

# GalaxyCore (688728 CH)

## Transiting into fab-lite model to secure capacity and support tech advancement

We had a mgmt. call with GalaxyCore recently. As the global No.1 smartphone CIS provider (based on shipment), we remain positive on the company's outlook, given that 1) new CIS production line is expected to begin pilot production in Q2/Q3 this year, 2) overall CIS ASP will increase due to favorable product mix and 3) additional capacity of DDIC will contribute revenue in 2H22E. Maintain BUY with adjusted TP of RMB34.1 based on revised earnings and new target multiple.

- FY21 revenue/NP grew 8.4%/62.8% YoY.** GalaxyCore's slower-than-expected FY21 revenue growth was largely due to weaker smartphone market growth and unfavorable product mix. Global smartphone shipment grew at 4.5% YoY in 2021, turning positive for the first time since 2017 but still lower than pre-pandemic level. Due to the semi shortage and increasing CIS content per smartphone, the demand for 2MP/5MP CIS was strong. The unfavorable product mix led to limited revenue growth for FY21. Looking forward, such headwind is expected to ease as the domestic production of 8MP will gradually pick up. Meanwhile, profitability significantly improved (NPM: 18% in FY21 vs. 12% in FY20).
- Positive outlook for its high-end CIS competitiveness as the company is transforming from fabless to fab-lite.** GalaxyCore is currently leading in low- to mid-end CIS market and developing its high-end CIS products. Senior mgmt. (CEO, COO, etc.) are experienced in fab operations. Given this strength, we are positive on its high-end CIS competitiveness once the new production line begins mass production by the year end. We expect the fab-lite business model will secure capacity and serve as a foundation for tech advancement to gain market share in high-end CIS.
- Maintain BUY rating with TP adjusted to RMB34.1.** We adjusted our TP to RMB34.1 based on revised earnings for FY22E and lower P/E multiple of 47x (previously 50x) given that investors are cautious under current macro environment and weak Android OEMs outlook. We raised NPM forecast due to improved profitability and favorable product mix. Potential risks include 1) weaker-than-expected market growth and semi shortage, 2) intensified competition and 3) slower-than-expected development of its CIS 12-inch production/manufacturing lines.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,690	6,456	7,001	9,512	12,699
YoY growth (%)	-	74.9%	8.4%	35.9%	33.5%
Gross profit (RMB mn)	961	1,839	2,323	3,216	4,243
Gross profit margin (%)	26.0%	28.5%	33.2%	33.8%	33.4%
Net profit (RMB mn)	359	773	1,259	1,817	2,344
YoY growth (%)	-	115.2%	62.8%	44.3%	29.0%
EPS (RMB)	0.19	0.37	0.54	0.73	0.94
YoY growth (%)	-	94.7%	45.9%	34.4%	29.0%
Consensus EPS (RMB)	-	-	0.54	0.73	0.94
P/E (x)	129.0	66.2	45.4	33.8	26.2
ROE (%)	135.0%	28.4%	19.4%	21.8%	22.0%
Net gearing (%)	108.0%	11.0%	net cash	net cash	net cash

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	RMB34.1
(Previous TP)	RMB48.2)
Up/Downside	+39%
Current Price	RMB24.51

### China Technology Sector

Lily Yang, Ph.D

(852) 3916 3716

lilyyang@cmbi.com.hk

Alex Ng

(852) 3900 0881

alexng@cmbi.com.hk

Lana Lin

(852) 3761 8912

lanalin@cmbi.com.hk

### Stock Data

Mkt Cap (RMB mn)	61,248
Avg 3 mths t/o (RMB mn)	120
52w High/Low (RMB)	41.00/23.52
Total Issued Shares (mn)	2,498.9

Source: Bloomberg

### Shareholding Structure

Uni Sky	42.02%
COSMOS	12.43%
Hopefield	7.0%

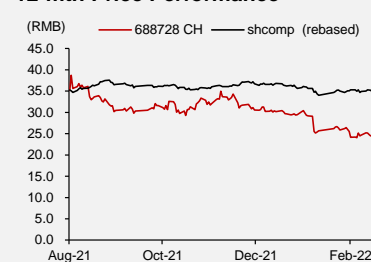
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-4.4%	-6.8%
3-mth	-28.5%	-25.2%
6-mth	-27.1%	-24.2%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PWC

### Related Reports

- GalaxyCore - Rising star well poised to ride the CIS boom - 24 Aug 2021
- China CIS market - Beginning of multi-year growth cycle; Initiate BUY on Willsemi and GalaxyCore - 24 Aug 2021

## Earnings revision

Figure 1: Earnings revision

US\$ mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,001	9,512	12,699	8,787	14,275	19,491	-20%	-33%	-35%
Gross Profit	2,323	3,216	4,243	2,792	4,579	5,865	-17%	-30%	-28%
Operating Profit	1,428	2,018	2,603	1,625	2,691	3,276	-12%	-25%	-21%
Net profit	1,259	1,817	2,344	1,454	2,408	2,930	-13%	-25%	-20%
EPS (RMB)	0.540	0.726	0.936	0.582	0.964	1.172	-7%	-25%	-20%
Gross Margin	33.2%	33.8%	33.4%	31.8%	32.1%	30.1%	1.4 ppt	1.7 ppt	3.3 ppt
Operating Margin	20.4%	21.2%	20.5%	18.5%	18.9%	16.8%	1.9 ppt	2.4 ppt	3.7 ppt
Net Margin	18.0%	19.1%	18.5%	16.5%	16.9%	15.0%	1.4 ppt	2.2 ppt	3.4 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	7,001	9,512	12,699	7,711	9,657	13,574	-9%	-1%	-6%
Gross Profit	2,323	3,216	4,243	2,491	3,097	4,228	-7%	4%	0%
Operating Profit	1,428	2,018	2,603	1,488	1,872	2,447	-4%	8%	6%
Net profit	1,259	1,817	2,344	1,304	1,620	2,038	-4%	12%	15%
EPS (RMB)	0.540	0.726	0.936	0.539	0.662	0.863	0%	10%	8%
Gross Margin	33.2%	33.8%	33.4%	32.3%	32.1%	31.1%	0.9 ppt	1.7 ppt	2.3 ppt
Operating Margin	20.4%	21.2%	20.5%	19.3%	19.4%	18.0%	1.1 ppt	1.8 ppt	2.5 ppt
Net Margin	18.0%	19.1%	18.5%	16.9%	16.8%	15.0%	1.1 ppt	2.3 ppt	3.4 ppt

Source: Company data, CMBIGM estimates

Figure 3: Peers valuation

Company	Ticker	Mkt Cap US\$(mn)	Price (LC)	P/E (x)		P/B (x)		ROE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Global CIS peers</b>									
GalaxyCore	688728 CH	9,692	24.51	33.8	26.2	7.4	5.8	21.8	22.0
Willsemi	603501 CH	32,446	234.14	33.8	25.9	8.9	6.4	26.0	24.4
Sony	SONY US	124,179	98.47	16.7	15.2	-	-	13.4	14.0
Samsung	005930 KS	350,411	71500.00	10.3	9.1	1.4	1.3	14.4	14.4
STMicroelectronics	STM FP	33,826	34.00	11.8	11.2	2.8	2.3	27.3	22.3
ON Semi	ON US	25,228	58.33	14.0	12.9	4.4	3.7	33.0	26.4
<b>Peers Avg.</b>				<b>20.1</b>	<b>16.8</b>	<b>5.0</b>	<b>3.9</b>	<b>22.7</b>	<b>20.6</b>
	<b>Peers Median</b>			<b>15.3</b>	<b>14.1</b>	<b>4.4</b>	<b>3.7</b>	<b>23.9</b>	<b>22.1</b>
<b>China fabless peers</b>									
GalaxyCore	688728 CH	9,692	24.51	33.8	26.2	7.4	5.8	21.8	22.0
Willsemi	603501 CH	32,446	234.14	33.8	25.9	8.9	6.4	26.0	24.4
Gigadevice	603986 CH	16,347	154.77	36.4	29.0	6.7	5.6	19.6	20.1
Maxscend	300782 CH	13,222	250.50	30.6	23.6	10.5	7.6	36.6	33.3
Goodix	603160 CH	6,531	90.00	35.1	26.9	4.2	3.7	13.0	14.9
SG Micro	300661 CH	12,232	327.51	86.3	62.4	26.8	19.6	32.6	31.9
<b>Peers Avg.</b>				<b>42.7</b>	<b>32.3</b>	<b>10.8</b>	<b>8.1</b>	<b>25.0</b>	<b>24.4</b>
<b>Peers Median</b>				<b>34.4</b>	<b>26.5</b>	<b>8.2</b>	<b>6.1</b>	<b>23.9</b>	<b>23.2</b>

Source: Bloomberg and CMBIGM, as of 4 March 2022.

## 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
<b>Revenue</b>	<b>3,690</b>	<b>6,456</b>	<b>7,001</b>	<b>9,512</b>	<b>12,699</b>	<b>Pretax profit</b>	<b>359</b>	<b>773</b>	<b>1,259</b>	<b>1,817</b>	<b>2,344</b>
COGS	-2,729	-4,617	-4,678	-6,296	-8,456	D&A	22	39	42	55	65
<b>Gross Profit</b>	<b>961</b>	<b>1,839</b>	<b>2,323</b>	<b>3,216</b>	<b>4,243</b>	Change in working capital	-143	-1,295	-929	263	-1,018
SG&A	-165	-228	-232	-311	-415	Others	115	177	180	140	226
R&D exp.	-357	-595	-490	-713	-952	<b>Net cash from operating</b>	<b>353</b>	<b>-306</b>	<b>552</b>	<b>2,275</b>	<b>1,616</b>
Financing exp.	-19	-103	-182	-209	-243	Capex	-104	-405	-633	-467	-495
Other opex	-36	-28	9	35	-30	Purchase/sale of investments	-15	-8	-59	-34	-33
<b>Operating profit</b>	<b>384</b>	<b>885</b>	<b>1,428</b>	<b>2,018</b>	<b>2,603</b>	Purchase/sale of subs	0	0	0	0	0
Non-operating income	0	0	0	1	1	Other	66	29	-47	34	42
Non-operating exp.	-0	-13	-5	0	0	<b>Net cash from investing</b>	<b>-53</b>	<b>-384</b>	<b>-740</b>	<b>-468</b>	<b>-486</b>
<b>Pre-tax profit</b>	<b>384</b>	<b>872</b>	<b>1,424</b>	<b>2,019</b>	<b>2,604</b>	Change in shares	0	0	2,499	0	0
Income tax expenses	-25	-99	-165	-202	-260	Change in debt	512	983	2,641	772	687
<b>Net profit</b>	<b>359</b>	<b>773</b>	<b>1,259</b>	<b>1,817</b>	<b>2,344</b>	Dividend/interests paid	-128	-83	-163	-189	-214
Non-controlling interests	0	0	0	0	0	Other	-558	866	25	0	0
<b>Net profit to shareholders</b>	<b>359</b>	<b>773</b>	<b>1,259</b>	<b>1,817</b>	<b>2,344</b>	<b>Net cash from financing</b>	<b>-174</b>	<b>1,765</b>	<b>5,002</b>	<b>584</b>	<b>472</b>
<b>Adj. EBITDA</b>	<b>406</b>	<b>924</b>	<b>1,470</b>	<b>2,073</b>	<b>2,668</b>	<b>Net change in cash</b>	<b>126</b>	<b>1,076</b>	<b>4,815</b>	<b>2,390</b>	<b>1,603</b>
						Cash, beginning	202	329	1,374	6,189	8,579
						Exchange difference	2	-31	0	0	0
						Cash, end	<b>329</b>	<b>1,374</b>	<b>6,189</b>	<b>8,579</b>	<b>10,182</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Current assets</b>	<b>2,506</b>	<b>4,815</b>	<b>10,433</b>	<b>12,826</b>	<b>15,782</b>	<b>Revenue by segment</b>					
Cash & equivalents	484	1,470	6,355	8,745	10,348	CMOS	3,194	5,864	5,950	6,383	7,253
Trade & other receivables	594	1,026	659	935	1,112	TDDI	486	591	1,045	3,129	5,446
Inventories	1,180	2,077	3,087	2,739	3,814	Others	10	0	6	0	0
Other current assets	249	242	332	407	509	<b>Total</b>	<b>3,690</b>	<b>6,456</b>	<b>7,001</b>	<b>9,512</b>	<b>12,699</b>
						CMOS %	87%	91%	85%	67%	57%
<b>Non-current assets</b>	<b>455</b>	<b>902</b>	<b>2,002</b>	<b>2,612</b>	<b>3,320</b>	<b>Growth (%)</b>					
PPE	182	248	323	414	527	Revenue	68.2%	74.9%	8.4%	35.9%	33.5%
Intangibles	74	201	196	196	201	Adj. EBITDA	-21.0%	127.6%	59.1%	41.0%	28.7%
Goodwill	0	0	0	0	0	Net profit	-28.1%	115.2%	62.8%	44.3%	29.0%
Other non-current assets	199	452	1,483	2,001	2,592	<b>Profit &amp; loss ratio (%)</b>					
<b>Total assets</b>	<b>2,961</b>	<b>5,716</b>	<b>12,436</b>	<b>15,438</b>	<b>19,102</b>	Gross margin	26.0%	28.5%	33.2%	33.8%	33.4%
<b>Current liabilities</b>	<b>2,599</b>	<b>2,785</b>	<b>5,163</b>	<b>6,262</b>	<b>7,355</b>	EBITDA margin	11.0%	14.3%	21.0%	21.8%	21.0%
ST debt & LT debt to	687	1,568	3,993	4,560	5,202	Net profit margin	9.7%	12.0%	18.0%	19.1%	18.5%
Trade & other payables	1,814	1,030	817	1,297	1,621	<b>Balance sheet ratio</b>					
Other current liabilities	98	188	353	405	532	Net debt/total equity (%)	108.0%	11.0%	net	net	net
<b>Non-current liabilities</b>	<b>96</b>	<b>212</b>	<b>772</b>	<b>858</b>	<b>1,086</b>	Debt/EBITDA	1.3	1.4	3.0	2.5	2.2
LT debt	84	201	417	622	667	Interest coverage	26.3	17.4	9.0	11.0	12.5
Bonds payables	0	0	0	0	0	Cash conversion cycle (days)	20.1	43.6	148.5	127.0	96.8
Other non-current liabilities	11	11	355	236	419	<b>Profitability (%)</b>					
<b>Total liabilities</b>	<b>2,695</b>	<b>2,997</b>	<b>5,934</b>	<b>7,120</b>	<b>8,440</b>	ROE	135.0%	28.4%	19.4%	21.8%	22.0%
<b>Total equity</b>	<b>266</b>	<b>2,719</b>	<b>6,501</b>	<b>8,318</b>	<b>10,662</b>	ROA	12.1%	13.5%	10.1%	11.8%	12.3%
Share capital	0	0	2,502	2,502	2,502	<b>Per share data (RMB)</b>					
Reserves	59	1,712	2,316	2,316	2,316	EPS	0.19	0.37	0.54	0.73	0.94
Retained earnings	267	1,041	2,173	3,808	5,918	BVPS	0.14	1.30	2.79	3.32	4.26
Other equities	-60	-33	-490	-309	-74						
Minority interests	0	0	0	0	0						
<b>Total liabilities and equity</b>	<b>2,961</b>	<b>5,716</b>	<b>12,436</b>	<b>15,438</b>	<b>19,102</b>						

Source: Company data, CMBIGM estimates

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## CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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