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CMB International Global Markets | Equity Research | Company Update

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Goertek (002241 CH)

Solid GPM recovery in 1H24; Poised to benefit from "AI+XR" trend in 2H24E

BUY (Maintain)

Target Price	**RMB25.90**
(Previous TP	RMB17.56)
Up/Downside	**27.0%**
Current Price	**RMB20.39**

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Goertek's 1H24 revenue/ net profit growth of -11%/+190% YoY was largely in-line with its earlier positive profit alert (net profit +180-200% YoY). 2Q24 revenue/net profit delivered +0.1%/+168% YoY, and GPM came in at 13.6% (+4.4 ppts QoQ/5.9 ppts YoY), mainly due to improving efficiency and better acoustics product/smart product profitability. Looking ahead to 2H24/FY25E, we expect Goertek's earnings will continue to rebound given improving GPM and better AR/VR/gaming demand with multiple product launches from major VR/AR players. We raise FY24-26E EPS by 19-38% to reflect 1H24 results, a stronger GPM and better operating leverage. In longer term, we believe Goertek is well positioned to capture opportunities in the AR/VR product cycle from players such as Meta, Sony, Google, Samsung and Huawei. Maintain BUY with new TP of RMB25.9, based on rollover 25x FY25E P/E (prior 25x FY24E P/E).

- **1H24 in-line with profit alert, impressive GPM across all segments.** Goertek's1H24 revenue/attributable net profit growth of -11%/+190% YoY was largely in-line with its positive profit alert. Strong revenue growth in precision components and acoustic products segments (+21%/+38% YoY) was partly offset by smart product weakness (-32% YoY), due to the late product cycle of Sony gaming console/VR and Meta Quest 3. 2Q GPM came in at 13.6% (+4.4 ppts QoQ/5.9 ppts YoY), mainly due to improving efficiency and better acoustics product/smart product profitability.
- **2H24/25 outlook: Expect continued GPM recovery; positive on "AI+XR" trend in 2H24E.** In addition to solid recovery of acoustic product segment, we believe Goertek is well positioned to benefit from new product launches of Meta Quest 3S and Sony PS5 Pro gaming console in 2H24E, along with AR glass product launches from multiple players, which should continue to drive profitability recovery and topline growth. Overall, we expect Goertek's net profit to grow +164%/23% YoY in FY24/25E.
- **Maintain BUY**. We think Goertek's industry leadership and product roadmap in XR/acoustics/gaming segments will allow it to benefit from industry recovery and the upcoming new XR/gaming console product cycle in FY24/25E. We lift our FY24/25E EPS estimates by 19-38% mainly for better GPM and operating efficiency. Our new TP of RMB25.9 is based on a rolled-over 25x FY25E P/E (vs prior 25x FY24E P/E). Maintain BUY. Upcoming catalysts include new XR/gaming product launches and continued margin recovery.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	104,894	98,574	98,561	112,677	123,501
YoY growth (%)	34.1	(6.0)	(0.0)	14.3	9.6
Net profit (RMB mn)	1,749.2	1,088.1	2,875.5	3,522.3	4,090.3
EPS (Reported) (RMB)	0.52	0.32	0.85	1.04	1.20
YoY growth (%)	(59.7)	(38.5)	164.3	22.5	16.1
Consensus EPS (RMB)	N/A	N/A	0.73	0.97	1.18
P/E (x)	39.2	63.7	24.1	19.7	17.0
P/B (x)	2.3	2.2	2.0	1.9	1.7
Yield (%)	0.5	0.5	0.6	0.8	0.9
ROE (%)	6.0	3.5	8.7	9.8	10.5

Source: Company data, Bloomberg, CMBIGM estimates

Stock Data

Mkt Cap (RMB mn)	69,733.8
Avg 3 mths t/o (RMB mn)	1,515.4
52w High/Low (RMB)	23.56/14.42
Total Issued Shares (mn)	3420.0

Source: FactSet

Shareholding Structure

Goertek Group	14.8%
Jiang Bin	8.4%

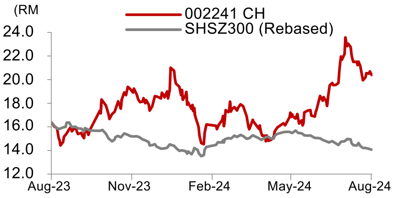
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.0%	-3.3%
3-mth	21.0%	32.6%
6-mth	25.9%	28.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

2Q24 results review

Figure 1: 2Q24 review

RMB mn	FY22	1Q23	2Q23	3Q23	4Q23	FY23	1Q24	2Q24
Revenue	**104,894**	**24,122**	**21,050**	**28,775**	**24,626**	**98,574**	**19,312**	**21,070**
…YoY	*34%*	*20%*	*-10%*	*-6%*	-20%	-6%	*-20%*	*0%*
Cost of sales	(93,233)	(22,439)	(19,438)	(25,856)	(22,020)	(89,753)	(17,536)	(18,198)
Gross profit	**11,661**	**1,683**	**1,612**	**2,919**	**2,606**	**8,821**	**1,776**	**2,872**
GPM (%)	11.1%	7.0%	7.7%	10.1%	10.6%	8.9%	9.2%	13.6%
…YoY	*5%*	*-39%*	*-44%*	*-29%*	36%	-24%	*6%*	*78%*
SG&A	(2,843)	(698)	(346)	(759)	(928)	(2,731)	(609)	(625)
…% of rev	2.7%	2.9%	1.6%	2.6%	3.8%	2.8%	3.2%	3.0%
R&D	(5,227)	(961)	(1,081)	(1,300)	(1,373)	(4,716)	(825)	(1,208)
…% of rev	*5.0%*	*4.0%*	*5.1%*	*4.5%*	5.6%	4.8%	*4.3%*	*5.7%*
Operating profit	**1,610**	**(17)**	**268**	**486**	**172**	**909**	**384**	**857**
OPM (%)	*1.5%*	*-0.1%*	*1.3%*	*1.7%*	0.7%	0.9%	*2.0%*	*4.1%*
…YoY	*-66%*	*-102%*	*-80%*	*-75%*	-107%	-44%	*2299%*	*-220%*
Net profit	**1,749**	**106**	**316**	**470**	**196**	**1,088**	**380**	**846**
NPM (%)	*1.7%*	*0.4%*	*1.5%*	*1.6%*	0.8%	1.1%	*2.0%*	*4.0%*
…YoY	*-59%*	*-88%*	*-73%*	*-73%*	-109%	-38%	*257%*	*168%*

Source: Company data, CMBIGM estimates

Earnings revisions

Figure 2: New estimates vs old estimates

	New			Old			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	98,561	112,677	123,501	99,533	105,413	111,962	-1%	7%	10%
Gross Profit	11,213	12,727	14,030	10,441	11,033	11,688	7%	15%	20%
Operating Profit	3,237	3,955	4,586	2,736	3,015	3,328	18%	31%	38%
Net profit	2,876	3,522	4,090	2,425	2,676	2,958	19%	32%	38%
EPS (RMB)	0.85	1.04	1.20	0.71	0.79	0.87	19%	31%	38%
Gross Margin	11.4%	11.3%	11.4%	10.5%	10.5%	10.4%	0.9 ppt	0.8 ppt	1 ppt
Operating Margin	3.3%	3.5%	3.7%	2.7%	2.9%	3.0%	0.6 ppt	0.6 ppt	0.7 ppt
Net Margin	2.9%	3.1%	3.3%	2.4%	2.5%	2.6%	0.5 ppt	0.6 ppt	0.7 ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	98,561	112,677	123,501	100,939	111,830	125,683	-2%	1%	-2%
Gross Profit	11,213	12,727	14,030	10,825	12,177	13,937	4%	5%	1%
Operating Profit	3,237	3,955	4,586	2,763	3,760	4,511	17%	5%	2%
Net profit	2,876	3,522	4,090	2,509	3,371	4,009	15%	4%	2%
EPS (RMB)	0.85	1.04	1.20	0.73	0.97	1.18	16%	7%	2%
Gross Margin	11.4%	11.3%	11.4%	10.7%	10.9%	11.1%	0.7 ppt	0.4 ppt	0.3 ppt
Operating Margin	3.3%	3.5%	3.7%	2.7%	3.4%	3.6%	0.5 ppt	0.1 ppt	0.1 ppt
Net Margin	2.9%	3.1%	3.3%	2.5%	3.0%	3.2%	0.4 ppt	0.1 ppt	0.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Revenue forecast by segment

RMB mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Precision Components	**13,840**	**14,004**	**12,992**	**14,769**	**15,360**	**15,989**
… YoY	*13%*	*1%*	*-7%*	*14%*	*4%*	*4%*
Speaker/receiver	8,151	8,396	7,976	9,172	9,447	9,731
MIC (ECM/MEMS)	3,618	3,726	3,503	3,853	3,969	4,088
MEMS sensor	417	430	396	435	457	480
Antenna	761	913	794	953	1,096	1,260
Optical component module	893	539	324	356	392	431
Hearable Products	**30,297**	**25,881**	**24,185**	**27,215**	**27,574**	**27,997**
… YoY	*14%*	*-15%*	*-7%*	*13%*	*1%*	*2%*
Airpods	**21,099**	**15,716**	**9,752**	**10,578**	**10,534**	**10,534**
Android TWS	3,900	4,680	6,760	8,580	8,580	8,580
Smart Speaker	2,380	2,856	2,856	2,999	3,149	3,306
Others	2,918	2,628	4,817	5,058	5,311	5,577
Smart Products	**32,809**	**63,082**	**58,709**	**53,619**	**66,490**	**75,936**
… YoY	*86%*	*92%*	*-7%*	*-9%*	*24%*	*14%*
Smart Watch	7,650	11,475	13,196	14,516	17,419	20,903
Gaming Console	3,704	11,420	15,844	11,574	14,468	14,468
AR/VR Headset	20,115	16,970	14,555	11,660	17,940	23,070
Robotics/UAV/smart light	1,340	23,218	15,114	15,870	16,663	17,496
Non-main business	**1,275**	**1,927**	**2,688**	**2,957**	**3,253**	**3,578**
… YoY	*5%*	*51%*	*39%*	*10%*	*10%*	*10%*
Total	**78,221**	**104,894**	**98,574**	**98,561**	**112,677**	**123,501**
…YoY	*35%*	*34%*	*-6%*	*0%*	*14%*	*10%*

Source: Company data, CMBIGM estimates

Figure 5: P&L forecast

RMB mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**78,221**	**104,894**	**98,574**	**98,561**	**112,677**	**123,501**
…YoY	*35%*	*34%*	-6%	*0%*	*14%*	*10%*
Cost of sales	(67,168)	(93,233)	(89,753)	(87,348)	(99,950)	(109,471)
Gross profit	**11,054**	**11,661**	**8,821**	**11,213**	**12,727**	**14,030**
GPM (%)	14.1%	11.1%	8.9%	11.4%	11.3%	11.4%
…YoY	*19%*	*5%*	-24%	*27%*	*14%*	*10%*
SG&A	(2,397)	(2,843)	(2,731)	(2,908)	(3,121)	(3,359)
…% of rev	3.1%	2.7%	2.8%	3.0%	2.8%	2.7%
R&D	(4,170)	(5,227)	(4,716)	(4,820)	(5,408)	(5,805)
…% of rev	*5.3%*	*5.0%*	4.8%	*4.9%*	*4.8%*	*4.7%*
Operating profit	**4,683**	**1,610**	**909**	**3,237**	**3,955**	**4,586**
OPM (%)	*6.0%*	*1.5%*	0.9%	*3.3%*	*3.5%*	*3.7%*
…YoY	*44%*	*-66%*	-44%	*256%*	*22%*	*16%*
Net profit	**4,275**	**1,749**	**1,088**	**2,876**	**3,522**	**4,090**
NPM (%)	*5.5%*	*1.7%*	1.1%	*2.9%*	*3.1%*	*3.3%*
…YoY	*50%*	*-59%*	-38%	*164%*	*22%*	*16%*

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of RMB25.9

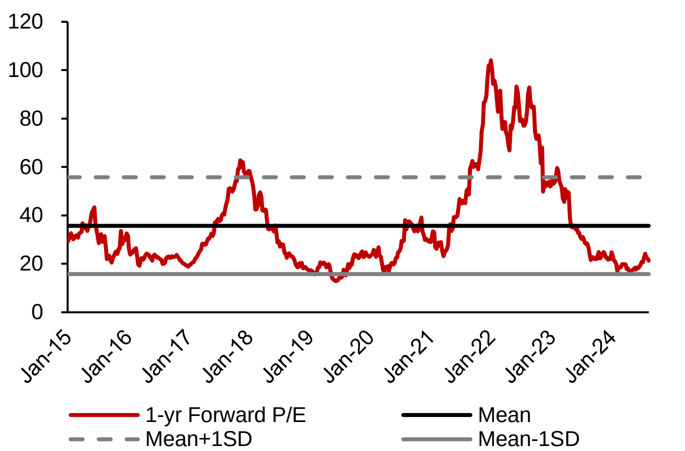
Our new TP of RMB25.9 is based on a rolled-over 25x FY25E P/E (vs prior 25x FY24E P/E). Overall, we believe Goertek's industry leadership and product roadmap in TWS/XR/ acoustics/gaming segments will allow the company to benefit from industry recovery and market share gains in FY24/25E. Upcoming catalysts include new XR product launches and continued margin recovery.

Figure 6: Peers' valuation

Company	Ticker	Rating	Market Cap (US$mn)	Price (LC)	TP (LC)	Up/ Down -side	P/E (x) FY24E	P/E (x) FY25E	P/B (x) FY24E	P/B (x) FY25E	ROE (%) FY24E	ROE (%) FY25E
A-listed components												
Goertek	002241 CH	BUY	9,707	20.39	25.9	27%	24.1	19.7	2.0	1.9	8.7	9.8
Luxshare	002475 CH	BUY	36,840	36.71	46.6	27%	18.9	15.3	3.1	2.6	16.4	16.9
O-film	002456 CH	NR	3,824	8.30	NA	NA	41.5	25.5	6.6	6.3	5.0	11.1
Sunway	300136 CH	NR	2,390	17.73	NA	NA	21.1	17.1	2.2	2.0	10.0	12.0
BOE	000725 CH	NR	19,736	3.79	NA	NA	22.8	13.5	1.1	1.0	4.9	7.4
Hans Laser	002008 CH	NR	2,960	20.19	NA	NA	13.3	16.7	1.4	1.3	8.8	7.7
Lens Tech	300433 CH	NR	11,656	16.79	NA	NA	21.4	17.1	1.7	1.6	8.1	9.6
Everwin	300115 CH	NR	2,044	10.85	NA	NA	18.8	15.7	2.0	1.8	11.1	11.6
			Average				**23.4**	**18.5**	**2.5**	**2.3**	**8.9**	**10.4**
H-listed components												
FIT Hon Teng	6088 HK	BUY	2,066	2.21	4.3	92%	11.0	6.8	0.8	0.7	7.0	10.3
AAC Tech	2018 HK	HOLD	4,342	28.25	22.4	-21%	22.0	17.7	1.3	1.2	5.8	6.9
Sunny Optical	2382 HK	HOLD	6,290	44.80	67.9	52%	17.9	16.2	1.9	1.8	10.4	10.9
Tongda	698 HK	BUY	96	0.08	0.1	71%	4.8	3.5	0.1	0.1	2.2	2.9
BYDE	285 HK	BUY	8,510	29.45	45.3	54%	11.7	8.6	3.2	2.5	27.0	29.2
Q tech	1478 HK	BUY	716	4.71	6.4	37%	14.1	9.4	1.0	0.9	6.9	9.6
TK Group	2283 HK	BUY	189	1.77	2.8	58%	5.2	4.4	0.8	0.7	15.3	16.3
YOFC	6869 HK	NR	1,727	8.14	NA	NA	7.2	5.9	0.5	0.4	7.0	7.9
Cowell	1415 HK	NR	2,329	21.15	NA	NA	22.8	13.0	4.5	3.4	21.8	28.3
			Average				**14.3**	**10.4**	**1.5**	**1.3**	**10.6**	**12.6**

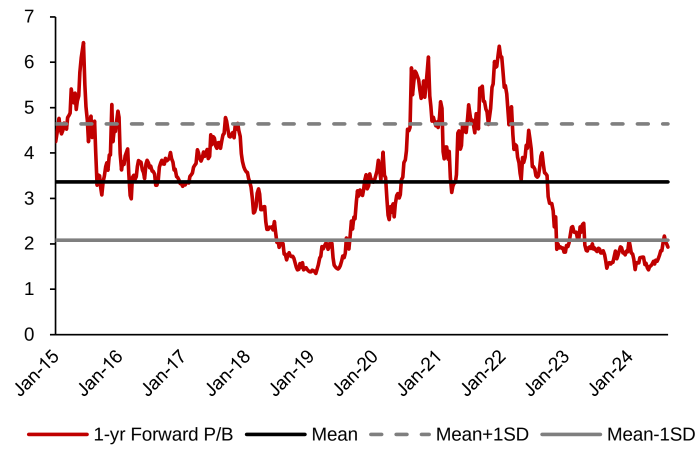
Source: Bloomberg, CMBIGM estimates.

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 8: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**78,221**	**104,894**	**98,574**	**98,561**	**112,677**	**123,501**
Cost of goods sold	(67,168)	(93,233)	(89,753)	(87,348)	(99,950)	(109,471)
Gross profit	**11,054**	**11,661**	**8,821**	**11,213**	**12,727**	**14,030**
Selling expense	(445)	(548)	(528)	(641)	(586)	(642)
Admin expense	(1,952)	(2,295)	(2,203)	(2,267)	(2,535)	(2,717)
R&D expense	(4,170)	(5,227)	(4,716)	(4,820)	(5,408)	(5,805)
Other income	467	373	373	373	373	373
Other expense	(271)	(1,797)	282	(117)	(117)	(122)
Investment gain/loss	469	(36)	(73)	(73)	(73)	(73)
Other gains/(losses)	(80)	(105)	114	114	114	114
EBIT	**4,683**	**1,610**	**909**	**3,237**	**3,955**	**4,586**
Net Interest income/(expense)	**(167)**	**(149)**	**(352)**	**(200)**	**(200)**	**(200)**
Other income/expense	(77)	144	(118)	(118)	(118)	(118)
Pre-tax profit	**4,606**	**1,509**	**791**	**3,119**	**3,837**	**4,468**
Income tax	(299)	282	228	(312)	(384)	(447)
After tax profit	**4,307**	**1,791**	**1,019**	**2,807**	**3,454**	**4,022**
Minority interest	32	42	(69)	(69)	(69)	(69)
Net profit	**4,275**	**1,749**	**1,088**	**2,876**	**3,522**	**4,090**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**35,162**	**45,563**	**40,041**	**57,617**	**51,260**	**68,752**
Cash & equivalents	10,049	12,683	14,737	23,715	18,046	28,828
Account receivables	11,949	14,444	12,573	15,884	16,606	18,977
Inventories	12,082	17,349	10,795	16,081	14,672	19,011
Prepayment	98	51	255	255	255	255
Financial assets at FVTPL	119	339	587	587	587	587
Other current assets	850	698	1,094	1,094	1,094	1,094
Non-current assets	**25,917**	**31,613**	**33,703**	**37,206**	**39,747**	**41,997**
PP&E	20,250	23,884	24,377	27,880	30,421	32,671
Deferred income tax	495	1,370	1,609	1,609	1,609	1,609
Investment in JVs & assos	437	361	760	760	760	760
Intangibles	3,094	3,301	3,896	3,896	3,896	3,896
Goodwill	17	17	605	605	605	605
Financial assets at FVTPL	466	699	591	591	591	591
Other non-current assets	652	1,663	1,865	1,865	1,865	1,865
Total assets	**61,079**	**77,176**	**73,744**	**94,823**	**91,008**	**110,749**
Current liabilities	**29,803**	**42,721**	**33,442**	**51,585**	**44,844**	**61,177**
Short-term borrowings	4,285	7,121	5,214	7,214	9,214	11,214
Account payables	21,272	30,599	22,121	38,263	29,523	43,856
Tax payable	357	285	121	121	121	121
Other current liabilities	2,822	3,676	4,767	4,767	4,767	4,767
Accrued expenses	1,067	1,040	1,220	1,220	1,220	1,220
Non-current liabilities	**3,345**	**4,197**	**8,775**	**8,775**	**8,775**	**8,775**
Long-term borrowings	2,204	2,206	6,631	6,631	6,631	6,631
Bond payables	210	471	518	518	518	518
Deferred income	390	816	758	758	758	758
Other non-current liabilities	540	705	867	867	867	867
Total liabilities	**33,148**	**46,919**	**42,217**	**60,359**	**53,619**	**69,952**
Share capital	3,416	3,420	3,420	3,420	3,420	3,420
Retained earnings	9,478	10,281	8,998	8,998	8,998	8,998
Other reserves	16,725	18,083	18,670	21,606	24,532	27,940
Total shareholders equity	**27,931**	**30,258**	**31,528**	**34,463**	**37,389**	**40,797**
Minority interest	604	766	717	717	717	717
Total equity and liabilities	**61,079**	**77,176**	**73,744**	**94,823**	**91,008**	**110,749**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**4,606**	**1,509**	**791**	**3,119**	**3,837**	**4,468**
Depreciation & amortization	2,918	3,651	4,069	2,557	2,959	3,250
Tax paid	(299)	282	228	(312)	(384)	(447)
Change in working capital	1,186	924	2,230	7,545	(8,054)	7,624
Others	187	1,951	834	200	200	200
Net cash from operations	**8,598**	**8,317**	**8,152**	**13,109**	**(1,441)**	**15,096**
Investing						
Capital expenditure	(6,962)	(8,090)	(6,950)	(5,500)	(5,500)	(5,500)
Acquisition of subsidiaries/ investments	(3,083)	(2,118)	(5,756)	0	0	0
Net proceeds from disposal of short-term investments	3,102	1,061	4,634	0	0	0
Others	174	71	488	0	0	0
Net cash from investing	**(6,768)**	**(9,077)**	**(7,583)**	**(5,500)**	**(5,500)**	**(5,500)**
Financing						
Dividend paid	(675)	(953)	(837)	(431)	(528)	(614)
Net borrowings	913	3,197	2,258	2,000	2,000	2,000
Proceeds from share issues	2,179	395	0	0	0	0
Others	(2,030)	(631)	354	(200)	(200)	(200)
Net cash from financing	**387**	**2,008**	**1,774**	**1,369**	**1,272**	**1,186**
Net change in cash						
Cash at the beginning of the year	6,913	9,138	10,800	13,153	22,131	16,461
Exchange difference	7	414	10	0	0	0
Cash at the end of the year	**9,138**	**10,800**	**13,153**	**22,131**	**16,461**	**27,244**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	35.5%	34.1%	(6.0%)	(0.0%)	14.3%	9.6%
Gross profit	19.4%	5.5%	(24.4%)	27.1%	13.5%	10.2%
EBIT	43.6%	(65.6%)	(43.5%)	256.0%	22.2%	16.0%
Net profit	50.1%	(59.1%)	(37.8%)	164.3%	22.5%	16.1%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	14.1%	11.1%	8.9%	11.4%	11.3%	11.4%
Return on equity (ROE)	17.9%	6.0%	3.5%	8.7%	9.8%	10.5%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	1.2	1.1	1.2	1.1	1.1	1.1
Receivable turnover days	51.3	45.9	50.0	50.0	50.0	50.0
Inventory turnover days	57.7	57.6	57.2	57.2	57.2	57.2
Payable turnover days	104.9	101.5	107.2	107.2	107.2	107.2

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	15.8	39.2	63.7	24.1	19.7	17.0
P/B	2.5	2.3	2.2	2.0	1.9	1.7
Div yield (%)	1.0	0.5	0.5	0.6	0.8	0.9

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

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