

Shennan Circuits (002916 CH)

1Q22 in line with positive margin surprise

Shennan Circuits' announced 1Q22 results. Revenue/NP grew 21.7%/42.9% YoY, reaching RMB3,316mn/RMB348mn. 1Q22's results was largely in line with our forecast, with positive margin surprise. Looking forward, we remain cautious due to tough macro environment and recent resurgence of COVID cases in China. Although the latter has limited impact on Shennan's production, the demand uncertainty remains as supply chain disruption is expected to last longer. Maintain HOLD, adjusted TP to RMB102.

- 1Q22 results largely in line with positive margin surprise.** 1Q22's revenue was largely in line with our forecast, accounting for 20.1% of our FY21 estimate (vs. 19.5% for 1Q21). GPM was 26.8%, 4.3% higher than 4Q21, mainly due to 1) favorable product mix, 2) recovering GPM for PCBA, 3) improving operational efficiency as new Nantong factory ramping up production and 4) product/customer structure optimization for PCB and substrate business.
- Recent partial lockdown has limited impact on production but demand uncertainty remains.** Resurgent COVID cases in China has limited impact on production as some factories are currently under closed loop system management. However, the impact on demand and supply chain is expected to last longer. We believe datacenter/auto demand will remain strong this year, but partially offset by prolonged chip shortage. For telecom market, demand remains weak at the moment. According to Telco's latest filings, ~670k 5G base stations (including 28k 700MHz) will be added in 2022 (vs. 650k/640k in 2021/2020). Overall capex will be flat in 2022; however, 5G-related spending will be lower and detailed timeline of deployment is unclear.
- Maintain HOLD, with new TP of RMB102.** We expect FY22 revenue to grow 18.3% YoY, supported by new capacity released this year and strong demand for datacenter/auto/substrate. However, uncertainty will remain longer-than-expected as supply chain disruption persists. We trimmed target P/E multiple to 26.2x FY22E P/E, avg. 2-yr historical forward P/E, (vs. prior 30x), and reduced TP to RMB102. Potential upside: 1) sooner-than-expected ease of chip shortage, 2) stronger recovery in consumer demand and 3) material cost and logistic overhang removed.

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%	26.4%
Net profit (RMB mn)	1,430	1,481	1,906	2,337	3,064
EPS (RMB)	3.00	3.02	3.90	4.78	6.26
YoY growth (%)	-18.0%	0.7%	29.0%	22.6%	31.1%
Consensus EPS (RMB)	NA	NA	3.66	4.29	0.00
PE (x)	29.7	29.5	22.9	18.6	14.2
Yield (%)	0.0%	1.1%	1.1%	1.1%	2.3%
ROE (%)	19.2%	17.4%	15.3%	16.5%	18.6%
Net gearing (%)	10.5%	12.9%	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	RMB102.00
(Previous TP)	RMB110.75)
Up/Downside	+14.5%
Current Price	RMB 89.10

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)	46,093
Avg 3 mths t/o (HK\$ mn)	306
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	0.94%

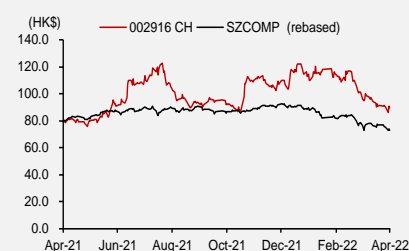
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.4%	-5.0%
3-mth	-20.5%	-3.9%
6-mth	-1.3%	13.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO

Recent Reports:

- Drivers of FY21 should be able to sustain & provide a stable revenue growth for FY22 – 14 Feb 2022 ([Link](#))
- Substrate demand remains strong in 2022 – 14 Feb 2022 ([Link](#))

Figure 1: 1Q22 results review

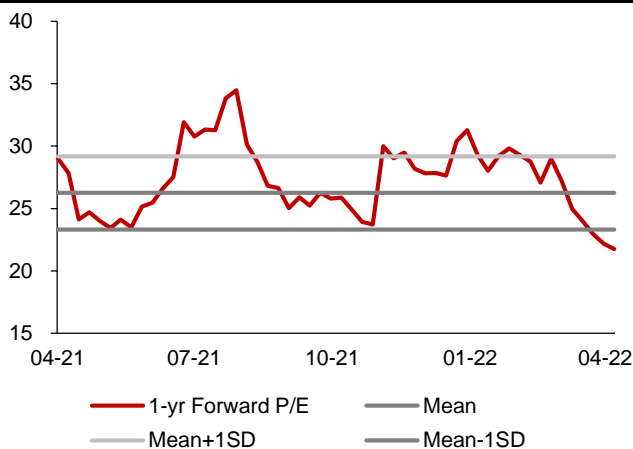
RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	YoY
Revenue	2,498	3,418	3,067	2,618	2,725	3,156	3,875	4,187	3,316	21.7%
Gross Profit	639	911	848	673	639	772	951	943	888	39.1%
Operating Profit	336	514	442	332	277	337	509	494	380	37.2%
Net profit	277	448	374	332	244	304	473	460	348	42.8%
EPS (RMB)	0.82	0.70	0.78	0.70	0.50	0.64	0.95	0.93	0.70	40.0%
Gross Margin	25.6%	26.7%	27.6%	25.7%	23.4%	24.5%	24.6%	22.5%	26.8%	3.4 ppt
Operating Margin	13.5%	15.0%	14.4%	12.7%	10.2%	10.7%	13.1%	11.8%	11.5%	1.3 ppt
Net Margin	11.1%	13.1%	12.2%	12.7%	8.9%	9.6%	12.2%	11.0%	10.5%	1.6 ppt

Source: Company data, CMBIGM estimates

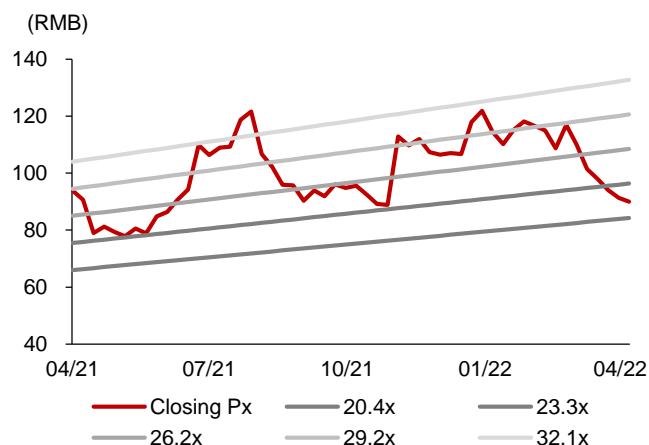
Figure 2: Peers' valuation

Company	Ticker	Rating	12m TP (LC)	Price (LC)	Upside/Downside	Mkt. Cap (US\$ mn)	P/E (x) FY22E	P/E (x) FY23E	ROE (%) FY22E	ROE (%) FY23E
Shennan	002916 CH	Hold	102.00	89.10	14.5%	7,178	22.9	18.6	15.3	16.5
Shengyi Tech	600183 CH	Hold	19.00	15.84	19.9%	5,759	14.2	12.1	18.0	18.8
WUS	002463 CH	NR	NA	10.83	NA	3,226	14.3	11.4	18.4	18.7
Kinwon	603228 CH	NR	NA	21.70	NA	2,903	14.2	11.7	15.8	16.7
DSBJ	002384 CH	NR	NA	17.19	NA	4,617	12.4	10.5	14.4	14.9
Zhen Ding	4958 TT	NR	NA	108.00	NA	3,523	9.6	8.6	11.2	12.2
TTM	TTMI US	NR	NA	13.55	NA	1,377	10.9	9.4	-	-
UMTC	3037 TT	NR	NA	216.50	NA	11,003	15.8	12.0	29.2	31.3
Tripod	3044 TT	NR	NA	125.50	NA	2,272	9.9	8.9	16.6	17.0
Comped	2313 TT	NR	NA	46.15	NA	1,895	9.3	8.8	15.9	15.8
SEMCO	009150 KS	NR	NA	160000.00	NA	9,733	10.1	8.9	16.7	16.1
Average							13.1	11.0	17.2	17.8

Source: Bloomberg, 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)	(16,989)
Gross profit	3,071	3,306	4,110	4,948	6,090
Selling exp	(167)	(233)	(275)	(324)	(385)
Admin exp (excl. R&D)	(480)	(543)	(643)	(756)	(899)
R&D exp	(645)	(782)	(926)	(1,089)	(1,295)
Finance costs	(152)	(107)	(172)	(169)	(165)
Other operating exp.	2,889	3,354	4,024	4,714	5,462
Operating profit	1,625	1,617	2,102	2,571	3,373
Other non-oper exp.	(19)	(8)	(18)	(16)	(22)
Pre-tax profit	1,606	1,609	2,084	2,555	3,350
Income tax expense	(175)	(128)	(177)	(217)	(285)
Minority interests	1	0	1	1	1
Net profit	1,430	1,481	1,906	2,337	3,064

Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	1,431	1,481	1,907	2,338	3,066
D&A	591	793	972	1,056	1,163
Change in working capital	(557)	(363)	840	(1,515)	1,141
Others	335	431	146	100	257
Net cash from operating	1,800	2,342	3,865	1,980	5,627
Capex	(2,486)	(2,658)	(1,053)	(891)	(1,230)
Other	(149)	178	(1,152)	41	47
Net cash from investing	(2,635)	(2,481)	(2,205)	(850)	(1,183)
Share issuance	0	0	2,500	0	0
Dividend paid	(453)	(541)	(676)	(824)	(972)
Other	383	802	(517)	(664)	(553)
Net cash from financing	(71)	261	1,306	(1,488)	(1,525)
Net change in cash	(905)	122	2,966	(358)	2,919
Cash at beginning of the year	1,441	504	620	3,586	3,229
Exchange difference	9	(31)	0	0	0
Cash at the end of the year	504	620	3,586	3,229	6,147

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	5,941	7,270	12,133	13,466	17,691
Cash & equivalents	507	620	3,586	3,229	6,147
Account receivables	2,053	2,732	3,046	3,680	4,362
Inventory	2,206	2,527	2,923	3,471	4,024
Prepayment	6	16	10	13	15
Other current assets	1,169	1,377	2,569	3,073	3,142
Non-current assets	8,067	9,522	10,260	10,736	11,506
PPE	6,485	7,789	8,006	8,170	8,608
Deferred tax assets	72	91	102	121	140
Other non-current	1,509	1,642	2,151	2,445	2,758
Total assets	14,008	16,792	22,393	24,202	29,197
Current liabilities	4,932	5,948	7,318	7,265	9,710
ST borrowings	232	350	245	188	137
Account payables	1,515	1,881	2,326	2,435	3,248
Tax payable	22	78	50	83	82
Other current liabilities	3,163	3,639	4,698	4,559	6,242
Non-current liabilities	1,631	2,325	2,635	2,787	3,040
LT borrowings	1,059	1,368	1,639	1,716	1,898
Deferred tax liability	6	7	8	9	10
Other non-current	566	950	988	1,062	1,131
Total liabilities	6,563	8,272	9,953	10,052	12,750
Share capital	489	489	489	489	489
Reserve	3,660	3,675	6,175	6,175	6,175
Retained earnings	3,135	4,150	5,569	7,279	9,574
Other	158	202	202	202	202
Minority interest	3	3	4	5	6
Total equity	7,444	8,520	12,440	14,150	16,447
Total liabilities and equity	14,008	16,792	22,393	24,202	29,197

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
PCB	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%	23.1%
Operating profit	14.7%	-0.5%	30.0%	22.3%	31.2%
Net profit	16.0%	3.5%	28.7%	22.6%	31.1%
Profit & loss ratio (%)					
Gross margin	26.5%	23.7%	24.9%	25.5%	26.4%
Operating margin	14.0%	11.6%	12.7%	13.3%	14.6%
Net profit margin	12.3%	10.6%	11.6%	12.0%	13.3%
Balance sheet ratio					
Net debt/total equity (%)	10.5%	12.9%	Net	Net	Net
Current ratio (x)	1.2	1.2	1.7	1.9	1.8
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%	15.3%	16.5%	18.6%
ROA	10.2%	8.8%	8.5%	9.7%	10.5%
Per share data (RMB)					
EPS	3.00	3.02	3.90	4.78	6.26
DPS	0.00	0.95	0.95	0.95	2.06
BPS	15.61	17.41	25.42	28.92	33.61

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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