

Goertek (002241 CH)

1H23 weakness in-line; Lower TP on slower demand recovery

Goertek's 1H23 revenue/net profit growth of +3.6%/-79.7% YoY was largely in-line with previous profit warning. 1H23 GPM dropped to 7.3% (-5.7ppts YoY, -2.5ppts HoH) mainly dragged by hearable/smart product segments. Looking into 2H23E, we expect gradual margin recovery with improving utilization and better product mix, and revenue may remain weak due to industry headwinds and AirPods biz uncertainty. In longer term, we expect Goertek will continue to benefit from AR/VR cycle and Watch share gain in FY24/25E, and deliver 58%/13% YoY earnings growth in FY24/25E. To factor in sluggish 1H23 results and margin pressure, we trimmed FY23/24E EPS by 63-69% and adjust TP to RMB17.59, based on lowered 25x FY24E P/E (7-yr hist avg). Maintain BUY.

■ **1H23 weakness on margin pressure; Positive signs of GPM recovery in 2Q23.** By segment, Goertek delivered -8%/-25%/+18% YoY growth for precision components/earable products/smart products segments in 1H23, while blended GPM came at 7.3% (vs. 13.0%/9.8% in 1H/2H22), mainly dragged by hearable/smart product segmental GPM of 4.1%/5.9% (vs. 9.1%/12.8% in 1H22). For 2Q23, we saw positive signs of GPM QoQ recovery to 7.7%, and we expect improving utilization and better product mix will further drive GPM improvement in 2H23E.

■ **2024/25 Outlook: TWS recovery and XR/ gaming console as dual growth engines.** We believe Goertek's VR/AR and gaming segment will become major revenue drivers in FY24/25E (accounted for 63%/63% of FY24/25E sales), backed by new product launch and share gain in XR/gaming supply chain. In longer term, we believe Goertek is well-positioned to capture business opportunities as a fully-integrated manufacturer in global AR/VR/XR industry, backed by a new wave of product launches from Meta, Pico, Sony and Apple in coming few years.

■ **Maintain BUY and lowered TP to RMB17.59.** To reflect sluggish 1H23 results, lower margin and macro weakness, we trimmed our FY23-24E EPS by 63-69%. Our new TP of RMB17.59 is based on lowered 25x rollovered FY24E P/E (prior 28x) given lower order visibility and margin pressure in near-term. 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 gain in FY24/25E. We believe 2023 weakness has been priced in, and we expect continued sales/marginal improvement in 2H23E. Upcoming catalysts include Apple's product launches, Meta/Pico XR products and margin recovery.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	78,221	104,894	99,756	104,071	109,290
YoY growth (%)	35.5	34.1	(4.9)	4.3	5.0
Net profit (RMB mn)	4,274.7	1,749.2	1,521.9	2,407.1	2,713.8
EPS (Reported) (RMB)	1.29	0.52	0.44	0.70	0.79
YoY growth (%)	44.9	(59.7)	(14.4)	58.2	12.7
Consensus EPS (RMB)	NA	NA	0.72	1.09	1.28
P/E (x)	31.5	62.9	33.1	20.9	18.6
P/B (x)	5.0	3.7	1.6	1.5	1.4
Yield (%)	0.5	0.3	0.5	0.7	0.8
ROE (%)	17.9	6.0	4.9	7.3	7.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB17.59
(Previous TP RMB44.7)
Up/Downside 16.1%
Current Price RMB15.16

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Stock Data

Mkt Cap (RMB mn)	50,342.4
Avg 3 mths t/o (RMB mn)	1,015.5
52w High/Low (RMB)	34.34/14.42
Total Issued Shares (mn)	3420.0

Source: FactSet

Shareholding Structure

Goertek Group	14.8%
Jiang Bin	8.4%

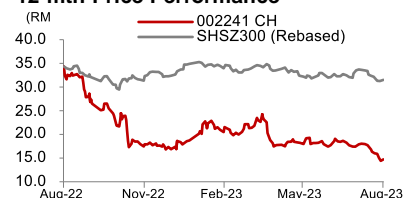
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-16.4%	-10.0%
3-mth	-19.4%	-16.7%
6-mth	-31.7%	-25.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

1H23/2Q23 results review

Figure 1: 2Q23 review

RMB mn	FY21	1Q22	2Q22	3Q22	4Q22	FY22	1Q23	2Q23
Revenue	78,221	20,112	23,492	30,549	30,742	104,894	24,122	21,050
...YoY	35%	43%	44%	36%	21%	34%	20%	-10%
Cost of sales	(67,168)	(17,353)	(20,604)	(26,454)	(28,823)	(93,233)	(22,439)	(19,438)
Gross profit	11,054	2,759	2,888	4,096	1,918	11,661	1,683	1,612
GPM (%)	14.1%	13.7%	12.3%	13.4%	6.2%	11.1%	7.0%	7.7%
...YoY	19%	35%	24%	19%	-41%	5%	-39%	-44%
SG&A	(2,397)	(615)	(677)	(747)	(805)	(2,843)	(698)	(346)
...% of rev	3.1%	3.1%	2.9%	2.4%	2.6%	2.7%	2.9%	1.6%
R&D	(4,170)	(1,114)	(822)	(1,555)	(1,735)	(5,227)	(961)	(1,081)
...% of rev	5.3%	5.5%	3.5%	5.1%	5.6%	5.0%	4.0%	5.1%
Operating profit	4,683	1,020	1,324	1,910	(2,644)	1,610	(17)	268
OPM (%)	6.0%	5.1%	5.6%	6.3%	-8.6%	1.5%	-0.1%	1.3%
...YoY	44%	-11%	50%	5%	-414%	-66%	-102%	-80%
Net profit	4,275	901	1,178	1,761	(2,091)	1,749	106	316
NPM (%)	5.5%	4.5%	5.0%	5.8%	-6.8%	1.7%	0.4%	1.5%
...YoY	50%	-7%	54%	10%	-322%	-59%	-88%	-73%

Source: Company data, CMBIGM estimates

Earnings Revision

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	99,756	104,071	109,290	120,780	138,317	NA	-17%	-25%	NA
Gross Profit	8,423	10,322	11,039	16,761	19,763	NA	-50%	-48%	NA
Operating Profit	1,159	2,434	2,756	5,319	7,046	NA	-78%	-65%	NA
Net profit	1,522	2,407	2,714	4,902	6,465	NA	-69%	-63%	NA
EPS (RMB)	0.44	0.70	0.79	1.43	1.89	NA	-69%	-63%	NA
Gross Margin	8.4%	9.9%	10.1%	11.1%	13.9%	NA	-2.7 ppt	-4 ppt	NA
Operating Margin	1.2%	2.3%	2.5%	1.5%	4.4%	NA	-0.4 ppt	-2.1 ppt	NA
Net Margin	1.5%	2.3%	2.5%	1.7%	4.1%	NA	-0.1 ppt	-1.7 ppt	NA

Source: CMBIGM estimates

Figure 3: CMBI estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	99,756	104,071	109,290	102,887	113,035	124,106	-3%	-8%	-12%
Gross Profit	8,423	10,322	11,039	11,369	13,063	14,511	-26%	-21%	-24%
Operating Profit	1,159	2,434	2,756	2,831	4,271	4,957	-59%	-43%	-44%
Net profit	1,522	2,407	2,714	2,511	3,751	4,450	-39%	-36%	-39%
EPS (RMB)	0.44	0.70	0.79	0.72	1.09	1.28	-38%	-35%	-38%
Gross Margin	8.4%	9.9%	10.1%	11.0%	11.6%	11.7%	-2.6 ppt	-1.6 ppt	-1.6 ppt
Operating Margin	1.2%	2.3%	2.5%	2.8%	3.8%	4.0%	-1.6 ppt	-1.4 ppt	-1.5 ppt
Net Margin	1.5%	2.3%	2.5%	2.4%	3.3%	3.6%	-0.9 ppt	-1 ppt	-1.1 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Revenue breakdown

RMB mn	FY21	FY22	FY23E	FY24E	FY25E
Precision Components	13,840	14,004	14,580	15,179	15,804
... YoY	13%	1%	4%	4%	4%
Speaker/receiver	8,151	8,396	8,647	8,907	9,174
MIC (ECM/MEMS)	3,618	3,726	3,838	3,953	4,072
MEMS sensor	417	430	451	474	498
Antenna	761	913	1,049	1,207	1,388
Optical component module	893	539	593	652	718
Hearable Products	30,297	25,881	19,924	21,112	21,592
... YoY	14%	-15%	-23%	6%	2%
Airpods	19,365	16,854	10,860	11,520	11,760
Android TWS	3,900	4,680	4,500	4,800	4,800
Smart Speaker	2,380	2,856	2,999	3,149	3,306
Others	4,652	1,491	1,565	1,644	1,726
Smart Products	32,809	63,082	63,132	65,447	69,329
... YoY	86%	92%	0%	4%	6%
Smart Watch	7,650	11,475	13,770	16,524	19,829
Gaming Console	2,016	4,663	4,514	4,051	4,051
AR/VR Headset	20,115	36,470	33,850	37,375	37,375
Robotics/UAV/smart light	3,028	10,474	10,998	11,548	12,125
Non-main business	1,275	1,927	2,120	2,332	2,565
... YoY	5%	51%	10%	10%	10%
Total	78,221	104,894	99,756	104,071	109,290
...YoY	35%	34%	-5%	4%	5%

Source: Company data, CMBIGM estimates

Figure 5: P&L forecast

RMB mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue	78,221	104,894	99,756	104,071	109,290
...YoY	35%	34%	-5%	4%	5%
Cost of sales	(67,168)	(93,233)	(91,333)	(93,749)	(98,251)
Gross profit	11,054	11,661	8,423	10,322	11,039
GPM (%)	14.1%	11.1%	8.4%	9.9%	10.1%
...YoY	19%	5%	-28%	23%	7%
SG&A	(2,397)	(2,843)	(2,195)	(2,706)	(2,842)
...% of rev	3.1%	2.7%	2.2%	2.6%	2.6%
R&D	(4,170)	(5,227)	(4,788)	(4,891)	(5,137)
...% of rev	5.3%	5.0%	4.8%	4.7%	4.7%
Operating profit	4,683	1,610	1,159	2,434	2,756
OPM (%)	6.0%	1.5%	1.2%	2.3%	2.5%
...YoY	44%	-66%	-28%	110%	13%
Net profit	4,275	1,749	1,522	2,407	2,714
NPM (%)	5.5%	1.7%	1.5%	2.3%	2.5%
...YoY	50%	-59%	-13%	58%	13%

Source: Company data, CMBIGM estimates

Valuation

Maintain BUY with new TP of RMB17.59 (16% upside)

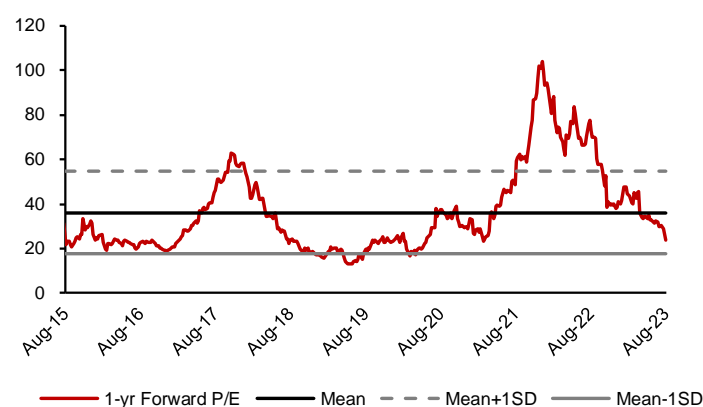
Our new TP of RMB17.59 is based on lowered 25x roll-overed FY24E P/E (vs. prior 28x) given lower order visibility and margin pressure in the near term. Overall, we believe Goertek's industry leadership and product roadmap in TWS/XR/acoustics/gaming segments will allow the company to benefit from industry recovery and market share gain in FY24/25E. Upcoming catalysts include Apple's product launches, Meta/Pico XR products and margin recovery.

Figure 6: 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
A-listed components												
Goertek	002241 CH	BUY	7,110	15.16	17.6	16%	33.1	20.9	1.6	1.5	4.9	7.3
Luxshare	002475 CH	BUY	31,667	32.39	*44.7	NA	7.7	14.1	1.4	1.5	17.8	10.4
O-film	002456 CH	NR	2,457	5.50	NA	NA	-	-	6.7	7.0	(36.9)	(24.0)
Sunway	300136 CH	NR	2,243	16.91	NA	NA	19.1	15.3	2.2	1.9	11.7	13.6
BOE	000725 CH	NR	20,200	3.88	NA	NA	19.6	11.6	1.0	0.9	5.1	9.3
Hans Laser	002008 CH	NR	3,210	22.25	NA	NA	19.3	14.5	1.5	1.4	7.6	9.6
Lens Tech	300433 CH	NR	7,965	11.68	NA	NA	19.3	14.5	1.3	1.2	6.7	8.5
Everwin	300115 CH	NR	1,602	9.73	NA	NA	24.0	12.7	1.9	1.7	7.9	13.2
Holitech	002217 CH	NR	1,261	2.95	NA	NA	-	-	-	-	-	-
Average							18.7	14.3	2.3	2.2	3.8	6.5
H-listed components												
FIT Hon Teng	6088 HK	BUY	985	1.06	2.1	94%	7.1	5.7	0.4	0.4	5.2	6.3
AAC Tech	2018 HK	HOLD	2,371	15.52	15.6	0%	25.8	15.5	0.7	0.7	2.9	4.7
Sunny Optical	2382 HK	HOLD	9,002	64.40	78.3	22%	34.8	22.6	2.7	2.5	7.8	11.2
Tongda	698 HK	BUY	99	0.08	0.2	113%	3.6	2.6	0.1	0.1	1.8	3.8
BYDE	285 HK	BUY	9,361	32.60	31.7	-3%	19.9	16.2	2.3	2.1	11.7	12.8
Q tech	1478 HK	BUY	447	2.96	3.6	22%	10.6	5.5	0.6	0.6	5.9	10.3
TK Group	2283 HK	BUY	140	1.32	3.4	156%	2.5	3.4	0.5	0.6	20.7	17.8
Truly	732 HK	NR	350	0.87	NA	NA	-	-	-	-	-	-
SMIC	981 HK	NR	28,202	19.08	NA	NA	20.4	20.8	1.0	0.9	4.6	4.2
YOFC	6869 HK	NR	2,289	11.10	NA	NA	5.9	5.4	0.7	0.7	11.2	10.8
Cowell	1415 HK	NR	1,628	15.04	NA	NA	21.8	13.2	3.7	3.1	17.9	23.1
Average							15.2	11.1	1.3	1.2	9.0	10.5

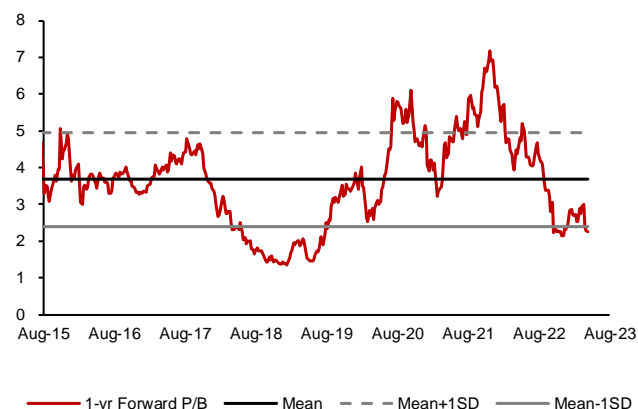
Source: Bloomberg, CMBIGM estimates. *TP under review.

Figure 7: 12M forward P/E band



Source: Bloomberg, CMBIGM

Figure 8: 12M forward P/B band



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	57,743	78,221	104,894	99,756	104,071	109,290
Cost of goods sold	(48,484)	(67,168)	(93,233)	(91,333)	(93,749)	(98,251)
Gross profit	9,259	11,054	11,661	8,423	10,322	11,039
Selling expense	(476)	(445)	(548)	(399)	(416)	(437)
Admin expense	(1,630)	(1,952)	(2,295)	(1,796)	(2,290)	(2,404)
R&D expense	(3,426)	(4,170)	(5,227)	(4,788)	(4,891)	(5,137)
Other income	225	467	373	373	373	373
Other expense	(236)	(271)	(1,797)	(114)	(114)	(114)
Investment gain/loss	139	469	(36)	(36)	(36)	(36)
Other gains/(losses)	98	(80)	(105)	(105)	(105)	(105)
EBIT	3,261	4,683	1,610	1,159	2,434	2,756
Net Interest income/(expense)	(491)	(167)	(149)	(149)	(149)	(149)
Other income/expense	(39)	(77)	144	144	144	144
Pre-tax profit	3,222	4,606	1,509	1,303	2,578	2,901
Income tax	(370)	(299)	282	261	(129)	(145)
After tax profit	2,852	4,307	1,791	1,564	2,449	2,756
Minority interest	4	32	42	42	42	42
Net profit	2,848	4,275	1,749	1,522	2,407	2,714

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	28,129	35,162	45,563	45,134	48,582	51,043
Cash & equivalents	7,788	10,049	12,683	19,139	13,726	22,172
Account receivables	10,045	11,949	14,444	14,154	15,677	15,645
Inventories	9,171	12,082	17,349	10,754	18,092	12,139
Prepayment	296	98	51	51	51	51
Financial assets at FVTPL	251	119	339	339	339	339
Other current assets	579	850	698	698	698	698
Non-current assets	20,989	25,917	31,613	34,914	37,538	39,862
PP&E	16,753	20,250	23,884	27,503	30,128	32,452
Deferred income tax	276	495	1,370	1,370	1,370	1,370
Investment in JVs & assos	0	437	361	361	361	361
Intangibles	2,730	3,094	3,301	3,301	3,301	3,301
Goodwill	17	17	17	17	17	17
Financial assets at FVTPL	357	466	699	699	699	699
Other non-current assets	518	652	1,663	1,663	1,663	1,663
Total assets	49,118	61,079	77,176	80,048	86,120	90,906
Current liabilities	22,736	29,803	42,721	44,038	48,065	50,543
Short-term borrowings	3,190	4,285	7,121	9,121	11,121	13,121
Account payables	17,324	21,272	30,599	29,916	31,943	32,421
Tax payable	195	357	285	285	285	285
Other current liabilities	882	2,822	3,676	3,676	3,676	3,676
Accrued expenses	1,145	1,067	1,040	1,040	1,040	1,040
Non-current liabilities	6,648	3,345	4,197	4,197	4,197	4,197
Long-term borrowings	2,754	2,204	2,206	2,206	2,206	2,206
Bond payables	3,031	210	471	471	471	471
Deferred income	323	390	816	816	816	816
Other non-current liabilities	539	540	705	705	705	705
Total liabilities	29,384	33,148	46,919	48,236	52,262	54,741
Share capital	3,275	3,416	3,420	3,420	3,420	3,420
Retained earnings	3,812	9,478	10,281	10,281	10,281	10,281
Other reserves	13,082	16,725	18,083	19,637	21,683	23,990
Total shareholders equity	19,734	27,931	30,258	31,812	33,858	36,165
Minority interest	80	604	766	766	766	766
Total equity and liabilities	49,118	61,079	77,176	80,048	86,120	90,906

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,222	4,606	1,509	1,303	2,578	2,901
Depreciation & amortization	2,188	2,918	3,651	2,460	2,875	3,176
Tax paid	(370)	(299)	282	261	(129)	(145)
Change in working capital	2,268	1,186	924	6,203	(6,835)	6,463
Others	374	187	1,951	149	149	149
Net cash from operations	7,682	8,598	8,317	10,334	(1,403)	12,502
Investing						
Capital expenditure	(5,599)	(6,962)	(8,090)	(5,500)	(5,500)	(5,500)
Acquisition of subsidiaries/ investments	(208)	(3,083)	(2,118)	0	0	0
Net proceeds from disposal of short-term investments	205	3,102	1,061	0	0	0
Others	300	174	71	0	0	0
Net cash from investing	(5,301)	(6,768)	(9,077)	(5,500)	(5,500)	(5,500)
Financing						
Dividend paid	(572)	(675)	(953)	(228)	(361)	(407)
Net borrowings	(1,002)	913	3,197	2,000	2,000	2,000
Proceeds from share issues	51	2,179	395	0	0	0
Others	3,166	(2,030)	(631)	(149)	(149)	(149)
Net cash from financing	1,642	387	2,008	1,623	1,490	1,444
Net change in cash						
Cash at the beginning of the year	3,095	6,913	9,138	10,800	17,256	11,843
Exchange difference	(205)	7	414	0	0	0
Cash at the end of the year	6,913	9,138	10,800	17,256	11,843	20,289
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	64.3%	35.5%	34.1%	(4.9%)	4.3%	5.0%
Gross profit	70.8%	19.4%	5.5%	(27.8%)	22.6%	6.9%
EBIT	117.9%	43.6%	(65.6%)	(28.0%)	110.0%	13.3%
Net profit	122.4%	50.1%	(59.1%)	(13.0%)	58.2%	12.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	16.0%	14.1%	11.1%	8.4%	9.9%	10.1%
Return on equity (ROE)	15.9%	17.9%	6.0%	4.9%	7.3%	7.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.2	1.2	1.1	1.0	1.0	1.0
Receivable turnover days	57.5	51.3	45.9	45.9	45.9	45.9
Inventory turnover days	54.5	57.7	57.6	57.6	57.6	57.6
Payable turnover days	101.6	104.9	101.5	101.5	101.5	101.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	34.5	31.5	62.9	33.1	20.9	18.6
P/B	5.1	5.0	3.7	1.6	1.5	1.4
Div yield (%)	0.5	0.5	0.3	0.5	0.7	0.8

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

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