

Hua Hong Semiconductor (1347 HK)

Corp Day Takeaways: Solid 2Q guidance; 12-inch capacity expansion on track

We hosted an investor call with Hua Hong Semi during our Technology Corporate Day. Mgmt. stated closed-loop operations were implemented during recent Shanghai lockdown, and 2Q guidance was on track given 1) strong demand from MCU, IGBT, Nor Flash and analog/PMIC, 2) 100%+ utilization for both 8 & 12-inch capacity, and 3) continued ASP hike in 2Q22E. Looking into FY23E, mgmt. remained positive on industry demand, rising ASP, and capacity expansion in Wuxi 12-inch Phase II project.

- Strong demand in MCU, IGBT and analog & PMIC.** In 1Q22, all technology platforms delivered strong revenue growth with 51%/406%/66%/91%/201% YoY in eNVM/ standalone NVM/ discrete/ logic & RF/ analog & PMIC. Mgmt. expected momentum to continue across all platforms in FY22E: 1) eNVM driven by strong MCU demand from mobile phones, smart home, smart meters, IoT and automotives; 2) Standalone NVM (+200% YoY) to benefit from earlier mass production in 12-inch factory; 3) IGBT to achieve double-digit growth (stable growth in low-voltage, double-digit growth in high-voltage); 4) logic & RF to achieve double-digit growth with stable CIS orders; and 5) analog & PMIC to grow ~100% YoY mainly on strong PMIC.
- 8-inch: target UTR of 100% and GPM of 45%/50% in FY22/23E.** Mgmt. guided US\$180mn capex to improve efficiency in 8-inch capacity in FY22E, and expected 100% utilization in coming quarters. Mgmt. expected supply shortage will continue to drive ASP in 2Q-4Q, and GPM will improve to 45%/50% in FY22/23E (vs 34% in FY21) due to cost reduction.
- 12-inch: rapid capacity expansion and positive progress on Wuxi Phase II factory.** Wuxi's capacity exceeded 70kwpm now, and is on track to reach 94.5kwpm by end-2022. Mgmt. expected Wuxi Phase II factory (40nm) will start mass production after the construction is completed by end-2022 or early 2023. Mgmt. targeted 100%+ utilization in FY22/23E due to strong demand from both global and domestic clients. Mgmt. guided GPM to reach 20%/30% in FY22/23E (vs. 9.1% in FY21) due to rising ASP and better cost control.
- No impact from US equipment export tightening.** Mgmt. emphasized that the company is the certified VEU holder by the US Department of Commerce and has export control program management; hence, there is no challenge in equipment procurement and product export.

Earnings Summary

(YE 31 Dec)	FY17	FY18	FY19	FY20	FY20
Revenue (USD mn)	808	930	933	961	1,631
YoY growth (%)	12.0	15.1	0.2	3.1	69.6
Net income (USD mn)	145	183	162	99	261
EPS (USD)	0.1	0.2	0.1	0.1	0.2
YoY growth (%)	15.5	22.1	-28.7	-38.0	161.5
Consensus EPS (USD)	NA	NA	NA	NA	NA
P/E (x)	15.5	13.6	15.7	89.7	41.9
P/B (x)	1.4	1.4	1.3	3.1	2.7
Yield (%)	0.1	0.2	0	0	0
ROE (%)	9.1	9.5	7.4	4.2	9.7
Net gearing (%)	35	38	48	47	47

Source: Company data, Bloomberg, Wind, CMBIGM estimates

NOT RATED

Current Price

HK\$26.60

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$m)	34,627
Avg. 3mths t/o (HK\$m)	235.88
52W High/Low (HK\$)	57.00/ 23.20
Total Issued Shares (mn)	1,302

Source: Bloomberg

Shareholding Structure

Shanghai Hua Hong Intl	26.92%
Xinxin HK Capital	13.73%
Sino-Alliance International	12.33%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.7%	NA
3-mth	-19.9%	NA
6-mth	-35.9%	NA

Source: Bloomberg

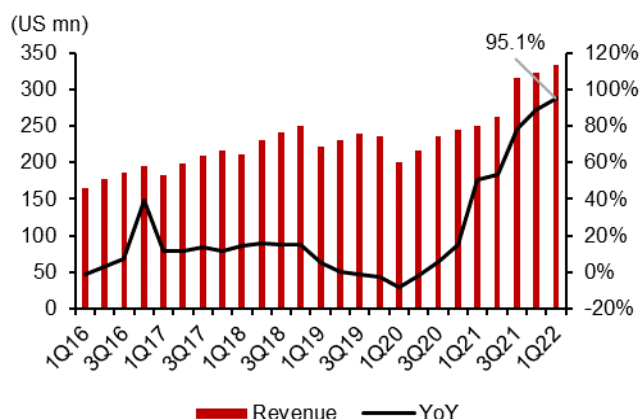
12-mth Price Performance



Source: Bloomberg

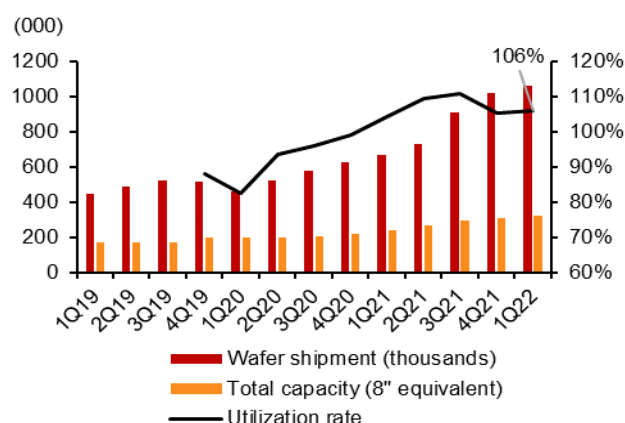
Focus Charts

Figure 1: 1Q16-1Q22 quarterly revenue & YoY



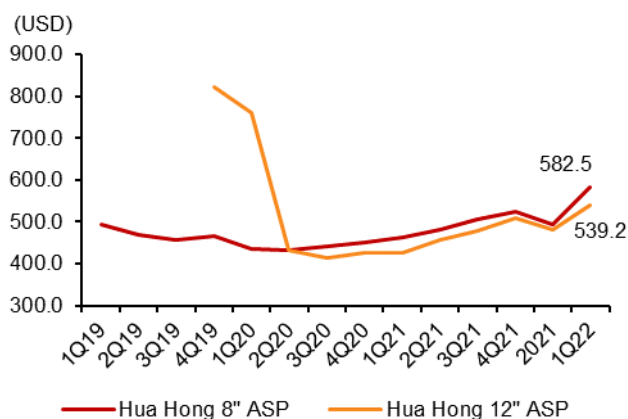
Source: Company data, CMBIGM estimates

Figure 2: 1Q19-1Q22 wafer shipment, capacity & UTR



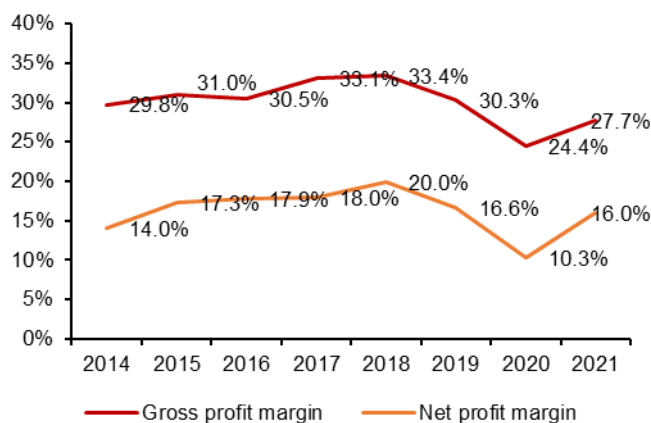
Source: Company data, CMBIGM estimates

Figure 3: 1Q19-1Q22 Hua Hong 8" & 12" ASP



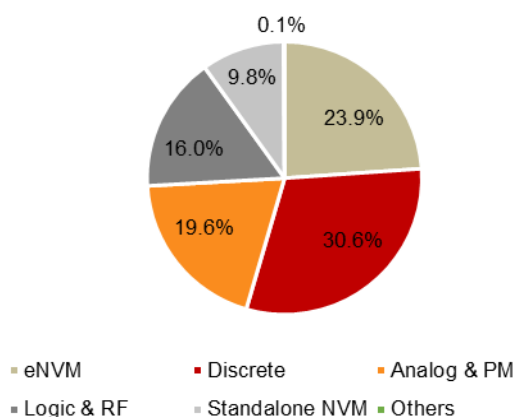
Source: Company data, CMBIGM estimates

Figure 4: 2014-2021 gross margin & net margin



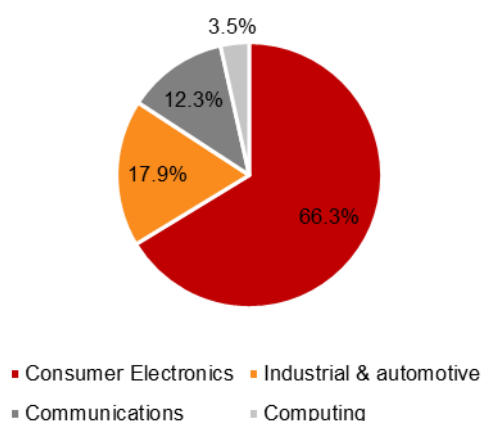
Source: Company data, CMBIGM estimates

Figure 5: 1Q22 revenue by technology platform



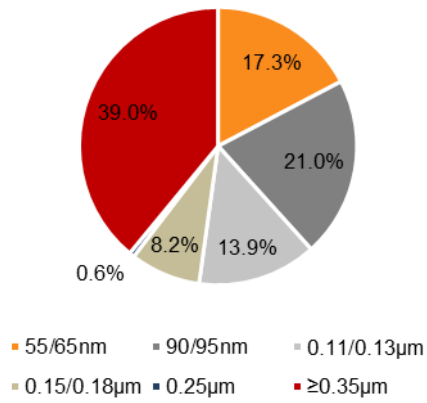
Source: Company data, CMBIGM estimates

Figure 6: 1Q22 revenue by end market



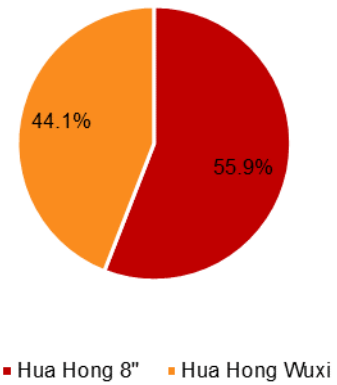
Source: Company data, CMBIGM estimates

Figure 7: 1Q22 revenue by technology node



Source: Company data, CMBIGM estimates

Figure 8: 1Q22 revenue by segment



Source: Company data, CMBIGM estimates

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