

Hua Hong Semiconductor (01347.HK)

3Q24 performance exceeded previous guidance overall, with a slight increase in ASP

China | Semiconductor

17 Feb 2025

Company profile

Hua Hong Semiconductor is currently the second largest semiconductor foundry in mainland China and the sixth largest globally. It provides foundry services on 8-inch and 12-inch wafer platforms, offering embedded/independent non-volatile memory, power devices, analog and power management, logic, and RF on five distinct process platforms. It has become the most comprehensive semiconductor foundry with distinctive process platforms. According to TrendForce data, in the embedded non-volatile memory sector, the company is the world's largest smart card IC manufacturing foundry and the largest MCU manufacturing foundry domestically. In the power device sector, the company is the world's top-ranked power device wafer foundry in terms of capacity and the only enterprise with both 8-inch and 12-inch power device foundry capabilities.

3Q24 performance exceeded previous guidance

The company's revenue for 3Q24 was \$530 million, a year-on-year decrease of 7.4%, with a gross margin of 12.2%, down 3.9% year-on-year. This was primarily due to pressure on ASP, partially offset by increased wafer shipments and improved capacity utilization. The net profit attributable to the parent company was \$44.8 million, up 222.6% year-on-year. In terms of application areas, management indicated that the consumer electronics sector remained strong as the largest end market, while the industrial and automotive products showed weakness, mainly due to declining average selling prices and demand for IGBT products. From a regional customer perspective, the company's overall demand from overseas customers remains stable. However, revenue in the China region decreased by 1.5% year-on-year, primarily due to declines in demand and average selling prices for IGBT, super junction, and flash memory products. This was partially offset by increased demand for CIS and other power management products.

4Q24 Outlook

The company forecasts revenue for 4Q24 to be around \$530-540 million, in line with industry averages. The gross margin for 4Q24 is expected to be approximately 11.0%-13.0%, lower than that of other industry players, primarily due to lower ASP. Given the ongoing challenges in the overall macroeconomic environment in China and no significant improvement in industrial output, it is expected that the industrial and automotive sectors will continue to lag in growth, putting pressure on demand for high-voltage IGBT and ultra-junction products. However, with the continued growth in artificial intelligence demand, the company's CIS, BCD, and logic business in data center applications are performing well. The company anticipates price pressure on the 8-inch business in the fourth quarter, but with the gradual resolution of the technical bottlenecks faced in the expansion of the 12-inch capacity mentioned in the 2Q24 earnings call, there is a trend of increasing capacity utilization rates for 12-inch wafers, with a slight potential increase in ASP.

The capacity ramp-up at the Wuxi Phase II wafer fab is progressing smoothly, and the new factory is expected to be completed and operational by the end of 2024

The construction of the company's second 12-inch production line is progressing rapidly. Trial production and process verification for various technology platforms are expected to fully commence by the end of this year to early next year. Once operational, the company's production capacity and specialized technology platforms will be further expanded and enhanced to meet the growing and emerging demands from downstream markets, unlocking greater potential. Management anticipates that the new line will add 10,000 to 20,000 wafers per month in capacity, with plans to increase total capacity to 83,000 wafers per month within the next two to three years. We expect that Hua Hong will not have significant capital expenditure plans once the production line is fully completed.

Accumulate

CMP HKD 25.95
(Closing price as of 11 Feb 2025)
Target HKD 30.30 (+16.8%)

COMPANY DATA

O/S SHARES (MN) :	1,718.42
MARKET CAP (HKD BN) :	44,599
52 - WK HI/LO (HKD):	32.75/14.20

SHARE HOLDING PATTERN, %

Shanghai Huahong (Group) Co., Ltd.	20.23%
Sino-Alliance International, Ltd	9.34%
Xuxin (Hong Kong) Capital Co., Limited	8.29%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

USD mn	FY22	FY23	FY24E	FY25E
Revenue	2,475	2,286	2,041	2,412
Net profit	450	280	86	285
Diluted EPS	0.26	0.16	0.05	0.17
P/E ratio, x	12.71	20.42	66.66	20.14
P/B ratio, x	2.1	1.0	1.0	0.9
Dividend Yield, %	0	0.35%	0	0

Source: Company reports, Phillip Securities Est.

Research Analyst

Megan Tao

megantao@phillip.com.hk

Company valuation

Considering the recovery in consumer electronics terminal demand, the expected bottoming out and recovery of ASP, and the gradual release of capacity from the Wuxi Phase II project, it is anticipated that these factors will drive product portfolio optimization and promote revenue growth. We forecast the company's operating income for the years 2024, 2025, and 2026 to be \$2.0 billion, \$2.4 billion, and \$2.5 billion respectively. We also anticipate the net profit attributable to the parent company to be \$86 million, \$285 million, and \$299 million respectively, with corresponding diluted EPS of \$0.05, \$0.17, and \$0.17. Overall, as a semiconductor foundry player with high capital investment, we believe the company's valuation is slightly below the industry average, at 1.0x the 2025E PB, corresponding to a target price of HK\$30.30 per share. We are initiating coverage with an 'Accumulate' rating.

Exchange rate: HKD/USD=7.79

Risk factors

1) Tightening of U.S. export controls; 2) Lower-than-expected ramp-up of capacity at the Wuxi wafer fab; 3) Weaker-than-expected increase in ASP.

Financials

Consolidated Statement of Profit or Loss

Dec Y/E, USD thousand	2022	2023	2024E	2025E	2026E
REVENUE	2475488	2286113	2041200	2411850	2553600
Cost of services	-1631832	-1799017	-1806462	-1881243	-1966272
Gross profit	843656	487096	234738	530607	587328
Selling, administrative and general expenses	-390490	-366723	-337376	-388661	-414401
Operating profit	453166	120373	-102638	141946	172927
Finance costs	-40331	-100497	-81648	-80598	-99911
Profit before income tax and share of results of equity investees	412835	19876	-184286	61349	73016
Income tax expenses	-89499	-47154	19533	-40373	-50728
Share of results of equity investees	12171	9230	9230	9230	9230
Net profit	406571	126425	-67591	138725	160263
Profit attributable to:					
- Equity holders of the Company	449912	280034	86018	284653	298895
- Non-controlling interests	-43341	-153609	-153609	-145929	-138632

Consolidated Statement of Financial Position

Dec Y/E, USD thousand	FY22	FY23	FY24E	FY25E	FY26E
Current assets					
Accounts receivable	918189	762239	727003	859015	909501
Cash and cash equivalents	2008765	5585181	5353243	5282651	5387954
Inventory	134723	178828	197968	206164	215482
Others	14048	43307	28678	35992	32335
Total current assets	3075725	6569555	6306892	6383822	6545272
Non-current assets					
PPE	3367716	3519292	3976800	4334712	4638142
Others	611935	854573	854573	854573	854573
Total non-current assets	3979651	4373865	4831373	5189285	5492715
Total Assets	7055376	10943420	11138264	11573107	12037987
Current liabilities					
Accounts payable	837066	679764	742382	773114	808057
Others	545350	292623	418987	355805	387396
Total current liabilities	1382416	972387	1161368	1128918	1195453
Non-current liabilities					
Long-term debt	1481580	1906526	1944657	1983550	2023221
Others	55912	49963	52938	51450	52194
Total non-current liabilities	1537492	1956489	1997594	2035000	2075415
Total liabilities	2919908	2928876	3158962	3163918	3270867
Equity attributable to equity holders of the Company	3030470	6300995	6265753	6695639	7053571
Non-controlling interests	1104998	1713549	1713549	1713549	1713549
Total equity	4135468	8014544	7979302	8409188	8767120
Total liabilities and equity	7055376	10943420	11138264	11573107	12037987

Consolidated Statement of Cash Flow

Dec Y/E, USD thousand	2022	2023	2024E	2025E	2026E
CFO	750865	641695	575667	662478	816407
Net profit	406571	126425	-67591	138725	160263
Depreciation and Amortization	439917	481664	492701	556752	606860
Change in working capital	-144290	-64458	77191	-118713	-30256
Others	48667	98064	73366	85715	79540
CFI	-930156	-833312	-913165	-905848	-951098
Short term and long term investment, net	66026	73295	69661	71478	70569
Purchase of property, equipment and intangible assets	-996182	-906607	-982825	-977325	-1021667
CFF	672177	3781746	105559	172777	239995
Cash paid for distribution of dividends	0	0	-28876	-28876	-28876
Cash received from financing	672177	3781746	134435	201653	268871
Effect of exchange rate changes on cash	-94261	-13713	0	0	0
Net Change in Cash	398625	3576416	-231938	-70592	105304
Cash, CE and Restricted cash at Beg	1610140	2008765	5585181	5353243	5282651
Cash, CE and Restricted cash at Y/E	2008765	5585181	5353243	5282651	5387954

Key Financial Data					
Dec Y/E	FY22	FY23	FY24E	FY25E	FY26E
Valuation Ratio					
P/E ratio	12.7	20.4	66.7	20.1	19.2
Dividend Yield, %	0.00%	0.35%	0.00%	0.00%	0.00%
Per share data					
EPS	0.26	0.16	0.05	0.17	0.17
BVPS	1.8	3.7	3.6	3.9	4.1
Growth & Margin					
Growth					
Revenue Growth	51.80%	-7.65%	-10.71%	18.16%	5.88%
Gross Profit Growth	86.82%	-42.26%	-51.81%	126.04%	10.69%
EBIT Growth	67.41%	-65.01%	-150.19%	105.57%	17.81%
Net Profit Growth	72.07%	-37.76%	-69.28%	230.92%	5.00%
Margin					
Gross Profit Margin	34.08%	21.31%	11.50%	22.00%	23.00%
EBIT Margin	16.68%	0.87%	-9.03%	2.54%	2.86%
Net Profit Margin	18.17%	12.25%	4.21%	11.80%	11.70%
Key Ratios					
ROE	10.88%	3.49%	1.08%	3.39%	3.41%
ROA	6.38%	2.56%	0.77%	2.46%	2.48%

Current Price as of: Feb 11

Source: PSHK Est.

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2025 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

L Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm