

TK Group (2283 HK)

Positive on business recovery in FY24/25E

We recently spoke with TK Group (TK)'s mgmt. post FY23 earnings, and mgmt. reiterated positive view on order restocking, new client wins, capacity ramp-up in Vietnam/Huizhou and business opportunities in automotive/ medical device/e-cigarette. Following a challenging 2023, we expect TK's net profit to grow 38%/19% YoY in FY24/25E, backed by order wins from VR/e-cigarette/medical device, mobile & wearable/communications business recovery, and continued operating efficiency improvement. We adjusted TP to HK\$2.79 based on same 8.2x FY24E P/E. Trading at 4.4x FY24E P/E with 10% yield, we think the stock offers attractive risk/reward. Maintain BUY.

■ **FY23 earnings dragged by weak demand in consumer electronics /communications.** TK posted FY23 revenue/net profit decline of 15%/10% YoY, due to demand weakness in consumer electronics/communications segments (except automotive and e-cigarette products), partly offset by improved GPM to 26.4% (vs. 23.7% in FY22) on favourable FX and easing automotive upstream supply. By segment, **1) mobile & wearable** (Apple, Otterbox, Jabra) dropped 15% YoY, **2) communications** (Polycom) dropped 58% YoY, **3) smart home** (Google, Amazon) dropped 43% YoY, **4) medical device** (Philips) dropped 18% YoY, **5) automobile segment** grew 23% YoY, and **6) other products** grew 30% YoY (+63% YoY for e-cigarette). Projects-on-hand by FY23 amounted to HK\$ 830.6mn (+2% YoY). Weakness in communications was mainly due to product call-back of key customers, and sales of major CE customers was impacted by inventory correction, while automotive segment benefited from easing shortage of auto supply chain.

■ **FY24 Outlook: CE market recovery, new order wins and new capacity ramp-up.** Backed by new order wins in earphones/medical device/e-cigarette/ automotive segments, inventory restocking and market recovery in consumer electronics, we expect TK's revenue/net profit to deliver 19%/38% YoY growth in FY24E. TK also issued special dividend in FY23, resulting in dividend payout ratio at 83%. Mgmt. expected to maintain high level of dividend payout ratio if no major investment takes place in FY24E.

■ **Attractive valuation at 4.4x FY24E P/E and 10% yield; Maintain BUY.** We adjusted our TP to HK\$2.79 based on the same 8.2x FY24E P/E, in-line with 5-year historical forward P/E. Trading at 4.4x FY24E P/E, we think the stock is attractive considering 10% yield. Maintain BUY. Catalysts include Meta/Google/Amazon product launches, order ramp-up of medical device/e-cigarette customers and margin recovery.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	2,279	1,946	2,318	2,690	3,129
YoY growth (%)	(5.2)	(14.6)	19.1	16.0	16.3
Net profit (HK\$ mn)	226.9	204.2	281.7	334.5	394.6
YoY growth (%)	(19.6)	(10.0)	37.9	18.7	18.0
EPS (Reported) (HK\$)	0.27	0.25	0.34	0.40	0.48
YoY growth (%)	(19.6)	(9.8)	37.9	18.7	18.0
P/E (x)	5.5	6.1	4.4	3.7	3.1
P/B (x)	0.8	0.7	0.7	0.6	0.6
Yield (%)	7.6	13.6	10.2	12.1	14.3
ROE (%)	14.1	12.4	16.0	17.3	18.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$2.79
(Previous TP)	HK\$3.09
Up/Downside	86.1%
Current Price	HK\$1.50

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Stock Data

Mkt Cap (HK\$ mn)	1,241.9
Avg 3 mths t/o (HK\$ mn)	0.4
52w High/Low (HK\$)	1.71/1.22
Total Issued Shares (mn)	828.0

Source: FactSet

Shareholding Structure

Eastern Mix Co Ltd	42.9%
Li Pui Leung	10.7%

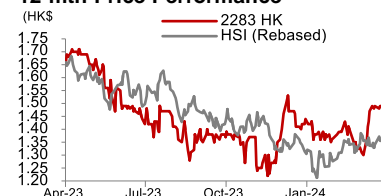
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	13.6%	10.4%
3-mth	4.2%	0.2%
6-mth	8.7%	13.1%

Source: FactSet

12-mth Price Performance



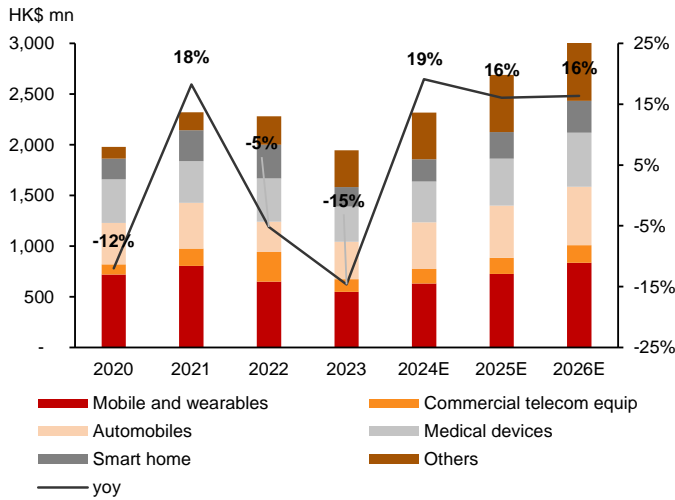
Source: FactSet

Related report:

- TK Group (2283 HK) - 1H23 weakness amid industry headwinds; positive on margin recovery in 2H23/FY24 ([link](#))

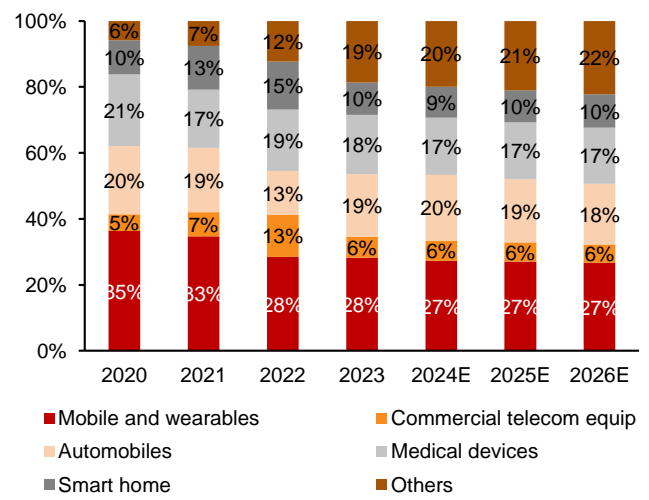
Focus Charts

Figure 1: TK Group revenue trend



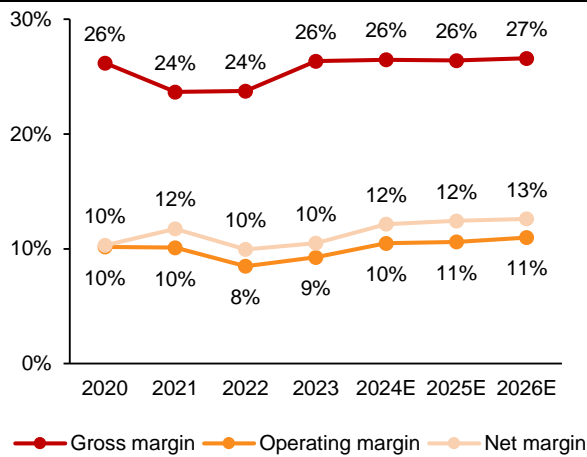
Source: Company data, CMBIGM estimates

Figure 2: TK Group revenue mix



Source: Company data, CMBIGM estimates

Figure 3: TK Group margin trend



Source: Company data, CMBIGM estimates

Figure 4: FY23 top six customers details

#	Company name	Industry	Product category
1	A leading smart phones accessorise	Mobile phones and wearable devices	Mold and plastic products
2	A leading TWS brand	Mobile phones and wearable devices	Mold and plastic products
3	A leading healthcare product brand	Medical and health care	Mold and plastic products
4	A leading e-cigarette brand	Electronic atomizer	Mold and plastic products
5	Poly	Communications equipment	Mold and plastic products
6	A leading smart home brand	Smart home	Mold and plastic products

Source: Company data, CMBIGM estimates

Figure 5: Key areas to drive future growth



Source: Company data, CMBIGM estimates

Figure 6: TK Group global production footprint



Source: Company data, CMBIGM estimates

FY23 Results Review

Figure 7: FY23 results review

HK\$ mn	FY22	FY23	YoY
Revenue	2,279	1,946	-14.6%
Gross profit	541	513	-5.3%
Operating profit	194	180	-6.9%
Net profit	227	204	-10.0%
EPS (HK\$)	0.27	0.25	-9.8%
Gross margin	23.7%	26.4%	2.7 ppt
Operating margin	8.5%	9.3%	0.8 ppt
Net margin	10.0%	10.5%	0.5 ppt

Source: Company data, CMBIGM estimates

Figure 8: TK Group revenue breakdown

HK\$ mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Mobile phones and wearable	804	648	550	632	727	836
...YoY	12%	-19%	-15%	15%	15%	15%
Household electrical appliances	67	-	-	-	-	-
...YoY	203%	-	-	-	-	-
Medical devices	412	427	350	402	462	532
...YoY	-5%	4%	-18%	15%	15%	15%
Commercial telecom equipment	170	293	124	142	157	172
...YoY	70%	72%	-58%	15%	10%	10%
Automobiles	452	301	369	461	516	578
...YoY	11%	-34%	23%	25%	12%	12%
Smart home	307	331	190	219	262	315
...YoY	51%	8%	-43%	15%	20%	20%
Digital devices	18	-	-	-	-	-
...YoY	-45%	-	-	-	-	-
Others	175	280	364	462	566	697
...YoY	50%	60%	30%	27%	22%	23%
Electronic atomizers	99	126	205	287	373	485
...YoY		27%	63%	40%	30%	30%
Total	2,404	2,279	1,946	2,318	2,690	3,129
...YoY	18%	-5%	-15%	19%	16%	16%

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 9: Earnings revision

(HK\$ mn)	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,318	2,690	3,129	2,486	2,895	N/A	-7%	-7%	N/A
Gross profit	614	710	832	648	758	N/A	-5%	-6%	N/A
Operating profit	243	285	344	267	315	N/A	-9%	-10%	N/A
Net profit	282	334	395	312	361	N/A	-10%	-7%	N/A
EPS HK\$)	0.34	0.40	0.48	0.38	0.44	N/A	-10%	-7%	N/A
Gross margin	26.5%	26.4%	26.6%	26.1%	26.2%	N/A	0.4 ppt	0.2 ppt	N/A
Operating margin	10.5%	10.6%	11.0%	10.8%	10.9%	N/A	-0.3 ppt	-0.3 ppt	N/A
Net Margin	12.2%	12.4%	12.6%	12.5%	12.5%	N/A	-0.4 ppt	0 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 10: P&L forecast

HK\$ mn	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,033	2,404	2,279	1,946	2,318	2,690	3,129
...YoY	-12.0%	18.2%	-5.2%	-14.6%	19.1%	16.0%	16.3%
Cost of sales	-1,501	-1,835	-1,738	-1,433	-1,704	-1,979	-2,297
Gross profit	533	569	541	513	614	710	832
GPM (%)	26.2%	23.7%	23.7%	26.4%	26.5%	26.4%	26.6%
...YoY	-20.2%	6.9%	-4.9%	-5.3%	19.7%	15.7%	17.1%
SG&A	-326	-326	-348	-333	-371	-425	-488
...% of rev	16.0%	13.6%	15.3%	17.1%	16.0%	15.8%	15.6%
Operating profit	207	243	194	180	243	285	344
OPM (%)	10.2%	10.1%	8.5%	9.3%	10.5%	10.6%	11.0%
...YoY	-34.8%	17.5%	-20.3%	-6.9%	34.8%	17.5%	20.5%
Net profit	210	282	227	204	282	334	395
NPM (%)	10.3%	11.7%	10.0%	10.5%	12.2%	12.4%	12.6%
...YoY	-30.5%	34.7%	-19.6%	-10.0%	37.9%	18.7%	18.0%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of HK\$2.79

Our new TP of HK\$2.79 is based on the same 8.2x FY24E P/E, in-line with its 5-yr historical forward P/E, which we view as appropriate given our positive view on long-term outlook and improving profitability/ROE.

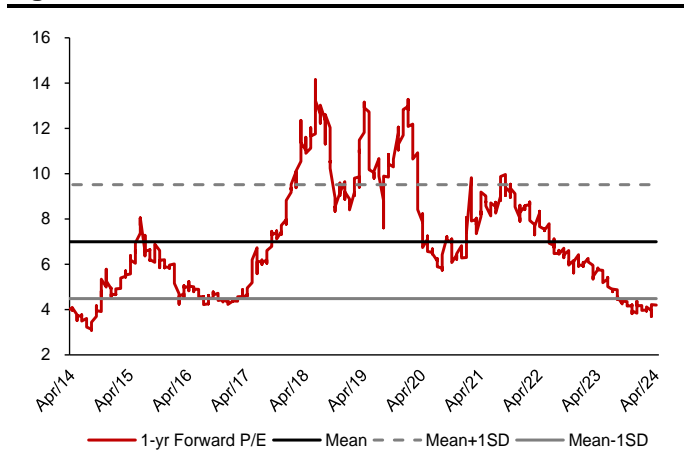
Upcoming catalysts include Meta VR, Google/Amazon smart home products and global e-cigarette customer product rollouts and margin recovery with better utilization. Major risks include slower recovery and weak macro environment.

Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)		
							FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	
TK Group	2283 HK	BUY	159	1.50	2.79	86%	6.0	4.4	0.7	0.6	12.4	16.0	
Tongda	698 HK	BUY	91	0.07	0.17	133%	4.1	2.5	0.1	0.1	2.3	3.5	
BYDE	285 HK	BUY	7,711	26.80	46.50	74%	13.4	9.8	1.8	2.8	13.7	29.0	
Average								7.8	5.6	0.9	1.2	9.4	16.0

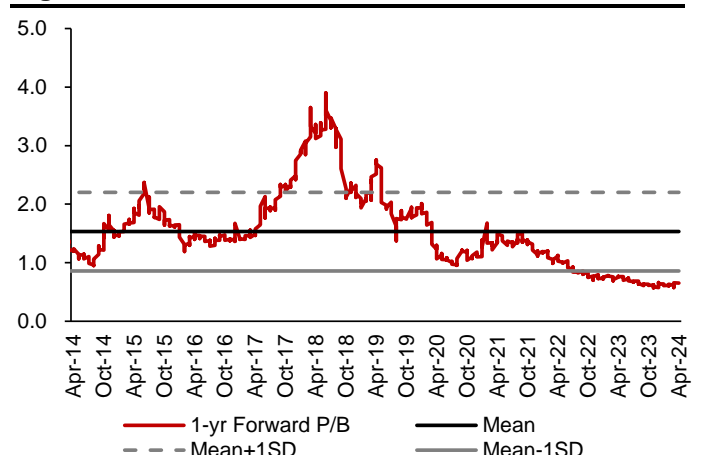
Source: Bloomberg, CMBIGM estimates

Figure 12: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 13: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Revenue	2,404	2,279	1,946	2,318	2,690	3,129
Cost of goods sold	(1,835)	(1,738)	(1,433)	(1,704)	(1,979)	(2,297)
Gross profit	569	541	513	614	710	832
Selling expense	(79)	(67)	(57)	(70)	(81)	(94)
Admin expense	(247)	(281)	(275)	(301)	(344)	(394)
Operating profit	243	194	180	243	285	344
Other income	52	45	48	51	59	69
Other gains/(losses)	11	10	6	0	0	0
Share of (losses)/profits of associates/JV	1	(2)	(8)	0	0	0
Interest income	25	23	23	30	44	45
Interest expense	(6)	(10)	(12)	(0)	(4)	(4)
Pre-tax profit	325	259	237	324	384	454
Income tax	(42)	(32)	(33)	(42)	(50)	(59)
Net profit	282	227	204	282	334	395
Net dividends	117	95	169	127	151	178

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	2,127	2,007	1,871	2,484	2,668	2,985
Cash & equivalents	1,028	1,114	1,158	1,673	1,722	1,902
Restricted cash	1	0	0	0	0	0
Account receivables	417	343	353	331	451	446
Inventories	496	392	360	480	496	637
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	185	157	0	0	0	0
Non-current assets	724	691	581	598	628	700
PP&E	528	486	412	429	460	531
Right-of-use assets	102	112	92	92	92	92
Deferred income tax	3	2	5	5	5	5
Investment in JVs & assos	16	25	17	17	17	17
Intangibles	133	132	107	107	107	107
Financial assets at FVTPL	34	34	34	34	34	34
Other non-current assets	(92)	(100)	(87)	(87)	(87)	(87)
Total assets	2,851	2,698	2,452	3,082	3,297	3,685
Current liabilities	964	916	678	1,025	1,042	1,199
Short-term borrowings	123	286	26	147	162	179
Account payables	399	349	335	440	426	544
Tax payable	26	4	20	49	56	66
Other current liabilities	71	0	0	92	101	112
Lease liabilities	81	75	68	68	68	68
Contract liabilities	264	201	229	229	229	229
Non-current liabilities	265	176	88	217	230	245
Long-term borrowings	145	61	0	129	142	157
Deferred income	61	43	37	37	37	37
Other non-current liabilities	59	72	52	52	52	52
Total liabilities	1,229	1,092	766	1,242	1,273	1,444
Share capital	83	83	83	83	83	83
Capital surplus	251	251	251	251	251	251
Retained earnings	1,096	1,216	1,316	1,471	1,655	1,872
Other reserves	201	70	52	52	52	52
Total shareholders equity	1,622	1,606	1,685	1,840	2,024	2,241
Total equity and liabilities	2,851	2,698	2,452	3,082	3,297	3,685

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	325	259	237	324	384	454
Depreciation & amortization	221	227	154	133	145	132
Tax paid	(33)	(54)	(17)	(13)	(42)	(50)
Change in working capital	(168)	7	9	7	(150)	(18)
Others	12	(67)	12	0	4	4
Net cash from operations	357	372	395	451	341	522
Investing						
Capital expenditure	(109)	(144)	(122)	(151)	(175)	(203)
Acquisition of subsidiaries/ investments	(12)	(12)	0	0	0	0
Others	22	19	(7)	0	0	0
Net cash from investing	(98)	(137)	(129)	(151)	(175)	(203)
Financing						
Dividend paid	(112)	(95)	(169)	(127)	(151)	(178)
Net borrowings	37	32	(164)	342	37	43
Others	(78)	(79)	(12)	(0)	(4)	(4)
Net cash from financing	(153)	(142)	(346)	215	(117)	(138)
Net change in cash						
Cash at the beginning of the year	920	1,028	1,114	1,158	1,673	1,722
Exchange difference	1	(5)	0	0	0	0
Cash at the end of the year	1,028	1,114	1,158	1,673	1,722	1,902
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	18.2%	(5.2%)	(14.6%)	19.1%	16.0%	16.3%
Gross profit	6.9%	(4.9%)	(5.3%)	19.7%	15.7%	17.1%
Operating profit	17.5%	(20.3%)	(6.9%)	34.8%	17.5%	20.5%
Net profit	34.7%	(19.6%)	(10.0%)	37.9%	18.7%	18.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	23.7%	23.7%	26.4%	26.5%	26.4%	26.6%
Operating margin	10.1%	8.5%	9.3%	10.5%	10.6%	11.0%
Return on equity (ROE)	18.7%	14.1%	12.4%	16.0%	17.3%	18.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	2.2	2.2	2.8	2.4	2.6	2.5
Receivable turnover days	48.0	51.8	56.6	48.0	48.0	48.0
Inventory turnover days	93.7	93.2	95.8	90.0	90.0	90.0
Payable turnover days	62.0	56.5	60.8	60.0	60.0	60.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	4.4	5.5	6.1	4.4	3.7	3.1
P/E (diluted)	4.4	5.5	6.1	4.4	3.7	3.1
P/B	0.8	0.8	0.7	0.7	0.6	0.6
Div yield (%)	9.4	7.6	13.6	10.2	12.1	14.3

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

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