

TK Group (2283 HK)

1H23 weakness amid industry headwinds; Positive on margin recovery in 2H23/FY24E

TK posted 1H23 revenue/NP decline of 12%/6% YoY, mainly due to demand weakness across segments (except automotive), partly offset by improved GPM to 23.3% (vs. 18.7% in 1H22) on easing cost pressure and enhanced efficiency. Looking ahead, mgmt. is positive on new client orders, capacity ramp-up in Shenzhen/Vietnam/Huizhou plants and business opportunities in automotive/medical device/e-cigarette. Following a weak 2023, we expect net profit to grow 33%/16% YoY in FY24/25E, backed by order wins from VR/e-cigarette/medical device, GPM recovery and better cost control. We adjusted TP to HK\$3.09 based on same 8.2x FY24E P/E. Trading at 3.5x FY24E P/E with 17% FY22-25E EPS CAGR and 9% dividend yield, we think the stock is attractive. Maintain BUY.

- **1H23 weakness well expected dragged by weak consumer electronics /communications demand.** 1H23 revenue/net income dropped 11.7%/6.4% YoY, largely in-line with earlier guidance. By segment, 1) mobile & wearable (Apple, Otterbox, Jabra) dropped 24% YoY, 2) communications (Polycom) dropped 31% YoY, 3) smart home (Google, Amazon) dropped 39% YoY, 4) medical device dropped 18% YoY, 5) automobile segment grew 21% YoY, and 6) other products segment revenue grew 41% YoY driven by 93% YoY growth of e-cigarette product. Projects-on-hand in 1H23 amounted to HK\$ 858.1mn (+5% YoY). Weakness in communications was mainly due to product call-back of key customer, while automotive segment benefited from easing shortage of automotive supply chain.
- **2H23/2024 Outlook: earnings growth set to resume backed by order wins, capacity ramp-up and cost control.** Backed by new order wins in VR/medical device/e-cigarette/automotive, we expect TK to enjoy utilization recovery in 2H23/FY24E for its Huizhou & Vietnam plants. TK implemented stricter cost control measures in FY22/23, resulting in improving operating efficiency and cost savings. We expect TK's revenue/net profit to post -9%/+7% YoY backed by higher GPM of 25.4% in 2H23E (vs 23.3% in 1H23). TK maintained high interim dividend payout ratio at 42.7% in 1H23.
- **Attractive valuation at 3.5x FY24E P/E and 9% yield; Maintain Buy.** We adjusted our TP to HK\$3.09 based on rollovered 8.2x FY24E P/E, in-line with 5-year historical forward P/E. Trading at 3.5x FY24E P/E, we think the stock is attractive considering 9% yield. Maintain BUY. Catalysts include Meta/Google/Amazon product launches, order ramp-up of medical device/e-cigarette customers and margin recovery in 2H23/FY24E.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (HK\$ mn)	2,404	2,279	2,049	2,486	2,895
YoY growth (%)	18.2	(5.2)	(10.1)	21.3	16.5
Net profit (HK\$ mn)	282.4	226.9	234.8	311.9	360.7
YoY growth (%)	34.7	(19.6)	3.5	32.8	15.7
EPS (Reported) (HK\$)	0.34	0.27	0.28	0.38	0.44
YoY growth (%)	34.7	(19.6)	3.7	32.8	15.7
P/E (x)	8.9	7.4	4.6	3.5	3.0
P/B (x)	1.5	1.0	0.6	0.6	0.5
Yield (%)	4.7	5.7	8.9	11.8	13.6
ROE (%)	18.7	14.1	14.0	17.0	17.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$3.09
(Previous TP) HK\$3.38
Up/Downside 135.8%
Current Price HK\$1.31

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Stock Data

Mkt Cap (HK\$ mn)	1,084.6
Avg 3 mths t/o (HK\$ mn)	0.2
52w High/Low (HK\$)	1.85/1.28
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	-10.9%	-2.7%
3-mth	-13.8%	-14.5%
6-mth	-22.0%	-16.1%

Source: FactSet

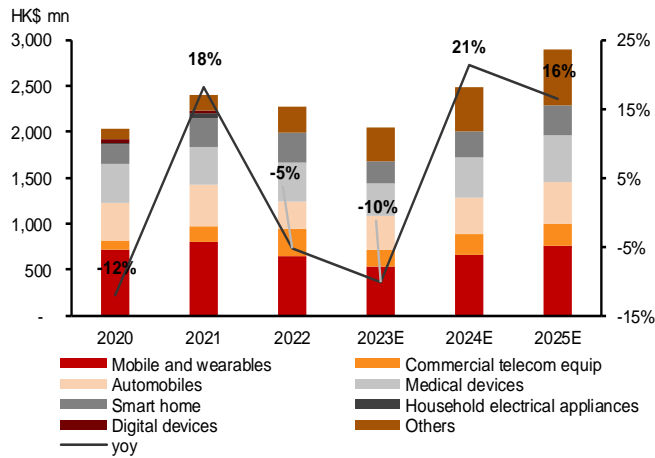
12-mth Price Performance



Source: FactSet

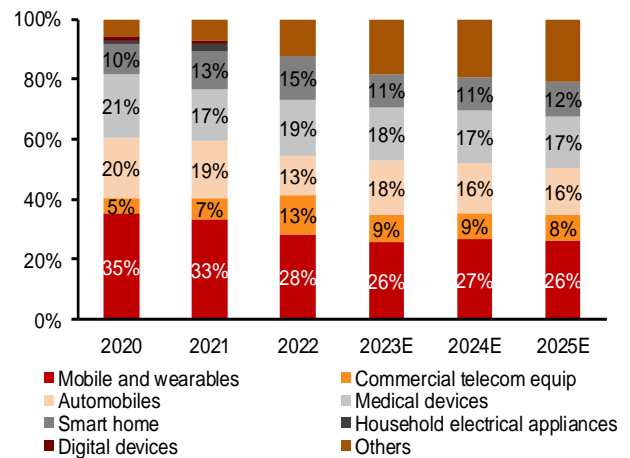
Focus Charts

Figure 1: TK Group revenue trend



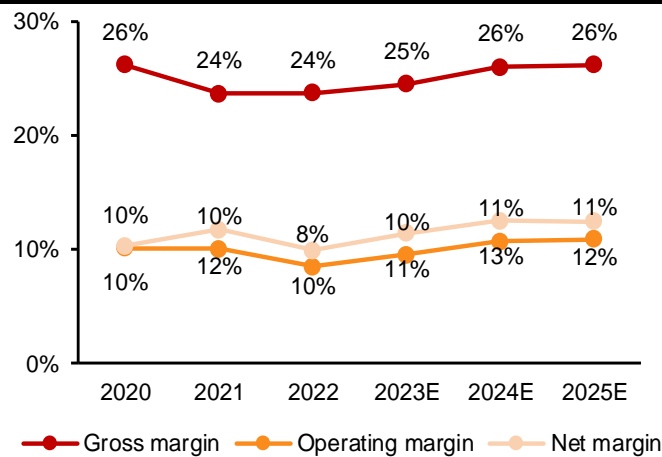
Source: Company data, CMBIGM estimates

Figure 2: TK Group revenue mix



Source: Company data, CMBIGM estimates

Figure 3: TK Group margin trend



Source: Company data, CMBIGM estimates

Figure 4: 1H23 top six customers details

#	Company name	Industry	Product category
1	A leading wireless headset brand	Mobile phones and wearable devices	Mold and plastic products
2	A leading healthcare product brand	Medical and health care	Mold and plastic products
3	A leading smart phone brand	Mobile phones and wearable devices	Mold and plastic products
4	Polycom	Commercial telecommunications equipment	Mold and plastic products
5	A leading e-cigarette brand	Electronic atomizer	Mold and plastic products
6	A leading e-cigarette brand	Electronic atomizer	Mold and plastic products

Source: Company data, CMBIGM estimates

Figure 5: Strategic development areas



Source: Company data, CMBIGM estimates

Figure 6: TK Group global production footprint



Source: Company data, CMBIGM estimates

1H23 Results Review

Figure 7: 1H23 results review

HK\$ mn	1H21	2H21	1H22	2H22	1H23	YoY
Revenue	1,021	1,384	969	1,310	856	-11.7%
Gross profit	242	327	181	360	200	10.4%
Operating profit	80	163	19	175	48	155.6%
Net profit	115	167	58	168	55	-6.4%
EPS (HK\$)	0.14	0.20	0.07	0.20	0.07	-6.3%
Gross margin	23.7%	23.6%	18.7%	27.5%	23.3%	4.7 ppt
Operating margin	7.8%	11.8%	1.9%	13.3%	5.6%	3.7 ppt
Net margin	11.3%	12.1%	6.0%	12.9%	6.4%	0.4 ppt

Source: Company data, CMBIGM estimates

Figure 8: TK Group revenue breakdown

HK\$ mn	FY21	FY22	FY23E	FY24E	FY25E
Mobile phones and wearable	804	648	532	664	764
...YoY	12%	-19%	-18%	25%	15%
Household electrical appliances	67	-	-	-	-
...YoY	203%	-	-	-	-
Medical devices	412	427	363	435	500
...YoY	-5%	4%	-15%	20%	15%
Commercial telecom equipment	170	293	182	218	240
...YoY	70%	72%	-38%	20%	10%
Automobiles	452	301	370	407	455
...YoY	11%	-34%	23%	10%	12%
Smart home	307	331	231	278	333
...YoY	51%	8%	-30%	20%	20%
Digital devices	18	-	-	-	-
...YoY	-45%	-	-	-	-
Others	175	280	372	484	602
...YoY	50%	60%	33%	30%	24%
Electronic atomizers	99	126	248	348	452
...YoY		27%	98%	40%	30%
Total	2,404	2,279	2,049	2,486	2,895
...YoY	18%	-5%	-10%	21%	16%

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 9: CMBIGM estimates vs consensus

(HK\$ mn)	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,049	2,486	2,895	2,654	3,043	N/A	-23%	-18%	N/A
Gross profit	503	648	758	640	758	N/A	-21%	-15%	N/A
Operating profit	195	267	315	327	388	N/A	-40%	-31%	N/A
Net profit	235	312	361	295	360	N/A	-20%	-13%	N/A
EPS HK\$)	0.28	0.38	0.44	0.36	0.44	N/A	-20%	-13%	N/A
Gross margin	24.5%	26.1%	26.2%	24.1%	24.9%	N/A	0.4 ppt	1.1 ppt	N/A
Operating margin	9.5%	10.8%	10.9%	12.3%	12.8%	N/A	-2.8 ppt	-2 ppt	N/A
Net Margin	11.5%	12.5%	12.5%	11.1%	11.8%	N/A	0.3 ppt	0.7 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 10: Earnings revision

(HK\$ mn)	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,049	2,486	2,895	2,720	3,237	N/A	-25%	-23%	N/A
Gross profit	503	648	758	697	853	N/A	-28%	-24%	N/A
Operating profit	195	267	315	330	416	N/A	-41%	-36%	N/A
Net profit	235	312	361	365	451	N/A	-36%	-31%	N/A
EPS HK\$)	0.28	0.38	0.44	0.44	0.54	N/A	-35%	-31%	N/A
Gross margin	24.5%	26.1%	26.2%	25.6%	26.3%	N/A	-1.1 ppt	-0.3 ppt	N/A
Operating margin	9.5%	10.8%	10.9%	12.1%	12.8%	N/A	-2.6 ppt	-2.1 ppt	N/A
Net Margin	11.5%	12.5%	12.5%	13.4%	13.9%	N/A	-1.9 ppt	-1.4 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 11: P&L forecast

HK\$ mn	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,033	2,404	2,279	2,049	2,486	2,895
...YoY	-12.0%	18.2%	-5.2%	-10.1%	21.3%	16.5%
Cost of sales	-1,501	-1,835	-1,738	-1,547	-1,838	-2,137
Gross profit	533	569	541	503	648	758
GPM (%)	26.2%	23.7%	23.7%	24.5%	26.1%	26.2%
...YoY	-20.2%	6.9%	-4.9%	-7.1%	28.8%	17.1%
SG&A	-326	-326	-348	-307	-380	-443
...% of rev	16.0%	13.6%	15.3%	15.0%	15.3%	15.3%
Operating profit	207	243	194	195	267	315
OPM (%)	10.2%	10.1%	8.5%	9.5%	10.8%	10.9%
...YoY	-34.8%	17.5%	-20.3%	0.8%	36.9%	18.0%
Net profit	210	282	227	235	312	361
NPM (%)	10.3%	11.7%	10.0%	11.5%	12.5%	12.5%
...YoY	-30.5%	34.7%	-19.6%	3.5%	32.8%	15.7%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP HK\$3.09

Our new TP of HK\$3.09 is based on rollovered 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.

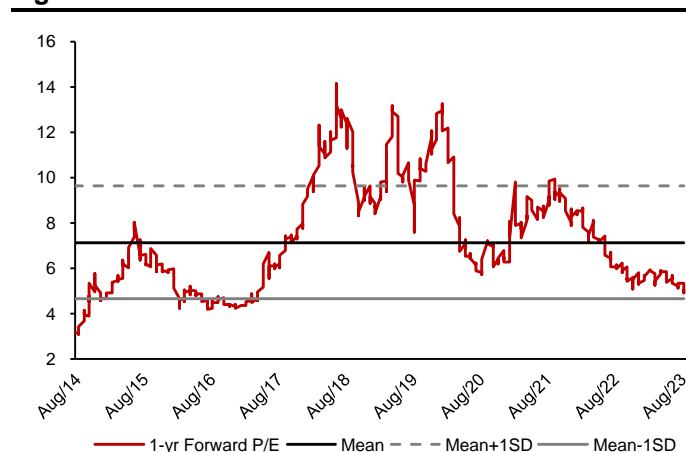
Upcoming catalysts include Meta VR, Google/Amazon smart home products and global e-cigarette customer product rollouts and margin recovery with better utilization. Major risks include slower recovery and weak macro environment.

Figure 12: 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	138	1.28	3.09	141%	4.5	3.4	0.6	0.6	13.3	17.8
Tongda	698 HK	BUY	99	0.08	0.17	113%	3.6	2.6	0.1	0.1	1.8	3.8
BYDE	285 HK	BUY	10,540	36.70	41.98	16%	22.4	18.3	2.6	2.3	11.7	12.8
FIH	2038 HK	NR	706	0.70	NA	NA	17.8	8.9	0.4	0.4	2.2	4.4
Average							12.1	8.3	0.9	0.8	8.9	9.7

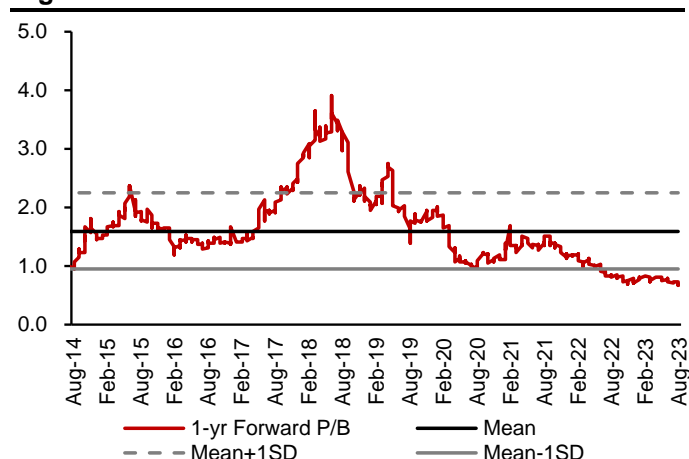
Source: Bloomberg, CMBIGM estimates

Figure 13: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 14: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Revenue	2,033	2,404	2,279	2,049	2,486	2,895
Cost of goods sold	(1,501)	(1,835)	(1,738)	(1,547)	(1,838)	(2,137)
Gross profit	533	569	541	503	648	758
Selling expense	(71)	(79)	(67)	(61)	(82)	(96)
Admin expense	(255)	(247)	(281)	(246)	(298)	(347)
Operating profit	207	243	194	195	267	315
Other income	59	52	45	45	55	64
Other gains/(losses)	(31)	11	10	0	0	0
Share of (losses)/profits of associates/JV	1	1	(2)	0	0	0
Interest income	15	25	23	33	40	39
Interest expense	(10)	(6)	(10)	(3)	(3)	(4)
Pre-tax profit	241	325	259	270	358	415
Income tax	(31)	(42)	(32)	(35)	(47)	(54)
Net profit	210	282	227	235	312	361
Net dividends	83	117	97	96	128	148

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Current assets	1,848	2,127	2,007	2,216	2,507	2,741
Cash & equivalents	920	1,028	1,114	1,382	1,356	1,652
Restricted cash	0	1	0	0	0	0
Account receivables	321	417	343	306	458	414
Inventories	447	496	392	371	536	518
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	159	185	157	157	157	157
Non-current assets	724	724	691	669	695	736
PP&E	557	528	486	464	491	531
Right-of-use assets	83	102	112	112	112	112
Deferred income tax	0	3	2	2	2	2
Investment in JVs & assos	16	16	25	25	25	25
Intangibles	108	133	132	132	132	132
Financial assets at FVTPL	34	34	34	34	34	34
Other non-current assets	(73)	(92)	(100)	(100)	(100)	(100)
Total assets	2,572	2,851	2,698	2,885	3,202	3,477
Current liabilities	1,013	964	916	903	1,024	1,071
Short-term borrowings	124	123	286	140	154	171
Account payables	456	399	349	357	445	455
Tax payable	7	26	4	43	52	61
Other current liabilities	100	71	0	87	96	107
Lease liabilities	79	81	75	75	75	75
Contract liabilities	246	264	201	201	201	201
Non-current liabilities	165	265	176	238	251	265
Long-term borrowings	58	145	61	122	135	150
Deferred income	46	61	43	43	43	43
Other non-current liabilities	60	59	72	72	72	72
Total liabilities	1,178	1,229	1,092	1,141	1,274	1,336
Share capital	83	83	83	83	83	83
Capital surplus	251	251	251	251	251	251
Retained earnings	944	1,096	1,216	1,354	1,538	1,751
Other reserves	126	201	70	70	70	70
Total shareholders equity	1,395	1,622	1,606	1,744	1,928	2,141
Total equity and liabilities	2,572	2,851	2,698	2,885	3,202	3,477

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	241	325	259	270	358	415
Depreciation & amortization	210	221	190	155	135	147
Tax paid	(48)	(33)	(53)	4	(37)	(45)
Change in working capital	46	(202)	127	67	(229)	73
Others	70	46	10	3	3	4
Net cash from operations	518	357	533	499	230	593
Investing						
Capital expenditure	(79)	(109)	(136)	(133)	(162)	(188)
Acquisition of subsidiaries/ investments	0	(12)	0	0	0	0
Others	14	22	2	0	0	0
Net cash from investing	(65)	(98)	(134)	(133)	(162)	(188)
Financing						
Dividend paid	(92)	(112)	(97)	(96)	(128)	(148)
Net borrowings	27	37	25	2	37	43
Others	(56)	(78)	(10)	(3)	(3)	(4)
Net cash from financing	(121)	(153)	(81)	(98)	(95)	(109)
Net change in cash						
Cash at the beginning of the year	583	920	1,028	1,114	1,382	1,356
Exchange difference	5	1	0	0	0	0
Cash at the end of the year	920	1,028	1,114	1,382	1,356	1,652
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(12.0%)	18.2%	(5.2%)	(10.1%)	21.3%	16.5%
Gross profit	(20.2%)	6.9%	(4.9%)	(7.1%)	28.8%	17.1%
Operating profit	(34.8%)	17.5%	(20.3%)	0.8%	36.9%	18.0%
Net profit	(30.5%)	34.7%	(19.6%)	3.5%	32.8%	15.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	26.2%	23.7%	23.7%	24.5%	26.1%	26.2%
Operating margin	10.2%	10.1%	8.5%	9.5%	10.8%	10.9%
Return on equity (ROE)	16.2%	18.7%	14.1%	14.0%	17.0%	17.7%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.8	2.2	2.2	2.5	2.4	2.6
Receivable turnover days	52.4	48.0	51.8	48.0	48.0	48.0
Inventory turnover days	102.6	93.7	93.2	90.0	90.0	90.0
Payable turnover days	74.1	62.0	56.5	60.0	60.0	60.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	10.6	8.9	7.4	4.6	3.5	3.0
P/E (diluted)	10.6	8.9	7.4	4.6	3.5	3.0
P/B	1.6	1.5	1.0	0.6	0.6	0.5
Div yield (%)	3.7	4.7	5.7	8.9	11.8	13.6

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

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