

Shennan Circuits (002916 CH)

Drivers of FY21 should be able to sustain & provide a stable revenue growth for FY22

Shennan Circuits' FY21 revenue was RMB13.9bn, up 20.2% YoY. NP was RMB1.5bn, up 3.5% YoY. Revenue/NP was largely in line with our forecasts (6%/4% higher than estimates). We saw good revenue growth from substrate and strong demand from data center/auto clients, but overall macro environment remains tough. Given limited incremental capacity to be released this year, we maintain HOLD, with unchanged TP of RMB110.75.

- Substrate/PCBA business outperformed PCB in FY21.** FY21 revenue/NP grew 20.2%/3.5% YoY. By segment, the revenue of PCB/PCBA/substrate increased 5.1%/67.2%/56.3% YoY. Datacenter/auto demand was strong (rev. grew 45%/150% YoY in 2021). However, telecom market, which was Shennan's core PCB revenue contributor, experienced slower growth. Meanwhile, PCB's GPM also declined due to lower utilization rate and material price increase, etc., but was partially offset by higher substrate GPM as a result of strong semi demand.
- PCB demand from selected subsectors to remain strong, but overall macro environment is tough.** We expect domestic telecom demand will have modest growth in 2022. According to MIIT, ~600k 5G BTS will be built this year (vs. 654k/588k in FY21/FY20). Overseas demand could be stronger as 5G deployment ramps up. PCB revenue growth will again be driven by datacenter and auto demand. Nantong factory (Phase III) is expected to contribute some new capacity as production line continues to ramp up.
- Looking forward, substrate business will continue to outperform.** According to Prismark, package substrate is one of the leading growth drivers among the PCB segments in 2021. Shennan's substrate revenue grew 56.3% YoY in 2021. Memory orders grew 140% YoY as Wuxi factory has entered mass production stage. The company has planned to expand high-end FC IC substrate manufacture, but new capacity is expected to contribute in 2023/24.
- Maintain HOLD, with unchanged TP of RMB110.75.** We are selectively optimistic on PCB growth as overall macro environment is tough. We believe substrate and datacenter/auto PCB demand will remain very strong. Given limited incremental capacity to be released this year, we think the stock is fairly valued at the moment. Maintain HOLD, with unchanged TP of RMB110.75.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Turnover (RMB mn)	11,600	13,943	16,496	19,399	23,080
YoY growth (%)	10.2%	20.2%	18.3%	17.6%	19.0%
Gross margin (%)	26.5%	23.7%	24.9%	25.5%	26.5%
Net profit (RMB mn)	1,430	1,481	1,926	2,371	3,128
EPS (RMB)	3.00	3.02	3.94	4.85	6.39
YoY growth (%)	-18.0%	0.7%	30.4%	23.1%	31.9%
Consensus EPS (RMB)	NA	NA	3.68	4.35	4.83
PE (x)	32.6	32.4	24.8	20.2	15.3
Yield (%)	0.0%	1.0%	1.0%	1.0%	2.2%
ROE (%)	19.2%	17.4%	19.3%	20.3%	22.3%
Net gearing (%)	10.5%	12.9%	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	RMB110.75
(Previous TP)	RMB110.75)
Up/Downside	+14.1%
Current Price	RMB 97.80

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 (HK\$ mn)	50,262
Avg 3 mths t/o (HK\$ mn)	382
52w High/Low (HK\$)	126.66/74.88
Total Issued Shares (mn)	512.9

Source: Bloomberg

Shareholding Structure

AVIC International Holdings	63.97%
HK Securities Clearing	2.69%
China Asset Management Co	0.89%

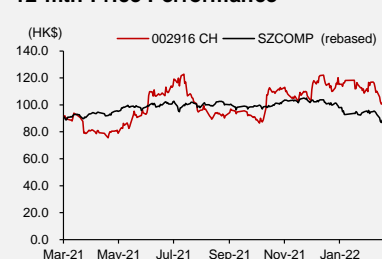
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.9%	-2.9%
3-mth	-8.2%	8.0%
6-mth	6.6%	21.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

Recent Reports:

- Substrate demand remains strong in 2022 – 14 Feb 2022 ([Link](#))
- Strong 3Q results; Cost pressure remains – 2 Nov 2021 ([Link](#))

Figure 1: Earnings revision

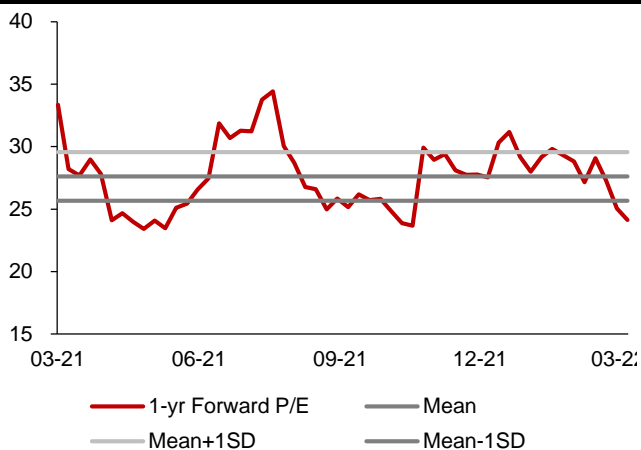
US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	16,496	19,399	23,080	15,629	17,668	na	6%	10%	na
Gross Profit	4,110	4,948	6,118	3,906	4,549	na	5%	9%	na
Operating Profit	2,124	2,609	3,442	2,030	2,431	na	5%	7%	na
Net profit	1,926	2,371	3,128	1,819	2,200	na	6%	8%	na
EPS (US\$ cents)	3.94	4.85	6.39	3.69	4.47	na	7%	8%	na
Gross Margin	24.9%	25.5%	26.5%	25.0%	25.7%	na	-0.1 ppt	-0.2 ppt	na
Operating Margin	12.9%	13.4%	14.9%	13.0%	13.8%	na	-0.1 ppt	-0.3 ppt	na
Net Margin	11.7%	12.2%	13.6%	11.6%	12.5%	na	0 ppt	-0.2 ppt	na

Source: Company data, CMBIGM estimates

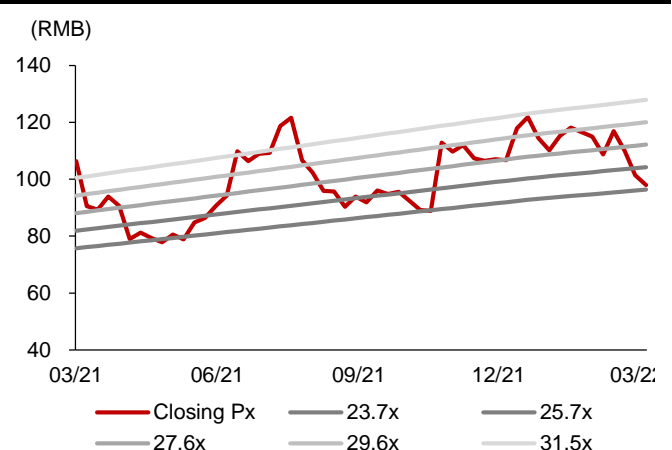
Figure 2: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	16,496	19,399	23,080	15,925	18,474	21,973	4%	5%	5%
Gross Profit	4,110	4,948	6,118	4,009	4,664	5,229	3%	6%	17%
Operating Profit	2,124	2,609	3,442	2,072	2,437	2,778	3%	7%	24%
Net profit	1,926	2,371	3,128	1,814	2,166	2,402	6%	9%	30%
EPS (US\$ cents)	3.94	4.85	6.39	3.68	4.35	4.83	7%	12%	32%
Gross Margin	24.9%	25.5%	26.5%	25.2%	25.2%	23.8%	-0.3 ppt	0.3 ppt	2.7 ppt
Operating Margin	12.9%	13.4%	14.9%	13.0%	13.2%	12.6%	-0.1 ppt	0.3 ppt	2.3 ppt
Net Margin	11.7%	12.2%	13.6%	11.4%	11.7%	10.9%	0.3 ppt	0.5 ppt	2.6 ppt

Source: Company data, CMBIGM estimates

Figure 3: 12M forward P/E band

Source: Company data, CMBIGM estimates

Figure 4: 12M forward P/B band

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	11,600	13,943	16,496	19,399	23,080
Cost of sales	(8,530)	(10,637)	(12,386)	(14,451)	(16,962)
Gross profit	3,071	3,306	4,110	4,948	6,118
Selling exp	(167)	(233)	(275)	(324)	(385)
Admin exp (excl. R&D)	(480)	(543)	(626)	(717)	(853)
R&D exp	(645)	(782)	(926)	(1,089)	(1,295)
Finance costs	(152)	(107)	(176)	(180)	(179)
Other operating exp.	2,889	3,354	3,989	4,649	5,389
Operating profit	1,625	1,617	2,124	2,609	3,442
Other non-oper exp.	(19)	(8)	(18)	(16)	(22)
Pre-tax profit	1,606	1,609	2,106	2,593	3,420
Income tax expense	(175)	(128)	(179)	(220)	(291)
Minority interests	1	0	1	1	1
Net profit	1,430	1,481	1,926	2,371	3,128

Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	1,431	1,481	1,927	2,372	3,129
D&A	591	793	970	1,049	1,151
Change in working capital	(557)	(363)	925	(1,615)	1,264
Others	335	431	519	15	574
Net cash from operating	1,800	2,342	4,340	1,821	6,119
Capex	(2,486)	(2,658)	(976)	(831)	(1,181)
Other	(149)	178	49	51	55
Net cash from investing	(2,635)	(2,481)	(926)	(780)	(1,126)
Share issuance	0	0	0	0	0
Dividend paid	(453)	(541)	(677)	(836)	(994)
Other	383	802	(498)	(573)	(508)
Net cash from financing	(71)	261	(1,175)	(1,409)	(1,501)
Net change in cash	(905)	122	2,239	(368)	3,491
Cash at beginning of the year	1,441	504	620	2,859	2,491
Exchange difference	9	(31)	0	0	0
Cash at the end of the year	504	620	2,859	2,491	5,982

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	5,941	7,270	10,220	11,483	16,341
Cash & equivalents	507	620	2,859	2,491	5,982
Account receivables	2,053	2,732	3,046	3,680	4,362
Inventory	2,206	2,527	2,923	3,471	4,012
Prepayment	6	16	10	13	15
Other current assets	1,169	1,377	1,383	1,828	1,969
Non-current assets	8,067	9,522	10,243	10,646	11,441
PPE	6,485	7,789	7,940	8,055	8,454
Deferred tax assets	72	91	111	120	150
Other non-current	1,509	1,642	2,192	2,472	2,837
Total assets	14,008	16,792	20,463	22,129	27,782
Current liabilities	4,932	5,948	7,788	7,506	10,309
ST borrowings	232	350	355	350	347
Account payables	1,515	1,881	2,326	2,435	3,239
Tax payable	22	78	94	102	128
Other current liabilities	3,163	3,639	5,013	4,619	6,594
Non-current liabilities	1,631	2,325	2,715	2,926	3,427
LT borrowings	1,059	1,368	1,549	1,664	1,843
Deferred tax liability	6	7	8	9	11
Other non-current	566	950	1,158	1,253	1,573
Total liabilities	6,563	8,272	10,504	10,431	13,736
Share capital	489	489	489	489	489
Reserve	3,660	3,675	3,675	3,675	3,675
Retained earnings	3,135	4,150	5,589	7,327	9,674
Other	158	202	202	202	202
Minority interest	3	3	4	5	6
Total equity	7,444	8,520	9,960	11,698	14,046
Total liabilities and equity	14,008	16,792	20,463	22,129	27,782

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
PCBV	8,311	8,737	9,842	11,238	11,033
PCBA	1,160	1,940	1,935	1,981	2,080
Substrate	1,544	2,415	3,783	5,151	8,834
Growth (%)					
Revenue	10.2%	20.2%	18.3%	17.6%	19.0%
Gross profit	10.0%	7.6%	24.3%	20.4%	23.6%
Operating profit	14.7%	-0.5%	31.4%	22.8%	31.9%
Net profit	16.0%	3.5%	30.1%	23.1%	31.9%
Profit & loss ratio (%)					
Gross margin	26.5%	23.7%	24.9%	25.5%	26.5%
Operating margin	14.0%	11.6%	12.9%	13.4%	14.9%
Net profit margin	12.3%	10.6%	11.7%	12.2%	13.6%
Balance sheet ratio					
Net debt/total equity (%)	10.5%	12.9%	Net cash	Net cash	Net cash
Current ratio (x)	1.2	1.2	1.3	1.5	1.6
Receivable turnover days	65	63	64	63	64
Inventory turnover days	(79)	(81)	(80)	(81)	(81)
Payable turnover days	(66)	(58)	(62)	(60)	(61)
Profitability (%)					
ROE	19.2%	17.4%	19.3%	20.3%	22.3%
ROA	10.2%	8.8%	9.4%	10.7%	11.3%
Per share data (RMB)					
EPS	3.00	3.02	3.94	4.85	6.39
DPS	0.00	0.95	0.95	0.95	2.10
BPS	15.61	17.41	20.35	23.90	28.70

Source: Company data, CMBIGM 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.

CMBIGM 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 CMBIGM

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 Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") 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. CMBIGM 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. CMBIGM 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 CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM 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 CMBIGM 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. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM 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. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM 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 CMBIGM 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 CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM 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 CMBIGM.

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 CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM 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.