

TK Group (2283 HK)

Positive profit alert in 1H24E; Strong order momentum to continue into 2H24/FY25E

TK Group announced a positive profit alert for 1H24 with 40%+ YoY earnings growth. After speaking with TK's mgmt., we reiterate our positive view on TK's 2H24 outlook, driven by strong order pipelines, new client wins, and revenue/margin recovery across most segments. Following challenging business environment in 2022 and 2023, we believe TK is on track to deliver 38%/19% YoY earnings growth in FY24/25E, backed by client demand recovery (e.g. Jabra, Polycom), new order ramp-up (e.g. Meta, SONOS, Dyson), utilization improvement and operating leverage. We slightly adjust forecasts, and maintain TP of HK\$2.79 based on 8.2x FY24E P/E. Trading at 5.6x FY24E P/E with 8% yield, we think the stock offers attractive risk/reward. Maintain BUY.

- **1H24E strong recovery boosted by order recovery in smartphone & wearables/communications.** TK announced a positive profit alert for 1H24 with 40%+ YoY earnings growth. We believe the upbeat results are mainly due to strong orders in smartphone & wearables (Meta, SONOS, Jabra, Insta360) and communication (Polycom) segments, partly offset by weaker auto segment. Projects-on-hand is expected to grow significantly due to new client orders ramp-up. We also expect GPM to improve to 24.3% in 1H24 (vs 23.3% in 1H23) due to better mix and utilization improvement.
- **2H24 Outlook: CE recovery, new order wins and better utilization.** Backed by new order wins in earphones/wearables/smart home segments, CE recovery, better utilization and operating efficiency, we expect TK to deliver 20%/38% sales/earnings YoY growth in FY24E. In addition, we believe TK is well-positioned to capture more opportunities through M&A, backed by substantial cash on hand after paying back most bank loans in FY23. TK also issued special dividend in FY23 and expected to maintain high level of dividend payout if no major investment takes place in FY24E.
- **Attractive valuation at 5.6x FY24E P/E and 8% yield; Maintain BUY.** We maintain our TP of HK\$2.79 based on 8.2x FY24E P/E, in-line with 5-year historical forward P/E. Trading at 5.6x FY24E P/E, we think the stock offers attractive risk-rewards considering 38%/19% EPS growth and 8%/10% yield in FY24/25E. Catalysts include Meta/Google/Amazon product launches, order ramp-up of earphones/wearables customers and margin recovery.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	2,279	1,946	2,339	2,705	3,135
YoY growth (%)	(5.2)	(14.6)	20.2	15.6	15.9
Net profit (HK\$ mn)	226.9	204.2	281.4	334.8	399.1
YoY growth (%)	(19.6)	(10.0)	37.8	19.0	19.2
EPS (Reported) (HK\$)	0.27	0.25	0.34	0.40	0.48
YoY growth (%)	(19.6)	(9.8)	37.8	19.0	19.2
P/E (x)	6.9	7.7	5.6	4.7	3.9
P/B (x)	1.0	0.9	0.9	0.8	0.7
Yield (%)	6.0	10.8	8.1	9.6	11.4
ROE (%)	14.1	12.4	16.0	17.3	18.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$2.79**
(Previous TP) **HK\$2.79**
Up/Downside **46.8%**
Current Price **HK\$1.90**

China Technology

Alex NG
(852) 3900 0881
alexng@cmbi.com.hk

Claudia LIU
claudialiu@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	1,573.1
Avg 3 mths t/o (HK\$ mn)	1.7
52w High/Low (HK\$)	2.02/1.16
Total Issued Shares (mn)	828.0

Source: FactSet

Shareholding Structure

Eastern Mix Co Ltd	42.9%
Li Pui Leung	10.7%

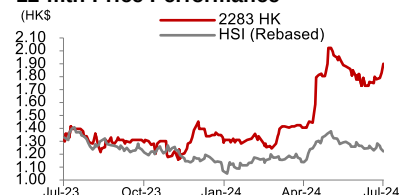
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	5.0%	11.1%
3-mth	36.1%	26.8%
6-mth	45.0%	27.4%

Source: FactSet

12-mth Price Performance



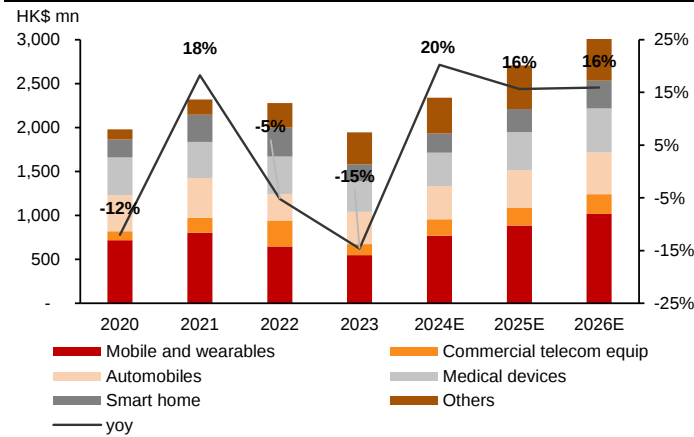
Source: FactSet

Related report:

1. TK Group (2283 HK) - Positive on business recovery in FY24/25E ([link](#))
2. TK Group (2283 HK) - 1H23 weakness amid industry headwinds; positive on margin recovery in 2H23/ FY24 ([link](#))

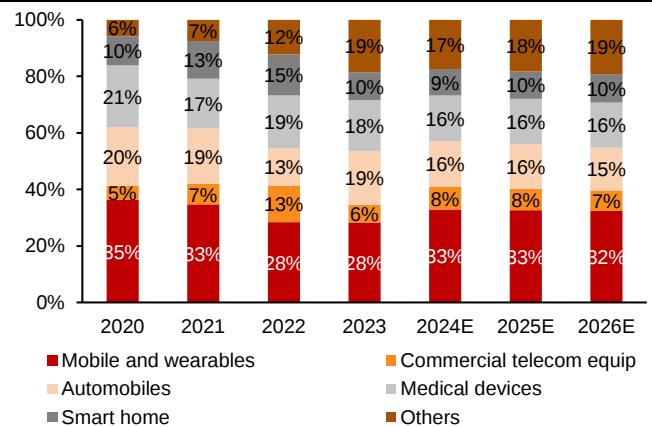
Focus Charts

Figure 1: TK Group revenue trend



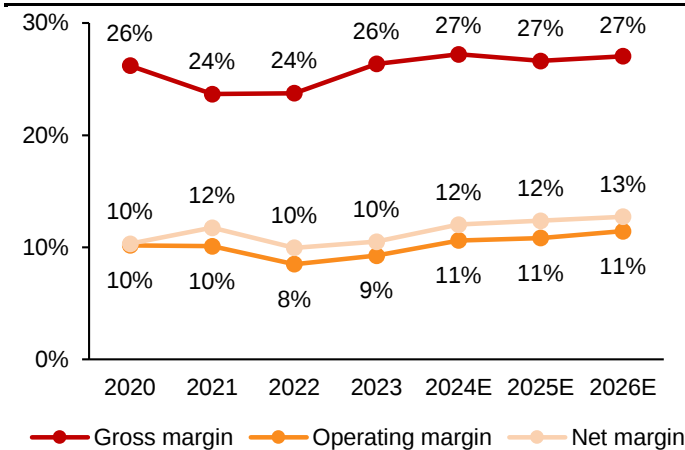
Source: Company data, CMBIGM estimates

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 accessories	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

1H24E results preview

Figure 7: 1H24E results preview

HK\$ mn	1H23	1H24E	YoY
Revenue	856	1,025	19.8%
Gross profit	200	249	24.7%
Operating profit	48	63	30.8%
Net profit	55	77	41.4%
EPS (HK\$)	0.07	0.09	41.6%
Gross margin	23.3%	24.3%	0.9 ppt
Operating margin	5.6%	6.2%	0.5 ppt
Net margin	6.4%	7.5%	1.2 ppt

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 8: Earnings revision

(HK\$ mn)	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,339	2,705	3,135	2,318	2,690	3,129	1%	1%	0%
Gross profit	636	720	848	614	710	832	4%	1%	2%
Operating profit	248	293	359	243	285	344	2%	3%	4%
Net profit	281	335	399	282	334	395	0%	0%	1%
EPS HK\$)	0.34	0.40	0.48	0.34	0.40	0.48	0%	0%	1%
Gross margin	27.2%	26.6%	27.0%	26.5%	26.4%	26.6%	0.7 ppt	0.2 ppt	0.4 ppt
Operating margin	10.6%	10.8%	11.4%	10.5%	10.6%	11.0%	0.1 ppt	0.2 ppt	0.4 ppt
Net margin	12.0%	12.4%	12.7%	12.2%	12.4%	12.6%	-0.1 ppt	-0.1 ppt	0.1 ppt

Source: Company data, CMBIGM estimates

Figure 9: P&L forecast

HK\$ mn	FY21	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Revenue	2,404	2,279	1,946	1,025	1,314	2,339	2,705	3,135
...YoY	18.2%	-5.2%	-14.6%	19.8%	20.6%	20.2%	15.6%	15.9%
Cost of sales	-1,835	-1,738	-1,433	-776	-926	-1,703	-1,985	-2,287
Gross profit	569	541	513	249	387	636	720	848
GPM (%)	23.7%	23.7%	26.4%	24.3%	29.5%	27.2%	26.6%	27.0%
...YoY	6.9%	-4.9%	-5.3%	24.7%	23.8%	24.1%	13.2%	17.7%
SG&A	-326	-348	-333	-186	-203	-388	-427	-489
...% of rev	13.6%	15.3%	17.1%	18.1%	15.4%	16.6%	15.8%	15.6%
Operating profit	243	194	180	63	185	248	293	359
OPM (%)	10.1%	8.5%	9.3%	6.2%	14.1%	10.6%	10.8%	11.4%
...YoY	17.5%	-20.3%	-6.9%	30.8%	40.1%	37.6%	18.1%	22.5%
Net profit	282	227	204	77	204	281	335	399
NPM (%)	11.7%	10.0%	10.5%	7.5%	15.5%	12.0%	12.4%	12.7%
...YoY	34.7%	-19.6%	-10.0%	41.4%	36.5%	37.8%	19.0%	19.2%

Source: Company data, CMBIGM estimates

Figure 10: TK Group revenue breakdown

HK\$ mn	FY22	FY23	1H24E	2H24E	FY24E	FY25E	FY26E
Mobile phones and wearable	648	550	334	435	769	885	1017
...YoY	-19%	-15%	55%	30%	40%	15%	15%
Medical devices	427	350	156	222	378	434	499
...YoY	4%	-18%	0%	14%	8%	15%	15%
Commercial telecom equipment	293	124	92	93	186	204	225
...YoY	72%	-58%	48%	52%	50%	10%	10%
Automobiles	301	369	149	231	380	425	476
...YoY	-34%	23%	-8%	12%	3%	12%	12%
Smart home	331	190	106	112	219	262	315
...YoY	8%	-43%	15%	15%	15%	20%	20%
Others	280	364	187	221	408	494	602
...YoY	60%	30%	12%	12%	12%	21%	22%
Electronic atomizers	126	205	113	113	226	293	381
...YoY	27%	63%	10%	10%	10%	30%	30%
Total	2,279	1,946	1,025	1,314	2,339	2,705	3,135
...YoY	-5%	-15%	20%	21%	20%	16%	16%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with TP HK\$2.79

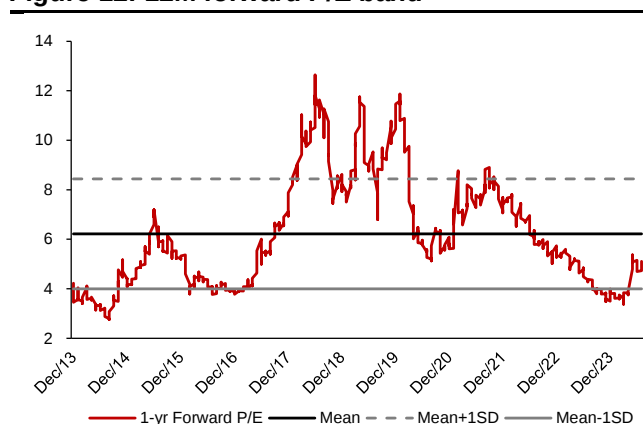
Our TP of HK\$2.79 is based on same 8.2x FY24E P/E, in-line with its 5-yr historical forward P/E, which we view as appropriate given our positive view on long-term outlook and improving profitability/ROE.

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

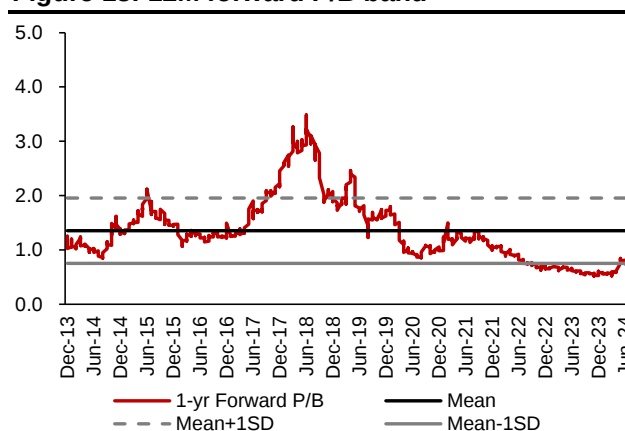
Figure 11: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x)		P/B (x)		ROE (%)	
							FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
TK Group	2283 HK	BUY	203	1.90	2.79	47%	5.6	4.7	0.9	0.8	16.0	17.3
Tongda	698 HK	BUY	105	0.08	0.14	67%	3.7	2.9	0.1	0.1	3.1	3.8
BYDE	285 HK	BUY	9,723	33.70	45.15	34%	12.6	9.3	3.6	2.8	28.4	30.3
Average							7.3	5.6	1.5	1.2	15.6	16.8

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	2,339	2,705	3,135
Cost of goods sold	(1,835)	(1,738)	(1,433)	(1,703)	(1,985)	(2,287)
Gross profit	569	541	513	636	720	848
Selling expense	(79)	(67)	(57)	(70)	(81)	(94)
Admin expense	(247)	(281)	(275)	(318)	(346)	(395)
Operating profit	243	194	180	248	293	359
Other income	52	45	48	51	60	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	26	38	38
Interest expense	(6)	(10)	(12)	(0)	(4)	(4)
Pre-tax profit	325	259	237	325	387	461
Income tax	(42)	(32)	(33)	(44)	(52)	(62)
Net profit	282	227	204	281	335	399
Net dividends	117	95	169	127	151	180

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Current assets	2,127	2,007	1,871	2,483	2,669	2,981
Cash & equivalents	1,028	1,114	1,158	1,667	1,721	1,902
Restricted cash	1	0	0	0	0	0
Account receivables	417	343	353	336	449	449
Inventories	496	392	360	480	499	629
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	599	630	702
PP&E	528	486	412	431	462	533
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	3,299	3,683
Current liabilities	964	916	678	1,025	1,045	1,194
Short-term borrowings	123	286	26	147	162	179
Account payables	399	349	335	440	428	539
Tax payable	26	4	20	49	57	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	246
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	1,275	1,439
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	1,874
Other reserves	201	70	52	52	52	52
Total shareholders equity	1,622	1,606	1,685	1,840	2,024	2,244
Total equity and liabilities	2,851	2,698	2,452	3,082	3,299	3,683

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (HK\$ mn)						
Operating						
Profit before taxation	325	259	237	325	387	461
Depreciation & amortization	221	227	215	133	145	132
Tax paid	(33)	(54)	(28)	(15)	(45)	(53)
Change in working capital	(168)	7	(31)	1	(144)	(19)
Others	12	(67)	34	0	4	4
Net cash from operations	357	372	445	445	347	525
Investing						
Capital expenditure	(109)	(144)	(69)	(152)	(176)	(204)
Acquisition of subsidiaries/ investments	(12)	(12)	0	0	0	0
Others	22	19	14	0	0	0
Net cash from investing	(98)	(137)	(55)	(152)	(176)	(204)
Financing						
Dividend paid	(112)	(95)	(95)	(127)	(151)	(180)
Net borrowings	37	32	(166)	342	37	44
Others	(78)	(79)	(89)	(0)	(4)	(4)
Net cash from financing	(153)	(142)	(350)	215	(118)	(140)
Net change in cash						
Cash at the beginning of the year	920	1,028	1,114	1,158	1,667	1,721
Exchange difference	1	(5)	3	0	0	0
Cash at the end of the year	1,028	1,114	1,158	1,667	1,721	1,902
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	18.2%	(5.2%)	(14.6%)	20.2%	15.6%	15.9%
Gross profit	6.9%	(4.9%)	(5.3%)	24.1%	13.2%	17.7%
Operating profit	17.5%	(20.3%)	(6.9%)	37.6%	18.1%	22.5%
Net profit	34.7%	(19.6%)	(10.0%)	37.8%	19.0%	19.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	23.7%	23.7%	26.4%	27.2%	26.6%	27.0%
Operating margin	10.1%	8.5%	9.3%	10.6%	10.8%	11.4%
Return on equity (ROE)	18.7%	14.1%	12.4%	16.0%	17.3%	18.7%
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	5.6	6.9	7.7	5.6	4.7	3.9
P/E (diluted)	5.6	6.9	7.7	5.6	4.7	3.9
P/B	1.0	1.0	0.9	0.9	0.8	0.7
Div yield (%)	7.4	6.0	10.8	8.1	9.6	11.4

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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