

# Wingtech (600745 CH)

## 1H24 results review: Challenging 1H; looking for recovery in 2H

Wingtech 1H24 sales were up 15% YoY to RMB33.6bn, driven by strong ODM sales (up 27% YoY), partially offset by weaker semiconductor sales (down 8% YoY). NP declined 89% YoY to RMB140mn, as GPM deteriorated to 9.5% in 1H24 (vs. 17.6%/14.7% in 1H23/2H23). Semi. GPM showed signs of recovery (up 7.7ppt in 2Q). We expect ODM GPM to improve in 2H24 to 5.0% from 2.5% in 1H24. We think 1H24 should likely be the bottom. **Maintain BUY, with a new TP of RMB48.**

■ **Semi. business showed signs of recovery with 6% QoQ revenue growth and 7.7ppt increase in GPM in 2Q.** Semi. sales dropped to RMB3.4bn in 1Q (-10% YoY/-5% QoQ) but managed to grow 6% QoQ to RMB 3.6bn in 2Q. The weakness was mainly due to a soft demand for auto semi (63% of 1H24 segment rev.), as the sector was experiencing inventory correction. GPM dipped to 31.0% in 1Q (-2.8ppt/10.7ppt vs. 4Q23/1Q23) but rebounded to 38.7% in 2Q. We expect GPM to maintain at 2Q level in 2H, considering mixed impacts of 1) ongoing inventory digestion in auto market, 2) an improving utilization rate, 3) a favorable product mix and 4) cost optimization. We project segment sales to grow 12% YoY and GPM to increase to 40% in 2025 on lower channel inventory and better demand.

■ **ODM business grew on new orders from overseas clients; mobile-related ASP slid, reflecting a challenging market with consumption downgrade trend and intensified competition.** ODM revenue grew 21% YoY to RMB12.4bn in 1Q and another 10% QoQ to RMB13.7bn in 2Q. However, GPM deteriorated to 3%/2% in 1Q/2Q (vs. 9% for 1H23), due to low-margin orders and rising material/headcount costs. ODM segment posted a net loss of RMB350mn in 1H24. Mgmt. expects NP to breakeven in 3Q and turn positive in 4Q. We project ODM segment sales to grow 12% YoY in 2025 on better consumer sentiment and GPM to increase to 6.3% (still lower than previous 8%-10% range), reflecting effective cost control against the backdrop of ongoing consumption downgrade pressure.

■ **Maintain BUY, as the worst is behind.** We have lowered our earnings estimates by 73%/42% for 2024/25E, given the GPM challenges. We estimate Wingtech's sales to grow low-teens HoH/YoY in 2H24/2025, with gradual margin recovery (up 2.8ppt in 2H vs. 1H, up 2.2ppt in 2025). Our TP is trimmed to RMB48, based on 23.5x 2025E P/E, close to 1SD below 1-yr hist. avg., reflecting persist challenges from ongoing inventory correction of power semi in auto market and consumption downgrade pressure on ODM GPM.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	58,079	61,213	71,227	79,340	88,233
YoY growth (%)	10.1	5.4	16.4	11.4	11.2
Gross margin (%)	18.2	16.1	10.7	12.6	13.2
Net profit (RMB mn)	1,459.8	1,181.2	923.3	2,554.5	3,683.5
YoY growth (%)	(44.1)	(19.1)	(21.8)	176.7	44.2
EPS (Reported) (RMB)	1.17	0.95	0.74	2.06	2.96
P/E (x)	22.3	27.5	35.1	12.7	8.8

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB48.00  
 (Previous TP RMB68.00)  
**Up/Downside** 83.9%  
**Current Price** RMB26.10

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### Stock Data

Mkt Cap (RMB mn)	32,437.1
Avg 3 mths t/o (RMB mn)	484.8
52w High/Low (RMB)	53.63/24.23
Total Issued Shares (mn)	1242.8

Source: FactSet

### Shareholding Structure

WENTIAXIA TECH GRP	12.4%
WUXI GUOLIAN INTE CIR INV	9.8%

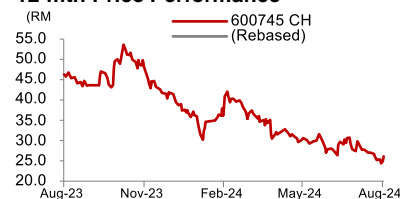
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-5.1%	NM
3-mth	-14.7%	NM
6-mth	-31.6%	NM

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: Earnings revision**

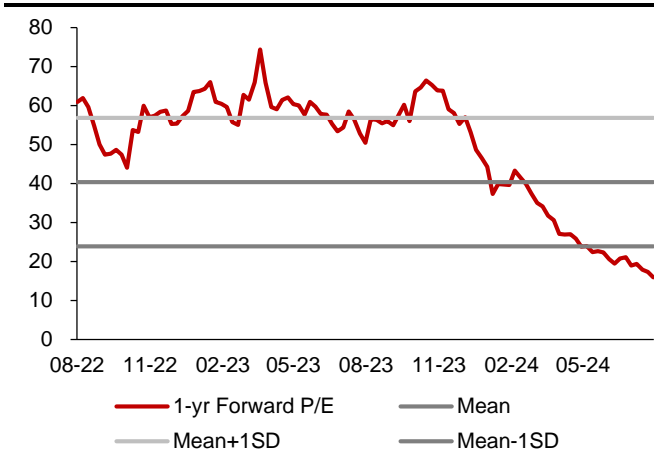
RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	71,227	79,340	88,233	67,658	76,853	N/A	5%	3%	N/A
Gross Profit	7,650	9,994	11,683	12,113	14,221	N/A	-37%	-30%	N/A
Net profit	923	2,554	3,684	3,411	4,399	N/A	-73%	-42%	N/A
EPS (RMB)	0.74	2.06	2.96	2.74	3.53	N/A	-73%	-42%	N/A
<b>Gross Margin</b>	10.7%	12.6%	13.2%	17.9%	18.5%	N/A	-7.2 ppt	-5.9 ppt	N/A
<b>Net Margin</b>	1.3%	3.2%	4.2%	5.0%	5.7%	N/A	-3.7 ppt	-2.5 ppt	N/A

Source: Company data, CMBIGM estimates

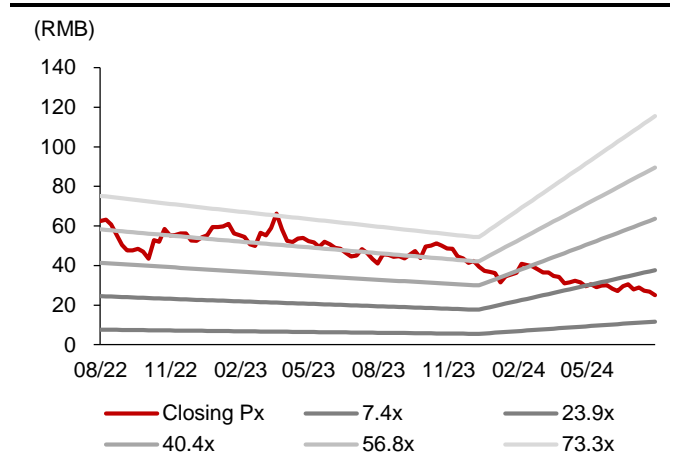
**Figure 2: CMBIGM estimates vs. consensus**

RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	71,227	79,340	88,233	67,290	73,717	81,531	6%	8%	8%
Gross Profit	7,650	9,994	11,683	8,921	10,858	12,470	-14%	-8%	-6%
Net profit	923	2,554	3,684	1,381	2,402	3,362	-33%	6%	10%
EPS (RMB)	0.74	2.06	2.96	1.03	1.71	2.57	-28%	20%	15%
<b>Gross Margin</b>	10.7%	12.6%	13.2%	13.3%	14.7%	15.3%	-2.5 ppt	-2.1 ppt	-2.1 ppt
<b>Net Margin</b>	1.3%	3.2%	4.2%	2.1%	3.3%	4.1%	-0.8 ppt	0 ppt	0.1 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

**Figure 3: 1-yr forward P/E**

Source: Company data, CMBIGM estimates

**Figure 4: P/E band**

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>52,729</b>	<b>58,079</b>	<b>61,213</b>	<b>71,227</b>	<b>79,340</b>	<b>88,233</b>
Cost of goods sold	(44,200)	(47,534)	(51,369)	(63,578)	(69,346)	(76,550)
<b>Gross profit</b>	<b>8,528</b>	<b>10,545</b>	<b>9,844</b>	<b>7,650</b>	<b>9,994</b>	<b>11,683</b>
<b>Operating expenses</b>	<b>(5,592)</b>	<b>(6,769)</b>	<b>(6,405)</b>	<b>(5,896)</b>	<b>(5,906)</b>	<b>(6,104)</b>
Selling expense	(760)	(919)	(886)	(867)	(848)	(875)
Admin expense	(2,026)	(2,320)	(2,277)	(1,970)	(1,997)	(2,140)
SG&A expense	(117)	(136)	(184)	(152)	(150)	(149)
R&D expense	(2,689)	(3,394)	(3,057)	(2,908)	(2,911)	(2,941)
<b>Operating profit</b>	<b>2,936</b>	<b>3,776</b>	<b>3,439</b>	<b>1,753</b>	<b>4,088</b>	<b>5,579</b>
Other income	388	436	292	263	231	216
Other expense	(382)	(560)	(570)	(433)	(566)	(544)
Gain/loss on financial assets at FVTPL	72	(371)	4	79	0	0
Investment gain/loss	67	61	25	194	79	88
Other gains/(losses)	(134)	(1,229)	(1,202)	(570)	(663)	(799)
<b>EBITDA</b>	<b>2,948</b>	<b>2,112</b>	<b>1,988</b>	<b>1,286</b>	<b>3,170</b>	<b>4,539</b>
Other income/expense	24	(5)	(8)	(20)	(21)	(24)
<b>Pre-tax profit</b>	<b>2,972</b>	<b>2,107</b>	<b>1,980</b>	<b>1,266</b>	<b>3,148</b>	<b>4,516</b>
Income tax	(460)	(747)	(1,014)	(414)	(630)	(903)
<b>After tax profit</b>	<b>2,513</b>	<b>1,360</b>	<b>967</b>	<b>853</b>	<b>2,519</b>	<b>3,612</b>
Minority interest	(99)	(100)	(215)	(71)	(36)	(71)
<b>Net profit</b>	<b>2,612</b>	<b>1,460</b>	<b>1,181</b>	<b>923</b>	<b>2,554</b>	<b>3,684</b>
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>30,446</b>	<b>29,829</b>	<b>29,748</b>	<b>27,904</b>	<b>30,671</b>	<b>33,846</b>
Cash & equivalents	11,250	7,873	5,637	6,278	9,283	12,111
Restricted cash	(745)	955	572	142	142	142
Account receivables	9,633	8,615	9,398	8,711	8,548	8,712
Inventories	6,299	10,132	10,596	9,435	9,374	9,501
Prepayment	284	204	144	287	273	330
Financial assets at FVTPL	2,731	843	1,204	1,812	1,812	1,812
Other current assets	993	1,206	2,197	1,238	1,238	1,238
<b>Non-current assets</b>	<b>42,130</b>	<b>46,861</b>	<b>47,220</b>	<b>47,943</b>	<b>46,904</b>	<b>46,498</b>
PP&E	8,138	10,524	11,154	12,807	12,012	11,226
Right-of-use assets	898	859	579	507	468	452
Deferred income tax	1,027	1,285	1,219	1,337	1,337	1,337
Investment in JVs & assos	196	500	452	345	345	345
Intangibles	4,527	4,991	5,584	5,785	6,053	6,302
Goodwill	22,697	22,188	21,697	21,697	21,698	21,699
Financial assets at FVTPL	587	434	416	802	553	328
Other non-current assets	4,060	6,080	6,119	4,663	4,438	4,810
<b>Total assets</b>	<b>72,576</b>	<b>76,690</b>	<b>76,968</b>	<b>75,847</b>	<b>77,575</b>	<b>80,344</b>
<b>Current liabilities</b>	<b>23,727</b>	<b>26,674</b>	<b>27,649</b>	<b>21,281</b>	<b>21,432</b>	<b>22,595</b>
Short-term borrowings	3,537	7,951	9,286	4,044	4,266	5,038
Account payables	17,753	16,163	16,441	15,512	15,421	15,818
Tax payable	411	381	290	261	261	261
Other current liabilities	1,122	909	694	584	584	584
Contract liabilities	96	68	17	20	39	34
Accrued expenses	809	1,201	921	861	861	861
<b>Non-current liabilities</b>	<b>14,332</b>	<b>13,402</b>	<b>11,653</b>	<b>16,038</b>	<b>15,211</b>	<b>13,533</b>
Long-term borrowings	4,218	2,617	278	4,208	3,380	1,702
Bond payables	7,190	7,556	7,943	8,141	8,141	8,141
Obligations under finance leases	683	621	437	395	395	395
Deferred income	1,119	1,482	1,914	2,217	2,217	2,217
Other non-current liabilities	1,122	1,126	1,081	1,078	1,078	1,078
<b>Total liabilities</b>	<b>38,060</b>	<b>40,076</b>	<b>39,302</b>	<b>37,319</b>	<b>36,642</b>	<b>36,127</b>
Share capital	2,790	2,790	2,786	2,786	2,786	2,786
Capital surplus	(294)	(197)	(200)	(200)	(200)	(200)
Retained earnings	5,945	7,668	9,023	9,938	12,378	15,733
Other reserves	25,258	25,638	25,557	25,575	25,575	25,575
<b>Total shareholders equity</b>	<b>33,699</b>	<b>35,899</b>	<b>37,166</b>	<b>38,099</b>	<b>40,539</b>	<b>43,895</b>
Minority interest	817	715	499	429	393	322

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<b>Total equity and liabilities</b>	<b>72,576</b>	<b>76,690</b>	<b>76,968</b>	<b>75,847</b>	<b>77,575</b>	<b>80,344</b>
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<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>2,513</b>	<b>1,360</b>	<b>967</b>	<b>853</b>	<b>2,519</b>	<b>3,612</b>
Depreciation & amortization	1,961	2,714	3,020	2,806	3,171	3,414
Tax paid	220	81	510	185	0	0
Change in working capital	(3,940)	(4,632)	(664)	848	(105)	(242)
Others	995	2,140	1,993	918	905	902
<b>Net cash from operations</b>	<b>1,749</b>	<b>1,664</b>	<b>5,824</b>	<b>5,610</b>	<b>6,490</b>	<b>7,688</b>
<b>Investing</b>						
Capital expenditure	(5,092)	(6,927)	(4,891)	(4,281)	(4,398)	(4,685)
Acquisition of subsidiaries/ investments	(453)	(213)	(297)	(185)	328	313
Net proceeds from disposal of short-term investments	31	14	60	226	1,046	481
Others	(431)	0	0	0	0	0
<b>Net cash from investing</b>	<b>(5,945)</b>	<b>(7,127)</b>	<b>(5,127)</b>	<b>(4,240)</b>	<b>(3,024)</b>	<b>(3,892)</b>
<b>Financing</b>						
Dividend paid	(480)	(449)	(303)	(877)	(835)	(1,039)
Net borrowings	7,992	2,671	(2,018)	(1,007)	(605)	(907)
Proceeds from share issues	1,036	13	0	18	0	0
Others	(638)	(227)	(643)	1,130	972	972
<b>Net cash from financing</b>	<b>7,910</b>	<b>2,008</b>	<b>(2,964)</b>	<b>(735)</b>	<b>(467)</b>	<b>(974)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	7,659	11,250	7,873	5,637	6,278	9,283
Exchange difference	(123)	100	32	7	7	7
Others	3,715	(3,476)	(2,268)	635	2,998	2,822
<b>Cash at the end of the year</b>	<b>11,250</b>	<b>7,873</b>	<b>5,637</b>	<b>6,278</b>	<b>9,283</b>	<b>12,111</b>

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

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