22 Oct 2026 10:28:16 ET | 12 pages

Shennan Circuit (002916.SZ)

3Q26 Earnings Close to Upper End of Preliminary Guidance Range

CITI'S TAKE

Shennan's 3Q26 NP rose 94% yoy to Rmb1.88bn, and core NP rose 103%. 9M NP of Rmb4.13bn sits in the upper half of the Rmb4.05-4.15bn guidance range. Core quarterly NP growth has been accelerating from 75% in 1Q26, 78% in 2Q26 and further surging to 103% in 3Q26. **See Fig 1** for the accelerating trend. However, operating cashflow fell 15% yoy as receivables and inventory built, and capex payments tripled which was funded mainly by new borrowings ahead of the Rmb4.37bn placement - pending for approval. The 9M NP covers 73% of our FY26E NP estimates even though our estimate is slightly higher than VA consensus. So the Street estimate should see some upside for this year. **Reiterate Buy** on stock correction by ~24% month-to-date on fund rotation into non-AI sector.

Buy	
Price (22 Oct 26 15:00)	Rmb284.300
Target price	Rmb465.000
Expected share price return	63.6%
Expected dividend yield	0.7%
Expected total return	64.2%
Market Cap	Rmb193,656M US$29,008M

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More color to follow – Shennan will host the 3Q briefing call on **23 Oct (Fri) at 9.30am.**

Margin expansion as the key to drive quarterly earnings growth acceleration – Fig 3 exhibits the quarterly margin trends. All key margins like GM, operating margin and net margin expanded qoq and yoy during 9M26. In view of better mix towards AI-PCB and BT substrate recovery on pricing and UTR, the GM has increased from 29.2% in 1Q26 to 34.9% in 3Q26. On top of rising operating leverage, the net margin has therefore expanded from 12.9% in 1Q26 to 17.9% in 3Q26. 3Q26 is a record high quarterly net margin right after the last record at 16.1% in 2Q26. In other words, the current PCB upcycle has been well above the prior upcycles compared with **last quarterly peaks 15.3% in 4Q16** (for commodity upcycle amid robust economies), **13.8% in 3Q19** (from 4G into 5G cellular network), **13.1% in 2Q20** (upcycle led by supply disruption amid COVID).

Operating gains partly absorbed headwinds of FX loss and reduction of govt grants - Over 9M, finance costs rose to Rmb299m from Rmb33m, mainly on FX moves. The interest expense was only Rmb92m. Other income fell 43% yoy to Rmb249m as government grants and tax incentives declined. Together these two items cut pre-tax profit by about Rmb450m versus 9M25. Admin expenses rose 65% yoy, partly on share-incentive charges, and credit and asset impairments rose to Rmb521m from Rmb307m as receivables and inventory grew. R&D rose 25% yoy, slower than revenue.

Growth dragged OCF during 9M26 - 9M OCF fell 15% yoy to Rmb1.96bn, while NP rose 78%. Since end-2025, receivables rose 73% to Rmb9.06bn and inventory rose

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

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89% to Rmb9.70bn. The company cites higher orders and material stocking. Capex payments rose to Rmb7.61bn from Rmb2.35bn in 9M25, for new plants in Wuxi, Nantong and Guangzhou. Bank borrowings rose to Rmb8.39bn from Rmb2.69bn at end-2025. The Rmb4.37bn placement passed the SZSE listing review on 14 Oct and still needs CSRC registration. Contract liabilities doubled to Rmb363m, a small sign of customer prepayments. So we expect the cash position will improve after the upcoming placement to be done.

4Q hinges on the FC-BGA ramp and cost pass-through - Mgmt has guided FY26 FC-BGA revenue above Rmb600m, against about Rmb200m in 1H26, which requires a faster 2H ramp. Guangzhou Phase 2 is due to start in 4Q26 with a ramp of about 18 months, and the Wuxi PCB plant targets 2H27, so neither adds much to 4Q revenue. The main 4Q margin risk is input cost: per KBL, thin glass-cloth prices rose 15% from October, and cost pass-through on non-AI PCB has been weak. Our FY26E implies 4Q NP about 19% below 3Q due to higher OPEX in 4Q for sales commission and leaving room for margin pressure from material cost inflation.

Figure 1. Shennan – quarterly P&L trends during 1Q25-3Q26

FY Dec, RMBmn	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26
Total Revenue	**4,783**	**5,671**	**6,301**	**6,893**	**6,596**	**8,701**	**10,478**
yoy, %	*20.7%*	*30.1%*	*33.2%*	*41.9%*	*37.9%*	*53.4%*	*66.3%*
COGS	(3,600)	(4,106)	(4,323)	(4,922)	(4,672)	(5,880)	(6,826)
yoy, %	*21.5%*	*29.2%*	*22.5%*	*29.8%*	*29.8%*	*43.2%*	*57.9%*
Gross Profit	**1,183**	**1,564**	**1,978**	**1,971**	**1,924**	**2,820**	**3,652**
yoy, %	*18.6%*	*32.3%*	*64.7%*	*84.8%*	*62.6%*	*80.3%*	*84.6%*
Tax and Surcharges	(22)	(38)	(41)	(25)	(35)	(63)	(51)
Selling Expenses	(84)	(88)	(85)	(124)	(103)	(107)	(115)
yoy, %	*21.3%*	*30.9%*	*5.2%*	*41.4%*	*23.5%*	*21.4%*	*34.9%*
Admin expenses	(538)	(581)	(775)	(763)	(700)	(870)	(1,103)
yoy, %	*11.6%*	*23.8%*	*67.9%*	*30.4%*	*30.2%*	*49.8%*	*42.4%*
Impairment loss	(120)	(82)	(104)	(66)	(160)	(203)	(158)
FV change gain	2	0	(0)	3	(4)	1	0
Investment income	3	0	(0)	0	2	(1)	(1)
Asset disposal gain	(0)	(3)	(3)	1	1	(1)	(0)
Other Income	113	219	105	84	88	106	54
EBIT	**538**	**992**	**1,074**	**1,080**	**1,012**	**1,684**	**2,276**
yoy, %	*36.3%*	*47.7%*	*76.8%*	*169.2%*	*88.1%*	*69.7%*	*111.9%*
Financial Costs	(10)	(11)	(12)	(16)	(69)	(82)	(148)
Non-op income	1	2	1	2	2	9	2
Non-op expense	(5)	(7)	(3)	(2)	(4)	(3)	(4)
PBT	**523**	**976**	**1,060**	**1,065**	**941**	**1,607**	**2,127**
Tax	(31)	(106)	(93)	(114)	(89)	(204)	(246)
PAT	**492**	**869**	**967**	**950**	**851**	**1,403**	**1,880**
Minority Interest	1	0	1	0	1	2	2
Net profit	**491**	**869**	**966**	**950**	**850**	**1,401**	**1,878**
yoy, %	*29.5%*	*42.9%*	*92.9%*	*143.9%*	*73.0%*	*61.3%*	*94.4%*
Core net profit	**485**	**780**	**916**	**932**	**849**	**1,390**	**1,858**
yoy, %	*44.6%*	*37.2%*	*94.2%*	*156.1%*	*75.0%*	*78.1%*	*102.8%*

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Figure 2. Shennan – yoy growth trends during 1Q25-3Q26

YoY	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26
Rev	20.7%	30.1%	33.2%	41.9%	37.9%	53.4%	66.3%
EBIT	36.3%	47.7%	76.8%	169.2%	88.1%	69.7%	111.9%
Net profit	29.5%	42.9%	92.9%	143.9%	73.0%	61.3%	94.4%
Core net profit	44.6%	37.2%	94.2%	156.1%	75.0%	78.1%	102.8%
GPM chg (ppt)	-0.5%	0.5%	6.0%	6.6%	4.4%	4.8%	3.5%
Selling Exp/Rev	0.0%	0.0%	-0.4%	0.0%	-0.2%	-0.3%	-0.3%
Admin Exp/Rev	-0.9%	-0.5%	2.5%	-1.0%	-0.6%	-0.2%	-1.8%

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Source: Citi Research, Company Reports

Figure 3. Shennan – margin trends during 1Q25-3Q26

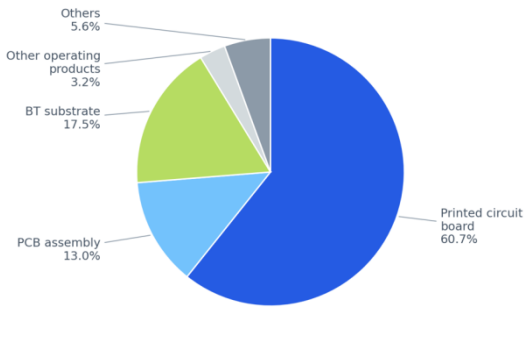
Margin	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26
GPM	24.7%	27.6%	31.4%	28.6%	29.2%	32.4%	34.9%
EBIT Margin	11.2%	17.5%	17.1%	15.7%	15.3%	19.3%	21.7%
Pre-tax Margin	10.9%	17.2%	16.8%	15.4%	14.3%	18.5%	20.3%
Net Margin	10.3%	15.3%	15.3%	13.8%	12.9%	16.1%	17.9%

Expenses ratio	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26
Selling/sales	1.8%	1.5%	1.4%	1.8%	1.6%	1.2%	1.1%
Admin/sales	11.2%	10.2%	12.3%	11.1%	10.6%	10.0%	10.5%
Tax & surcharges/sal	0.5%	0.7%	0.6%	0.4%	0.5%	0.7%	0.5%
Net fin. cost/sales	0.2%	0.2%	0.2%	0.2%	1.0%	0.9%	1.4%
Effective tax rate	6.0%	10.9%	8.8%	10.7%	9.5%	12.7%	11.6%

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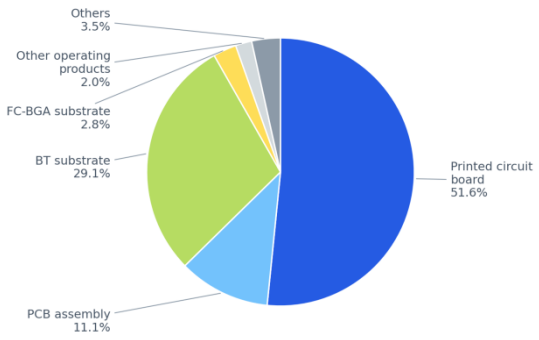
Figure 4. Shennan: revenue by segment, 2025 (%)



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Figure 5. Shennan: revenue by segment, 2028 (%)



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Shennan Circuit

Valuation

Our target price for Shennan shares of RMB465 is based on forward 2027E PE target of 41x at +1SD over mean compared with our prior 38x PE before thanks to strong margin recovery of BT substrate business segment. We employ +1SD over mean for Shennan earnings upcycle under AI-PCB demand. This is backed by 3-yr EPS CAGR of 44% thru 2028E. The company's status is one of the key proxies on AI server and IC substrate packaging – both contributed ~80% of total 1H26 sales. The PE target reflects the sustained PCB industry upcycle with datacenter server, AI server, EV, etc. during 2026-28E, though the 5G base station installations maintain modest growth in China this year. The start-up loss for new plant for Guangzhou FC-BGA Ph1 took place in 2025 but this would start operate breakeven from 2026 which is about 1yr earlier than prior guidance of 2027. Our target PE of 41x forward equates to a ~20-30% premium to the sector average, which we see as warranted given: 1) Shennan's leading position in the communication PCB sector, enhanced by its SOE background; and 2) the company's technology leadership position on AI-server, communication, datacenters, autos (on ADAS) among peers with the potential to deliver a higher margin on a more advanced technology curve.

Risks

Downside risks that could hinder the shares from reaching to our target price include: 1) Foreign AI server boom and other leading players is slower than expected; 2) weaker-than-expected demand on auto and ADAS system; 3) lower-than-expected profit of BT substrate new plant in Wuxi; and 4) higher-than-expected laminate cost inflation.

