)** and **Jinko (JKS US)** will continue to boost large-size wafer capacity in 2022E.
- Breakthrough on SiC.** Silicon carbide (SiC) is the third-generation semiconductor material. Key advantages include reduced switching loss, higher power density, better heat dissipation and increased bandwidth capability. Demand comes from electronic device with downstream industries covering smart grid, NEV and solar power. **Wolf speed (WOLF US)**, the world largest SiC wafer maker, expects the SiC material market size will grow from US\$700mn in 2022E to US\$1.7bn in 2026E. After years of research and development, Jingsheng successfully won a contract in Feb from a client to deliver at least 230k pieces of SiC substrate in 2022E-25E. We estimate annual revenue contribution of 2%.
- Maintain BUY.** We trimmed our TP to RMB93 from RMB112, based on 45x 2022E P/E. We applied a 20% discount to our previous target P/E of 56x (1SD above historical average), as we expect Jingsheng is likely to complete the share placement this year (max: 20% of enlarged share capital).
- Risks: 1)** Weaker-than-expected solar power capacity expansion; **2)** lower-than-expected gross margin; **3)** risk of semiconductor business expansion.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,110	3,811	7,239	11,941	14,673
YoY growth (%)	23	23	90	65	23
Net income (RMB mn)	637	858	1,683	2,662	3,292
EPS (RMB)	0.50	0.67	1.31	2.07	2.56
YoY growth (%)	(5)	35	96	58	24
Consensus EPS (RMB)	N/A	N/A	1.25	1.80	2.26
P/E (x)	127.7	94.9	48.4	30.6	24.8
P/B (x)	17.9	15.6	12.1	9.0	6.9
Yield (%)	0.2	0.2	0.4	0.7	0.8
ROE (%)	14.8	17.5	28.1	33.7	31.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB93.00
(Previous TP)	RMB 112.00)
Up/Downside	+46%
Current Price	RMB63.38

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Stock Data

Mkt Cap (RMB mn)	81,537
Avg 3 mths t/o (RMB mn)	787
52w High/Low (RMB)	84.99/30.71
Total Issued Shares (mn)	1,286

Source: Bloomberg

Shareholding Structure

Shaoxing Shangyu Jingsheng	
Invst. Mgmt. and Consulting	48.32%
QIU Minxiu	2.97%
CAO Jianwei	2.77%

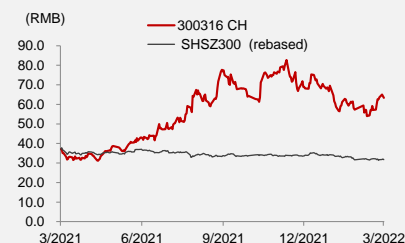
Source: Company data

Share Performance

	Absolute	Relative
1-mth	12.2%	10.8%
3-mth	-6.7%	-2.2%
6-mth	-16.4%	-11.8%

Source: Bloomberg

12-mth Price Performance



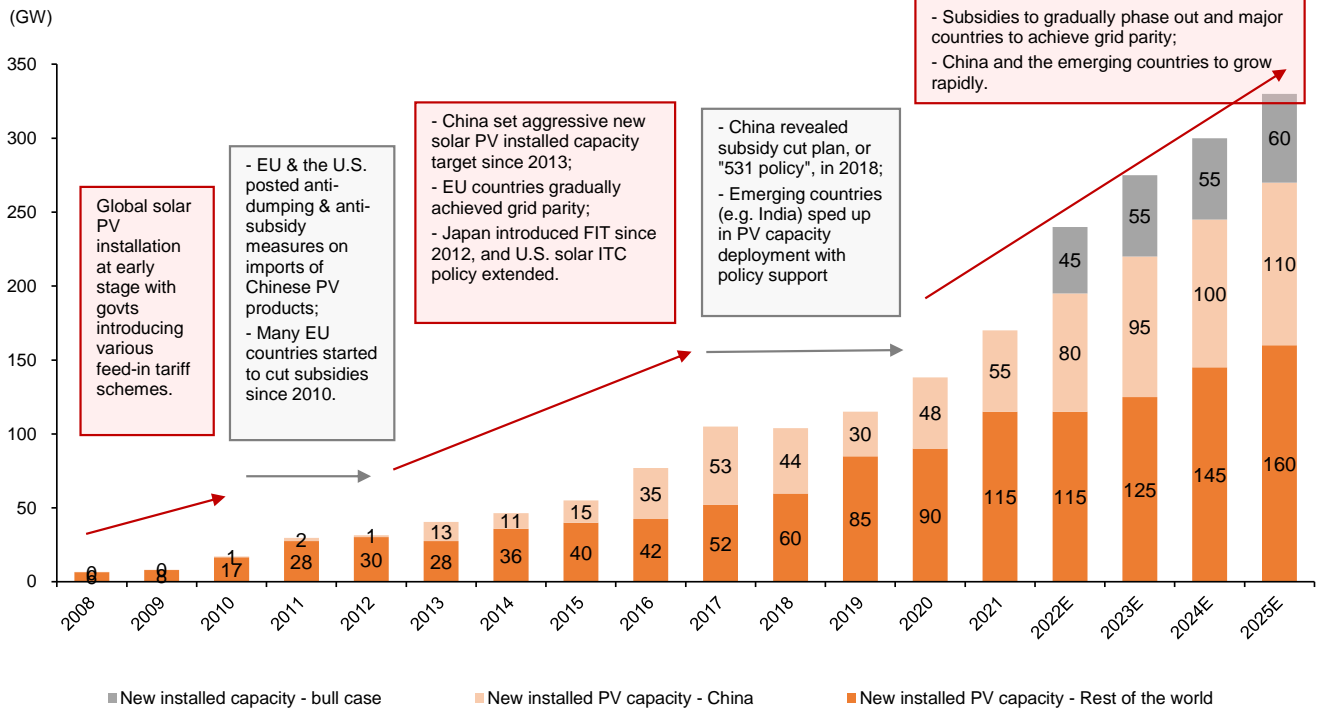
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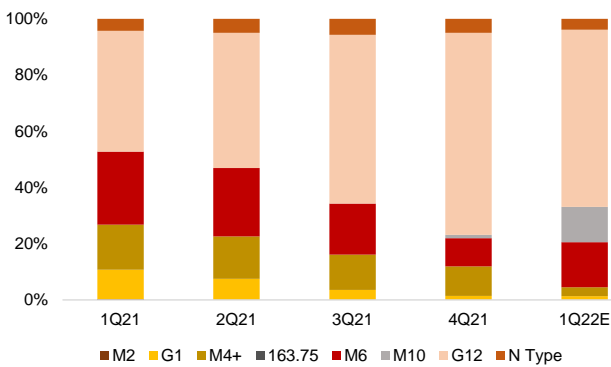
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Figure 1: Global solar power installation history and projection



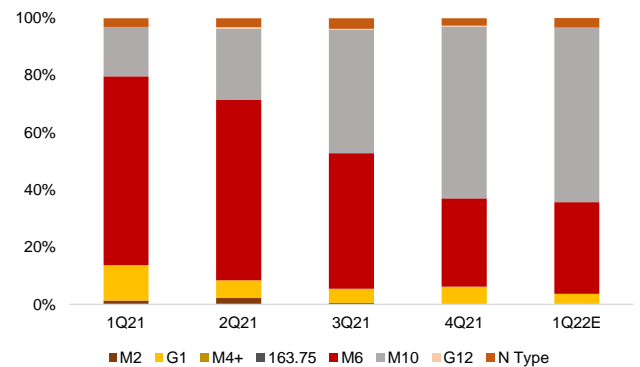
Source: CPIA, CMBIGM estimates

Figure 2: Zhonghuan's wafer breakdown by size



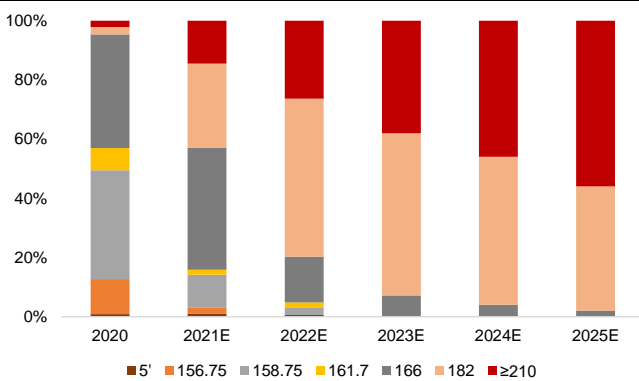
Source: PVInfoLink, CMBIGM

Figure 3: LONGi's wafer breakdown by size



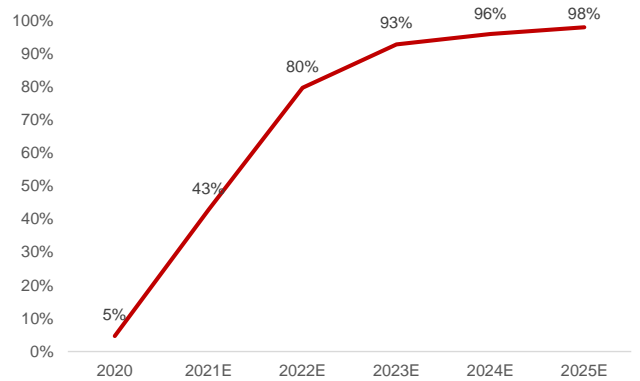
Source: PVInfoLink, CMBIGM

Figure 4: China solar wafer output (breakdown by size)



Source: PVInfoLink, CMBIGM estimates

Figure 5: Large-size / total wafer output



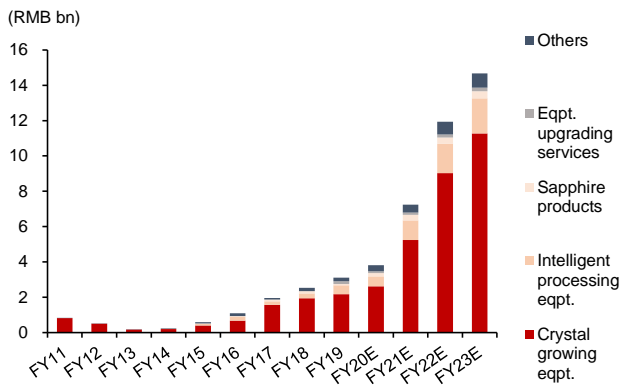
Source: PVInfoLink, CMBIGM estimates

Figure 6: Capacity expansion by major wafer manufacturers

	2019	2020	2021E	2022E	2020	2021E	2022E
Wafer capacity (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	30	30	5	10	0
Total	124	230	383	517	106	153	134

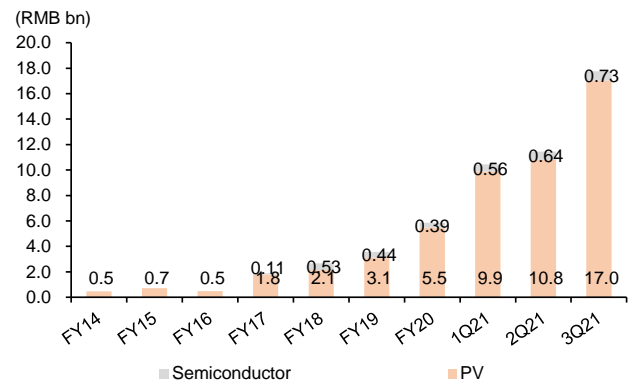
Source: Company data, news reports, CMBIGM estimates

Figure 7: Revenue forecast for Jingsheng



Source: Company data, CMBIGM

Figure 8: Jingsheng's total backlog reached RMB17.8bn (including RMB730mn from semiconductor) as at end-Sep 2021



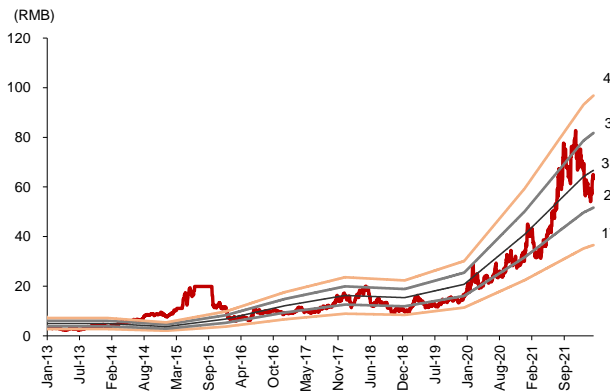
Source: Company data, CMBIGM

Figure 9: Change in earnings forecast

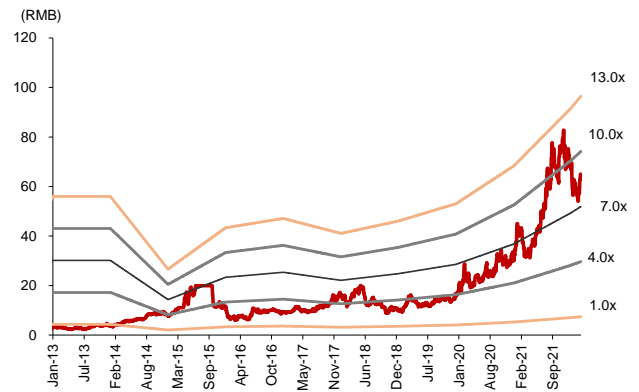
(RMB mn)	New			Old			Diff		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,239	11,941	14,673	7,008	11,868	14,761	3%	1%	-1%
Crystal growing eqpt.	5,246	9,023	11,279	5,115	9,207	11,508	3%	-2%	-2%
Intelligent processing eqpt.	1,103	1,666	1,982	1,075	1,667	2,084	3%	0%	-5%
Sapphire products	310	357	410	272	339	407	14%	5%	1%
Eqpt. modification	137	164	197	137	164	197	0%	0%	0%
Others	443	732	805	409	491	565	8%	49%	42%
COGS	(4,495)	(7,487)	(9,190)	(4,487)	(7,498)	(9,311)	0%	0%	-1%
Gross profit (mn)	2,745	4,454	5,483	2,520	4,370	5,450	9%	2%	1%
SG&A expenses	(282)	(430)	(514)	(280)	(451)	(531)	1%	-5%	-3%
R&D expenses	(434)	(776)	(954)	(420)	(712)	(886)	3%	9%	8%
Core operating profit	1,970	3,149	3,906	1,766	3,112	3,919	12%	1%	0%
Impairment losses	(164)	(221)	(260)	(162)	(220)	(287)	1%	0%	-10%
Pre-tax profit	1,927	3,058	3,781	1,725	3,022	3,767	12%	1%	0%
Income tax	(247)	(398)	(492)	(243)	(426)	(531)	1%	-7%	-8%
Minority interest	3	2	2	3	2	2	0%	0%	0%
Net profit	1,683	2,662	3,292	1,484	2,598	3,238	13%	2%	2%
EPS (RMB)	1.31	2.07	2.56	1.15	2.02	2.52	13%	2%	2%
BVPS (RMB)	5.25	7.06	9.20	5.09	6.88	9.00	3%	3%	2%
ROE	28.1%	33.7%	31.5%	25.2%	33.7%	31.7%	2.9ppt	-0.1ppt	-0.2ppt

Note: Jingsheng preannounced in Jan that net profit in 2021E is expected to be RMB1.58-1.84bn.

Source: Company data, CMBIGM estimates

Figure 10: Jingsheng's forward P/E band

Source: Bloomberg, Company data, CMBIGM estimates

Figure 11: Jingsheng's forward P/B band

Source: Bloomberg, Company data, CMBIGM estimates

Financial Summary

Income statement						Cash flow					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,110	3,811	7,239	11,941	14,673	PAT	624	852	1,680	2,660	3,290
Crystal growing eqpt.	2,173	2,623	5,246	9,023	11,279	D&A	114	136	137	158	185
Intelligent processing eqpt.	504	552	1,103	1,666	1,982	Change in working capital	(47)	(124)	(567)	(1,271)	(1,102)
Eqpt. modification	165	101	137	164	197	Others	88	90	(29)	(39)	(43)
Sapphire products	66	194	310	357	410	Operating cash flow	779	954	1,221	1,509	2,330
Others	201	341	443	732	805	CAPEX	(95)	(229)	(405)	(450)	(450)
COGS	(2,004)	(2,416)	(4,495)	(7,487)	(9,190)	Others	(441)	(54)	(88)	(84)	(82)
Gross profit	1,105	1,395	2,745	4,454	5,483	Investing cash flow	(536)	(283)	(493)	(534)	(532)
S&M expenses	(46)	(33)	(36)	(72)	(88)	Proceeds from fund raising	1	18	-	-	-
G&A expenses	(126)	(136)	(246)	(358)	(426)	Changes in borrowings	(45)	(44)	(10)	10	10
R&D expenses	(186)	(227)	(434)	(776)	(954)	Dividends paid	(135)	(132)	(174)	(337)	(532)
Other opex	(15)	(39)	(58)	(99)	(110)	Others	5	(209)	(2)	(2)	(2)
Core operating profit	733	959	1,970	3,149	3,906	Financing cash flow	(174)	(366)	(185)	(328)	(525)
Impairment losses	(97)	(137)	(164)	(221)	(260)	Net change in cash	69	305	543	647	1,274
Other expenses and incomes	70	129	63	31	25	Cash at the beginning	473	542	847	1,390	2,037
Pre-tax profit	721	992	1,927	3,058	3,781	Forex change, net	(0)	0	-	-	-
Income tax	(97)	(140)	(247)	(398)	(492)	Less: restricted cash	37	88	-	-	-
Minority interest	13	6	3	2	2	Cash at the end	542	847	1,390	2,037	3,311
Net profit	637	858	1,683	2,662	3,292						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	5,675	7,962	13,044	19,223	23,058	Revenue mix (%)					
Cash and restricted cash	582	938	1,481	2,128	3,402	Crystal growing eqpt.	70	69	72	76	77
Trade receivables	2,865	3,713	6,877	10,150	11,298	Intelligent processing eqpt.	16	14	15	14	14
Inventories	1,389	2,580	3,955	6,215	7,627	Eqpt. modification	5	3	2	1	1
Other current assets	839	731	731	731	731	Sapphire products	2	5	4	3	3
Non-current assets	2,187	2,536	2,923	3,339	3,731	Others	6	9	6	6	5
Long-term equity investment	503	824	943	1,067	1,194	YoY growth (%)					
Fixed assets	1,147	1,135	1,300	1,509	1,721	Revenue	23	23	90	65	23
Other non-current assets	537	577	680	763	816	Gross profit	10	26	97	62	23
Total assets	7,863	10,498	15,967	22,563	26,789	Net profit	9	35	96	58	24
Current liabilities	3,085	5,201	9,167	13,435	14,901	Operating efficiency					
ST borrowings	42	22	15	22	29	Gross margin	35.5	36.6	37.9	37.3	37.4
Trade payables	1,869	2,775	5,169	8,611	9,190	Core operating margin	23.6	25.2	27.2	26.4	26.6
Contract liabilities	1,007	2,003	3,582	4,402	5,282	Net profit margin	20.5	22.5	23.2	22.3	22.4
Other current liabilities	167	401	401	401	401	B/S ratios (%)					
Non-current liabilities	61	46	43	46	49	Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
LT borrowings	36	11	8	11	14	Receivable turnover days	261	303	261	260	267
Other non-current liabilities	25	35	35	35	35	Inventory turnover days	167	190	165	155	172
Total liabilities	3,146	5,247	9,210	13,481	14,950	Payable turnover days	282	351	323	336	354
Share capital	1,284	1,286	1,286	1,286	1,286	Profitability (%)					
Reserves	1,448	1,528	1,528	1,528	1,528	ROE	14.8	17.5	28.1	33.7	31.5
Retained earnings	1,819	2,426	3,935	6,261	9,021	ROA	9.0	9.3	12.7	13.8	13.3
Shareholders' fund	4,551	5,240	6,749	9,075	11,834	Per share data (RMB)					
Minority interest	165	12	9	7	5	EPS	0.50	0.67	1.31	2.07	2.56
Total equity	4,716	5,251	6,758	9,082	11,839	DPS	0.10	0.14	0.26	0.41	0.51
						BVPS	3.54	4.08	5.25	7.06	9.20

Source: Company data, CMBIGM estimates

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