Sunway (300136 CH)

4Q20 miss on slower antenna and FX impact; Trim TP to RMB46.7

Sunway released FY20E earnings preview with net profit growth between -4.9% and 4.9%, with mid-point of RMB1.0bn which is 23%/24% below our/consensus estimates. By 4Q20, we estimate revenue/net profit of RMB1,832/274mn, up 18% /42% YoY. We believe the miss is mainly due to slower antenna, GPM pressure, higher R&D and RMB appreciation. We cut FY20-22E estimates by 17-27% to reflect more conservative assumptions, and trimmed our TP to RMB46.7 based on same 31.4x FY21E P/E. We expect near-term pressure on stock price, but we maintain our positive view on Sunway's antenna/wireless charging with 32%/51% sales CAGR in FY20-23E given strong 5G smartphone shipment and rapid adoption of wireless charging. Maintain BUY.

- **Weaker 4Q20 due to slower antenna and FX impact.** We believe the miss was mainly due to 1) slower antenna and GPM pressure due to competition, 2) product launch delay of major clients; 3) domestic client impact on macro uncertainties, 4) foreign exchange loss due to RMB appreciation, and 5) higher R&D expense and share-based compensation. By 4Q20, revenue/net profit grew 18%/43% YoY, and GPM came in at 34.0% (vs 33.3% in 4Q19).
- **Positive outlook for 5G antenna upgrade and wireless charging.** As global leader in antenna and wireless charging, we expect Sunway to accelerate category expansion in both Apple/Android camp ranging from smartphones to tablets to AIoT (Watch/TWS/band). We forecast antenna to grow 32% FY20-23E CAGR, driven by share gain for LDS antenna and 5G antenna upgrade. Also, we expect Sunway's wireless charging to grow 51% CAGR in FY20-23E given share gain in iPhone/iPad/wearables, Android adoption and product launch of transmitters (e.g. Magsafe and Airpower).
- **Maintain BUY; lower TP to RMB46.7.** We adjusted our estimates and lower TP to RMB46.7 (same 31x FY21/P/E) to reflect more conservative revenue and margin assumptions. We expect near-term pressure on stock price, but we recommend to accumulate after correction as we believe Sunway will benefit from 5G smartphone shipment and rapid adoption of wireless charging. Potential risks include slower-than-expected market share gain and delay in 5G upgrades.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,707	5,134	6,173	9,170	12,567
YoY growth (%)	37.0	9.1	20.2	48.6	37.0
GPM	36.5	37.3	34.3	34.8	35.1
Net profit (RMB mn)	988	1,020	1,020	1,439	2,025
EPS (RMB)	1.01	1.05	1.05	1.49	2.09
YoY growth (%)	11%	4%	0%	41%	41%
Consensus EPS (RMB)	na	na	1.37	1.99	2.56
PE (x)	35.5	34.0	33.9	24.0	17.1
PB (x)	9.4	7.3	6.0	4.8	3.8
Yield (%)	0.0	0.1	0.1	0.2	0.3
ROE (%)	26.7	21.4	17.7	20.2	22.3
Net gearing (%)	25.0	27.6	13.4	26.0	19.9

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**RMB 46.7**
(Previous TP	RMB 64.31)
Up/Downside	**+30.7%**
Current Price	**RMB 35.70**

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	32,104
Avg. 3mths t/o (RMB mn)	1,260
52W High/Low (RMB)	66.28/33.01
Total Issued Shares (mn)	967.6

Source: Bloomberg

Shareholding Structure

Peng Hao	19.48%
AEGON-Industrial Fund	3.17%
HKSCC	2.76%

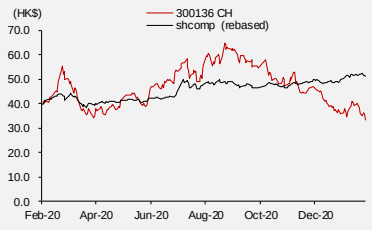
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-4.4%	-9.1%
3-mth	-27.0%	-33.6%
6-mth	-27.1%	-34.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Bakertilly

Recent Report:
China 5G Technology - Picking structural winners amid uncertainties; Initiate at Outperform – 18 Dec 2020

FY20 Results Review

Figure 1: FY20 results review

RMB mn	FY18	FY19	FY20E	YoY	CMBIS estimate FY20E	CMBIS estimate Diff%	Consensus FY20E	Consensus Diff %
Revenue	4,707	5,134	6,173	20%	7,008	-12%	7,059	-13%
Gross Profit	1,719	1,917	2,117	10%	2,494	-15%	2,584	-18%
Operating Profit	1,133	1,174	980	-17%	1,512	-35%	1,512	-35%
Net profit	988	1,020	1,020	0%	1,321	-23%	1,336	-24%
EPS (RMB)	1.01	1.05	1.05	0%	1.27	-17%	1.37	-23%
Gross Margin	36.5%	37.3%	34.3%	-3 ppt	35.6%	-1.3 ppt	36.6%	-2.3 ppt
Operating Margin	24.1%	22.9%	15.9%	-7 ppt	21.6%	-5.7 ppt	21.4%	-5.5 ppt
Net Margin	21.0%	19.9%	16.5%	-3.3 ppt	18.8%	-2.3 ppt	18.9%	-2.4 ppt

Source: Bloomberg, CMBIS estimates

Figure 2: 4Q20 results review

RMB mn	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	QoQ	YoY
Revenue	1,620	1,783	1,045	1,513	1,783	1,832	2.8%	2.8%
Gross Profit	721	519	251	521	722	624	-13.6%	20.1%
Operating Profit	530	228	70	295	482	132	-72.6%	-42.0%
Net profit	459	192	63	266	417	274	-34.3%	42.8%
EPS (RMB)	0.47	0.20	0.06	0.27	0.43	0.28	-34.8%	42.2%
Gross Margin	44.5%	29.1%	24.0%	34.4%	40.5%	34.0%	-6.5 ppt	4.9 ppt
Operating Margin	32.7%	12.8%	6.7%	19.5%	27.0%	7.2%	-19.8 ppt	-5.6 ppt
Net Margin	28.4%	10.8%	6.0%	17.6%	23.4%	15.0%	-8.5 ppt	4.2 ppt

Earnings Revision

Figure 3: CMBIS earnings revisions

RMB mn	New FY20E	New FY21E	New FY22E	Old FY20E	Old FY21E	Old FY22E	Change (%) FY20E	Change (%) FY21E	Change (%) FY22E
Revenue	6,173	9,170	12,567	7,008	10,935	14,789	-12%	-16%	-15%
Gross Profit	2,117	3,194	4,411	2,494	3,893	5,309	-15%	-18%	-17%
Operating Profit	980	1,607	2,300	1,512	2,449	3,405	-35%	-34%	-32%
Net profit	1,020	1,439	2,025	1,321	2,140	2,976	-23%	-33%	-32%
EPS (RMB)	1.05	1.49	2.09	1.27	2.05	2.85	-17%	-27%	-27%
Gross Margin	34.3%	34.8%	35.1%	35.6%	35.6%	35.9%	-1.3 ppt	-0.8 ppt	-0.8 ppt
Operating Margin	15.9%	17.5%	18.3%	21.6%	22.4%	23.0%	-5.7 ppt	-4.9 ppt	-4.7 ppt
Net Margin	16.5%	15.7%	16.1%	18.8%	19.6%	20.1%	-2.3 ppt	-3.9 ppt	-4 ppt

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS FY20E	CMBIS FY21E	CMBIS FY22E	Consensus FY20E	Consensus FY21E	Consensus FY22E	Diff (%) FY20E	Diff (%) FY21E	Diff (%) FY22E
Revenue	6,173	9,170	12,567	7,059	9,871	12,465	-13%	-7%	1%
Gross Profit	2,117	3,194	4,411	2,584	3,660	4,649	-18%	-13%	-5%
Operating Profit	980	1,607	2,300	1,512	2,235	2,879	-35%	-28%	-20%
Net profit	1,020	1,439	2,025	1,336	1,936	2,515	-24%	-26%	-20%
EPS (RMB)	1.05	1.49	2.09	1.37	1.99	2.56	-23%	-25%	-18%
Gross Margin	34.3%	34.8%	35.1%	36.6%	37.1%	37.3%	-2.3 ppt	-2.3 ppt	-2.2 ppt
Operating Margin	15.9%	17.5%	18.3%	21.4%	22.6%	23.1%	-5.5 ppt	-5.1 ppt	-4.8 ppt
Net Margin	16.5%	15.7%	16.1%	18.9%	19.6%	20.2%	-2.4 ppt	-3.9 ppt	-4.1 ppt

Source: Bloomberg, CMBIS estimates

Figure 5: P&L forecast

RMB mn	FY18	FY19	1Q20	2Q20	3Q20	4Q20E	FY20E	FY21E	FY22E
Revenue	**4,707**	**5,134**	**1,045**	**1,513**	**1,783**	**1,832**	**6,173**	**9,170**	**12,567**
…YoY	*37%*	*9%*	*-5%*	*76%*	*10%*	*18%*	*20%*	*49%*	*37%*
Cost of sales	(2,988)	(3,217)	(794)	(992)	(1,061)	(1,209)	(4,055)	(5,976)	(8,156)
Gross profit	**1,719**	**1,917**	**251**	**521**	**722**	**624**	**2,117**	**3,194**	**4,411**
GPM (%)	37%	37%	24%	34%	41%	34%	34%	35%	35%
…YoY	*37%*	*12%*	*-37%*	*88%*	*0%*	*20%*	*10%*	*51%*	*38%*
SG&A	(212)	(324)	(74)	(80)	(94)	(295)	(543)	(715)	(980)
…% of rev	*-5%*	*-6%*	*-7%*	*-5%*	*-5%*	*-16%*	*-9%*	*-8%*	*-8%*
R&D	(279)	(430)	(91)	(153)	(122)	(189)	(556)	(779)	(1,068)
…% of rev	*-6%*	*-8%*	*-9%*	*-10%*	*-7%*	*-10%*	*-9%*	*-9%*	*-9%*
Operating profit	**1,133**	**1,174**	**70**	**295**	**482**	**132**	**980**	**1,607**	**2,300**
OPM (%)	*24%*	*23%*	*7%*	*20%*	*27%*	*7%*	*16%*	*18%*	*18%*
…YoY	*6%*	*4%*	*-73%*	*92%*	*-9%*	*-42%*	*-17%*	*64%*	*43%*
Net profit	**988**	**1,020**	**63**	**266**	**417**	**274**	**1,020**	**1,439**	**2,025**
NPM (%)	*21%*	*20%*	*6%*	*18%*	*23%*	*15%*	*17%*	*16%*	*16%*
…YoY	*11%*	*3%*	*-74%*	*109%*	*-9%*	*43%*	*0%*	*41%*	*41%*

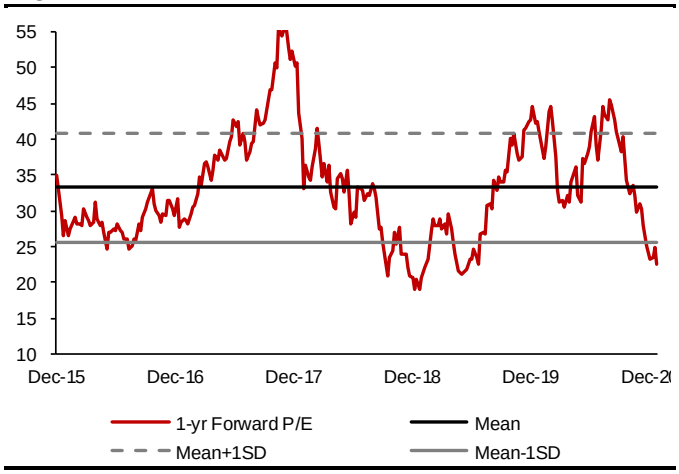
Source: Company data, CMBIS

Valuation

Maintain BUY and lower TP to RMB46.7 (30.7% upside)

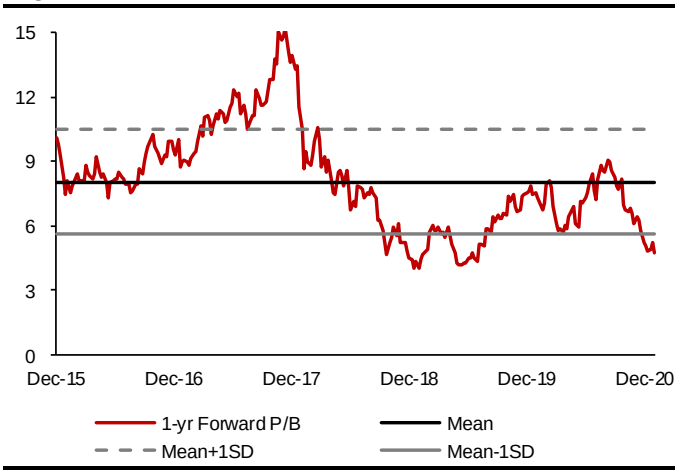
We derived our new TP of RMB46.7 based on same 31.4x FY21E P/E, in line with 5-year historical forward P/E. We believe this is justified as the stock has been mostly trading on 25-40x EPS. We estimate 41% EPS FY20-22E CAGR, backed by 43% revenue CAGR and gradually improving GPM as 5G upgrade continues. Trading at 22.6x FY21E P/E (1-sd below 5-year avg.), we think the stock has already priced in most of the negatives and we recommend to accumulate after recent correction. Risks include slower-than-expected expansion of market share, US-China disputes and overseas 5G deployment delays.

Figure 6: 12M forward P/E band



Source: Company data, CMBIS estimates

Figure 7: 12M forward P/B band



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**4,707**	**5,134**	**6,173**	**9,170**	**12,567**
Cost of sales	2,988	3,217	4,055	5,976	8,156
Gross profit	**1,719**	**1,917**	**2,117**	**3,194**	**4,411**
Selling exp	70	118	123	165	226
Admin exp	142	206	420	550	754
R&D exp	279	430	556	779	1,068
Finance costs	46	64	82	115	94
Other operating exp.	50	-74	-44	-23	-31
Operating profit	**1,133**	**1,174**	**980**	**1,607**	**2,300**
Other non-oper exp.	-5	-3	185	37	13
Pre-tax profit	**1,128**	**1,171**	**1,165**	**1,644**	**2,312**
Income tax expense	138	144	140	197	277
Minority interests	2	7	5	7	10
Net profit to shareholders	**988**	**1,020**	**1,020**	**1,439**	**2,025**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net profit	**990**	**1,027**	**1,025**	**1,447**	**2,035**
Dep. /amort.	118	239	294	354	485
Change in working capital	-570	-665	906	-1,741	42
Others	71	76	82	115	94
Net cash from operating	**609**	**677**	**2,308**	**174**	**2,655**
Capex	-1,734	-1,064	-1,142	-1,696	-2,325
Other	0	21	-140	72	96
Net cash from investing	**-1,734**	**-1,043**	**-1,282**	**-1,625**	**-2,229**
Share issuance	-	11	-	-	-
Dividend paid	-128	-90	-48	-51	-72
Debt issuance/(paydown)	534	135	-1,336	2,073	-426
Other	463	-186	-73	-115	-94
Net cash from financing	**868**	**-129**	**-1,457**	**1,907**	**-592**
Net change in cash	**-279**	**-496**	**-407**	**456**	**-165**
Cash at beginning of year	1,214	935	439	32	488
Exchange difference	-23	-1	24	-	-
Cash at the end of year	**935**	**439**	**32**	**488**	**322**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Current assets	**3,870**	**4,162**	**3,935**	**6,297**	**6,601**
Cash & equivalents	937	444	32	488	323
Account receivables	2,197	2,785	2,701	4,091	4,287
Inventory	535	609	934	1,302	1,655
Other current assets	202	323	268	416	338
Non-current assets	**3,346**	**4,208**	**5,190**	**6,461**	**8,205**
PPE	776	1,543	1,890	2,619	3,624
Construction in process	841	734	1,119	1,552	2,137
Intangibles	826	823	845	881	934
Goodwill	545	545	545	545	545
Deferred cost	79	185	189	262	362
Other non-current assets	280	377	602	602	602
Total assets	**7,217**	**8,369**	**9,126**	**12,759**	**14,807**
Current liabilities	**2,112**	**2,746**	**2,857**	**3,954**	**4,299**
ST borrowings	815	1,444	467	1,379	1,183
Account payables	858	858	1,845	2,010	2,521
Other current liabilities	439	444	545	565	595
Non-current liabilities	**1,400**	**862**	**504**	**1,665**	**1,435**
LT borrowings	1,357	817	458	1,618	1,389
Other non-current liabilities	42	45	47	47	47
Total liabilities	**3,512**	**3,608**	**3,361**	**5,620**	**5,734**
Share capital	976	969	968	968	968
Retained earnings	2,392	3,358	4,272	5,562	7,376
Other equity items	315	389	474	551	661
Minority interest	23	46	51	58	68
Total equity	**3,705**	**4,762**	**5,764**	**7,139**	**9,073**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue mix					
Antenna/RF modules	2,212	2,105	2,280	3,625	4,575
Wireless charging	565	719	1,149	2,150	3,157
EMC/EMI	1,365	1,720	2,064	2,580	3,225
Cables/connectors	565	590	679	815	978
RFFE	-	-	-	-	633
Growth (%)					
Revenue	37.0	9.1	20.2	48.6	37.0
Gross profit	37.3	11.6	10.4	50.8	38.1
Operating profit	6.4	3.6	-16.5	64.0	43.1
Net profit	11.1	3.2	0.0	41.1	40.7
Profit & loss ratio (%)					
Gross margin	36.5	37.3	34.3	34.8	35.1
Operating margin	24.1	22.9	15.9	17.5	18.3
Net profit margin	21.0	19.9	16.5	15.7	16.1
Balance sheet ratio					
Net debt/total equity (%)	25.0	27.6	13.4	26.0	19.9
Current ratio (x)	1.8	1.5	1.4	1.6	1.5
Receivable turnover days	135.8	177.1	162.2	135.2	121.7
Inventory turnover days	34.0	40.7	45.6	44.5	42.9
Payable turnover days	81.6	97.4	121.7	117.7	101.4
Cash conversion cycle	88.2	120.4	86.2	62.0	63.2
Profitability (%)					
ROE	26.7	21.4	17.7	20.2	22.3
ROA	13.7	12.2	11.2	11.3	13.7
Per share data (RMB)					
EPS	1.01	1.05	1.05	1.49	2.09
DPS	-	0.05	0.05	0.07	0.10

Source: Company data, CMBIS estimates

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