

# Shennan Circuits (002916 CH)

## Corp Day Takeaways: Company's operation remains normal, little impact from COVID

We hosted an investor call with Shennan during our Technology Corporate Day. There is limited impact from COVID (mainly in logistic) and the Company's operation is normal. We maintain our outlook and previous forecasts for the Company. The utilization rate and production ramp up status are in line with our estimates. Due to limited new capacity added this year, we maintain HOLD rating. TP is RMB102.

- PCB: Limited capacity added in 2022.** PCB revenue breakdown by market are 50-60% from Telecom, 13-14% from data center, 10% from industrial/healthcare and 5% from auto. Total utilization rate is ~80%. Domestic telecom business remains weak in 1H22, but is expected to have HoH growth in 2H22, driven by resumed demand for 5G BTS and favorable policy on new infrastructure investments. We expect overseas telecom business to have higher growth but smaller contribution, and remain neutral on telecom PCB segment. For auto PCB, Nantong phase III factory is ramping the production, with ~30% utilization rate. Full capacity is expected to contribute ~RMB1.5bn revenue in late 2023/24E.
- Substrate: demand is strong but new capacity to contribute after 2022.** Shenzhen and Wuxi phase I factories are expected to contribute RMB1.0bn-1.2bn and RMB1.3bn with full capacity. Wuxi phase II and Guangzhou factories are planned to begin production by the end of 2022 and 2023. Overall utilization rate for substrate production line is reaching maximum, suggesting continuous high demand. We think the full utilization status will maintain in 2H22. For memory-used substrate (>30% of segment rev.), there is limited new capacity added during the past years across the industry. But the demand for memory is growing, especially driven by data center expansion.
- Maintain HOLD, with unchanged TP of RMB102.** There is limited impact from COVID (mainly in logistic) and the company's operation is normal. We maintain our previous rating and TP of 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)	31.2	31.0	24.0	19.6	14.9
Yield (%)	0.0%	1.0%	1.0%	1.0%	2.2%
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)	RMB102.00)
Up/Downside	+9.1%
Current Price	RMB 93.49

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### Stock Data

Mkt Cap (HK\$ mn)	47,949
Avg 3 mths t/o (HK\$ mn)	202
52w High/Low (HK\$)	126.66/85.5
Total Issued Shares (mn)	512.9
Source: Bloomberg	

### Shareholding Structure

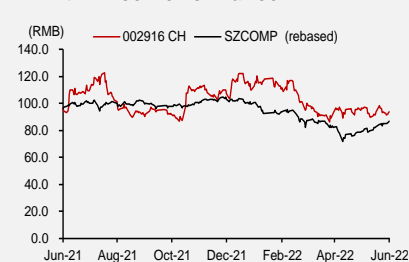
AVIC International Holdings	63.97%
HK Securities Clearing	2.69%
China Asset Management Co	0.85%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-1.9%	-10.3%
3-mth	-3.2%	-4.2%
6-mth	-15.2%	3.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: BDO

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>11,600</b>	<b>13,943</b>	<b>16,496</b>	<b>19,399</b>	<b>23,080</b>
Cost of sales	(8,530)	(10,637)	(12,386)	(14,451)	(16,989)
<b>Gross profit</b>	<b>3,071</b>	<b>3,306</b>	<b>4,110</b>	<b>4,948</b>	<b>6,090</b>
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)	(177)	(180)	(176)
Other operating exp.	2,889	3,354	4,033	4,736	5,485
<b>Operating profit</b>	<b>1,625</b>	<b>1,617</b>	<b>2,098</b>	<b>2,560</b>	<b>3,361</b>
Other non-oper exp.	(19)	(8)	(18)	(16)	(22)
<b>Pre-tax profit</b>	<b>1,606</b>	<b>1,609</b>	<b>2,079</b>	<b>2,544</b>	<b>3,339</b>
Income tax expense	(175)	(128)	(177)	(216)	(284)
Minority interests	1	0	1	1	1
<b>Net profit</b>	<b>1,430</b>	<b>1,481</b>	<b>1,902</b>	<b>2,327</b>	<b>3,054</b>

### Cash flow

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Net profit</b>	1,431	1,481	1,903	2,328	3,055
D&A	591	793	972	1,057	1,164
Change in working capital	(557)	(363)	848	(1,511)	1,138
Others	335	431	151	114	269
<b>Net cash from operating</b>	<b>1,800</b>	<b>2,342</b>	<b>3,874</b>	<b>1,987</b>	<b>5,625</b>
Capex	(2,486)	(2,658)	(1,059)	(897)	(1,234)
Other	(149)	178	(1,152)	41	47
<b>Net cash from investing</b>	<b>(2,635)</b>	<b>(2,481)</b>	<b>(2,211)</b>	<b>(855)</b>	<b>(1,187)</b>
Share issuance	0	0	2,500	0	0
Dividend paid	(453)	(541)	(682)	(835)	(981)
Other	383	802	(388)	(611)	(602)
<b>Net cash from financing</b>	<b>(71)</b>	<b>261</b>	<b>1,430</b>	<b>(1,446)</b>	<b>(1,583)</b>
<b>Net change in cash</b>	<b>(905)</b>	<b>122</b>	<b>3,093</b>	<b>(314)</b>	<b>2,855</b>
Cash at beginning of the year	1,441	504	620	3,713	3,399
Exchange difference	9	(31)	0	0	0
Cash at the end of the year	<b>504</b>	<b>620</b>	<b>3,713</b>	<b>3,399</b>	<b>6,254</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>5,941</b>	<b>7,270</b>	<b>12,263</b>	<b>13,642</b>	<b>17,801</b>
Cash & equivalents	507	620	3,713	3,399	6,254
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	2,572	3,078	3,145
<b>Non-current assets</b>	<b>8,067</b>	<b>9,522</b>	<b>10,269</b>	<b>10,752</b>	<b>11,523</b>
PPE	6,485	7,789	8,011	8,180	8,620
Deferred tax assets	72	91	103	122	140
Other non-current	1,509	1,642	2,155	2,451	2,762
<b>Total assets</b>	<b>14,008</b>	<b>16,792</b>	<b>22,532</b>	<b>24,394</b>	<b>29,324</b>
<b>Current liabilities</b>	<b>4,932</b>	<b>5,948</b>	<b>7,373</b>	<b>7,340</b>	<b>9,758</b>
ST borrowings	232	350	288	244	173
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	4,710	4,578	6,254
<b>Non-current liabilities</b>	<b>1,631</b>	<b>2,325</b>	<b>2,723</b>	<b>2,917</b>	<b>3,139</b>
LT borrowings	1,059	1,368	1,725	1,842	1,995
Deferred tax liability	6	7	8	9	10
Other non-current	566	950	990	1,066	1,134
<b>Total liabilities</b>	<b>6,563</b>	<b>8,272</b>	<b>10,097</b>	<b>10,257</b>	<b>12,897</b>
Share capital	489	489	489	489	489
Reserve	3,660	3,675	6,175	6,175	6,175
Retained earnings	3,135	4,150	5,565	7,266	9,554
Other	158	202	202	202	202
Minority interest	3	3	4	5	6
<b>Total equity</b>	<b>7,444</b>	<b>8,520</b>	<b>12,435</b>	<b>14,137</b>	<b>16,427</b>
<b>Total liabilities and equity</b>	<b>14,008</b>	<b>16,792</b>	<b>22,532</b>	<b>24,394</b>	<b>29,324</b>

### Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue mix</b>					
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
<b>Growth (%)</b>					
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%	29.7%	22.1%	31.3%
Net profit	16.0%	3.5%	28.4%	22.4%	31.2%
<b>Profit &amp; loss ratio (%)</b>					
Gross margin	26.5%	23.7%	24.9%	25.5%	26.4%
Operating margin	14.0%	11.6%	12.7%	13.2%	14.6%
Net profit margin	12.3%	10.6%	11.5%	12.0%	13.2%
<b>Balance sheet ratio</b>					
Net debt/total equity (%)	10.5%	12.9%	Net cash	Net cash	Net cash
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)
<b>Profitability (%)</b>					
ROE	19.2%	17.4%	15.3%	16.5%	18.6%
ROA	10.2%	8.8%	8.4%	9.5%	10.4%
<b>Per share data (RMB)</b>					
EPS	3.00	3.02	3.89	4.76	6.24
DPS	0.00	0.95	0.95	0.95	2.05
BPS	15.61	17.41	25.41	28.89	33.57

Source: Company data, CMBIGM estimates

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