

Hua Hong Semi (1347 HK)

2020 Q4 Results

Hong Kong | Technology | Update

4 Mar 2021

Investment Summary

Hua Hong Semiconductor (the "Company") announced on February 9 the consolidated operating results for the three months ended December 31, 2020 and the annual results for the year ended December last year.

According to the announcement, the Company's sales revenue in the fourth quarter exceeded guidance, reaching a record high of US\$281 million, an increase of 15.4% from the same period last year and an increase of 10.7% from the previous quarter. Benefiting from the recovery of the consumer and communications markets and the continuous optimization of the product structure, the gross profit margin was 25.8% also exceeded the guideline. The sales revenue of the Wuxi 12-inch production line in the fourth quarter more than doubled from the previous quarter. During the period, net profit was US\$43 million, partly due to an increase in government subsidies of approximately US\$14 million. Driven by the 200mm capacity utilization rate reaching 104%, the revenue of its 8 fabs increased by 3.4% quarter-on-quarter; at the same time, the capacity utilization rate of its 12 fabs increased by 19 percentage points quarter-to-quarter to 76%, and revenue comes from the strong demand of China's CMOS image sensor (CMOS ImageSensor, CIS), MCU, IGBT, LED, etc.

In view of the tight supply of the global semi-industry, this coupled with the increase in Hua Hong Semiconductor's operating income. The ideal sales of image sensors (CIS), power management, LEDs, and microcontrollers have offset the negative impact of weak demand for electronically erasable rewritable read-only memory and smart card chips. Taking into account the strong demand in the market, the utilization rate of its 12 fabs has increased faster than expected, and it may continue to drive the rate of utilization this year, and even further expand its production capacity.

The Company's profit for the period was US\$28.2 million, compared with US\$14 million in the same period last year, increased 101% year-on-year. Operating expenses has decreased 14.3% year-on-year during the period, mainly due to the increase in government subsidies for R&D activities and the net income of other income of US\$24.5 million, mainly due to exchange gains and share of an associate's profit increased. The Company's management expects revenue of approximately US\$288 million in the first quarter of 2021, with a gross profit margin of approximately 23% to 25%.

Valuation and Investment Recommendation

We believe that based on the Company's sound fundamentals, the Company's capacity expansion is in the positive cycle of the industry, and capacity utilization has reached an unprecedented peak. We raise the Company's 2021 target price-to-book ratio of 3.0x. We respectively raised the Company's 2021/2022 net asset value per share of US\$2.66 (+5%)/2.78 (+4.9%), and a twelve-month target price of HK\$62.0, corresponding to the market of 2020/2021/2022 net asset value per share is 3.08x/3.00x/2.42x. Maintain accumulate rating. (Exchange rate: 7.78 USD/HKD) (Current price as of March 22)

Accumulate (Maintain)

Current market price HKD52.95
(Closing price as at 2nd Mar 2021)
Target price HKD 62.00 (+17%)

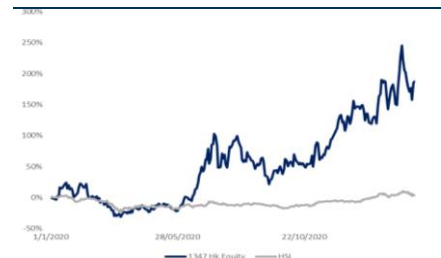
COMPANY DATA

O/S SHARES(million):	1,299
MARKET CAP (HKD MN):	687.93
52- WK HI/LO (HKD) :	64.65/12.22

Major Shareholder %

Shanghai Hua Hong Int Ltd	26.97
Huaxin Investment Mgt Co., Ltd	18.66
Shanghai Alliance Investment Ltd	14.54

Price vs HSI



Source: Wind, PSHK

KEY FINANCIALS

USD'mm	FY19	FY20E	FY21E	FY22E
Net Sales	933	961	1,235	1,513
Net profit	162	99	160	157
EPS, USD	0.12	0.03	0.08	0.12
P/E x	54	89	55	56
BVPS, USD	2.37	2.58	2.66	2.78
P/BV, x	2.25	2.64	2.56	2.45
ROE%	5.26	2.96	4.64	4.34
ROA%	4.49	2.18	3.71	3.37

Source: Company data, PSHK

Closing price as of 2 Mar 2021

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Financial statements

Key financial data

FYE DEC	FY18	FY19	FY20	FY21E	FY22E
Valuation Ratio					
P/E ratio	48.28	54.50	88.92	55.22	56.40
P/B ratio	3.27	2.87	2.64	2.56	2.45
Per share data (USD)					
EPS	0.141	0.125	0.077	0.123	0.121
Book value per share	2.08	2.37	2.58	2.66	2.78
Growth & Margin					
Revenue growth	15%	0%	3%	29%	22%
Net profit growth	28%	-16%	-79%	217%	52%
Net profit margin	20%	17%	3%	9%	11%
Key Ratios					
ROE	6.8%	5.3%	3.0%	4.6%	4.3%
ROA	6.0%	4.5%	2.2%	3.7%	3.4%

Closing price as of 2 March 2021

Source: Company data, PSHK

Consolidated Statement of Profit or Loss and Other Comprehensive income

(USD'000)						
INCOME STATEMENT						
<i>Fiscal year</i>	2017A	2018A	2019A	2020E	2021E	2022E
<i>Fiscal year end date</i>	<i>12/31/17</i>	<i>12/31/18</i>	<i>12/31/19</i>	<i>12/31/20</i>	<i>12/31/21</i>	<i>12/31/22</i>
Revenue	808,148	930,268	932,567	961,279	1,235,310	1,513,028
Cost of Sales	(540,971)	(619,114)	(650,107)	(726,486)	(938,861)	(1,170,534)
Gross Profit	267,177	311,154	282,460	234,793	296,449	342,495
Other income and gains	24,394	43,613	69,091	57,313	50,812	50,812
Fair value gain on an investment property	89	247	163	198	-	-
Selling and distribution expenses	(7,232)	(7,771)	(8,828)	(8,169)	(11,694)	(12,429)
Administrative expenses	(108,673)	(122,323)	(169,796)	(261,139)	(224,918)	(223,203)
Other expenses	(10,712)	(11,106)	(406)	(10)	(3,841)	(1,419)
Share of profit of an associate	9,622	9,444	10,131	26,059	25,000	40,000
Income from operations	174,665	223,258	182,815	49,045	131,809	196,256
Other income (expenses):						
Finance costs	(2,178)	(2,203)	(1,242)	(2,968)	(8,000)	(8,000)
profit before income tax	172,487	221,055	181,573	46,077	123,809	188,256
Income tax benefits (expenses)	(27,225)	(35,447)	(26,588)	(12,762)	(18,076)	(27,485)
Profit for the year	145,262	185,608	154,985	33,315	105,733	160,770
Net profit attributable to ordinary shareholders	239,739	183,158	162,237	99,443	160,133	156,770
Net profit(loss) attributable to non-controlling interests	-	2,450	(7,252)	(66,128)	(54,400)	4,000

Source: Company data, PSHK

Consolidated Statement of Financial Position

(USD'000)						
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E
Fiscal year end date	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Non-current assets						
Property, plant and equipment, net	733,462	773,180	1,558,283	2,510,442	2,704,914	2,704,423
Investment property	179,586	171,225	168,615	180,476	172,727	172,727
Prepaid land use rights, net	20,634	58,989	-	-	-	-
Right-of-use assets	-	-	74,526	79,221	75,810	75,810
Intangible assets	7,411	9,571	13,322	36,947	36,947	36,947
Investment in an associate	57,577	64,005	73,142	105,218	130,218	170,218
Available-for-sale investments	215,864	-	-	-	-	-
Equity investments	-	208,357	207,689	230,265	212,754	212,754
Long term prepayments	3,266	12,509	13,548	10,768	13,838	16,949
Deferred tax assets	7,074	6,363	7,567	8,965	11,521	14,111
Others	-	-	-	26	-	-
	1,224,874	1,304,199	2,116,692	3,162,328	3,358,729	3,403,938
Current assets						
Inventories	115,578	129,629	142,087	226,476	291,037	356,467
Trade and notes receivables	112,372	176,797	164,968	120,952	155,432	190,375
Prepayments, other receivables and other assets	10,074	12,479	113,453	130,979	168,317	206,158
Due from related parties	46,988	10,800	9,262	4,706	6,048	7,407
Financial assets at fair value through profit or loss	-	667,033	519,779	-	84,759	84,759
Restricted and time deposits	193,530	337	70,776	359	766	766
Cash and cash equivalents	374,890	777,000	476,286	922,786	256,663	406,820
	853,432	1,774,075	1,496,611	1,406,258	963,022	1,252,752
Total assets	2,078,306	3,078,274	3,613,303	4,568,586	4,321,750	4,656,690
Non-current liabilities						
Interest-bearing bank borrowings	32,139	26,227	21,502	518,391	19,823	19,823
Lease liabilities	-	-	16,694	17,405	17,311	17,311
Deferred tax liabilities	14,123	18,146	17,176	136,210	17,504	21,439
	46,262	44,373	55,372	549,417	54,638	58,573
Current liabilities						
Trade payables	68,124	79,470	86,119	130,980	168,318	206,159
Other payables and accruals	129,908	165,370	303,614	386,305	496,429	608,034
Interest-bearing bank borrowings	60,751	4,371	4,300	47,784	61,406	75,211
Lease liabilities	-	-	1,922	4,235	3,757	3,757
Government grants	40,523	44,406	40,641	58,926	40,105	40,105
Due to related parties	10,885.00	5,838.00	10,655	12,647	13,467	13,467
Income tax payable	26,648	30,114	28,088	24,171	31,061	38,045
	336,839	329,569	475,339	665,048	814,543	984,777
Total liabilities	383,101	373,942	530,711	1,214,465	869,181	1,043,350
Share capital	1,554,870	1,960,159	1,966,095	1,979,033	1,971,748	1,971,748
Reserves	140,335	195,097	279,146	549,409	709,542	866,312
Total equity attributable to owners of the parent	1,695,205	2,155,256	2,245,241	2,528,442	2,681,290	2,838,060
Non-controlling interests	-	549,076	837,351	825,679	771,279	775,279
Total equity	1,695,205	2,704,332	3,082,592	3,354,121	3,452,569	3,613,339

Source: Company data, PSHK

Consolidated Cash Flow Statement

(USD'000)						
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E
Fiscal year end date	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Profit before tax	172,487	221,055	181,573	46,077	123,809	188,256
Adjustment for:						
Depreciation and amortization	103,976	119,193	126,074	206,354	300,546	300,491
Others	(7,963)	(23,707)	(37,293)	(122,789)	(635,650)	(383,807)
Decrease/(Increase) in working capital assets	(35,813)	(46,031)	(100,313)	(53,343)	(222,480)	(139,574)
Increase/(Decrease) in working capital liabilities	41,795	30,301	21,229	189,709	167,496	170,234
Decrease/(Increase) in other non-current assets	2,331	6,011	(2,380)	2,780	(3,070)	(3,111)
Increase/(Decrease) in other liabilities	1,196	(5,047)	4,817	322	31	1,723
Cash generated from operations	278,009	301,775	193,707	269,110	(269,317)	134,213
Income tax paid	(19,709)	(27,375)	(30,773)	(12,762)	(18,076)	(27,485)
Net cash flows generated from operating activities	258,300	274,400	162,934	256,348	(287,393)	106,728
Capital expenditures	(138,087)	(229,837)	(922,281)	(1,087,257)	(650,000)	(300,000)
Others	(58,916)	(487,402)	199,694	681,596	131,296	337,529
Cash from investing activities	(197,003)	(717,239)	(722,587)	(405,661)	(518,704)	37,529
Cash from financing activities	(41,096)	865,010	262,898	540,427	139,974	5,901
Net change in cash during period	20,201	422,171	(296,755)	391,114	(666,123)	150,157
Cash and cash equivalents at beginning of year	341,255	374,890	777,000	476,286	922,786	256,663
Effect of changes in foreign exchange rates on cash and cash equivalents	13,434	(20,061)	(3,959)	55,386	-	-
Cash and cash equivalents at end of year	374,890	777,000	476,286	922,786	256,663	406,820

Source: Company data, PSHK

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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