

Hong Kong

September 7, 2020 - 6:36 AM

ADD (no change)

Consensus ratings*: Buy 20 Hold 6 Sell 11

Current price:	HK\$23.65
Target price:	HK\$37.20
Previous target:	HK\$37.20
Up/downside:	57.3%
CGS-CIMB / Consensus:	23.7%
Reuters:	0981.HK
Bloomberg:	981 HK
Market cap:	US\$36,350m
	HK\$281,727m
Average daily turnover:	US\$585.2m
	HK\$4,536m
Current shares o/s	7,402m
Free float:	63.3%

*Source: Bloomberg

Key financial forecasts

	Dec-20F	Dec-21F	Dec-22F
Net Profit (US\$m)	412.5	452.3	578.5
Normalised EPS (US\$)	0.065	0.061	0.078
Normalised EPS Growth	40.1%	(6.1%)	27.9%
FD Normalised P/E (x)	51.50	55.36	43.65
Recurring ROE	4.28%	3.25%	3.95%
P/BV (x)	1.66	1.59	1.50
DPS (US\$)	-	-	-
Dividend Yield	0%	0%	0%



Price performance	1M	3M	12M
Absolute (%)	-22.5	26.6	168.4
Relative (%)	-21.5	25.2	175.3

Major shareholders

	% held
Datang Telecom Technology & Industry	12.5
CNIC Corporation	12.5
China Integrated Circuit Industry	11.7

Analyst

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SMIC

SMIC facing US ban on technology

- The US government is considering placing SMIC on the Entity List if the US defence department finds evidence it is working for the Chinese military.
- SMIC's AP development could be put off by c.2 years if it is finally added to the blacklist as it will have to buy EUV from ASML for 7nm or below nodes.
- SMIC has denied it has any relationship with the Chinese military. We retain our Add call and earnings forecasts.

US mulling a ban on SMIC from obtaining US technology

- The US Department of Defense confirmed by email on Saturday (5 Sep) that it was working with other agencies to consider placing SMIC (991 HK, Add) on the Entity List. According to a report issued last month by SOS International, a defence contractor in Reston, SMIC has a variety of ties to China's defence sector, including an ongoing relationship with China Electronics Technology Group Corporation (CETC), a state-owned developer of military electronics, which uses SMIC's tech to fabricate chips.
- SMIC released a statement (available in Chinese only) on the same day and insisted that its chips fabrication and other services were solely for civilian use and it had no relationship with the Chinese military. Chinese government-owned companies currently own a c.40% stake in SMIC through direct investment to help expand its manufacturing facilities. Meanwhile, SMIC has been enjoying various forms of generous government support, including low interest loans and tax benefits.

SMIC's advanced process development could be put off c.2 years

- If the US finally adds SMIC to the blacklist, US companies will be prohibited from selling any technology components and machinery to SMIC without a US government licence. As a result, SMIC will encounter difficulties growing and maintaining its chip fabrication, especially advanced processes (AP, 28nm or below), as the company is still reliant on some US technology, including software and machinery.
- SMIC currently sources Deep Ultraviolet (DUV) Lithography from ASML, a Dutch manufacturer, as well as Nikon, Canon, ABM Inc. and Shanghai Micro Electronic Equipment (SMEE) for its 12nm to 28nm node fabrication. More importantly, SMIC will have to use ASML's Extreme Ultraviolet (EUV) Lithography to expand its production capacity for 7nm or below. As for materials for chip fabrication, SMIC mainly sources from Japanese and domestic suppliers.
- If SMIC is unable to buy DUV and EUV from US companies or even overseas manufacturers, its advanced process expansion plan will be substantially disrupted (SMIC plans to invest US\$1.14bn for new capacity for 14nm and above advanced process chips in Shanghai and US\$7.6bn in a JV to build a new fab focusing on ICs 28nm and above). We believe SMIC will have to postpone its advanced process development for c.2 years. The potential technology ban could also affect its existing chip fabrication as SMIC may find it difficult to acquire spare parts for equipment maintenance.

Retain Add call with an unchanged target price of HK\$37.20

- As we believe the US government has not found any firm evidence linking SMIC to the Chinese military, we do not think the consideration will lead to a ban.
- We keep our earnings forecasts and retain our Add call on SMIC. Our target price of HK\$37.20 is based on 2.5x FY21F P/BV with ROE of 4.3%. Potential share price catalysts include SMIC being removed from review for the Entity List and improved profitability for its mature nodes. Downside risks are a US technology ban and weak semiconductor demand from domestic fabless companies.

Figure 1: Revenue breakdown by node (1Q17 to 2Q20)

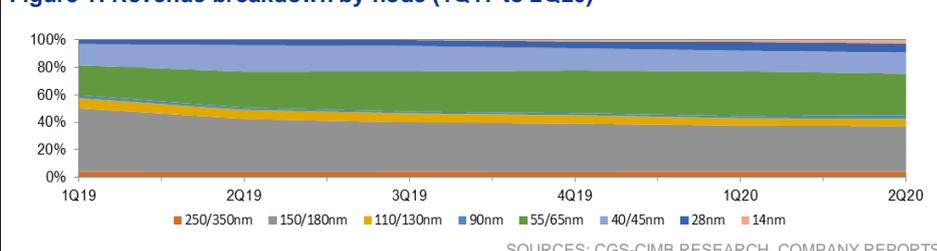


Figure 2: Peers Comparison

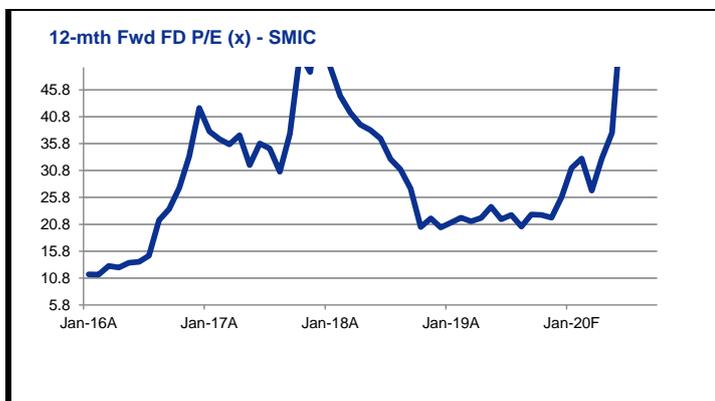
Company	Bloomberg Ticker	Recom.	Closing price	Target Price	Market Cap (US\$ m)	P/E (x)		3-year EPS		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY19	CY20F	CY21F	CAGR (%)	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
Handset component manufacturers (Hong Kong - listed)																	
AAC Technologies	2018 HK	Add	47.95	63.40	7,477	23.2	23.0	14.8	22.7%	2.8	2.4	11.8%	17.6%	11.1	8.5	0.9%	1.3%
ASM Pacific	522 HK	Add	82.30	120.60	4,342	48.6	30.0	18.0	49.1%	2.7	2.5	9.3%	14.4%	15.1	10.5	1.6%	2.2%
Cowell Holdings	1415 HK	Add	3.07	5.84	329	8.7	5.3	4.2	30.7%	0.9	0.8	18.0%	21.0%	2.3	1.7	9.4%	11.8%
Q Technology	1478 HK	Add	9.76	18.21	1,476	17.6	13.8	11.4	21.8%	3.2	2.8	24.2%	26.5%	9.1	7.7	1.5%	1.8%
SMC	981 HK	Add	23.65	37.20	36,350	65.7	46.9	49.9	19.0%	1.7	1.6	4.3%	3.3%	15.7	12.1	0.0%	0.0%
Sunny Optical	2382 HK	Add	118.10	145.00	16,714	28.5	24.3	18.4	25.0%	7.0	5.2	33.5%	33.9%	15.3	12.0	0.8%	1.1%
Tongda Group	698 HK	Reduce	0.44	0.39	364	7.0	10.6	6.8	8.3%	0.4	0.4	4.3%	6.2%	4.5	3.9	1.9%	3.0%
Average						28.5	22.0	17.7	25.2%	2.7	2.3	15.1%	17.6%	10.4	8.0	2.3%	3.0%
Handset component manufacturers (A share - listed)																	
BOE Technology	000725 CH	Add	5.62	6.18	28,198	101.9	50.3	27.8	66.4%	2.0	1.9	4.0%	7.0%	11.5	8.8	0.6%	1.1%
Lens Technology	300433 CH	Add	35.27	39.50	22,602	62.6	37.3	30.9	33.7%	5.8	5.1	16.8%	17.4%	19.5	16.3	0.8%	1.0%
Shenzhen Goodix	603160 CH	Add	178.92	256.45	11,951	34.0	45.4	30.3	7.9%	16.4	17.3	31.2%	55.5%	51.9	30.4	0.4%	0.7%
SMC	688981 CH	Reduce	66.28	53.65	36,307	208.7	148.9	158.6	19.0%	4.5	5.0	4.3%	3.3%	52.1	40.7	0.0%	0.0%
Tianma Microelectronics	000050 CH	Add	16.17	22.46	4,841	29.6	19.7	16.2	32.3%	1.2	1.1	6.0%	6.9%	9.3	8.4	0.8%	0.9%
Average						87.4	60.3	52.8	31.9%	6.0	6.1	12.5%	18.0%	28.9	20.9	0.5%	0.7%
Handset vendors																	
Lenovo Group	992 HK	Add	5.21	6.31	8,077	13.5	11.9	10.0	15.1%	2.0	1.6	18.6%	17.7%	3.6	2.8	5.2%	6.0%
Xiaomi	1810 HK	Add	24.50	22.24	76,209	52.8	40.1	31.2	26.1%	5.6	4.8	15.1%	17.1%	42.5	28.4	0.0%	0.0%
Average						33.1	26.0	20.6	20.6%	3.8	3.2	16.9%	17.4%	23.0	15.6	2.6%	3.0%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG (PRICE AS AT 4 SEP, 2020)

BY THE NUMBERS

Profit & Loss				
(US\$m)	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Net Revenues	3,116	3,859	4,689	6,136
Gross Profit	642	932	880	1,217
Operating EBITDA	796	1,348	1,717	2,201
Depreciation And Amortisation	(747)	(1,031)	(1,399)	(1,806)
Operating EBIT	49	317	318	396
Financial Income/(Expense)	76	72	71	71
Pretax Income/(Loss) from Assoc.	0	0	0	0
Non-Operating Income/(Expense)	58	54	87	171
Profit Before Tax (pre-EI)	182	442	476	637
Exceptional Items				
Pre-tax Profit	182	442	476	637
Taxation	(23)	(65)	(73)	(97)
Exceptional Income - post-tax	0	0	0	0
Profit After Tax	159	377	404	540
Minority Interests	76	35	49	38
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	0	0	0	0
Preference Dividends (Australia)				
Net Profit	235	413	452	579
Normalised Net Profit	159	377	404	540
Fully Diluted Normalised Profit	235	413	452	579

Cash Flow				
(US\$m)	Dec-19A	Dec-20F	Dec-21F	Dec-22F
EBITDA	796	1,348	1,717	2,201
Cash Flow from Inv. & Assoc.				
Change In Working Capital	217	(96)	(142)	(157)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(288)	(104)	0	0
Other Operating Cashflow				
Net Interest (Paid)/Received	(63)	(69)	(70)	(71)
Tax Paid	(23)	(65)	(73)	(97)
Cashflow From Operations	638	1,014	1,432	1,877
Capex	(1,870)	(4,300)	(5,590)	(7,267)
Disposals Of FAs/subsidiaries	12	12	27	53
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	(80)	771	4,273	4,303
Cash Flow From Investing	(1,938)	(3,517)	(1,290)	(2,911)
Debt Raised/(repaid)	408	(450)	29	78
Proceeds From Issue Of Shares	19	7,509	0	0
Shares Repurchased	0	0	0	0
Dividends Paid				
Preferred Dividends				
Other Financing Cashflow	507	727	0	0
Cash Flow From Financing	933	7,785	29	78
Total Cash Generated	(366)	5,283	171	(957)
Free Cashflow To Equity	(892)	(2,953)	171	(957)
Free Cashflow To Firm	(1,236)	(2,434)	212	(964)



Balance Sheet				
(US\$m)	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	3,043	8,410	8,897	8,463
Total Debtors	836	1,061	1,303	1,833
Inventories	629	767	955	1,362
Total Other Current Assets	2,365	4,039	4,541	5,101
Total Current Assets	6,874	14,277	15,697	16,760
Fixed Assets	8,128	11,648	15,923	21,496
Total Investments	1,166	1,153	1,151	1,151
Intangible Assets	97	97	97	97
Total Other Non-Current Assets	172	134	134	134
Total Non-current Assets	9,564	13,031	17,306	22,878
Short-term Debt	930	1,651	1,909	2,187
Current Portion of Long-Term Debt	704	904	936	936
Total Creditors	1,126	1,493	1,903	2,859
Other Current Liabilities	518	509	511	512
Total Current Liabilities	3,279	4,558	5,259	6,494
Total Long-term Debt	2,004	1,080	880	680
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	1,031	3,639	8,248	12,993
Total Non-current Liabilities	3,035	4,719	9,128	13,673
Total Provisions	0	0	0	0
Total Liabilities	6,314	9,277	14,387	20,166
Shareholders' Equity	5,669	13,617	14,201	15,057
Minority Interests	4,528	4,455	4,455	4,455
Total Equity	10,198	18,071	18,656	19,512

Key Ratios				
	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	(7.3%)	23.8%	21.5%	30.9%
Operating EBITDA Growth	(5.9%)	69.3%	27.4%	28.2%
Operating EBITDA Margin	25.6%	34.9%	36.6%	35.9%
Net Cash Per Share (US\$)	(0.12)	0.65	0.70	0.63
BVPS (US\$)	1.12	1.84	1.92	2.03
Gross Interest Cover	0.77	4.61	4.53	5.60
Effective Tax Rate	12.8%	14.6%	15.2%	15.2%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	98.05	89.97	92.01	93.30
Inventory Days	90.16	87.27	82.52	85.99
Accounts Payables Days	157.6	163.8	162.7	176.7
ROIC (%)	0.53%	2.99%	2.02%	1.93%
ROCE (%)	1.46%	2.57%	2.08%	2.35%
Return On Average Assets	0.54%	1.40%	1.10%	1.29%

Key Drivers				
	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP Change (% Main Product)	8.0%	-16.3%	9.5%	12.8%
Unit sales growth (% main prod)	0.3%	10.8%	13.1%	7.7%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A
ASP chg (% 2ndary prod)	N/A	N/A	N/A	N/A
Unit sales grth (% 2ndary prod)	N/A	N/A	N/A	N/A
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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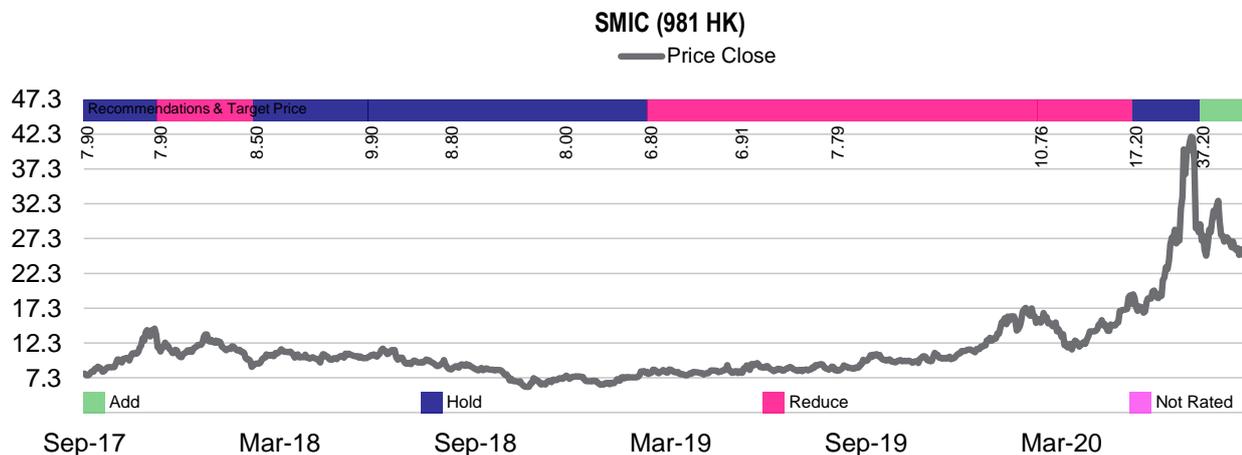
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800 companies under coverage for quarter ended on 30 June 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.1%	0.4%
Hold	25.9%	0.1%
Reduce	14.0%	0.3%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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Definition:

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- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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