

# ZTE (000063 CH)

## Mixed 1H24 results

ZTE's announced 1H24 results. Revenue increased by 2.9% YoY to RMB62.5bn, while net profit grew by 4.8% YoY to RMB5.7bn in 1H24. Despite the headwinds from declining capex of domestic telcos for ZTE's carrier business, non-carrier businesses managed to grow double-digits (14.3% and 56.1% YoY growth in consumer and gov't/enterprise segments). On a quarterly basis, Q2 revenue increased by 1.1% YoY / 4.4% QoQ, while net profit increased by 5.7% YoY / 9.1% QoQ. GPM declined sequentially to 39%, mainly due to unfavorable product mix (i.e., lower contribution from high-margin carrier segment). NPM improved sequentially to 9.4% (vs. 9% / 7.5% in 1Q24/FY23) in 2Q24 on operating cost optimization. Looking forward, we think non-carrier segments will maintain double-digit growth, offsetting the weakness in carrier business. **The stock is currently trading at 11.9x 2024E P/E. Maintain BUY, with adjusted TP at RMB32.86.**

- The carrier segment faced headwinds as domestic telecom companies become disciplined in capital expenditures, as the built-out of the 5G network in China has already achieved significant milestone. The aggregate capex of China telcos is projected to be RMB334bn in 2024 (down 5% YoY), with the investment focus shifting to computing power/industrial digitalization/cloud markets, in line with our previous expectations ([report](#)). Given RAN business accounted for more than half of ZTE's carrier business sales, the Company's carrier revenue fell by 8.6% YoY to RMB37.3bn in 1H24. Carrier's GPM remained strong at 54.3% in 1H24 (vs. 54.4%/44.2% in 1H/2H23). Overall, the Company's GPM was stable at 40.5% in 1H24 (vs. 41.5% in 2023).
- Consumer and gov't/enterprise saw significant growth (14.3%/56% YoY), offsetting the weakness in carrier business. Consumer sales grew on robust demand on FTTR market and recovering consumer electronics demand. Gov't/enterprise revenue growth was driven by a surge in server and memory storage sales, however, these relatively low-margin products put pressure on the segment's GPM (21.8% in 1H24 vs. 34.9% in 2023). Looking forward, we expect these segments will maintain decent growth, as the spending of consumer and enterprises may continue to recover.
- **Maintain BUY on ZTE. TP adjusted to RMB32.86, based on 15x FY24E P/E, which equals to its 3-year historical avg.** We revised down our revenue forecasts by 3%/2% for FY24/25E, given continuous headwinds from domestic telecom market (lower spending in RAN). We trimmed net profit forecasts by 3%/7% on lower GPM but partially offsetting by better operating efficiency. Potential downside risks include 1) Sino-US trade tensions, 2) softer capex of domestic telcos and overseas 5G deployment delays, 3) weaker-than-expected consumer/enterprises' spending.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	114,522	122,954	124,251	130,034	140,200
YoY growth (%)	12.9	7.4	1.1	4.7	7.8
Gross margin (%)	35.2	37.2	41.5	39.8	39.0
Net profit (RMB mn)	6,812.9	8,080.3	9,325.8	10,477.7	11,403.6
YoY growth (%)	31.4	18.6	15.4	12.4	8.8
EPS (Reported) (RMB)	1.47	1.71	1.96	2.19	2.38
P/E (x)	17.7	15.2	13.3	11.9	10.9

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>RMB32.86</b>
(Previous TP)	RMB34.20)
<b>Up/Downside</b>	<b>26.2%</b>
<b>Current Price</b>	<b>RMB26.04</b>

### China Semiconductors

#### Lily YANG, Ph.D

(852) 3916 3716  
lilyyang@cmbi.com.hk

#### Kevin ZHANG

(852) 3761 8727  
kevinzhang@cmbi.com.hk

### Stock Data

Mkt Cap (RMB mn)	19,673.2
Avg 3 mths t/o (RMB mn)	1,792.2
52w High/Low (RMB)	36.33/21.70
Total Issued Shares (mn)	755.5

Source: FactSet

### Shareholding Structure

BlackRock	6.7%
Vanguard Group	4.1%

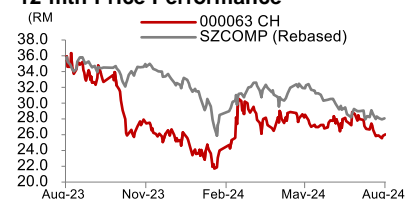
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-8.4%	-5.0%
3-mth	-8.7%	3.7%
6-mth	8.5%	12.0%

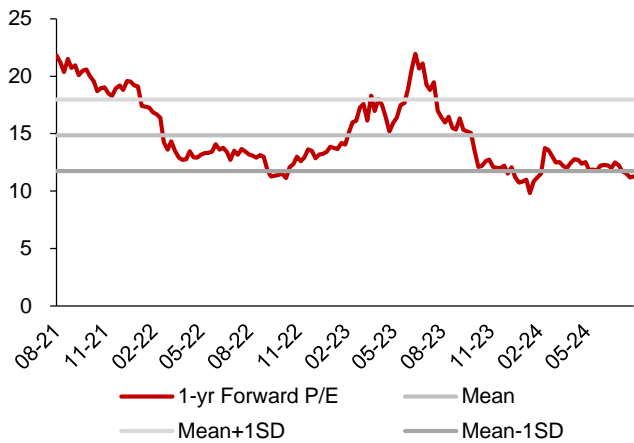
Source: FactSet

### 12-month Price Performance



Source: FactSet

**Figure 1: 1-yr forward PE band**



Source: Company data, Bloomberg

**Figure 2: PE chart**



Source: Company data, Bloomberg

**Figure 3: Earnings revisions**

US\$m	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	130,034	140,200	153,503	129,749	136,085	142,119	0%	3%	8%
Gross profit	51,695	54,727	59,263	53,734	56,387	58,751	-4%	-3%	1%
Net profit	10,478	11,404	14,419	9,865	10,726	11,308	6%	6%	28%
EPS (RMB)	2.19	2.38	3.01	2.09	2.22	2.34	5%	7%	29%
Gross margin	39.8%	39.0%	38.6%	41.4%	41.4%	41.3%	-1.7 ppt	-2.4 ppt	-2.7 ppt
Net margin	8.1%	8.1%	9.4%	7.6%	7.9%	8.0%	0.5 ppt	0.3 ppt	1.4 ppt

Source: Company data, CMBIGM estimates

**Figure 4: CMBIGM estimates vs. Bloomberg consensus**

US\$m	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	130,034	140,200	153,503	133,717	142,644	NA	-3%	-2%	NA
Gross profit	51,695	54,727	59,263	55,973	59,858	NA	-8%	-9%	NA
Net profit	10,478	11,404	14,419	10,842	12,200	NA	-3%	-7%	NA
EPS (RMB)	2.19	2.38	3.01	2.27	2.55	NA	-3%	-7%	NA
Gross margin	39.8%	39.0%	38.6%	41.9%	41.5%	NA	-2.1 ppt	-2.5 ppt	NA
Net margin	8.1%	8.1%	9.4%	8.1%	8.6%	NA	-0.1 ppt	-0.4 ppt	NA

Source: Company data, CMBIGM estimates, Bloomberg consensus

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>101,451</b>	<b>114,522</b>	<b>122,954</b>	<b>124,251</b>	<b>130,034</b>	<b>140,200</b>
Cost of goods sold	(69,379)	(74,160)	(77,228)	(72,650)	(78,339)	(85,473)
<b>Gross profit</b>	<b>32,071</b>	<b>40,362</b>	<b>45,727</b>	<b>51,601</b>	<b>51,695</b>	<b>54,727</b>
<b>Operating expenses</b>	<b>(26,483)</b>	<b>(31,828)</b>	<b>(35,166)</b>	<b>(40,623)</b>	<b>(38,324)</b>	<b>(40,309)</b>
Selling expense	(7,579)	(8,733)	(9,173)	(10,172)	(9,363)	(9,604)
Admin expense	(4,995)	(5,445)	(5,333)	(5,632)	(5,113)	(5,233)
SG&A expense	(685)	(787)	(951)	(1,336)	(1,227)	(1,322)
R&D expense	(14,797)	(18,804)	(21,602)	(25,289)	(26,365)	(27,936)
Others	1,573	1,941	1,893	1,806	3,744	3,785
<b>Operating profit</b>	<b>5,589</b>	<b>8,534</b>	<b>10,561</b>	<b>10,978</b>	<b>13,371</b>	<b>14,417</b>
Other income	238	250	196	173	72	78
Other expense	(644)	(427)	(239)	(228)	(74)	(80)
Gain/loss on financial assets at FVTPL	39	1,099	(1,142)	(702)	(417)	0
Investment gain/loss	906	1,564	1,087	(205)	(179)	0
Other gains/(losses)	(643)	(1,558)	(1,548)	(914)	(552)	(1,536)
<b>EBIT</b>	<b>5,485</b>	<b>9,462</b>	<b>8,915</b>	<b>9,102</b>	<b>12,222</b>	<b>12,880</b>
<b>Net Interest income/(expense)</b>	<b>(421)</b>	<b>(963)</b>	<b>(163)</b>	<b>1,101</b>	<b>62</b>	<b>489</b>
Other income/expense	(164)	(979)	(657)	158	(245)	0
<b>Pre-tax profit</b>	<b>5,064</b>	<b>8,499</b>	<b>8,752</b>	<b>10,203</b>	<b>12,284</b>	<b>13,369</b>
Income tax	(342)	(1,463)	(960)	(962)	(1,843)	(2,005)
<b>After tax profit</b>	<b>4,722</b>	<b>7,036</b>	<b>7,792</b>	<b>9,241</b>	<b>10,441</b>	<b>11,364</b>
Minority interest	446	223	(289)	(85)	(37)	(40)
Others	16	0	0	0	0	0
<b>Net profit</b>	<b>5,184</b>	<b>6,813</b>	<b>8,080</b>	<b>9,326</b>	<b>10,478</b>	<b>11,404</b>
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>106,977</b>	<b>127,871</b>	<b>137,874</b>	<b>158,505</b>	<b>152,838</b>	<b>164,547</b>
Cash & equivalents	31,403	39,071	47,072	51,013	48,458	59,249
Restricted cash	4,256	11,642	9,274	27,530	23,211	23,211
Account receivables	17,043	18,863	19,098	21,968	22,564	23,145
Inventories	33,689	36,317	45,235	41,131	40,857	40,635
Prepayment	322	607	279	242	282	299
Financial assets at FVTPL	1,037	1,361	514	153	3,056	3,235
Other current assets	19,226	20,011	16,402	16,466	14,409	14,773
<b>Non-current assets</b>	<b>43,658</b>	<b>40,892</b>	<b>43,080</b>	<b>42,454</b>	<b>53,791</b>	<b>54,188</b>
PP&E	12,954	12,810	13,877	14,360	14,264	14,119
Right-of-use assets	1,047	815	1,080	1,557	1,473	1,348
Deferred income tax	3,437	3,195	3,719	4,146	4,200	4,446
Investment in JVs & assos	3,749	3,699	3,765	3,631	3,483	3,561
Intangibles	11,440	10,548	9,926	8,999	8,463	7,879
Goodwill	186	0	0	0	0	0
Financial assets at FVTPL	1,537	1,175	1,028	832	842	842
Other non-current assets	9,307	8,650	9,685	8,928	21,065	21,992
<b>Total assets</b>	<b>150,635</b>	<b>168,763</b>	<b>180,954</b>	<b>200,958</b>	<b>206,629</b>	<b>218,734</b>
<b>Current liabilities</b>	<b>78,685</b>	<b>74,395</b>	<b>78,424</b>	<b>83,030</b>	<b>76,050</b>	<b>80,228</b>
Short-term borrowings	8,947	10,559	9,962	7,560	3,935	5,429
Account payables	36,780	32,869	32,595	32,219	36,693	37,447
Tax payable	1,216	878	1,447	1,413	1,077	1,141
Other current liabilities	3,949	4,545	3,498	10,771	6,048	6,256
Contract liabilities	27,793	25,544	30,922	31,067	28,297	29,955
<b>Non-current liabilities</b>	<b>30,117</b>	<b>36,791</b>	<b>42,987</b>	<b>49,596</b>	<b>55,152</b>	<b>55,386</b>
Long-term borrowings	22,614	29,908	35,126	42,576	47,685	47,482
Bond payables	0	0	0	0	0	0
Obligations under finance leases	718	532	789	960	1,009	1,068
Deferred income	134	150	87	78	76	80
Other non-current liabilities	6,651	6,200	6,985	5,982	6,382	6,756
<b>Total liabilities</b>	<b>108,803</b>	<b>111,185</b>	<b>121,410</b>	<b>132,627</b>	<b>131,201</b>	<b>135,614</b>
Share capital	4,613	4,731	4,736	4,783	4,783	4,783
Capital surplus	(115)	0	0	0	0	0
Retained earnings	14,824	20,651	27,309	34,715	41,926	49,659
Other reserves	23,974	26,100	26,596	28,510	28,432	28,432

19 Aug 2024

---

<b>Total shareholders equity</b>	<b>43,297</b>	<b>51,482</b>	<b>58,641</b>	<b>68,008</b>	<b>75,141</b>	<b>82,874</b>
Minority interest	2,826	1,806	902	323	287	247
<b>Total equity and liabilities</b>	<b>154,925</b>	<b>164,473</b>	<b>180,954</b>	<b>200,958</b>	<b>206,629</b>	<b>218,734</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>4,722</b>	<b>7,036</b>	<b>7,792</b>	<b>9,241</b>	<b>10,441</b>	<b>11,364</b>
Depreciation & amortization	3,971	4,588	4,386	4,926	5,089	5,520
Tax paid	(963)	258	(587)	(437)	(56)	(242)
Change in working capital	(1,001)	2,357	(8,471)	(324)	3,780	(1,160)
Others	3,504	1,484	4,458	3,999	(11,714)	7,009
<b>Net cash from operations</b>	<b>10,233</b>	<b>15,724</b>	<b>7,578</b>	<b>17,406</b>	<b>7,539</b>	<b>22,490</b>
<b>Investing</b>						
Capital expenditure	(6,472)	(5,686)	(4,952)	(4,005)	(4,551)	(4,864)
Acquisition of subsidiaries/ investments	(620)	(5,127)	3,636	(17,001)	(3,360)	(257)
Net proceeds from disposal of short-term investments	9	221	24	104	167	180
Others	(10,218)	(450)	(471)	(633)	4,318	0
<b>Net cash from investing</b>	<b>(17,300)</b>	<b>(11,042)</b>	<b>(1,762)</b>	<b>(21,534)</b>	<b>(3,426)</b>	<b>(4,941)</b>
<b>Financing</b>						
Dividend paid	(2,951)	(2,618)	(3,688)	(4,836)	(7,557)	(8,051)
Net borrowings	(1,294)	5,309	5,442	11,164	967	1,292
Proceeds from share issues	14,167	538	171	1,676	(78)	0
Others	(10,211)	(450)	(471)	(633)	0	0
<b>Net cash from financing</b>	<b>(290)</b>	<b>2,779</b>	<b>1,455</b>	<b>7,372</b>	<b>(6,669)</b>	<b>(6,759)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	28,506	31,403	39,071	47,072	51,013	48,458
Exchange difference	37	(242)	260	66	0	0
Others	2,861	7,910	7,741	3,876	(2,555)	10,790
<b>Cash at the end of the year</b>	<b>31,403</b>	<b>39,071</b>	<b>47,072</b>	<b>51,013</b>	<b>48,458</b>	<b>59,249</b>

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# 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.